LMOGA
Louisiana Mid-Continent Oil & Gas Association

April 15, 2021

The Honorable Deb Haaland
Secretary
U.S. Department of the Interior
1849 C Street NW
Washington, DC 20240
Via: energyreview@ios.doi.gov

Re: Department of Interior's comprehensive review of the federal oil and gas program called for in Executive Order 14008

Dear Secretary Haaland:

Thank you for the opportunity to comment on the Department of the Interior (the Department) comprehensive review of the federal oil and gas program as called for in Executive Order 14008. We are happy to provide information as you prepare the Department's interim report on the federal oil and gas program including the state of the federal oil and gas program and recommendations for the Department and Congress to improve stewardship of our natural resources to benefit the public, create jobs, and build a more just and equitable future.

Since 1923, the Louisiana Mid-continent Oil and Gas Association (LMOGA) has represented all sectors of the oil and natural gas industry in Louisiana and throughout the Gulf of Mexico. Our members are proud to have produced the energy that feeds both national and global demand, creates meaningful and high-paying jobs in our local communities, and supports state, local, and community programs that benefit a diverse array of local populations throughout our working coast. Specifically, our industry in the Gulf of Mexico (GOM) has been in operation since the mid-1900's and has continued to evolve to produce American-made energy through continuously improving environmental protection, operational efficiencies and safety through innovation—to the benefit of the resource owners. Specifically, in the past 10 years, we have seen record improvements in both safety and environmental performance in the GOM[1] all while continuing to increase production output to meet demand. In spite of some perceptions, Louisiana's offshore oil and natural gas industry is neither antiquated nor approaching its later years; in actuality it is in position to resume growth in such a way as to drive high tech innovation and, through its growth, contribute to real world environmental benefits.

[1] https://www.bsee.gov/stats-facts/offshore-incident-statistics

In 2019, according to the Energy Information Association (EIA), the world consumed[2] 101 million barrels per day of oil while the U.S. GOM produced 1.8 million barrels per day in the same year. The EIA projects[3] global consumption will return to 2019 levels following COVID-19 demand erosion in 2022, reaching over 101 million barrels per day again. GOM energy producers supply nearly 16% of our own nation's energy needs at one of the lowest carbon intensive rates in the world. As mentioned during the March 25 forum, the Obama Administration and independent analysts have found curbing federal oil and gas leasing in the GOM would result in an increase in global emissions as U.S. demand would be met with foreign oil, produced and delivered with a higher carbon intensity than volumes produced in the GOM[4]. For the foreseeable future, this would be a rather unavoidable result of reductions in GOM leasing because as the data shows above, the world and the U.S. will continue to need oil and natural gas for many more decades. One study, prepared for API by OnLocation, found that a long-term ban on federal oil and gas leasing would result in an increase of approximately 2 million barrels per day of imported oil[5]. Also noteworthy, most foreign offshore basins operate with less stringent environmental and safety standards.

The Outer Continental Shelf Lands Act (OCSLA) calls for the Department to establish a schedule of leases under a five-year national program; and, to be consistent with the statute, to facilitate the "expeditious and orderly development [of resources], subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs[6]." Indeed, continuing a regular oil and gas leasing schedule on the outer continental shelf is consistent with both federal statute and our country's global environmental leadership goals, and will be needed in a substantial measure for many decades to come. It is incumbent on leaders to consider all of these realities – legal, practical, economic, and social. As a nation, we should accordingly pursue policies which drive towards improvements without inflicting either employment insecurity or energy insecurity upon a region and nation still struggling to recover from the pandemic and already contending with massive and rapid change. As the Biden Administration's Climate Coordinator Gina McCarthy stated to the U.S. Conference of Mayors earlier this year, "People have been in pain long enough. We are not going to ask for sacrifice, and if we fail to win the heart of middle America, we will lose."

We sincerely appreciate the Department's interest in accelerating renewable energy development on the OCS as it continues to lease federal acreage for offshore wind development; however, we firmly believe accelerating offshore wind development would only be frustrated if it is accompanied by halting, delaying or reducing in size the federal oil and gas acreage available to lease. This would be counterproductive from standpoints of infrastructure, community support, supply chains, and certainly workforce availability. As the President of the Offshore Marine Services Association stated in response to E.O. 14008, "While the Executive Order talks about

[2] https://www.eia.gov/outlooks/steo/report/global_oil.php
[3] https://www.eia.gov/outlooks/steo/report/global_oil.php
[4] https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2012-2017/BOEMOceanInfo/ocs_oil_and_natural_gas.pdf; February 2021, Wood Makenzie, "Carbon emissions performance in US GoM: a low emitter in the crossfire"
[5] https://www.api.org/~/media/Files/News/2020/09/Consequences_of_a_Leasing_and_Development_Ban_on_Federal_Lands_and_Waters.pdf
[6] 43 U.S.C. Sec. 1332(3)

increasing offshore wind goals, the vessels and mariners necessary to construct tomorrow's wind projects are the same ones harmed by today's moratorium on the oil and gas industry. If this continues, these assets won't be around when the wind industry moves from a goal to a reality."

A clear, predictable and robust federal oil and gas program is critical to facilitating states' and the federal government's renewable energy goals and, importantly, supplying states along our coast and throughout our country with high-paying jobs and revenues to support their economies and communities. This support stems not only from family-sustaining jobs, but heavily from monies paid into the U.S. treasury by the oil and natural gas industry in the form of bonus bids, annual rentals and royalties. Every dollar of the billions in oil and gas revenues to federal, state, and municipal treasuries is a dollar which does not have to be taken from a household taxpayer or from a critical government program. This is why many governments continue to rely on this industry in a similar way as families rely on their primary income earner – and why it is not often credible to suggest that equivalent alternative sources of livelihood could be easily identified or secured.

To briefly recap, the Department's review of the federal oil and gas program must take into consideration the following very compelling factors: the role offshore Gulf of Mexico leasing and production plays in providing significant funding for federal, state and local priorities including conservation projects in every U.S. state, the robust economic and social engine which leasing and production provide along the Gulf coast in the way of high-paying direct, indirect and induced jobs and partnerships; and the fact that the oil produced in the Gulf of Mexico helps achieve the administration's goals of a lower carbon future since GOM oil is lower carbon intensive in comparison to virtually all other basins around the world.

Combatting Coastal Erosion, Supporting Conservation

In Louisiana, revenue generated from the offshore oil and natural gas industry provides a lifeline to important environmental priorities set out by Governor Edwards and state and local lawmakers. In fact, a majority of the revenue stream for the state's Coastal Master Plan, which mitigates coastal erosion and has drawn bipartisan support, is derived from this important industry. These revenues, distributed to Gulf states under the Gulf of Mexico Energy Security Act (GOMESA), have also proven to be a critical first line of defense against tropical storms and hurricanes for local communities. GOMESA revenues are the state's only reliable and constitutionally dedicated source of federal revenue for our coastal programs. In fact, as Governor Edwards discussed his plans to meet the state's ambitious goals to reduce carbon emissions to net zero by 2050 and fund its Coastal Master Plan this week upon the commencement of this year's session of Louisiana's legislature, "oil and gas production in the Gulf of Mexico [is important] to Louisiana's success[7]."

Federal oil and gas production in the GOM generated $353 million for Gulf state budgets in Fiscal Year 2019. This year, the state has received $104 million less, undoubtedly underscoring the impacts of demand destruction caused by COVID-19 on Fiscal Year 2020 production levels. And, this year, due to the indefinite postponement of the March 2021 lease sale, Louisiana's coastal

[7] https://gov.louisiana.gov/index.cfm/newsroom/detail/3069

programs lost the much-needed revenue from bonus bids and rentals it would have received otherwise. A missed lease sale and associated lost revenue will impact project planning in the near term, leading simply to less dirt moved to protect our coast. Louisiana's Master Plan requires a $50 billion investment over 50 years; therefore, predictable, long-term and robust oil and gas revenues from the GOM represent a necessary condition to the state meeting this existential need.

Nationwide, oil and gas production in the GOM has supported nearly $1 billion of conservation projects each year across all 50 states through the Land and Water Conservation Fund, and Congress strengthened states' benefit from offshore revenues by enabling $1.9 billion of energy revenues to support our National Parks and other public assets be enacting the Great American Outdoors Act in 2020. GOM oil and gas production generates 60% of entire federal energy revenue for these efforts to restore public lands, being $5-$8 billion in total revenue each year for the federal government. Again, these dollars do not have to be assessed from taxpayers or reprogrammed from other critical programs in order to fund our national parks and treasures; federal oil and gas revenues originate when the federal government simply auctions leases and accepts voluntary payment.

An acceleration to renewable energy development would not, and cannot, replace the jobs and revenues lost by scaling back or eliminating federal oil and gas programs

GOM oil and gas producers supply communities along our working Gulf coast states with roughly 500,000 high-paying direct jobs. By contrast, as offshore wind energy ramps up through 2030 with a predictable renewable energy leasing program on the OCS, according to wind industry proponents, whom we fully support, only 80,000 jobs would be created each year during the construction phase, thereafter reducing to 31,000 jobs per year during operation, paying significantly lower wages[8]. Offshore wind producers also project more modest revenue generation for the federal government; and, absent Congressional action this does not share any of the reduced revenue with coastal states. The Department must keep in mind the real-world impacts of halting, delaying, or reducing the federal oil and gas leasing program on hardworking families across our working coast and also its importance to supporting our coast's resilience to catastrophic weather events and combatting coastal erosion when the most analogous alternative still falls so drastically short of equivalency. The offshore wind and offshore oil industries must be seen as one offshore energy sector with synergies and common needs; not as in-competition for permission to operate or as replacements for one another.

GOM Barrels Are Lower in Carbon, More Environmentally Sound

During the March 25 forum, there was some discussion regarding potential changes to conditions of approval to include consideration of cumulative emissions (net-zero) or mitigation practices. Many producers in the GOM have made significant investments in emissions reductions plans and technologies to aggressively and proactively further reduce their portfolio's emissions rates overall. GOM production generates 16% of the nation's energy on a significantly lower physical

[8] https://www.noia.org/wp-content/uploads/2020/08/Offshore-wind-economic-impact-analysis-white-paper-final-1.pdf

footprint than onshore and with one of the lowest carbon footprints of any basin in the world[9]. Again, any effort to halt, delay, or reduce in size federal oil and gas leasing would mean that the nation's energy supply will be met by foreign oil which will result in higher greenhouse gas emissions. Any recommendation to alter conditions of approval to consider cumulative emissions must take into account these global emissions impacts of limiting GOM oil and gas production, which would suffer in the near and long term under new and unique royalty assessments.

In fact, there would likely be immediate term lease sale revenue impacts to any auction whose final notice of sale included heightened royalties to account for climate costs – because the higher rate would necessarily devalue the sale price to a degree corresponding to the increase. In other words, bidders could not be expected or commanded to pay the same amounts for leases with less economically attractive fiscal terms. So, to the extent that revenues assessed on offshore production to account for climate costs actually would be dedicated towards climate mitigation, as a practical matter the funds would (to at least some extent) be derived from another government revenue source. In any case, such increases concentrated on one region or one sub-sector of American oil production would not only reduce that category's competitiveness, but it could send a signal that the federal government somehow prefers oil production to occur where it has far less authority and oversight of the activity.

This would make little sense from a realistic environmental perspective. While producing one of the lowest greenhouse gas emissions-per-barrel volumes in the world, GOM producers adhere to some of the most stringent rules and regulations, further mitigating any harmful impacts to the atmosphere. Specifically, besides having a lower carbon intensity by composition, regulations limiting venting and flaring (30 CFR 250 Subpart K) have also dramatically reduced methane emissions in the GOM. Over the past few decades, operators are transitioning from using natural gas driven pneumatics to instrument air, eliminating methane leaks from actuation of such devices. Many operators have voluntarily implemented leak detection surveys using instruments such as FLIR cameras to identify methane leaks to mitigate worker safety risks, which also has a corresponding beneficial impact on the environment. According to the EIA, in 2018, GOM energy production (i.e. extraction) accounted for only 2.95% of energy-related methane emissions in the U.S.[10], while meeting nearly 20% of domestic energy demand. Clearly, continuing GOM oil and gas development has outsized benefits with disproportionately small costs compared to virtually all competing basins.

Offshore operators must also adhere to strict well-monitoring requirements for decommissioning. As a principle, the industry is committed to ensuring the taxpayer is never accountable for offshore decommissioning and that offshore plugging, abandoning and decommissioning are performed timely. Infrastructure associated with a production platform in the GOM also supports a wide variety of fish and flora critical to supporting the biodiversity of the GOM. In many cases,

[9] https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2012-2017/BOEMOceanInfo/ocs_oil_and_natural_gas.pdf; Wood Mackenzie. "Carbon emissions performance in the US GoM: a low emitter in the crossfire." 21 February, 2021.
[10] https://www.eia.gov/dnav/ng/ng_prod_sum_a_EPG0_VGV_mmcf_a.htm

eliminating idle iron platform structures in the GOM associated with oil and gas development leads to a loss of critical habitat for aquatic species. As the Department considers recommendations pertaining to mitigation of offshore development we urge you to focus on idle wells in need of attention from their current owners and to consider the innumerable stakeholders, for instance the academic community, fisheries, and recreational diving advocates, with interests in these structures continuing to support habitat.

Rental fees, Royalty Rates Must Not Hinder Economic Recovery of Resources

On March 25, there was some discussion regarding the federal oil and gas leasing process and how rental fees, bonus bids, and royalty rates factor into operators' abilities to begin to produce their lease and generate fair return for the taxpayer. We strongly encourage you to consider the laws and Department guidelines governing the leasing process. Currently, the specific leasing practices of the Bureau of Ocean and Energy Management for leases issued prior to Lease Sale 256 have been less than ten-year maximum statutory timeframe outlined in the Outer Continental Shelf Lands Act, with leases in shallower waters situated in depths less than 400 meters giving the lessee only five-years to drill a well and then three years thereafter to establish economic production. Furthermore, only federal leases in ultra-deep waters (800 + meters) are offered under a 10-year primary term in recognition of the vast economical, technological and operational challenges inherent to deepwater exploration and development. Further, certain geological and engineering factors are present in offshore exploration and development that place the current lease terms on the borderline of being competitive with other global resource opportunities. This is especially true in the deepwater province for leases and prospects situated in water depths 800 + meters. We urge you to consider these factors as you review the Department's current statutes and regulations governing lease terms and conditions so that the offshore leasing program can continue to return a fair value to the public while remaining as an attractive option for companies to develop resources in the U.S.

Lease sales have historically generated over $100 million in federal revenue each sale. Some lease sales have generated well over $1 billion. While lease sale revenue has declined in recent years due in part to the need to create greater opportunities for access, the importance of lease sale revenue for both federal and state governments still amounts to critical sums and cannot be undervalued. Companies have continually paid over $100 million twice each year to the federal treasury just in bonus bids. Each leased parcel is unique; and companies may not begin exploration practices to confirm the parcel's geology and prospects until the company obtains multiple subsequent regulatory approvals. This process usually requires several months or years, followed by additional time entailed for building, maintaining, and servicing the life of the production platform, wells and all other associated infrastructure. BOEM and the Department of Interior have reviewed the fiscal terms for the offshore leasing program twice over the past decade[11]. These studies demonstrate how investment in the GOM is currently challenged compared to peer jurisdictions and how changes to the bonus, rental and royalty rates could adversely impact federal

[11] See Areawide Leasing Study | Bureau of Ocean Energy Management (boem.gov) and 2018 Comparative Analysis Of The Federal Oil And Gas Fiscal Systems: Gulf Of Mexico International Comparison | Bureau of Ocean Energy Management (boem.gov)

and state revenues, and adversely affect expeditious development of OCS resources, reduce competition for tracts, and reduce the overall social value of OCS resources. Further, fiscal terms for the federal offshore leasing program have been actively managed and increased overtime by BOEM through various administrations to pursue a greater return to the U.S. public. The aforementioned studies indicate that the GOM, unlike many other basins, has been subject to heightening royalty rates and that it could already be suffering under a program that is less attractive and less competitive than international peers. To that end, BOEM has published a spreadsheet showing the history of changes to rental rates, minimum bids and royalty rates since 1983[12].

The controls discussed above around the varying primary lease terms offered by the Bureau of Ocean Energy Management (BOEM) in the offshore leasing program have been put into place to encourage expeditious development of offshore leases, pursuant to the commonly understood and well tested purposed of OCSLA. As mentioned above, primary terms for leases offered by BOEM are set based on water depth under the concept and understanding that lessees acquiring leases covering shallower waters are able to mature and develop those leases faster than lessees who will be exploring and developing leases in complex ultra-deepwater environments and petroleum systems. Many times, lessees pay tens of millions of dollars in bonus bids to acquire a lease or leases but may ultimately not be able to take advantage of the capital invested due to the frequent absence of commercial quantities of hydrocarbons on the lease(s), or failure to explore and develop the lease(s) in enough time to maintain them within the primary term. In these instances, the lease(s) terminate, the U.S. government and taxpayers retain the dollars paid by the company, and the lease(s) are offered yet again for auction where more revenues can be collected when the lease(s) remain an attractive investment to other bidders.

Shortening lease terms in response to the misconception of non-producing leases being somehow 'inactive' may also result in lower revenue to the federal government in rental fees due to the aforementioned factors (regulatory, operational, geological) making operators less capable to reach production in the primary term.

The royalty rate for shallow water leases has historically been as high as 18.75%, but today in acknowledgement of the mature and declining condition of investment and production on shelf resources, royalty rates have been adjusted by BOEM to 12.5% for what has been dubbed as the shallow water province where federal acreage is situated in waters less than 200 meters. For federal leases in deeper water covering waters in depths greater than 200 meters where development comes with greater economic, technological and operational challenges, the royalty rate has been increased overtime to include an obligation for lessees to pay the government an 18.75% royalty on proceeds received from all oil and gas produced and sold from such federal lands. This royalty amount is in addition to lease bonus and rental payments discussed that a lessee and its co-lessees are required to pay prior to achieving production. For deepwater leases, the royalty rates have been set at 18.75% for any new leases issued since 2009.

[12] https://www.boem.gov/GOM-Lease-Term-History/

Concerning current annual rental rates, under the current leasing program, annual rentals on a standard deepwater lease block comes at a cost of $63,360.00 per annum for the first five years. That cost increases to $92,160.00 per annum in subsequent years of the lease's primary term. Thus, in total a company and its co-lessees are required to pay $777,600.00 in rental payments alone to hold a single deepwater lease through its 10-year primary term. This amount does not include any bonus payments committed to and made at the sale to acquire the lease, which could add tens of millions more of capital to the acquisition costs. Accordingly, companies work with their exploration and business teams annually to review lease portfolios and make decisions to keep only those leases where value is present and exploration and/or development plans have a high likelihood of moving forward. Other leases in the portfolio are relinquished to avoid any additional capital/rental costs since developing offshore leases is a risky and capital-intensive proposition. This exercise of high grading and portfolio optimization is evidence that the escalating rental fee structure currently in place in the offshore federal leasing program is working to encourage lessees to develop their leases or elect to terminate them—and relinquish them to the Interior Department—early. If the leases are held through the primary term with no development activities, the Office of Natural Resources Revenue (ONRR) and thus the U.S. taxpayers are the beneficiaries of the full rental payments that have been tendered even though the leaseholder has not profited from any production on the acreage. Ultimately and as previously noted, BOEM can offer the lease again for auction to generate more revenues. With that provided, the system is designed adequately to encourage diligent exploration and development and ensure a fair return.

Accordingly, as the Department considers any adjustments to lease terms and conditions, rental fees, or royalties, the current state of the industry due to historically challenging conditions in 2020 due to COVID-19 demand erosion must not be overlooked. Last year, well starts and rig counts reached historically low levels and remain low, indicating that production levels for the upcoming years will likely remain far below recent levels. Any increase in fees or royalties will undoubtedly make the GOM a correspondingly less competitive basin globally, reduce revenue to the federal treasury and states, and cause a significant reduction in high-paying jobs. According to the Department's production forecast in 2017, there is substantial GOM energy that will be left undiscovered as of 2027[13], yielding to mainly foreign sources to meet domestic energy demand absent the right federal policies.

GOM Energy Producers Are Partners in Local Communities

Lastly, LMOGA Members share your commitment to respecting and serving local communities in a just and equitable manner. Indeed, GOM oil and gas production involves robust public processes, our members contribute greatly to their local communities in a variety of meaningful ways. For instance, LMOGA has recently launched an educational partnership with historically black colleges and universities; and our community steps up each and every year to provide substantial investments to support hurricane relief efforts in the places where we raise our families and work. Indeed, in Louisiana, the oil and gas industry provides 1 in 9 jobs in the entire state, and in all of its regions – signifying a ubiquitous, close, and personal connection among our workers, their

[13] https://www.boem.gov/sites/default/files/about-boem/BOEM-Regions/Gulf-of-Mexico-Region/Resource-Evaluation/BOEM--2017--082.pdf

families, and their communities. Any changes to facilitate additional community involvement in oil and gas activity must consider and honor these generational relationships and local customs. LMOGA supports community engagement that is collaborative, consistent with federal statute, transparent, fair, and timely in order for industry to maintain these overwhelmingly strong partnerships.

It is in that context of our communities and their needs that LMOGA hopes this federal oil and gas review will take into account the inextricable links between our industry and our people. Referencing back to Ms. McCarthy's statement as quoted earlier in this document, Louisiana has endured compounding sacrifices over many years and especially this past year, culminating not only with the pandemic but with multiple hurricanes and the many correlated impacts of a devastated economy, where energy workers were hit especially hard as demand collapsed and so many projects could not move forward under the unprecedented economic shutdown. So, the anxiety is amplified as this review considers outcomes so consequential to the futures of our workers and their families. But LMOGA stands ready to work constructively – we will base our positions upon facts and practical realities, only asking that the government do the same.

In closing, the GOM energy basin still holds significant and rare potential to support the Administration's efforts to combat climate change and preserve our natural resources—producing the least greenhouse gas intensive volumes of oil and natural gas on a significantly small footprint, while providing much-needed revenue to combat coastal land loss and support conservation, and, importantly supporting hundreds of thousands of high-paying jobs across the country. As such, the efforts of the offshore oil and natural gas industry are a critical pillar of the solution to helping the world to recover from the COVID-19 pandemic and to achieve a lower carbon future. Any effort to curtail oil and gas production in the GOM would severely and needlessly impact all of these benefits.

Sincerely,

TYLER GRAY
President and General Counsel
LMOGA