

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members of the Subcommittee on Rural Development, Energy, and Supply Chains

FROM: Committee Majority Staff

DATE: September 25, 2023

RE: Subcommittee Hearing Titled: Energy Independence: How Burdensome Regulations are Crushing Small Offshore Energy Producers

On **September 28, 2023 at 10:00 AM ET**, the Subcommittee on Rural Development, Energy, and Supply Chains will hold a hearing titled “**Energy Independence: How Burdensome Regulations are Crushing Small Offshore Energy Producers.**” The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to examine how the Bureau of Ocean Energy Management’s (BOEM) recent proposed rules will harm small oil and gas lessees, increase the cost of energy, and undermine U.S. energy independence.

I. Witnesses

- **Mr. Mike Minarovic**, Chief Executive Officer, Arena Energy, LLC
- **Mr. Paul Danos**, Chairman of the Board, National Ocean Industries Association
- **Mr. Alex Epstein**, President, Center for Industrial Progress
- **Ms. Kathleen Nisbet Moncy**, Chief Operating Officer, Goose Point Oyster

II. Background

Our nation continues to battle historic levels of inflation in part due to rising energy costs. Last month, the energy index rose by more than 10 percent, while gas prices jumped 20 percent.¹ On top of this inflationary pressure, recent rule changes are set to have a significant impact on the United States’ energy production, particularly small energy entities. Small businesses are a vital part of the domestic energy industry.

¹ Neil Irwin & Courtenay Brown, *1 big thing: the return of hot data*, AXIOS MACRO (Sept. 14, 2023).

The U.S. Energy Information Administration (EIA) reports that oil and natural gas supplied 68 percent of the United States' energy in 2022.² Excessive regulation across federal agencies has created financial burdens for the oil and gas industry, undermining U.S. efforts towards energy independence. The oil and natural gas industry is vital to the American economy—supporting 11.3 million American jobs in 2019, accounting for 5.6 percent of total U.S. employment.³ That means more than 1 in 20 jobs were supported by American energy. In addition, every direct job in the natural gas and oil industry supports an additional 3.5 jobs elsewhere in the U.S. economy.⁴

On June 29, 2023, BOEM issued a proposed rule requiring lease and grant holders of Outer Continental Shelf (OCS) oil and gas wells to have three times the decommissioning value of their oil wells in reserve, either within the well or in monetary form, to cover the cost of decommissioning the well.⁵ This rule only applies to those businesses that do not have an investment grade credit rating—meaning the rule will have a disproportionate impact on smaller businesses who are less likely to qualify for such a rating. Less than a month later, the National Oceanic and Atmospheric Administration (NOAA), in conjunction with the BOEM, issued a rule expanding the protected zone for Rice's Whales; an endangered species of whale native to the Gulf of Mexico.⁶ Combined these rules will have a substantial negative impact on oil and gas operations in the Gulf of Mexico, and U.S. energy production overall.

The OCS is responsible for 15 percent of the United States' oil production, the vast majority of which takes place in the Gulf of Mexico.⁷ In 2019, 2.3 million barrels of oil per day were produced in the Gulf of Mexico OCS.⁸ Between 2020 and 2040, that number is expected to rise to 2.5 million per day.⁹ Further, in 2019, the offshore oil and gas industry in the Gulf supported around 345,000 jobs, contributed approximately \$28.7 billion to the U.S. gross domestic product, and provided \$5.4 billion in government revenue.¹⁰

Energy independence is a critical part of U.S. national security. Not only does energy independence boost the economy, create jobs, and lower costs for American families, it ensures that we are not a nation reliant upon foreign actors and the wiles of international politics. We must reestablish energy independence in order to insulate the United States from global instability and ensure we are not reliant upon foreign actors for our survival.

² Edward Cross (P.G., M.B.A.), *State of the Oil & Gas Industry*, KAN. INDEP. OIL & GAS ASS'N. (Jan. 2023)

³ PricewaterhouseCoopers LLP, *Impacts of the Oil & Natural Gas Industry on the US Econ. in 2019*, AM. PETROLEUM INST. (Jul. 2021).

⁴ *Id.*

⁵ Risk Mgmt. & Financial Assurance for OCS Lease & Grant Obligations, 88 FR 42136, 42137 (2023) (to be codified at 30 CFR 550, 556, 590).

⁶ Endangered and Threatened Species; Designation of Critical Habitat for the Rice's Whale, 88 FR 47472, 47454 (2023) (to be codified at 50 CFR 224, 226).

⁷ BUREAU OF OCEAN ENERGY MGMT., BOEM 2022-022, OIL & GAS PRODUCTION FORECAST (2022-2031), 3 (Jul. 2022).

⁸ NAT'L OCEAN INDUSTRIES ASS'N, ENERGY & INDUS. ADVISORY PARTNERS, THE ECON. IMPACTS OF THE GULF OF MEXICO OIL & NATURAL GAS INDUS., 2 (2020).

⁹ *Id.*

¹⁰ *Id.* at page 6.

III. Conclusion

The proposed regulations from BOEM and NOAA increase the burdens on small oil and gas operator and will reduce U.S. energy production overall. At a time where energy prices are soaring and energy independence is of the utmost importance, excessive regulations from the executive branch should not be making the problem worse.