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Submitted via regulations.gov

Subject: Request for Information and Comments on the Preparation of the 2017–2022 Outer Continental Shelf (OCS) Oil and Gas Leasing Program

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”), America's Natural Gas Alliance (“ANGA”), Natural Gas Suppliers Association (“NGSA”), International Association of Geophysical Contractors (“IAGC”), Petroleum Equipment Suppliers Association (“PESA”), Energy Equipment and Infrastructure Alliance (“EEIA”), 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 2017-2022 Outer Continental Shelf Oil and Gas Leasing Program published in the Federal Register on June 16, 2014. 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 2017-2022 OCS Leasing Program. The U.S. oil and natural gas industry supports more than 9 million jobs nationwide, supports over 7% of GDP, and contributes more than \$86 million to the Federal Treasury every day. 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 Plan. 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 and Alaska available for leasing in the 2017-2022 Five Year Program and also urge BOEM to make **new** areas in the Atlantic, Eastern Gulf of Mexico and the Pacific available for leasing as part of the program.

I. The Associations

API is a national trade association representing over 600 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 Outer Continental Shelf 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 34 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.

ANGA represents North America's leading independent natural gas exploration and production companies, and works with industry, government and customer stakeholders to promote increased demand for and availability of our nation's abundant natural gas resource for a cleaner and more secure energy future. The collective natural gas production of ANGA member companies is approximately eight trillion cubic feet per year, which represents one third of the total annual U.S. natural gas supply.

NGSA member companies produce approximately one-third of America's natural gas supply. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers.

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 is the unified voice for the energy industry's oilfield service, supply and manufacturing companies. PESA members support over 500,000 jobs in this sector, and are global leaders in the advanced technologies that allow for safer and more abundant energy production.

EEIA is a service and advocacy organization representing the North American crude oil and natural gas supply chain. EEIA members supply construction, equipment, supplies, services and logistics supporting exploration, production, transportation and processing of oil and gas. Its members include supply chain companies, their trade associations, and their workers' labor unions. EEIA's mission is to conduct research, to provide information and services, to demonstrate the profoundly positive economic, employment and security impacts of increasing production of oil and gas, and to support policies at all levels of government that encourage full and careful development of energy resources while protecting the environment and minimizing community impacts.

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

Given expected global economic and population growth, energy efficiency improvements and alternative energy sources will not be sufficient to meet anticipated US and global energy demand. The U.S. Energy Information Administration forecasts U.S. energy demand to grow by 10 percent by 2040, with more than half of that demand expected to be met by oil and natural gas.

For the foreseeable future, this increased demand will partly be met by domestic production. The U.S. recently became 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. But the International Energy Agency ("IEA") recently reported the U.S. could fall behind OPEC countries if U.S. production plateaus, which IEA says could result in "tighter and more volatile oil markets" and add \$15 per barrel to the price of oil. Growing U.S. production has dramatically increased our resistance to energy shocks, but our long-term energy security can only be ensured with a lasting commitment to expanding offshore oil and natural gas development.

B. Offshore Development is an Integral Part of U.S. Energy Policy

To continue our march toward greater energy independence, bold, forward-looking decisions need to be made. Decisions on areas to include in the 2017-2022 OCS Leasing Program will have impacts well into the future. Therefore, we believe that 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 and the Middle East highlight the importance of maintaining a robust U.S. oil and natural gas industry and the increased energy security that comes with it. No longer are we as a nation crippled by these events as 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 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.

Offshore oil and natural gas production currently accounts for approximately 20% of U.S. energy production and is a crucial component of an all-of-the-above energy policy. However, recent studies have shown that the U.S. OCS could play an even greater role in increasing domestic production, creating jobs and driving other economic benefits. Quest Offshore¹ Resources recently 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

¹ <http://questoffshore.com/wp-content/uploads/Economic-Benefits-Full-Dec.13.pdf>

year and add 1.3 million barrels of oil equivalent per day to U.S. production. That equals about 70% of current production from the Gulf of Mexico. Jobs and government revenue are also locked away with large energy reserves in the Pacific and Eastern Gulf of Mexico, totaling over 200,000 jobs, \$218 billion and 2.6 million barrels per day according to a Wood Mackenzie study².

C. Major Safety and Environmental Performance Changes have Occurred Since the Macondo Incident

In the last four years, the oil and natural gas industry has worked both independently and with the regulators to enhance the safety of offshore operations. Immediately after the Macondo incident, the U.S. oil and natural gas industry launched a comprehensive review of offshore safety measures and operations to identify potential improvements in spill prevention, intervention, and response capabilities. Four industry panels were assembled to focus on the critical areas of equipment, operating practices, subsea well control, and spill response. The panels also worked with the U.S. Department of the Interior and the Presidential Oil Spill Commission to help form their recommendations to improve offshore safety and the regulatory framework.

Many industry standards were revised, enhanced or newly created to cover areas that include 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 industry also formed the Center for Offshore Safety to help 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 were founded to 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 any 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 has also established a robust 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.

²http://www.api.org/~media/Files/News/2011/SOAE_Wood_Mackenzie_Access_vs_Taxes.pdf

The federal government responded to the Macondo incident by reorganizing its operations and focusing on four areas of regulatory policy: 1) blowout prevention, 2) drilling safety, 3) spill response and 4) well containment. The government has revised its regulations in these areas and in the process has incorporated a number of industry standards and guidelines into the regulations and is in the process of developing Alaska-specific OCS regulations.

As the co-chairs of the National Oil Spill Commission formed after the Macondo incident recently said:

“Federal regulatory agencies are implementing new rules regarding oversight of the industry and bolstering their enforcement activities. Government and industry are working together to create a safety-conscious culture in the offshore drilling industry. And the industry has substantially improved its capacity to respond to rupturing wells by pre-positioning caps for ready deployment should trouble occur. Thus, offshore drilling is safer than it was four years ago.”³

The Associations also believe that these changes have made offshore oil and gas exploration and development safer and that industry has the ability to operate in a manner that is more protective of people and the environment than ever before. The Macondo incident alone should not be justification for limiting access to oil and natural gas resources in new or existing offshore areas.

D. All OCS Areas Should be Fully Evaluated and Considered

At this point in the Five-year Program development process we believe that it is important for BOEM’s evaluation of the OCS areas to be all-inclusive (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. However, the existing process does not allow an area removed from consideration at an early stage to be added back in at a later stage, thus highlighting the importance of not prematurely eliminating areas 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 or not to have the sale is made at the time the sale is scheduled. This allows BOEM some flexibility to include lease sales in areas that may be under a temporary moratorium (like the Eastern Gulf of Mexico) or where new data is being collected (like the Atlantic) and make the ultimate decision to hold the sale or not at the time the sale is scheduled. The decisions made now will have long-lasting impacts on U.S. energy policy and the options available to us in the future.

E. Existing OCS Exploration and Development Areas are Important

³ <http://oscaction.org/wp-content/uploads/Graham-Reilly-Statement-April-2012.pdf>

The OCS contains critically important hydrocarbon producing areas like the Gulf of Mexico where expertise and technology has increased our nation's energy security and areas like the Chukchi and Beaufort Seas off Alaska that are highly prospective for discovery of new world class hydrocarbon resources. Continued regular and predictable lease sales in these planning areas are needed to help ensure high participation in future lease sales, new federal revenues from lease bonuses, and sustained offshore exploration and production. This will help to assure our nation's energy security - since leases sold today will take many years to fully evaluate, explore, and develop.

Predictability and certainty in the leasing program helps companies make the long-term decisions required for offshore development, particularly 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 and to test innovative geologic ideas and to employ advancements in technology for drilling and production. A continuous stream of new discoveries is needed to replace depleted reserves and maintain or 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 BBOE⁴. 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. Together, the oil and natural gas resource potential represented by the Chukchi and Beaufort Seas exceeds the combined resource estimates for the Atlantic and Pacific OCS. 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 jobs⁵.

⁴ 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

⁵ 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

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 development leader we will need to pursue an energy policy that continues to allow leasing in existing areas of operation, especially in the Arctic. The U.S., like other countries, needs to continue to foster exploration and development activities in the Alaska OCS so that we can remain on the forefront of Arctic technology development.

F. New Areas of Exploration are Needed

The Atlantic OCS has not been explored for decades, and no Atlantic sales were included in the 2012-2017 Five-Year OCS Leasing Program despite strong support for leasing and development by elected officials in Virginia, North Carolina and South Carolina. Reasons cited for not including Atlantic OCS sales included a lack of information on potential resources, potential conflicts with the military, and the lack of oil spill preparedness and response capabilities. Since the decision on the 2012-2017 Program was made, BOEM has undertaken efforts to address all of these areas. Most importantly, a Programmatic Environmental Impact Statement that will provide the framework for permitting decisions to allow seismic surveys in the Mid- and South Atlantic OCS Planning Areas was recently completed after years of analysis. The Secretary of Interior in July issued a Record of Decision based on the PEIS evaluation. This Record of Decision supports the permitting of seismic operation in the Atlantic under certain conditions and subject to various mitigations.

Atlantic seismic survey data are needed to update resource estimates based on decades-old information. Even without this new data, in April 2014 BOEM was able to revise the estimates of undiscovered oil and natural gas resources in the Atlantic upward by over 1 billion barrels of oil and 6 trillion cubic feet of gas⁶. With new seismic data in hand, even better informed decisions can be made as to the true resource potential in these areas. However, the timing of the 2017-2022 Five-Year Program development process and industry's seismic data collection are out of sync. BOEM will need to make decisions regarding which areas to include in the Draft Proposed Program well before industry collects and analyzes any seismic data. As of now, BOEM has reported that as many as eight applications have been received to conduct seismic surveys in the Atlantic. The permitting process is expected to take anywhere from nine to 18 months, so companies will not be able to collect data until 2015 at the earliest. Factoring in data processing time, 2016 would be the earliest timeframe for BOEM and industry to have additional information upon which to base future leasing decisions. If the Atlantic OCS is not included in the Draft Proposed Program, then new seismic data will likely not be available since the incentive for companies to collect the data – and the prospect of a future lease sale – will be gone. Department of the Interior and BOEM officials have testified in congressional hearings that new data is needed in the Atlantic so that they can make informed decisions on future

⁶ BOEM, Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Atlantic Outer Continental Shelf, 2014 Update, April 2014.

leasing opportunities. We respectfully request that, at a minimum, the Mid-and South Atlantic OCS Planning Areas be included in the Draft Proposed Program.

Other OCS areas should also be included in the Draft Proposed Program. One criterion the Department of the Interior 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 Pacific Ocean and the Eastern Gulf of Mexico with significant known reserves that feature promising geological conditions should therefore be included in the Draft Proposed Program. These areas have limited existing infrastructure to support exploration and development, including the required spill preparedness and response capabilities. These supporting resources could be enhanced relatively quickly if expanded oil and natural gas exploration and development are allowed to take place in these Planning Areas. Failing to include the Pacific and Eastern Gulf Planning Areas in the first stage of a lengthy, multi-stage leasing program evaluation process because of local opposition or the existence of a temporary moratorium undermines the entire Five-year Leasing Program process that is designed to take multiple factors into account and not pre-determine the outcome.

G. Industry Activities are Compatible with Other Ocean Uses

Through decades of activity in the Gulf of Mexico 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 Gulf of Mexico and leases in these areas contain stipulations that require special considerations by lessees to accommodate military operations, including the right of the military to suspend oil and gas operations, require evacuation of personnel, and require the development of 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 Eastern Gulf of Mexico, 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 the lucrative 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.

H. 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, 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. We believe that 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 Gulf of Mexico, 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 that will result from the choices that are made. If the ultimate goal is to maximize U.S. offshore production and the revenues, jobs, and energy security that it brings BOEM should make one set of choices. If the goal is to limit the number of leases held, companies participating, ultimate production and associated jobs and revenue then BOEM should make a different set of choices.

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 salient point 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 there will be 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. Coastal states eligible for revenue would see lower employment and less economic development attributed to OCS development because of the decreased level of activity.

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 are not supportive of policies that would result in an outcome such as this. Shorter lease terms, especially in deeper waters, make the exploration process that 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 over time.

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 Gulf of Mexico. Again, it depends on what overall objectives BOEM intends to pursue for U.S. offshore energy policy and construct the lease and fiscal terms to achieve these objectives. 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 over policies that would 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 excluded automatically from the bidding process merely because BOEM would conclude 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 current Alaska OCS leaseholders will impact the economic attractiveness of future Alaska OCS lease sales. While approximately 650 leases netting the federal government billions of dollars have been awarded to companies interested in oil and gas exploration in federal waters offshore Alaska since 2005, significant federal regulatory obstacles remain and to date not a single well has been drilled to its targeted hydrocarbon depth in this area. Additionally, four Chukchi and Beaufort Sea lease sales that were included in the 2007-2012 Program and proposed to take place between 2009 and 2012 were cancelled. Only three lease sales are included in the current 2012-2017 Leasing Program, one each in the Chukchi Sea, Beaufort Sea and Cook Inlet. Whether or not these lease

sales will be held is unknown. To attract the investment necessary for a successful lease sale and realize the benefits associated with Alaska 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 Eastern Gulf of Mexico when a last minute withdrawal of a significant portion of the area to be offered in Lease Sale 181, and the failure to provide regular, additional Eastern Gulf of Mexico lease sales to allow lessees to add adjoining acreage to existing lease positions prior to undertaking drilling activities undermined industry investments in the area. Also, in the Atlantic and Pacific, there is a history of granting leases for which lessees are ultimately unable to obtain drilling permits and must resort to costly and lengthy litigation in order to recoup bonus 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.

I. Requested Information on Other Issues

- While increased domestic onshore production is not expected to fully replace imports of crude oil over the life of the new Five Year Program, new production, market factors, and other forces have allowed U.S. refineries to export more petroleum products than the Nation imported in each of the last few years. Should this affect decisions as to size, timing, and location (especially for frontier areas) of future OCS oil and gas leasing?

No, the current debate over crude oil exports should not impact decisions on the size, timing or location of future lease sales. Even though crude oil is a globally traded product, the price of various types of crude oil and their marketability are mostly determined by global market conditions. So, the type of crude oil and its location does impact its value to the market. The decision on whether to explore for and develop additional crude oil resources is best determined by individual company decisions responding to these worldwide market conditions. It is therefore important to maintain area wide leasing to best meet market conditions. A recent study by ICF Resources⁷ indicates that crude oil exports would have wide ranging positive impacts on U.S. employment and GDP. Furthermore, additional production opportunities through area-wide leasing represent an important opportunity to enhance our status as a global energy superpower by bringing additional domestic supplies to the global marketplace. The U.S. can utilize not only additional energy production as a tool of international diplomacy, but also crude oil exports. As General Martin Dempsey, Chairman of the Joint

⁷ <http://www.api.org/policy-and-issues/policy-items/american-energy/crude-oil-exports>

Chiefs of Staff, recently said, “An energy independent and net exporter of energy as a nation has the potential to change the security environment around the world – notably in Europe and in the Middle East.”⁸

- Increased onshore production also could potentially lead to exports of liquefied natural gas (LNG) in the near future. Should the potential for LNG or other exports affect decisions as to size, timing, and location (especially for frontier areas) of future oil and gas leasing?

No, the current debate over LNG exports should not impact decisions on the size, timing or location of future lease sales. The decision on whether to explore for and develop additional natural gas resources is best determined by individual company decisions responding to worldwide market conditions. This is best accomplished by continuing to have area wide leasing to best meet market conditions. A recent study by ICF Resources⁹ indicates that LNG exports have a net positive impact on U.S. employment and GDP. Furthermore, additional production opportunities through area-wide leasing represent an important opportunity to enhance our status as a global energy superpower by bringing additional domestic supplies to the global marketplace. The U.S. can utilize not only additional energy production as a tool of international diplomacy, but also crude oil exports. As General Martin Dempsey, Chairman of the Joint Chiefs of Staff, recently said, “An energy independent and net exporter of energy as a nation has the potential to change the security environment around the world – notably in Europe and in the Middle East.”¹⁰

J. 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 2017-2022 Five-year OCS Leasing Program. Should you have any questions please contact Andy Radford at 202-682-8584 or radforda@api.org.

⁸ Congressional Testimony, March 13, 2014, House Committee on Appropriations, Subcommittee on Defense

⁹ <http://www.api.org/policy-and-issues/policy-items/lng-exports/us-lng-exports-impacts-on-energy-markets-and-economy>

¹⁰ Congressional Testimony, March 13, 2014, House Committee on Appropriations, Subcommittee on Defense

Sincerely,



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Jeff Vorberger, National Ocean Industries Association



Dan Naatz, Independent Petroleum Association of America



Alby Modiano, U.S. Oil and Gas Association



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