INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

March 24, 2021

The Independent Petroleum Association of America (IPAA) submits the following comments for the Public Forum on the federal oil and natural gas program.

IPAA is the leading, national upstream trade association representing oil and natural gas producers and service companies. IPAA represents thousands of independent oil and natural gas explorers, as well as the service and supply industries, that support their efforts. IPAA member companies actively produce oil and natural gas from leases on federal lands, both onshore and offshore and we have members in 34 states across the nation.

In 2019, IPAA commissioned a study by IHS Markit of independent oil and gas operators in the United States. The study found that independents continue to drive our economy and generate billions in tax revenue while drilling 91% of the nation's wells. Independent producers now account for 83 percent of domestic oil and 90 percent of domestic gas production. A copy of the study is included as an addendum to this statement.

IPAA and our members are extremely concerned about efforts by the Biden Administration to alter the foundational elements of the Department of Interior's oil and natural gas leasing program for onshore and offshore federal lands. Federal lands and waters together accounted for 22 percent of total U.S. oil production and 12 percent of U.S. natural gas production in 2019, according to the Energy Information Administration. The federal government owns roughly 640 million acres of land in the United States, roughly 28 percent of the nation's surface area – most of which is located in twelve states in the Western United States. In addition to the surface lands, the federal government exercises management responsibility for hundreds of millions of acres of federal minerals underlying these lands and offshore areas. Production of oil and natural gas from these areas are an important part of the nation's energy portfolio and will be key to ensuring the United States remains a key player in the worldwide energy picture.

Oil and natural gas producers on federal lands continue to meet the new challenges facing the industry. Due to the production of clean, efficient natural gas, the United States continues to be a world leader in reducing emissions that contribute to climate change. IPAA and our members are committed to reducing methane emissions and are also supportive of climate mitigation programs such as carbon capture and sequestration programs that hold the potential to significantly reduce CO2 emissions in the atmosphere. IPAA member companies are constantly innovating and improving our exploration and production methods. The association is a member of The Environmental Partnership, which is an industry-led effort to further address environmental issues facing our nation. Our member companies continually strive to reduce the footprint on federal, state, tribal and private lands and work closely with our federal and state partners to deliver oil and natural gas to the nation in an efficient and environmentally sound fashion.

The Mineral Leasing Act and the Outer Continental Shelf Lands Act prescribe the necessary and proper rules and regulations to allow oil and natural gas producers to operate on federal lands. Both of these laws were established to promote the production of minerals on the public domain. Congress was clear that it is "in the national interest to foster and encourage private enterprise" in producing minerals for the benefit of the nation. Congress was also clear that executive agencies, particularly the Department of the Interior, manage these lands under the principles of multiple use and sustained yield. The multiple use mandate makes it clear that mineral production on federal lands is one of many uses for federal lands, including recreation, agriculture, among other uses for the American people. However, it is clear that mineral production is a key aspect of the "multiple use mandate" established by Congress and cannot be halted at the whim of the President or the regulatory agencies.

One issue sure to be highlighted at the forum is that of the royalty rate for federal onshore producers. Some have argued that the current rate of 12.5% is too low: however, as noted below, raising the royalty rate will not necessarily generate increased revenue to the federal treasury and to states for oil and natural gas production. There are many factors that play into a company's decision on whether and where to bid and lease for mineral extraction on federal lands. These include location with relation to other properties, transportation costs, operational costs, taxes and rents of a specific area. However, the most impactful are the regulatory costs associated with a project. Operating on federal land triggers a whole host of federal regulatory actions that must be taken in order for a company to receive a permit to drill. Satisfying the suite of federal regulations can take many months as a company pays overhead costs while awaiting specific approvals. Adjusting the royalty rate in isolation without taking other critical factors into account will undoubtedly have an impact on a company's decision to develop federal resources or not. Federal regulation impacts the value of federal leases.

Developing federal oil and natural gas resources is also an important source of revenue for the federal and state governments. Each year, oil and natural gas exploration and production activities on federal lands contribute billions of dollars to the federal treasury and state governments. That revenue helps fund critical investments in communities across the United States and supports jobs, schools, conservation efforts and infrastructure projects.

Earlier this month, Governor Michelle Lujan Grisham (D-NM) sent a letter to President Biden asking him to consider the important impacts oil and natural gas production has on federal lands has in her state. In the letter, Governor Lujan Grisham says the following:

"These revenues fund public schools, infrastructure projects, and a range of other priorities, including environmental initiatives. An analysis conducted by our state Department of Finance and Administration shows that New Mexico stands to lose approximately $709 million between fiscal years 2021-2025 if there's a relatively modest 10 percent decline in production. Financial losses of that magnitude could have real impacts on our ability to achieve major goals like universal access to early childhood education."

In December 2020, the Wyoming Energy Authority conducted a study by Dr. Tim Considine at the University of Wyoming that analyzed the economic impact of a federal leasing/drilling ban on several western states. The report found that by the end of President Biden's first term, the cost of banning leasing will be $33.5 billion in lost Gross Domestic Product (GDP) and $8.3 billion in state tax revenues. The study also found that over 58,000 jobs would be lost in the first four years of the ban, including 28,000 in the State of New Mexico alone.

Many anti-development groups believe that domestic oil and natural gas producers should not be issued new federal land leases until current ones are developed. These groups also claim that federal permits to begin oil and natural gas exploration are being approved too quickly. This rationale fails to recognize the process and the business of federal land leasing.

Oil and natural gas exploration is not a business of rash decision making. Detailed planning, permitting timetables and regulatory requirements must be met, and that takes time. Producers simply don't buy a lease and begin drilling – and they certainly don't drill every lease all at once. There is a process that balances business decisions with safety and environmental concerns. It would be irresponsible to conduct businesses any other way.

Undeveloped leases could be the result of numerous issues, such as:

- Regulatory and permitting delays associated with exploring and producing on those leases;

- Litigation from anti-development groups;

- The strategy to lease multiple blocks of adjoining acreage to efficiently explore promising natural gas and oil prospects should one prospect prove successful (a "one-at-a-time" approach);

- The continuous need to raise capital to develop the prospects (i.e., once a block is leased, development does not occur until the producer shows his potential financiers the lease and its potential.)

- After further study, the area could be determined to be non-productive and thus would not be developed.

IPAA believes that, rather than fighting and litigating every effort to enhance domestic oil and natural gas production on federal lands, we should look for ways to develop positive solutions to help America become more energy independent.

Additionally, oil and natural gas producers are required to pay a “rental fee” for unused leases. Undrilled leases provided millions of dollars to state treasuries last year. Lease bids raise billions of dollars for the federal government and states.

Unfortunately, despite the clear benefits oil and natural gas production on federal lands bring to the United States, officials within the Biden Administration claim, “The federal oil and gas program is not serving the American public well.”

IPAA and our members strongly disagree with this statement and any assertion American oil and natural gas production on federal lands should be curtailed. Vital job creation and economic development in states across the country depend on mineral production on federal lands. Responsible development of federal lands in the West and in federal offshore waters with a regulatory program designed to protect the environment and public is achievable. IPAA and our members look to coordinate and cooperate with federal and state regulators to find innovative solutions that address climate issues, management of methane and protect and reclaim federal lands.

Thank you for this opportunity, and we look forward to working with the Department of the Interior to address these important issues.

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