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Safeguarding American Jobs and Economic Growth:
Examining the Future of the Offshore Leasing Program

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Chairman Stauber, Ranking Member Ocasio-Cortez, and Members and staff of the Committee and Subcommittee, thank you for the opportunity to testify this morning. My name is Mike Minarovic, and I am the Co-Founder, President and CEO of Arena Energy, an employee-owned independent exploration and production company with an exclusive focus on offshore oil and natural gas development in the U.S. Gulf of Mexico.

Over the past twenty-four years, Arena has grown into one of the largest private offshore oil and natural gas companies, having invested over $4.7 billion of capital in the Gulf of Mexico, paid over $1.4 billion in royalties to the government, and decommissioned over 350 wells and 50 offshore platforms. Arena conducts its operations with an intense focus on the safety of our employees and contractors and safeguarding the environment. We have produced significant volumes of both oil and natural gas in an environmentally responsible manner, especially relative to foreign producers, many of whom do not share our commitment to environmental stewardship. Our operations support thousands of high-paying jobs along the Gulf Coast, largely in rural communities.

Despite the challenging regulatory environment over the past several years, we have expanded our commitment to the U.S. Gulf of Mexico by creating new companies that provide drilling rigs, pipelines, and environmental remediation and decommissioning services to the offshore industry. These investments were made to ensure safer operations, mitigate pollution risks, and to decommission wells, pipelines, and platforms in the Gulf in a safe and environmentally protective manner. Most recently, we have dedicated resources to repurposing existing oil and gas platforms and pipelines to facilitate offshore renewable energy and carbon capture and sequestration projects. By the numbers, since inception in 1999, the Arena companies have:

- Invested approximately $7 billion in the U.S. Gulf of Mexico
- Drilled over 330 wells
- Produced approximately 5 days of U.S. oil and gas demand
- Supports approximately 5,000 total jobs (directly and indirectly), and
- Paid the federal government approximately $230 million in royalties and taxes in 2022

I also speak today on behalf of the Gulf Energy Alliance, a coalition of leading independent offshore producers whose operations, like Arena's, are primarily focused in the Gulf of Mexico. Independent offshore producers are not household names and have distinctly different business models than the major oil and gas companies. But collectively, independent producers were responsible for approximately 35% of Outer Continental Shelf oil and natural gas production in 2022.[1]

I. The World is Going to Need More Oil

Earlier this week at the G20 Energy Transitions Ministers' Meeting in Goa, India, the "Outcome Document and Chair's Summary" recognized that the world will continue to need access to affordable energy, stating

> [w]e firmly believe that energy security, energy access, market stability, and energy affordability need to be advanced simultaneously while advancing energy transitions, in pursuit of economic growth and prosperity, and ensuring access to modern energy for all, ***leaving no one behind***.[2]

Until U.S. and global demand are fully offset by less carbon-intensive energy sources, we cannot reduce or restrain American production. Doing so will have no impact on domestic demand for oil and natural gas; it will simply force us to meet demand by importing foreign crude barrels with a higher emissions profile than those produced in the U.S. Gulf of Mexico. The global COVID-19 pandemic revealed the national security need to have domestic supply chains for critical products and Russian's invasion of Ukraine demonstrated how precarious the global oil and gas supply and demand dynamic can be in a geopolitical crisis. This crisis demonstrates to the world that Russia is willing to use energy as a weapon, as it pulled natural gas shipments to Europe right before the winter. All these developments show that we must secure the oil and gas the country needs from clean, friendly American sources.

The Energy Information Agency predicts we will need ***more*** forms of ***all*** energy in the future, projecting worldwide energy consumption to grow 50% by 2050.[3] Indeed, within the past month, the International Energy Administration projected that demand would grow to 105 million barrels of oil per day by 2028.[4] World population is growing, and growth is greatest in regions of the world with higher rates of poverty. It is beyond refute that access to affordable energy is a fundamental catalyst for raising standards of living and improving quality of life. Oil and natural gas will remain a necessary and life-sustaining fuel source for decades to come, even as we transition to less carbon-intensive sources over the long-term.

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[1] Office of Natural Resources Revenue; Bureau of Safety and Environmental Enforcement (2023).

[2] G20 Energy Transitions Ministers' Meeting (22 July 2023), "*Outcome Document and Chair's Summary*," Goa, India (emphasis added).

[3] Capuano, Dr. Linda, "*U.S. Energy Information Administration's International Energy Outlook 2020*," Center for Strategic and International Studies, Washington, DC (Oct. 14, 2020) p. 36, https://www.eia.gov/outlooks/ieo/pdf/ieo2020.pdf.

[4] IEA Update (2023).

II. The U.S. Gulf of Mexico is the Best Place in the World for Oil and Natural Gas Production

The U.S. Gulf of Mexico is a world-class basin for oil and natural gas exploration and development due in large part to the historical and resounding success of the federal offshore leasing program. While the transition to a lower carbon future is inevitable, fully underway and supported by the industry, global demand for oil and natural gas will continue for the foreseeable future. During the energy transition, we should look for traditional energy sources that support the world's shift to lower emission sources, and oil and natural gas produced in the U.S. Gulf of Mexico is among the most environmentally-advantaged production in the world.

Not all barrels of oil are created equal. If we are serious about addressing climate change in a way that will:

- Meet global demand in the short and medium term,
- Advance emissions reduction efforts,
- Promote environmental justice, and,
- Protect U.S. energy and national security

then what is our best option? The answer is simple: While the world continues to develop non-fossil fuel energy sources, and while we still have demand for fossil fuels, we should look to the least carbon-intensive barrels to meet that demand. We need to look no further than our own backyard in the Gulf of Mexico to accomplish all these goals.

a. Oil and natural gas produced in the Gulf of Mexico is among the most environmentally advantaged production in the world

The U.S. Gulf of Mexico has approximately half the carbon intensity of other producing regions.[5] And the industry continues to improve. From 2011 to 2017, according to the Bureau of Ocean Energy Management (BOEM) , carbon emissions from U.S. Gulf operations decreased by approximately 60% even though oil production increased by over 35%.[6] A more recent comprehensive study on global oil production commissioned by ICF concluded that "…[t]he 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."[7]

There are several factors explaining the lower carbon emissions of U.S. offshore production. Chief among them are the scale and inherently high level of investment and technology in U.S. offshore operations and the fact that the offshore industry has been intensely regulated for nearly 70 years, which currently includes over thirteen regulatory agencies, including, among others: the BOEM, the Bureau of Safety and Environmental Enforcement (BSEE), the U.S. Coast Guard, the Environmental Protection Agency, the Army Corp of Engineers, the Pipeline Hazard Material Safety Administration, the Department of Transportation, the Federal Energy Regulatory Commission, and the Occupational Safety and Health

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[5] *See* note 3 on p. 2.

[6] *See* "*Year 2017 Emissions Inventory Study*", OCS Study BOEM 2019-072 (October 2019) https://espis.boem.gov/final%20reports/BOEM_2019-072.pdf.

[7] *GHG Emission Intensity of Crude Oil and Condensate Production*, ICF (May 8, 2023).

Administration. Another reason for the lower carbon emissions is the extensive pipeline network which eliminates the need for shipping and trucking. The venting and flaring of natural gas produced offshore is tightly-regulated, and subsea infrastructure and tiebacks are also important components in driving down emissions.

The U.S. Gulf of Mexico also outperforms the rest of the world in methane emissions. The offshore industry has consistently achieved a ratio of less than 1.25% of flared/vented gas to produced gas, making the U.S. Gulf one of the best performing areas in the world. What explains this? Several factors, including that gas fugitive emission detection systems are widely used on offshore facilities, Vapor Recovery Units are utilized on many large processing platforms to capture methane, and many Gulf platforms utilize ultra-low or zero emission instrumentation to control processing equipment. The Gulf accounted for 15% of U.S. oil production in 2019 yet accounted for only 2.6% of nationwide natural gas venting and flaring emissions from energy production, and less than 1% of total nationwide methane emissions.[8]

In short, demand for oil will continue for years to come and that demand will linger during the transition to lower carbon energy sources. So, we have a choice: Do we produce the oil the world needs here at home and reap the economic and environmental advantages that come with the lowest carbon-intensive production in the world? Or do we import dirty, foreign barrels from regimes that do not share our environmental stewardship and are often hostile to our interests and values?

b. Offshore US oil and natural gas production contributes significantly to the U.S. Treasury and supports important government programs across the country

From 2004 to 2022, U.S. offshore production contributed over $125 billion to the U.S. Treasury through royalties, lease bonuses, and rents.[9] The Land and Water Conservation Fund (LWCF) is funded almost entirely by offshore oil and gas production and is a predominant source of funding for conservation programs across all fifty states, including programs such as the Outdoor Recreation Legacy Partnership Program, which provides funding to build or repair parks in economically distressed urban neighborhoods. In fact, just last week the Department of Interior announced the distribution of nearly $300 million to all 50 states, U.S. territories, and the District of Columbia to support public outdoor recreation and conservation projects. Moreover, revenues from offshore production are also the single biggest contributor to coastal restoration efforts across the Gulf Coast, having provided over $353 million in disbursements through state revenue-sharing under the Gulf of Mexico Energy Security Act (GOMESA) in Fiscal Year 2023 alone.[10]

c. Oil and natural gas production in the U.S. Gulf of Mexico is strongly supported by local communities, many of which are deemed "Disadvantaged" by the Biden Administration

The U.S. offshore industry also contributes to local communities by creating numerous, high-paying jobs across a vast supply chain that reaches into almost every state in the country. Gulf Coast

[8] *Id.*

[9] *See* Office of Natural Resources Revenue historical data: https://www.onrr.gov/.

[10] *Id.*

residents in adjacent states overwhelmingly support offshore oil and natural gas development. Offshore production also does not have fence-line pollution issues, as offshore production is completely out of sight and many miles removed from any shoreline communities. Significantly, many of the tens of thousands of jobs supported by the industry—both directly and indirectly—are located in areas that have been deemed "Disadvantaged Communities" according to a screening tool developed by the White House, meaning that job losses attributable to policies that negatively impact offshore oil and natural gas development will be felt most acutely in areas of the country that can least afford to absorb them.

III. Since Day One, The Biden Administration Has Imperiled Oil and Natural Gas Production in the U.S. Gulf of Mexico

a. Executive Order 14008, Which Paused the Federal Offshore Leasing Program, Had an Immediate Chilling Effect on Investment, and The Absence of a New Five-Year Plan Threatens the Future of the Basin

Despite the clear advantages of maintaining production from the Gulf of Mexico to meet the world's growing demand, the industry continues to face significant regulatory challenges, especially over the last few years. In January 2021, President Biden announced a temporary "pause" on federal lease sales for public lands and federal waters and thereafter began a series of actions that created a chilling effect on offshore oil and natural gas investment and the capital markets that support the industry.

The suspension on new federal lease sales was temporarily lifted with the passage of the Inflation Reduction Act of 2022 (IRA), which required holding two offshore lease sales included in the Department of Interior's now expired five-year leasing plan. The IRA also ties new offshore wind sales to offshore oil and gas sales. While these provisions in the IRA were important, future offshore lease sales remain uncertain given the fact that the five-year lease plan, which provides the schedule of future lease sales, expired in 2022 and a new five-year leasing plan has not been developed by this Administration despite the statutory requirement to constantly maintain a five-year plan.[11] The delay in the development of a new five-year plan potentially means that we will likely not see a new offshore lease sale until 2025 at the earliest.

The lack of a five-year plan and visible new lease sales will decrease domestic production, increase energy costs for all Americans, and threaten the disadvantaged areas along the Gulf Coast that rely on the high-paying jobs our companies provide. Additionally, the cost of domestic production has already increased because of additional tax burdens imposed by the Biden administration in 2021, which only made dirty, higher-carbon foreign imports more competitive.

[11] See 43 U.S.C. §§ 1344.

b. The Recently Issued Financial Assurance Proposed Rule is Just the Latest Step in the Biden Administration's Attacks on Domestic Production and Is an Existential Threat to Independent Offshore Producers

Compounding the ongoing uncertainty regarding the future of offshore oil and gas lease sales and other policy challenges, on June 29, 2023, the Biden administration issued a Proposed Rule that, if finalized, is an existential threat to independent offshore producers.[12]

The Proposed Rule will disproportionately impact small businesses and, according to the Proposed Rule's own analysis, will cost the industry nearly $5 billion dollars in compliance costs over the next 20 years, leading to dramatically less offshore activity and production. These costs will be borne entirely by small business, as 76% of the businesses operating in the Gulf are considered "small businesses" and the Proposed Rule expressly excludes major oil and gas companies from additional supplemental bonding.[13] The stated purpose of the Proposed Rule is to protect the American taxpayer from exposure to decommissioning liability left behind by a defunct or defaulting lessee, which the Proposed Rule acknowledges is "rare."[14] In fact, based on the Department of Interior's own numbers, in over 70 years of offshore oil and gas activity, the total unfunded liabilities and exposure for U.S. taxpayers amounts to $58 million. To be clear, U.S. taxpayers should never be on the hook for any decommissioning liabilities, and there are a number of policy options available to address this risk without jeopardizing the very viability of independent offshore producers. But proposing a "solution" that will cost small businesses $5 billion in compliance costs to solve a problem amounting to $58 million after seventy plus years of offshore development is ludicrous. Moreover, the overall exposure to the taxpayer is rapidly decreasing. Of the nearly 7,000 platforms installed in the Gulf over time, just over 1,500 remain and the industry is removing the remaining platforms at average rate of 79 platforms each year.

It is well-settled that regulations impose joint and several liability on not only all current owners of offshore properties, but ***all prior*** owners. This system of relying on the creditworthiness of all current owners ***and all*** predecessor owners has proven to be an effective shield for taxpayers for decades.[15] Indeed, there have been a wave of recent bankruptcies in the industry to demonstrate the effectiveness of the current liability regime. The Proposed Rule admits that there have been over 30 bankruptcies with ***unbonded*** decommissioning liability with very little exposure to the taxpayer due to the existing joint and

[12] See Fed. Reg. 42136, 42159 (June 29, 2023) (to be codified at 30 CFR Parts 550, 556 and 590) ("BOEM recognizes that the proportion of small companies adversely affected by the proposed rule would be higher than that of large corporations).

[13] 88 Fed. Reg. at 42157.

[14] *Id.* at 42141.

[15] The Proposed Rule admits that considering the creditworthiness of predecessors would reduce the disproportionate impact on small businesses: "BSEE can order the prior lessee to complete the decommissioning obligations for facilities that existed on the lease at the time of ownership. If BOEM were to take into account the financial capacity of predecessor lessees in determining the amount of supplemental financial assurance required of the current owner, the financial burden on small companies would be substantially reduced to that resulting from the proposed rule, because a much smaller number of them would be required to post supplemental financial assurance." 88 Fed. Reg. at 42159.

several liability regime that imposes the decommissioning liability on all current and former owners . Perhaps the best example was the recent bankruptcy of Fieldwood Energy LLC (Fieldwood). According to the government's claims in the case, Fieldwood carried over $7 billion of decommissioning liability and exactly ***zero*** liability was absorbed by the taxpayer. Instead, Interior used its existing regulatory powers to order predecessors to maintain and monitor the abandoned properties and to decommission the wells, platforms and other infrastructure left behind by Fieldwood. In short, the Proposed Rule is the classic case of a solution in search of a problem.

The Proposed Rule admits that in solving for a "rare" problem that the new bonding requirements will materially impact domestic production, competition and energy prices:

> At the same time, BOEM recognizes the costs and disincentives to additional exploration, development, and production that are imposed on lessees and grant holders by increasing the required amounts of bonds and/or other financial assurance.[16]

If this Administration is successful in implementing the Proposed Rule, the consequences are clear: we will see a loss of production from the Gulf of Mexico, forcing the country to turn to less environmentally friendly production from foreign countries , a destruction of jobs throughout the Gulf South and beyond, a decrease in competition in the industry, which will inevitably lead to higher energy prices at home and at the pump, less royalties paid to the government, increased production costs on the few companies able to obtain the additional bonding required by the Proposed Rule, and a weakening of the country's energy security, making the country more vulnerable to price spikes caused by global instability.

IV. Independent Offshore Producers Need Your Help

The Administration's systematic attack on offshore drilling must be reversed if we are to reap the benefits of continued production. The industry stands ready and willing to supply the energy the country needs using hardworking Americans. But we need this Subcommittee's help.

- Interior must quickly complete its environmental reviews and publish a five-year offshore leasing plan; the five-year plan must hold at least two area-wide offshore lease sales each year, and Interior should provide clear guidance and transparency on the timing of the release of the five-year plan
- Congress must pass H.R. 1, "*Lower Energy Costs Act*", including the BREEZE Act provisions of the bill
- Stop the Biden administration's latest attempt to shut down production in the Gulf of Mexico in the guise of the unnecessary and wildly disproportional Financial Assurance Proposed Rule
- Congress must pass a calibrated, streamlined, and efficient permitting process for new projects

[16] 88 Fed. Reg. at 42142.

In summary, demand for oil and gas will continue through the energy transition. To support our country's economic, geopolitical, and environmental interests, we must continue to maintain and increase production in the Gulf of Mexico. But to do so, we must end the constant regulatory war on domestic production and reverse the regulatory course of this Administration.

Thank you, again, for the opportunity to testify and I am happy to take any questions.