HOUSE COMMITTEE ON

NATURAL RESOURCES

CHAIRMAN BRUCE WESTERMAN

To: House Committee on Natural Resources Republican Members
From: Energy and Mineral Resources Subcommittee, Ashley Nichols – Ashley.Nichols@mail.house.gov x63044 and Will King Will.King@mail.house.gov x59297
Date: Thursday, July 27, 2023
Subject: Oversight hearing "*Safeguarding American Jobs and Economic Growth: Examining the Future of the Offshore Leasing Program*"

The Subcommittee on Energy and Mineral Resources will hold an oversight hearing "*Safeguarding American Jobs and Economic Growth: Examining the Future of the Offshore Leasing Program*" on July 27, 2023, 10:00 a.m. EDT in Room 1324 Longworth House Office Building.

Member offices are requested to notify Lonnie Smith Lonnie.Smith@mail.house.gov by 4:30 p.m. on July 26, if their Member intends to participate in the hearing.

I. KEY MESSAGES

- The Department of the Interior (DOI) is more than a year overdue in issuing a new five-year program for offshore oil and natural gas leasing. This delay not only jeopardizes energy investment and numerous American industries, but also allows our adversaries to take the lead in global energy production.
- The Biden Administration has not conducted any new lease sales, apart from those required under the Inflation Reduction Act with inflated royalty rates. This inaction has reduced investment, threatened future supply, and disadvantaged domestic producers. Delaying sales undermines efforts to strengthen our energy sector and address the current challenges of rising prices and global competitors.
- The offshore oil and gas industry serves as a powerful economic catalyst, stimulating diverse sectors that extend far beyond energy production. In the Gulf of Mexico, it supports state environmental restoration and resilience efforts as well as manufacturing, trucking, agriculture, healthcare, pharmaceuticals, banking, finance, environmental contracting, and many others.

II. WITNESSES

- **Mr. Archie Chiasson, III,** President, Lafourche Parish, LA
- **Mr. Paul Danos**, Founder and Chief Executive Officer, Danos, Gray, LA
- **Mr. Mike Minarovic,** Chief Executive Officer, Arena Offshore, The Woodlands, TX
- **Mr. Justin Solet,** Gulf South Advocate, Dulac, LA *[Minority witness]*

III. BACKGROUND

Offshore Leasing and Five-Year Plan Status

Under the Outer Continental Shelf Lands Act (OCSLA), the Department of the Interior (DOI) is responsible for preparing *and maintaining* an oil and gas leasing program that meets national energy needs while considering various factors, including input from intergovernmental partners and stakeholders. However, recent events such as the vacatur of Lease Sale 257 and cancelation of Lease Sales 258, 259 and 261, later mandated by the so-called Inflation Reduction Act (IRA), raise questions about DOI's compliance with OCSLA and the future of the offshore leasing program.[1]

DOI is already over one year late in publishing a new National Outer Continental Shelf (OCS) Program (commonly referred to as the "five-year program") for offshore oil and natural gas leasing. Recent court filings indicate that DOI plans to issue a new five-year program in September 2023, meaning the program itself will not be finalized until December 2023.[2] Worse, because DOI has not started individual lease sales' accompanying environmental documents required under the National Environmental Policy Act (NEPA), DOI will likely not hold another offshore lease sale until fall 2025 at the earliest. This is the first time since the five-year program process was initiated in 1980 that DOI has not issued a timely plan. The resulting uncertainty jeopardizes U.S. business investment and capital expenditures, threatening future development.

The delay in completing the five-year program and holding lease sales has left Congress, industry, and taxpayers in the dark. Lease Sale 259, which was mandated in the IRA after its cancelation by the Biden administration, generated $263,801,783 in high bids for 313 tracts covering 1.6 million acres.[3] Revenues from these lease sales will be directed to the U.S. Treasury, Gulf Coast states, the Land and Water Conservation Fund (LWCF), and the Historic Preservation Fund.

Following the final IRA-mandated Gulf of Mexico Lease Sale 261, to be held in September 2023, there are no other lease sales currently scheduled. The lack of certainty surrounding the future of the offshore leasing program has created a difficult situation for companies and American workers operating offshore.

NEPA Delays for Future Lease Sale Planning & Impacts on Wind Leasing

Currently, there are serious concerns regarding BOEM's planning process for lease sales in 2024 and 2025. Typically, the NEPA process takes approximately 14 to 18 months to complete for offshore oil and gas lease sales.[4] In a briefing to House Committee on Natural Resources staff, the Bureau of Ocean Energy Management (BOEM) Deputy Director Cruickshank said the agency

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[1] H.R. 5376 – Inflation Reduction Act of 2022
https://www.congress.gov/bill/117th-congress/house-bill/5376/text

[2] American Petroleum Institute, et al., V. U.S. Department of the Interior, et al., Case No. 22-1222 Document #1988849 Declaration of Walter D. Cruickshank
https://www.lmoga.com/assets/uploads/documents/DOI-brief-3-6-2022.pdf

[3]Bureau of Ocean Energy mgmt., Lease Sale 269 https://www.boem.gov/newsroom/press-releases/gulf-mexico-oil-and-gas-lease-sale-results-announced

[4] BOEM Briefing to Committee Staff of House Natural Resources Committee and Oversight and Accountability Committee, Majority and Minority Staff. April 27, 2023.

estimates future NEPA reviews for offshore lease sales to take as long as two years to complete.[5] As the Biden administration has not initiated the NEPA process for sales in 2024, there are concerns about the possibility of scheduling sales in 2024, or even 2025.

This absence of lease sales would have significant implications for local and state revenues, but also for the wind energy sector. The IRA requires BOEM to offer 60 million acres offshore for oil and gas leasing in a given year in order to issue wind leases in the following year. However, without new oil and gas lease sales in 2024, the wind energy sector would not be offered new leasing opportunities in 2025. At a May 2023 hearing, Senate Energy and Natural Resources Chairman Joe Manchin (D-WV) stated, "Because the IRA ties wind leasing to oil and gas, failing to take an all-of-the-above approach to energy security puts the Administration at risk of taking a "none-of-the-above" approach."[6] Interior Secretary Haaland responded, "Yes Chairman, of course we're going to comply with the IRA as written. We understand that it's tied to oil and gas development and renewable development, both offshore and onshore. We'll do what it [IRA] requires."[7] It has been three months since this statement and the NEPA reviews have not begun.

The administration must promptly undertake the NEPA process for lease sales in order to ensure the continued growth and success of an all of the above energy policy.

Offshore Wind Reviews vs. Oil and Gas Reviews

The Biden administration's approach to permitting and conducting NEPA reviews for renewable energy projects, such as offshore wind, raises concerns about inconsistency regarding oil and gas leasing. The Biden administration has initiated the process for several offshore wind sales since taking office.[8] On July 17, 2023, BOEM announced the availability of the Final Environmental Impact Statement for the proposed Revolution Wind Farm project offshore of the State of Rhode Island. If finalized, Revolution Wind would be the fourth commercial-scale offshore wind project located on the U.S. Outer Continental Shelf approved by the Biden administration.[9] More recently, on July 20, 2023 BOEM announced it will hold the first-ever offshore wind energy lease sale in the Gulf of Mexico this August. Despite claims of inability to conduct similar review activities for oil and gas in the same region or elsewhere, BOEM expects to review at least 16 Construction and Operations Plans of commercial, offshore wind energy facilities by 2025 and are on track to hold zero new oil and gas lease sales.

This disparity raises questions about the fairness and impartiality of the Biden administration's approach. This administration's decision to prioritize offshore wind projects while neglecting to schedule or prepare environmental reviews for oil and gas lease sales undermines numerous sectors

[5] Bureau of Ocean Energy Management. Lease Sales. https://www.boem.gov/oil-gas-energy/lease-sales
[6] Senate Committee on Energy & Natural Resources, May 2, 2023 Manchin Questions Haaland About Interior's Leasing Plans and Failure to Meet Deadlines https://www.energy.senate.gov/2023/5/manchin-questions-haaland-about-interior-s-leasing-plans-and-failure-to-meet-deadlines
[7] Senate Committee on Energy and Natural Resources, May 2, 2023 Full Committee Hearing to Examine the President's Budget Request for the U.S. Department of Interior FY 2024 at https://www.energy.senate.gov/hearings/2023/5/full-committee-hearing-to-examine-the-president-s-budget-request-for-the-u-s-department-of-the-interior-for-fiscal-year-2024
[8] Bureau of Ocean Energy Management. State activities. https://www.boem.gov/renewable-energy/state-activities
[9] Bureau of Ocean Energy Management. BOEM Completes Environmental Analysis for Proposed Wind Project Offshore Rhode Island. July 17, 2023. https://www.boem.gov/newsroom/press-releases/boem-completes-environmental-analysis-proposed-wind-project-offshore-rhode

that rely on oil and gas, with potential far-reaching consequences in terms of future energy production, jobs, and Federal and state revenues.

Halting Leasing Increases Foreign Reliance and Emissions

The current moment presents a prime opportunity for investment in the offshore oil and gas economy, considering the intensified hunt for new deposits by oil and gas companies globally.[10] Recent data and industry executives indicate a renewed commitment to the oil and gas sector. The International Energy Agency (IEA) expects investment in unabated fossil fuel supply is set to rise by more than 6% in 2023, reaching USD $950 billion.[11] By halting leasing and extraction, the U.S. risks missing out on the potential economic benefits of its offshore resources.

Moreover, the decision of the Biden administration to prioritize offshore wind projects over oil and gas could result in increased carbon intensity and shift extraction to countries with less stringent environmental protections. Gulf of Mexico oil and gas operations rank among the world's lowest emitters of carbon dioxide and methane per unit of energy produced. According to a comprehensive study on global oil production by ICF, "The U.S. Gulf of Mexico has a carbon intensity 46% lower than the global average outside of the U.S. and Canada, outperforming other nations like Russia, China, Brazil, Iran, Iraq, and Nigeria."[12] Rather than leading with one of the cleanest barrels of oil produced globally, the Biden administration's approach exacerbates environmental concerns while disregarding the benefits offered by the oil and gas industry.

In addition, limiting oil and gas production in the Gulf of Mexico and federal lands puts a strain on domestic capacity for production. By failing to lease in the Gulf of Mexico, the United States will become more reliant on imports from Organization of the Petroleum Exporting Countries (OPEC) and other adversaries. This increased reliance gives these nations significant leverage in trade negotiations and geopolitical affairs, potentially compromising national security and economic stability. By strategically utilizing our own offshore resources, the United States can maintain energy independence, strengthen its negotiating position, and ensure a stable and secure energy supply for the nation and our allies.

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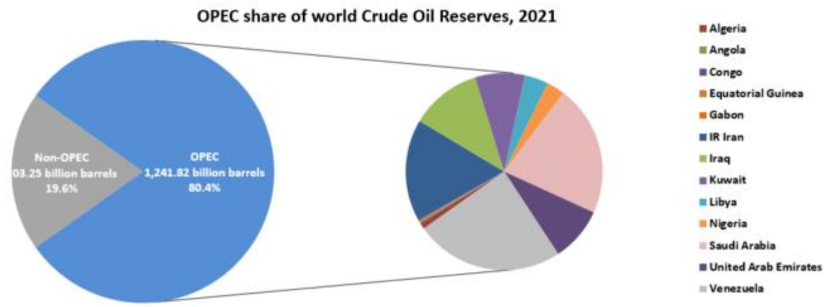
[10]Reuters, Insight: This decade's oil boom is moving offshore – way offshore. August 31, 2022 at https://www.reuters.com/business/energy/this-decades-oil-boom-is-moving-offshore-way-offshore-2022-08-31/
[11] International Energy Agency, 2023 Overview and World Energy Investment, visited July, 2023 at https://www.iea.org/reports/world-energy-investment-2023/overview-and-key-findings
[12] GHG Emission Intensity of Crude Oil and Condensate Production, ICF May 8, 2023 https://www.noia.org/wp-content/uploads/2023/05/NOIA-Study-GHG-Emission-Intensity-of-Crude-Oil-and-Condensate-Production.pdf?utm_source=Mailchimp&utm_medium=email&utm_campaign=ICF+study+emissions+



OPEC proven crude oil reserves , at end 2021 (billion barrels, OPEC share)

Venezuela	303.47	24.4%	United Arab Emirates	111.00	8.9%	Algeria	12.20	1.0%	Equatorial Guinea	1.10	0.1%
Saudi Arabia	267.19	21.5%	Kuwait	101.50	8.2%	Angola	2.52	0.2%			
IR Iran	208.60	16.8%	Libya	48.36	3.9%	Gabon	2.00	0.2%			
Iraq	145.02	11.7%	Nigeria	37.05	3.0%	Congo	1.81	0.1%			

Offshore Decommissioning and Financial Assurance (Regulatory delay and Overreach)

BOEM issued a proposed rule titled, "Risk Management and Financial Assurance for OCS Lease and Grant Obligations" on June 29th, 2023.[13] These proposed changes allow BOEM to use credit ratings from recognized organizations or statistical models to predict financial distress on the OCS. Additional financial assurance would be required from companies with non-investment grade credit ratings. Additionally, BOEM's proposal considers the current value of proved oil and gas resources on leases to assess the overall financial risk of decommissioning, as leases with significant reserves may be acquired by another operator, assuming liabilities in the event of bankruptcy.

By focusing time and efforts on decommissioning offshore infrastructure and financial assurance, while neglecting lease sales, the administration sends concerning signals to investors and consumers. Moreover, BOEM's proposed rule will add significant cost to smaller and independent operators. While it is important to address the responsibility of oil and gas companies in decommissioning offshore wells and infrastructure to protect the taxpayer, the singular focus on

[13] Bureau of Ocean Energy Management. Proposed Risk Management and Financial Assurance for OCS Lease and Grant Obligations. June 27, 2023. https://www.boem.gov/oil-gas-energy/risk-management/proposed-risk-management-and-financial-assurance-ocs-lease-and-grant

financial assurance and decommissioning guidance without taking steps to ensure certainty in offshore leasing sends an explicit signal about the administration's priorities.

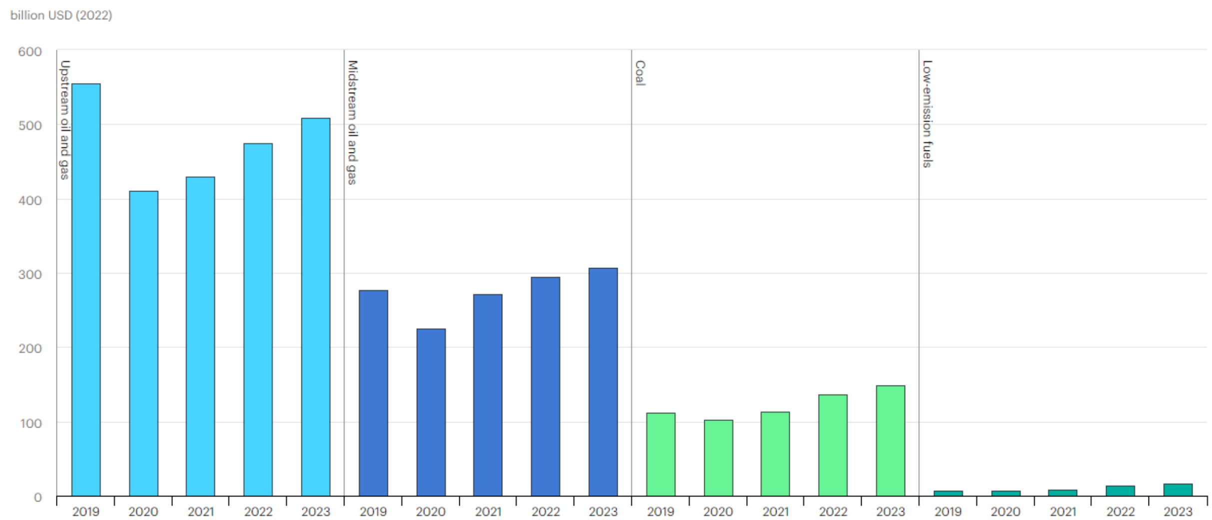


Figure 1 Source: International Energy Agency, May 2013

The Federal government must offer a comprehensive strategy that encompasses the entire oil and gas life cycle, provides clear guidance and support to investors and consumers, and considers the economic and energy security benefits associated with responsible oil and gas development.

GOMESA

The absence of a five-year leasing plan for the Gulf of Mexico and the delay in initiating environmental reviews for sales in 2024 will have wide-ranging impacts on Gulf Coast states and their coastal communities. The Gulf of Mexico Energy Security Act (GOMESA[14]) provides critical revenues to Gulf producing states, supporting vital initiatives such as hurricane preparedness, coastal restoration, infrastructure improvements, flood planning, and other essential projects. Of note, a total of $353,211,836 has been disbursed from GOMESA to the Gulf states for Fiscal Year (FY) 2023. The FY 2023 disbursements by state were: Alabama, $49,748,522; Louisiana $156,161,553; Mississippi, $51,838,214; and Texas, $95,463,547.[15] Without new lease sales and the associated revenues, states will face significant challenges in funding these initiatives and ensuring the resilience and well-being of their coastal areas. During FY 2022, the Office of Natural Resources Revenue (ONRR) disbursed more than $125 million to the Land and Water Conservation Fund and nearly $548 million to the U.S. Treasury from bonuses, rentals and royalties paid from federal oil and gas leases in the Gulf of Mexico.[16]

This lack of comprehensive planning and leasing hinders economic growth, job creation, and the overall stability of the region. It is imperative that the administration prioritizes the development

[14] 43 U.S.C. §1331
[15]U.S. Department of the Interior Natural Resources Revenue Data, accessed July, 2023 at https://revenuedata.doi.gov/how-revenue-works/gomesa/
[16] : Office of Natural Resources Revenue (ONRR), "Natural Resources Revenue Data," at https://revenuedata.doi.gov/query-data?dataType=Revenue&period=Calendar%20Year&calendarYear=2017%2C2018%2C2019%2C2020%2C2021%2C2022&groupBy=stateOffshoreName

of a comprehensive leasing plan and works collaboratively with Gulf producing states to ensure the continued prosperity and resilience of the region.

Table 2. GOMESA Disbursements to States/CPSs and the LWCF State Grant Program, FY2009-FY2022
($ millions)

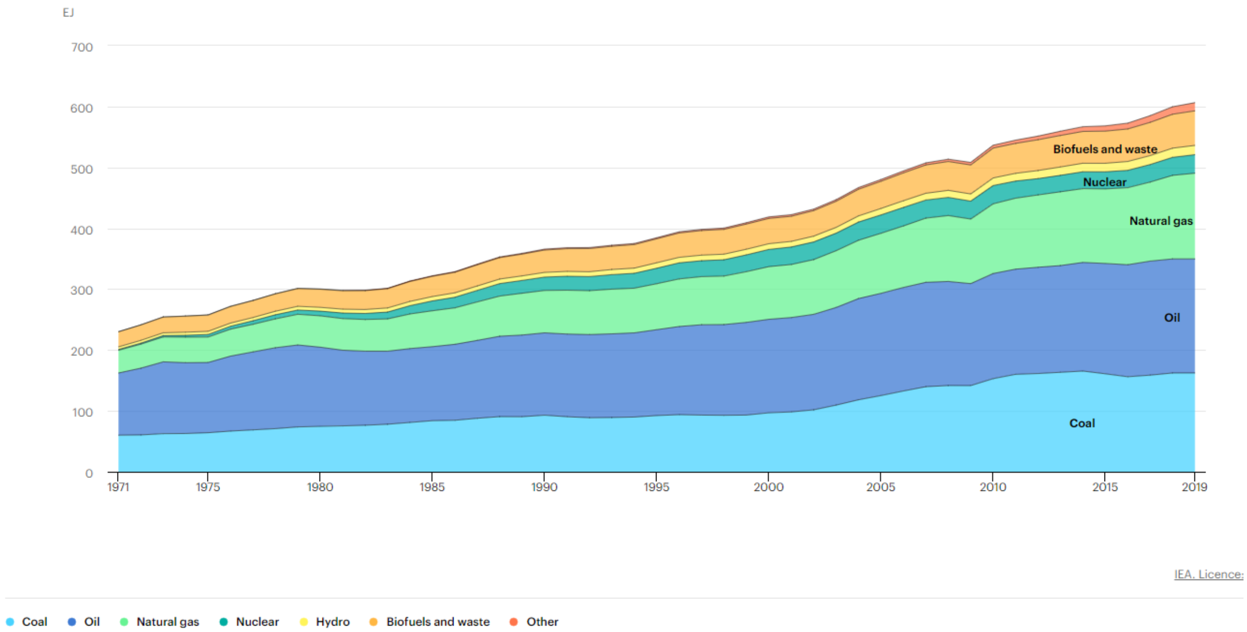
Year of Disbursement[a]	Alabama[b]	Louisiana[b]	Mississippi[b]	Texas[b]	Subtotal State Revenue	LWCF State Program[c]	Total Revenue Shared
FY2009	7.7	7.9	6.9	2.7	**25.2**	8.4	**33.7**
FY2010	0.8	0.9	0.7	0.3	**2.7**	0.9	**3.6**
FY2011	0.3	0.3	0.2	0.1	**0.9**	0.3	**1.2**
FY2012	0.1	0.1	0.1	<0.1	**0.3**	0.1	**0.4**
FY2013	0.1	0.1	0.1	<0.1	**0.3**	0.1	**0.4**
FY2014	1.3	1.4	1.2	0.5	**4.3**	1.4	**5.8**
FY2015	0.7	0.8	0.7	0.3	**2.4**	0.8	**3.3**
FY2016	0.1	0.1	0.1	<0.1	**0.3**	0.1	**0.4**
FY2017	0.3	0.3	0.3	0.1	**1.0**	0.3	**1.3**
FY2018	26.8	82.8	27.8	50.6	**188.0**	62.6	**250.6**
FY2019	30.6	94.7	31.7	57.9	**214.9**	71.6	**286.6**
FY2020	50.0	155.7	51.9	95.3	**353.0**	117.6	**470.6**
FY2021	35.1	109.9	36.5	67.4	**248.9**	82.9	**331.8**
FY2022	34.8	111.8	36.8	68.8	**252.3**	84.1 (est.)	**336.4 (est.)**
Total	**188.4**	**567.0**	**194.9**	**344.1**	**1,294.5**	**431.2 (est.)**	**1,725.8 (est.)**

Source: *Congressional Research Service, 2023*

Energy Security is National Security

Policies surrounding oil and gas play a vital role in safeguarding the interests of a nation. The implications of projects such as the Russian Nord Stream I and II pipelines highlight the importance of diversifying energy sources and reducing dependence on single suppliers, as they can create vulnerabilities and geopolitical risks.[17] Embracing policies that support the export of U.S. oil and gas enhances energy security by reducing reliance on potentially unstable regions and strengthening international alliances through energy partnerships. By leveraging our domestic oil and gas resources and ensuring a robust and diverse energy portfolio, the United States can enhance its national security, promote stability, and reduce vulnerabilities associated with energy supply disruptions or geopolitical tensions.

[17] UK Parliament, House of Commons Library, Geopolitical implications of Nord Stream 2, Published Wednesday 02, March, 2022, accessed June 2023 at https://commonslibrary.parliament.uk/research-briefings/cbp-9462/



Source: *International Energy Agency, Sep 2021*

Oil and Gas is Crucial for Numerous Sectors of our Economy

Economic and industrial impacts from the halting of domestic oil and gas production have far-reaching consequences across various sectors:

Healthcare: Rising oil prices directly impact petrochemical prices as they are made from hydrocarbons found in crude oil and natural gas. The healthcare industry overall relies heavily on petrochemicals. Modern healthcare uses plastics for “medical devices, supplies and packaging.” Specifically in the pharmaceutical industry, nearly 99% of pharmaceutical feedstocks and reagents are derived from petrochemicals.[18]

Agriculture: The agricultural sector is not exempt from the effects of rising oil prices, as petroleum-based inputs are integral to its operations. Petrochemicals are used in the production of fertilizers, pesticides, herbicides, and other agricultural chemicals. These inputs play a vital role in enhancing crop yields and protecting plants from pests and diseases. Consequently, higher oil prices can lead to increased costs for farmers and potentially affect food production and supply. Additionally, plastic materials derived from petrochemicals are utilized in agricultural practices such as irrigation systems, greenhouse structures, and packaging for harvested produce, as well as the transportation required to deliver products to markets and consumers.[19]

Electricity and Renewable Energy Production: The energy industry itself is directly impacted by rising oil prices. Crude oil serves as a primary source for the production of petroleum products,

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[18] Jeremy Hess et al, Petroleum and health care: evaluating and managing health care's vulnerability to petroleum supply shifts, AMERICAN JOURNAL OF PUBLIC HEALTH VOL. 101, 9 (2011): 1568-79, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3154246/.

[19] Ardian Harri, Lanier Nalley, and Darren Hudson, "The relationship between oil, exchange rates, and commodity prices," *Journal of Agricultural and Applied Economics*, no 41.2 (August 2009), pp. 501-510.

including gasoline, diesel, jet fuel, and heating oil. As oil prices increase, the cost of energy production and distribution also rises. This, in turn, can result in higher electricity and fuel prices for consumers and businesses. Additionally, petrochemicals derived from oil and natural gas play a crucial role in the production of renewable energy technologies, such as solar panels and wind turbine components. Thus, fluctuations in oil prices can affect the overall affordability and viability of both traditional and renewable energy sources.[20]

Manufacturing: The manufacturing sector is significantly influenced by oil price fluctuations due to its reliance on petrochemicals. Petrochemical derivatives, such as plastics, resins, and fibers, are extensively used in the production of a wide range of consumer goods, including electronics, appliances, textiles, and packaging materials. Rising oil prices directly impact the cost of raw materials, which can subsequently increase manufacturing expenses. Additionally, petrochemicals play a crucial role in the manufacturing of industrial chemicals, solvents, and lubricants, further reinforcing the impact of oil price changes on the overall manufacturing industry.[21]

Transportation: Increasing oil prices have a direct influence on the transportation sector, given that it heavily relies on petroleum-based fuels. The rising cost of oil has a significant impact on gasoline and diesel prices, which directly affects consumers and businesses alike. Moreover, various transportation infrastructure and equipment, such as vehicles, ships, airplanes, and trains, are manufactured using petrochemical-derived materials. For instance, plastics and polymers derived from crude oil play a crucial role in the production of automotive components, tires, and lubricants.[22]

Construction: Petrochemical prices have a significant effect on the construction industry, mainly due to the extensive use of petroleum-based products in building materials. The rising cost of oil directly impacts the price of asphalt, which is a vital component of road construction. Additionally, various construction materials like plastics, paints, adhesives, and insulation materials rely heavily on petrochemicals. Plastic pipes and fittings, for example, are widely used in plumbing and electrical systems. The increased prices of petrochemicals can lead to higher construction costs and, consequently, impact infrastructure projects and housing affordability. The projects most at risk of volatilities are those which rely on or are related to transportation because their costs depend on oil derivative products more than others.[23]

Republican Alternatives and H.R. 1, the "Lower Energy Costs Act"

House Committee on Natural Resources Republicans recently advanced H.R. 1335, the *"TAPP American Resources Act*." The legislation was included in H.R. 1, the *"Lower Energy Costs Act"*, which passed the House of Representatives on March 30, 2023, with bipartisan support. The Biden

[20]Cision Newswire, Global Oil Price Sensitivity Analysis and Macroeconomic Opportunities Report: Downward Oil Price Movements Bode Well for Food, chemicals, and Pharma Production, Mar, 2022 https://www.prnewswire.com/news-releases/global-oil-price-sensitivity-analysis-and-macroeconomic-opportunities-report-2022-2025-downward-oil-price-movements-bode-well-for-food-products-chemicals-and-pharmaceuticals-production-301499222.html

[21] First American Bank, What Every Manufacturer Should Know About Rising Oil Costs, William M. Adkinson, July 2022 at https://www.firstambank.com/Insights/Business/What-Every-Manufacturer-Should-Know-Oil-Costs-Rise

[22] Federal Reserve Bank of San Fransico, Possible causes and Consequences of higher oil prices on the overall economy? November 2007 https://www.frbsf.org/education/publications/doctor-econ/2007/november/oil-prices-impact-economy/

[23]Project Controls Training, Power of Oil and the Construction Industry, March 30, 2022 Michael Lepage https://www.planacademy.com/the-power-of-oil-on-the-construction-industry-infographic/

administration must cease the attack on domestic energy and advance permitting reforms that will speed construction for major infrastructure projects across the country. In sharp contrast with the Biden administration’s mismanagement of the offshore leasing program, H.R. 1 provides clear direction regarding development of the five-year plan, scheduling of lease sales, issuing permits and streamlining the regulatory process. The solutions included in H.R. 1 provide a roadmap for successful energy development, long-term energy security and a reliable source of federal and state revenues. With Americans facing historically high energy prices and inflation, families across the country have been on the front lines of dealing with the Biden administration's failed policies. The Energy Information Administration predicts a 50 percent increase in global energy consumption by 2050, while global demand for critical minerals necessary for defense, smart phones and renewable energy technology is increasing exponentially. An all-of-the-above approach to domestic energy and mining is the best way to support the energy needs of American families and meet our technological and national security needs.