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*Submitted via regulations.gov*

Subject: Request for Information and Comments on the Preparation of the 2019–2024 Outer Continental Shelf (OCS) Oil and Gas Leasing Program – MAA104000

The American Petroleum Institute (“API”), National Ocean Industries Association (“NOIA”), Independent Petroleum Association of America (“IPAA”), U.S. Oil and Gas Association (“USOGA”), American Exploration & Production Council (“AXPC”), International Association of Drilling Contractors (“IADC”), International Association of Geophysical Contractors (“IAGC”), Petroleum Equipment Suppliers Association (“PESA), and the Alaska Oil and Gas Association (“AOGA”) (“the Associations”) offer the following comments on the Bureau of Ocean Energy Management’s (“BOEM”) request for information and comments on the preparation of the 2019-2024 Outer Continental Shelf Oil and Gas Leasing Program published in the Federal Register on July 3, 2017. The Associations’ members are involved in exploring for and developing oil and natural gas resources found on the OCS and are interested in the development of the 2019-2024 OCS Leasing Program. In 2015, the U.S. oil and natural gas industry supported more than 10.3 million jobs nationwide and made up more than 7.5% of GDP. The decisions made regarding areas to include in the program will have long-term implications for our nation’s energy security, prospects for job creation, and future revenue generation.

The Associations believe that at this point in the Five-year Program development process all OCS areas with the potential to generate jobs and new revenue by advancing America's energy renaissance should be considered for inclusion in the Draft Proposed Program. Anything less undermines the comprehensive process set forth in the OCS Lands Act and could have significant impacts on U.S. energy policy options well into the future. We fully support keeping existing exploration production areas in the Gulf of Mexico (GOM) and Alaska available for leasing in the 2019-2024 Leasing Program and also urge BOEM to make **new** areas in the Atlantic, Eastern Gulf of Mexico (EGOM), Beaufort and Chukchi Seas of Alaska, and the Pacific available for leasing as part of the program.

## **I. The Associations**

API is a national trade association representing 625 member companies involved in all aspects of the oil and natural gas industry. API's members include producers, refiners, suppliers, pipeline operators, marine transporters, and service and supply companies that support all segments of the industry. API and its members are dedicated to meeting environmental requirements, while economically and safely developing and supplying energy resources for consumers. API is a longstanding supporter of offshore exploration and development and the process laid out in the OCS Lands Act as a means of balancing and rationalizing responsible oil and gas activities and the associated energy security and economic benefits with the protection of the environment.

NOIA is the only national trade association representing all segments of the offshore industry with an interest in the exploration and production of both traditional and renewable energy resources on the U.S. OCS. The NOIA membership comprises more than 325 companies engaged in a variety of business activities, including production, drilling, engineering, marine and air transport, offshore construction, equipment manufacture and supply, telecommunications, finance and insurance, and renewable energy.

IPAA is a national trade association representing the thousands of independent oil and natural gas explorers and producers, as well as the service and supply industries that support their efforts. Independent producers drill about 95% of American oil and natural gas wells, produce more than 50% of American oil, and more than eighty-five percent of American natural gas.

USOGA is a strong advocate for the petroleum industry and its contribution to our country's economic and strategic stability.

AXPC is a national trade association representing 33 of America's largest and most active independent oil and natural gas exploration and production companies. AXPC members are "independent" in that their operations are limited to exploration for and production of oil and natural gas. Moreover, our members operate autonomously, unlike their fully integrated counterparts, which operate in additional segments of the energy business, such as downstream refining and marketing. AXPC members are leaders in developing and applying innovative and advanced technologies necessary to explore for and produce oil and natural gas, both offshore and onshore, from unconventional sources.

Since 1940, IADC has represented the worldwide oil and gas drilling industry. IADC's contract-drilling members own most of the world's land and offshore drilling units that drill the

vast majority of the wells producing the planet's oil and gas. IADC's membership also includes oil-and-gas producers, and manufacturers and suppliers of oilfield equipment and services. Through conferences, training seminars, print and electronic publications, and a comprehensive network of technical publications, IADC continually fosters education and communication within the upstream petroleum industry.

IAGC is the international trade association representing the industry that provides geophysical services (geophysical data acquisition, processing and interpretation, geophysical information ownership and licensing, associated services and product providers) to the oil and natural gas industry. IAGC member companies play an integral role in the successful exploration and development of offshore hydrocarbon resources through the acquisition and processing of geophysical data.

PESA represents approximately 200 companies that provide the services, technology, equipment and expertise necessary to safely and efficiently explore and produce oil and natural gas. PESA member companies are committed to building a stronger oilfield service sector, advancing safety and environmental stewardship, and ensuring that society has access to the energy needed for continued economic progress.

AOGA is a non-profit trade association located in Anchorage, Alaska. AOGA's 15 member companies account for the majority of oil and gas exploration, development, production, transportation, refining, and marketing activities in Alaska. AOGA's members are the principal oil and gas industry stakeholders that operate within the range of marine mammals in Alaskan waters and in the adjacent waters of the OCS. AOGA and its members are longstanding supporters of wildlife conservation, management, and research in the Arctic, and also support the continued issuance of incidental take authorizations in the Arctic. AOGA has for many years successfully petitioned for, and defended in court, incidental take regulations applicable to offshore oil and gas activities.

## **II. Comments**

### **A. Oil and Natural Gas Production Will be Needed to Meet Future Energy Needs**

The recently issued Executive Order 13795, America-first Offshore Energy Strategy<sup>1</sup>, and Secretarial Order 3350<sup>2</sup> which implements this strategy, fully recognize the importance of offshore oil and natural gas development. With this request for information and development of a new Five-Year Offshore Leasing Program it is clear that the administration is addressing the responsibility granted by the OCS Lands Act<sup>3</sup> that "the outer Continental Shelf is a vital national resource reserve held by the Federal Government for the public, which should be made available

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<sup>1</sup> <https://www.whitehouse.gov/the-press-office/2017/04/28/presidential-executive-order-implementing-america-first-offshore-energy>

<sup>2</sup> <https://www.doi.gov/pressreleases/secretary-zinke-signs-orders-implementing-america-first-offshore-energy-strategy>

<sup>3</sup> Outer Continental Shelf Lands Act of 1953, as amended, 43 U.S.C. § 1331, *et seq.*

for expeditious and orderly development, subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs.”<sup>4</sup>

Given expected global economic and population growth, energy efficiency improvements and alternative energy sources will not be sufficient to meet anticipated U.S. and global energy demand. The U.S. Energy Information Administration forecasts U.S. energy demand to increase five percent by 2040, with more than half of that demand expected to be met by oil and natural gas<sup>5</sup>.

For the foreseeable future, this increased demand will primarily continue to be met by domestic production. The U.S. has become the world’s largest producer of oil and natural gas. This energy renaissance has put millions of Americans to work, generated billions of dollars in revenue for Federal and State governments, and put downward pressure on prices for consumers. Growing U.S. production has dramatically increased our resistance to energy market shocks, but our long-term energy security can only be strengthened with a lasting commitment to expanding offshore oil and natural gas development. In 2016, offshore oil and natural gas production accounted for approximately 18.2% and 4.4% of U.S. production respectively<sup>6</sup>. This production is a crucial component in helping to ensure a dominant U.S. oil and natural gas industry in the future.

## **B. All OCS Areas Should be Fully Evaluated and Considered**

At this point in the Five-year Program development process it is important for BOEM’s evaluation of the OCS areas to include all 26 Planning Areas and not prematurely eliminate areas that have resource development potential. The multi-step program development process is designed to collect information from all stakeholders, provide the opportunity for careful analysis and consideration of available information, and allow the Secretary of the Interior to decide on what areas are best suited for future offshore exploration and development activities. Since the existing process does not allow an area removed from consideration at an early stage to be added back in at a later stage, it is important that areas are not prematurely eliminated from consideration. One other nuance of the offshore leasing process is that even though a lease sale is scheduled to be held as part of a Five-year Program, a decision on whether to have the sale is made at the time the sale is scheduled. This allows BOEM the flexibility to include lease sales in areas where a temporary moratorium is set to expire during the Program (like the EGOM where a Congressional moratorium will end in 2022) or where new data that would inform decision making is on the verge of being collected (like the Atlantic).

The decisions made now will have long-lasting impacts on U.S. energy policy. To continue our march towards greater energy independence, bold, forward-looking decisions need to be made. The GOM continues to increase production today, not because of leasing decisions made five years ago but because of decisions made in the 1990’s and 2000’s. GOM production increased by 25% between 2005 and 2016 and is projected to increase further<sup>7</sup>. To ensure a

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<sup>4</sup> 43 U.S.C. § 1332(3).

<sup>5</sup> <https://www.eia.gov/outlooks/aeo/>

<sup>6</sup> Oil - [https://www.eia.gov/dnav/pet/pet\\_crd\\_crpdn\\_adc\\_mbbldp\\_a.htm](https://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldp_a.htm); Natural Gas - [https://www.eia.gov/dnav/ng/ng\\_prod\\_sum\\_a\\_EPGO\\_VGM\\_mmcf\\_a.htm](https://www.eia.gov/dnav/ng/ng_prod_sum_a_EPGO_VGM_mmcf_a.htm)

<sup>7</sup> <https://www.eia.gov/todayinenergy/detail.php?id=32192>

robust energy program out to 2040 and beyond, decisions on areas to include in the 2019-2024 OCS Leasing Program need to be more expansive than today's Leasing Program. Therefore, BOEM should fully consider all areas for inclusion in the program and keep as many areas as feasible in the Draft Proposed Program.

Recent events in Russia, Asia, and the Middle East highlight the importance of maintaining a robust U.S. oil and natural gas industry to increase energy security and strengthen national security. No longer are we as a nation crippled by world events that threaten supply or heighten the risk of conflict. Our increased domestic production serves as a buffer to cushion the shocks to our economy that were once commonplace. With the timeline for development of offshore oil and gas stretching 10 to 15 years from the time of a lease sale, especially in frontier and deepwater areas, we need to maintain our activity in existing areas of operation and thoroughly consider expanding access to unexplored and undeveloped OCS areas that have been off limits for decades. Resources from these areas will be needed to replace the onshore and offshore oil and natural gas reserves that we currently produce.

Previous federal energy policy decisions have kept most of the U.S. OCS off limits to exploration and potential production. With the right choices, offshore oil and natural gas could play an even greater role in increasing domestic production, creating jobs and driving other economic benefits. Quest Offshore Resources concluded that development in the Atlantic could create nearly 280,000 new jobs along the East Coast and across the country, grow our economy by up to \$23.5 billion per year and add 1.3 million barrels of oil equivalent per day to U.S. production<sup>8</sup>. This equals about 70% of current production from the GOM. Jobs and government revenue are also locked away with large energy reserves in the Pacific and EGOM, totaling more than 200,000 jobs, \$218 billion and 2.6 million barrels per day according to a Wood Mackenzie study<sup>9</sup>.

### **C. Existing and Historical OCS Exploration and Development Areas are Important**

The OCS contains critically important hydrocarbon producing areas like the GOM where expertise and technology has increased our nation's energy security and prospective areas like the Chukchi and Beaufort Seas off Alaska that are thought to contain world-class hydrocarbon resources. Regular and predictable lease sales, regulatory certainty, and timely permitting are needed to help ensure high participation in future lease sales, new federal revenues from lease bonuses, and sustained offshore exploration and production.

The importance of predictability and certainty in the offshore leasing program cannot be overemphasized and are crucial to a successful offshore energy policy. Companies need regular access to leases to make the long-term commitments required for offshore development, particularly for investments at the magnitude required for frontier areas like the Arctic. As technology improves and economic conditions change, leases once deemed noncommercial evolve into viable drilling candidates with commercial potential. Because of this evolution, it is important to allow innovative companies the opportunity to pursue new leases to test innovative geologic concepts and to employ advancements in drilling and production technology. A continuous stream of new discoveries is needed to replace depleted reserves and help maintain or

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<sup>8</sup> <http://questoffshore.com/wp-content/uploads/Economic-Benefits-Full-Dec.13.pdf>

<sup>9</sup> [http://www.api.org/~media/Files/News/2011/SOAE\\_Wood\\_Mackenzie\\_Access\\_vs\\_Taxes.pdf](http://www.api.org/~media/Files/News/2011/SOAE_Wood_Mackenzie_Access_vs_Taxes.pdf)

increase domestic production levels. Without the opportunity to obtain leases, companies will be forced to turn their attention and investment dollars to prospects in other parts of the country or the world.

Development of new oil and gas resources in Alaska is a critical state and national interest. In 1988 Alaska's North Slope was producing 2.145 million barrels per day -- or 25% of the U.S. domestic production. Current North Slope production has declined to less than 575,000 barrels per day. Drilling of new offshore prospects and development of the discoveries that may be found is essential to slowing and reversing the current, declining trend in Alaskan oil production. Should this decline continue unabated, the viability of the Trans-Alaska Pipeline will be threatened, and with it the flow of existing production to the Lower 48 States. The Chukchi Sea was last estimated by MMS/BOEM in 2006 to contain 15.38 BBO, 76.77 TCFG, or a total of 29.04 BBOE. The Beaufort Sea was last estimated by MMS/BOEM in 2006 to contain 8.22 BBO, 27.65 TCFG, or a total of 13.14 BBOE<sup>10</sup>. The Chukchi Sea offers more resources than any other undeveloped U.S. energy basin. The Beaufort Sea, while smaller, nevertheless provides among the largest undiscovered resource accumulations in the U.S. The development of the Chukchi Sea and the Beaufort Sea will also greatly enhance U.S. energy security by sustaining the Trans-Alaska Pipeline System and generating significant economic benefits for Alaska and the nation. Based on a 2011 study by the Anchorage firm Northern Economics, development of these two Arctic OCS Basins could generate as many as 50,000 jobs<sup>11</sup>.

Another benefit of the sustained and expansive energy policy the U.S. has followed in parts of the Gulf of Mexico is that the U.S. oil and natural gas industry has become the world leader in offshore technology development. This is particularly true in terms of deepwater exploration, drilling and development operations. To maintain our position as a technology leader we will need to pursue an energy policy that continues to allow leasing in existing and historical areas of operation, especially in the Arctic and the Atlantic. The U.S. needs to continue to foster exploration and development activities in new OCS areas so that we can remain on the forefront of area-specific technology development rather than leave this to other countries.

#### **D. New Areas of Exploration are Needed**

The Atlantic OCS has not been explored for decades, and no Atlantic sales were included in the 2017-2022 Five-Year OCS Leasing Program despite strong support for leasing and development by elected officials in Virginia, North Carolina and South Carolina. Most importantly, permitting decisions to allow seismic surveys and data collection in the Mid- and South Atlantic OCS Planning Areas were delayed without scientific justification. They are finally advancing, albeit at a very slow pace. Atlantic seismic survey data are needed to update resource estimates that are based on decades-old information. With new seismic data in hand, decisions informed by science can be made as to the true resource potential in these areas. However, because of the ongoing permitting delays, the timing of the 2019-2024 Five-Year

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<sup>10</sup> Minerals Management Service. *Undiscovered Oil and Gas Resources, Alaska Federal Offshore as of 2006*. [http://www.boem.gov/uploadedFiles/BOEM/Oil\\_and\\_Gas\\_Energy\\_Program/Resource\\_Evaluation/Resource\\_Assessment/2006\\_AlaskaUndiscoveredOilandGasResources.pdf](http://www.boem.gov/uploadedFiles/BOEM/Oil_and_Gas_Energy_Program/Resource_Evaluation/Resource_Assessment/2006_AlaskaUndiscoveredOilandGasResources.pdf)

<sup>11</sup> Northern Economics, Inc. and Institute of Social and Economic Research. *Potential National-Level Benefits of Alaska OCS Development*. Prepared for Shell Exploration & Production. February 2011

Program development process and industry’s seismic data collection remain out of sync. BOEM will need to decide which areas to include in the Draft Proposed Program well before industry has the opportunity to collect and analyze any new seismic data. If the Atlantic OCS is not included in the Draft Proposed Program, then new seismic data will likely not become available as the incentive for companies to collect the data – and the prospect of a future lease sale – will be gone. Therefore, we respectfully request that, at a minimum, the Mid-and South Atlantic OCS Planning Areas must be included in the Draft Proposed Program.

The 2019-2024 Program offers an opportunity in the EGOM that has not been available since a Congressional moratorium was enacted in 2006. The Congressional Moratorium for the EGOM was put in place as part of the Gulf of Mexico Energy Security Act of 2006 and it bans oil and natural gas leasing within 125 miles off the Florida coast and east of a negotiated Military Mission Line in the EGOM, and a portion of the Central GOM. It is set to expire in 2022, or earlier with Congressional action. Lease sales can be scheduled and held in the latter part of the 2019-2024 Program without any Congressional action. The long-standing framework of cooperation between the Department of the Interior (DOI) and the Department of Defense (DOD) demonstrates that these are not mutually exclusive missions, but that both missions can coexist and help to advance our national and energy security goals.

In addition, one criterion the DOI is required to use in selecting areas to be included in the proposed Program is the likely availability, or presence, of oil and gas resources. Areas of the EGOM with significant known reserves that feature promising geological conditions should therefore be included in the Draft Proposed Program. Supporting resources and infrastructure in the Central Gulf of Mexico could be enhanced relatively quickly if expanded oil and natural gas exploration and development take place. Failing to include the Eastern Gulf Planning Areas in the first stage of a lengthy, multi-stage leasing program evaluation process because of local opposition, unfounded concerns over conflicts with military training, or the existence of a temporary moratorium undermines the entire Five-year Leasing Program process that is designed to take multiple factors into account throughout the process and not pre-determine the outcome or the actions of Congress.

We encourage BOEM to continue to work with the military to demonstrate that oil and natural gas operations and military training activities are not incompatible, per se. The last evaluation the DOD conducted in 2010 indicated that only 11% of the EGOM should be off limits to oil and natural gas exploration and development activities. This evaluation should be updated as soon as possible. Based on the results, BOEM can analyze areas of known and prospective resources in relation to the military’s areas of concern and other ocean users to determine areas best suited for future leasing.

#### **E. Industry Activities are Compatible with Other Ocean Uses**

Through decades of activity on the OCS, industry has proven that its operations can coexist with other uses and users of the ocean. For example, the military has established Military Warning Areas and Water Test Areas in the GOM and leases in these areas contain stipulations that require special accommodations to military operations, including the right of the military to suspend oil and gas operations, require evacuation of personnel, and require a formal Operating Agreement between the lessee and the military. Also, a “drilling window” program (rarely used

given the uncertainty associated with receiving necessary permits to conduct offshore operations) was established in 1991 in the EGOM, to ensure that any drilling can be conducted in a safe, predictable, and orderly manner without interfering with scheduled military activities or jeopardizing the national defense mission.

Another example is the thriving Flower Garden Banks National Marine Sanctuary. A series of coral reefs that have been surrounded by industry operations and platforms since its creation in 1991, the banks provide home to a large array of marine life and offer recreational divers a spectacular experience. Add to these examples the robust commercial and recreational fishing industries in the Gulf of Mexico and Alaska and the coastal tourism industry in Gulf Coast states and there is ample evidence that oil and natural gas development and other ocean industries can co-exist and all can thrive<sup>12</sup>.

## **F. Continued Safety and Environmental Performance Improvements**

The oil and natural gas industry continues to work both independently and with the regulators to enhance the safety of offshore operations. Many industry standards have been revised, enhanced or developed to cover areas including well design, cementing, and operator/contractor interaction; blowout prevention equipment design, operation, repair and maintenance, and associated control systems; and, subsea equipment interfaces with remotely-operated vehicles and well capping equipment. The Center for Offshore Safety also works to improve the safety performance of America's offshore oil and natural gas industry and it continues to work with companies and the regulators to engrain safety culture into day-to-day operations.

The Marine Well Containment Company and the Helix Well Containment Group provide containment technology and response capabilities for the unique challenges of stopping the flow of oil thousands of feet below the water's surface. In the unlikely event that these services will be needed, these companies maintain quickly deployable systems that are designed to stem uncontrolled flow of hydrocarbons from wellbores located on the seafloor either by sealing the well or directing the fluids into storage vessels located on the surface of the water.

The oil and natural gas industry also continues to advance an oil spill response research and development program that oversees more than 25 projects in eight areas: planning, mechanical recovery, dispersants, in-situ burning, remote sensing, shoreline protection, alternative technologies, and inland spill response. Oil spill response organizations have increased their capabilities by increasing training and keeping in inventory more equipment that is fit for specific purposes such as in-situ burning, and the industry has invested in international oil spill preparedness and response programs focused on improving industry operational capabilities in all parts of the world, including the Arctic.

The offshore industry systematically assesses operating practices and management systems with the goal of continuous improvement in safety and environmental performance. The safety and environmental performance record over recent years suggests that these efforts have been effective. The Associations also believe that these changes have made offshore oil and gas exploration and development safer, providing protection to communities and the environment.

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<sup>12</sup> <https://energyindepth.org/national/the-petroleum-and-tourism-industries-thrive-in-americas-gulf-coast/>



## G. Requested Fair Market Value Information

BOEM has posed a series of questions on fair market value topics. The Associations' answers, provided below, were developed using information found in a study by BOEM's predecessor, the Bureau of Ocean Energy Management Regulation and Enforcement (BOEMRE), specifically, OCS Study BOEMRE 2011-014, Economic Analysis, Inc. and Marine Policy Center December 2010, *Policies to Affect the Pace of Leasing And Revenues in the Gulf of Mexico Technical Report*. It is important to note that the main conclusion of this report is:

“[f]irst and foremost, the results show that there are important tradeoffs across policy alternatives, so no single policy is best at achieving all Goals. Nor does any individual policy dominate the Status Quo policy. Rather, some policy alternatives perform better than the Status Quo in terms of some Goals, but not as well in terms of others. So the choice among policies depends upon value judgments regarding the relative importance of the various goals.”

The Associations agree with the main conclusion of the report. If BOEM makes changes to the existing fiscal policy framework in the GOM, industry will react accordingly based on expected market forces, but there may be unintended consequences that cannot be anticipated. For frontier areas, should they be made available for leasing, there are factors unique to each area, highlighted in Question #2 below, that BOEM must consider and understand the consequences of those choices. If the ultimate goal is to maximize U.S. offshore production and the revenues, jobs, and energy security that it brings, BOEM needs to make fiscal term decisions that encourage continued industry investments in the Gulf of Mexico and new investments in frontier areas. This is especially true given the ongoing low price environment that makes large-scale capital investment more challenging.

1. *If DOI continues leasing in the Gulf of Mexico planning areas, are there changes to lease terms that will better meet the objectives of the OCS Lands Act? Lease terms subject to change include:*

a. Minimum bids

The BOEMRE analysis found that “[h]igher minimum bids are shown to increase cash bonus bids on some tracts, but also result in a reduction in the number of tracts sold. The net effect on total discounted cash bonus bids and royalty payments is insignificant.” Additionally, “[t]he tracts that go unsold will disproportionately be marginal tracts that would typically receive only a single bid, so that the average bid per tract sold is expected to increase.” Finally the report concluded that, “[i]ncreasing the minimum bid reduces OCS activities.”

The major take away from this analysis is that an increase in the average minimum bid does not mean more money for the government; it just means that fewer marginal tracks will be sold and that fewer companies will participate in lease sales because of the higher cost. Over time this will result in less OCS activity.

b. Rental rates

The key findings in the BOMRE analysis is that “[i]ncreasing the area rental rate slightly reduces the number of tracts sold, and may lead firms to relinquish tracts prematurely, thereby reducing expeditious development of OCS resources”, and “[h]igher rental rates induce firms to purchase fewer tracts and perhaps to spend less time exploring tracts.”

c. Royalty rates, royalty structures (e.g., flat or sliding scale)

In general, the BOEMRE analysis found that higher royalty rates would undermine the goals of the OCS Lands Act and “adversely affect expeditious development of OCS resources, reduce competition for tracts, and reduce the overall social value of OCS resources.” BOEM might see higher royalty payments if rates were raised but the gains would be offset by lower bonus bids and other revenue flows. Additionally, coastal states would see lower employment and less economic development attributed to OCS development because of the decreased level of activity.

In a low price environment, the impact of royalty rates cannot be underestimated. BOEM reduced royalty rates for leases in water depths less than 200 meters to 12.5% in upcoming Lease Sale 249. Presumably this was done to spur additional leasing and development activities. BOEM should consider extending the lower royalty rates to leases in all water depths to help ensure that capital investments in the GOM remain competitive with opportunities available in other areas around the world.

d. Initial period (also known as primary term) of the lease term and extended initial period (such as 7 years plus 3 years more if drilling commences)

In the BOEMRE report, it is noted that “shorter lease terms are found to adversely affect most measures of expediting development of OCS resources, and to reduce the overall social value of OCS resources.” The Associations do not support policies that result in an outcome such as this. Shorter lease terms, especially in deeper waters, make the exploration process much more difficult for companies because of the compressed timeframes. According to the BOEMRE report, the end result of shorter lease terms would be less competition for leases, lower bonus bids, and a reduction in royalty payments to the U.S. government.

BOEM should undertake an evaluation of the utility of the seven plus three lease term in water depth from 800 to 1600 meters. Based on anecdotal information, the Associations believe that such an evaluation may show that companies are reluctant to obtain these leases compared to leases with longer initial lease terms, resulting in less development of resources in these water depths.

2. *If DOI offers acreage for lease in planning areas outside the Gulf of Mexico, what fiscal terms for each planning area will best meet the objectives and limitations of the OCS Lands Act regarding the lease terms listed in items 1a. to 1d. above?*

The input provided for questions 1a. to 1d. above will hold true for areas outside the GOM. BOEM should establish the lease and fiscal terms to achieve its overall objectives for U.S. offshore energy policy. The Associations believe that lease and fiscal terms for U.S. offshore energy policies should encourage broad participation, active lease exploration and development programs, and production growth. BOEM should avoid policies that sacrifice long-term viability to realize short-term revenue gains and satisfy the calls for industry to hold fewer leases.

- a. *Is there an alternative design, e.g., auction-type design that may be better suited to achieve fair market value, either by changing the bidding variable or some other aspect of the competitive lease sale?*

The Associations do not see a need to move away from the current lease sale construct. The BOEMRE report indicates that “[m]ulti-Round Auctions result in significantly more tracts sold, and slightly (insignificant) increasing production activity, and therefore royalties and area rentals.” Any increase in production and associated revenues would be offset by a reduction in total high bonus bids and would result in a small decrease in total revenue.

- b. *Should the upcoming program consider use of alternative and/or nontraditional fiscal terms, primary lease terms, auction formats, or tract offering sizes? Please state which of these features of the leasing process merit consideration for future use, where and under what conditions those changes might be useful, and explain why such a change is necessary or beneficial, e.g., demonstrate that exploration would not occur in selected frontier areas without larger than traditionally-sized tracts in lease sales.*

The Associations fully support continued use of the current area-wide leasing program in all OCS areas. We believe that the term "area-wide leasing" does not accurately convey the meaning of the concept, or its utility to the government and the industry. It does not mean, for example, that all OCS acreage offered would be leased for oil and gas exploration. Rather, it means simply that all of the area would be available for consideration for oil and gas leases. Any one of a variety of factors, ranging from environmental concerns to lack of oil and gas prospects could prevent a particular tract from being leased. All that area-wide leasing implies is that no tract would be automatically excluded from the bidding process merely because BOEM concludes that no one would wish to submit a bid on it.

There are a number of important advantages to the area-wide leasing approach. It allows the bidders to consider the entire geological basin rather than a small portion of it. Most oil companies have highly structured criteria for making exploration decisions. Allowing a firm to take the entire basin into consideration gives the U.S. the full benefits of a diversity of approaches and exploration philosophies for areas previously unleased. Area-wide leasing ensures that areas

with potential become available for exploration. In addition, according to the BOEMRE study, a nomination approach would slow the pace of leasing and increase the amount of bonus bids received, but these revenue gains would likely be offset by lower revenues in the future and would affect the ability of the government to achieve one of the OCS Lands Act goals of expeditious development of OCS resources.

The Associations wish to add that the federal government's failure to provide regulatory certainty to Alaska's OCS leaseholders will impact the economic attractiveness of future Alaskan OCS lease sales. While approximately 650 leases netting the federal government billions of dollars were awarded to companies interested in oil and gas exploration on the Alaskan OCS since 2005, significant federal regulatory obstacles remain and only a single well has been drilled to its targeted hydrocarbon depth in this area. To attract the investment necessary for a successful lease sale and realize the benefits associated with Alaskan offshore development, the federal government should consistently adhere to its lease sale plans and provide a clear and consistent regulatory framework that is based on sound science.

The need for certainty and predictability in the leasing, exploration and development process cannot be overstated. In addition to the recent experiences in Alaska, industry has also been faced with similar challenges in other OCS areas. Most notably in the EGOM, industry investments were undermined by a last minute withdrawal of significant portions of the area offered for leasing in Lease Sale 181. Additional challenges have resulted from the failure to provide regular, additional EGOM lease sales to allow lessees to add adjoining acreage to existing lease positions prior to undertaking drilling activities. Also, in the Atlantic and Pacific, there is a history of granting leases for which lessees are ultimately unable to obtain drilling permits causing the lessees to resort to costly and lengthy litigation to recoup bonus bids and lease rentals. These experiences will likely have an impact on the amount industry is collectively willing to invest in these areas should they be offered for leasing.

## **H. Specific Information Requested from Industry**

BOEM requested specific information from industry on the following questions:

- (1) *Indicate the OCS Planning Area(s) where the industry respondent would be interested in acquiring oil and gas leases, regardless of whether the area currently is unavailable. If more than one Planning Area is of interest, rank all areas of interest (including those now being offered, if appropriate) in order of preference.*

Given our role as Trade Associations and our compliance with state and federal antitrust laws, it is difficult for us to provide specific information to BOEM on industry's preference for one area over another. As stated previously, at this point in the Five-year Program development process all OCS areas with the potential to

generate jobs and new revenue by advancing America's energy renaissance should be considered for inclusion in the Draft Proposed Plan.

- (2) *Indicate the number and timing of lease sales in the period 2019–2024 that would be appropriate for each Planning Area. If only one lease sale in a Planning Area is appropriate, indicate whether that area should be considered for leasing early or late in the five-year schedule. If more than one lease sale in a planning area is suggested, indicate the preferred interval between lease sales.*

The Associations have little input to provide on the number or timing of lease sales, with the following exceptions:

- In frontier areas like the Atlantic that have been closed to exploration for decades, there is an immediate need to conduct new seismic surveys, and process and interpret the data before industry can be expected to consider the investment of obtaining and eventually developing leases in these areas. The ongoing permit delays in the Atlantic are exacerbating this problem.
  - EGOM lease sales should be scheduled throughout the 2019-2024 Leasing Program with sales scheduled prior to 2022 being contingent on the Congressional moratorium being lifted.
  - In the GOM, two lease sales per year are adequate, and they should be held every six months.
- (3) *Indicate the expected lead time to production in areas that are not part of the 2017–2022 Program or currently do not have infrastructure or production, relative to lead-times to new production in previously leased areas like the Central and Western Gulf of Mexico.*

Based on historical experience, in frontier areas, extensive exploration activity, drilling time, market dynamics, equipment availability, etc. from the time a lease is obtained until first production can extend 10 to 15 years, making a 10-year lease term a challenge. In the GOM this scenario is increasingly true for deepwater leases.

- (4) *In addition, BOEM requests information on industry's view of the utility of region-wide sales in the Gulf of Mexico as planned in the 2017–2022 National Program.*

Industry has not worked under the region-wide lease sale program for a long enough time to render a judgement. However, based on limited experience, it seems to be worth continuing for the near future.

## **I. Conclusion**

The Associations appreciate the opportunity to comment on the request for information. Since we are trade associations, we have chosen not to provide much of the specific geologic information that was requested or to rank the individual planning areas.

Individual companies are better suited to provide that information. Nonetheless, we look forward to working with BOEM on development of the 2019-2024 Five-year OCS Leasing Program. Should you have any questions please contact Andy Radford at 202-682-8584 or [radforda@api.org](mailto:radforda@api.org).

Sincerely,



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Erik Milito, American Petroleum Institute



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Jeff Vorberger, National Ocean Industries Association



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Dan Naatz, Independent Petroleum Association of America



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Alby Modiano, U.S. Oil and Gas Association



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V. Bruce Thompson, American Exploration & Production Council



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Jason McFarland, International Association of Drilling Contractors



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Nikki Martin, International Association of Geophysical Contractors



Leslie Shockley Beyer, Petroleum Equipment Suppliers Association



Joshua Kindred, Alaska Oil and Gas Association