



INSTITUTE FOR 21ST CENTURY ENERGY  
U.S. CHAMBER OF COMMERCE

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Ms. Kelly Hammerle  
Five Year Program Manager  
BOEM (HM-3120)  
381 Elden Street  
Herndon, Virginia 20170

**Re: Request for Comments on the Draft Proposed OCS Oil and Gas Leasing Program for 2017-2022**

Dear Ms. Hammerle:

The Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce, the worlds largest business federation representing the interests of more than three million businesses and organizations of every size, sector and region, as well as state and local chambers and industry associations, and dedicated to promoting, protecting, and defending America’s free enterprise system, is pleased to submit written comments on the Bureau of Ocean Energy Management’s (“BOEM”) request for comments on its Draft Proposed OCS Oil and Natural Gas Leasing Program 2017-2022 (DPP) published in the Federal Register on January 29, 2015.

The mission of the Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. The Institute believes that domestically produced oil and natural gas is, and will remain, essential to America’s economy and global competitiveness.

America’s Outer Continental Shelf (OCS) is one of its greatest strategic assets. Recognizing this, Congress set forth in the Outer Continental Shelf Lands Act the imperative of “expeditious and orderly development” of the OCS to “best meet national energy needs,” and it established the leasing program process to ensure a longer-term strategic approach to development of the nation’s OCS resources. The long term intent of the Act is consistent with the increasing time it takes to develop offshore resources, especially in the ultra-deep. One of BOEM’s most significant goals throughout this process should be to better balance America’s energy needs with development of these resources.

For decades, across multiple administrations, the OCS has been underutilized to the nation's detriment. BOEM's Draft Proposed Plan for 2017-2022 continues this shortsighted and damaging trend. This DPP offers fewer lease sales than the current operating plan, which puts the country on a path towards greater energy risk. Moreover, the withdrawal of sizeable acreage in the Arctic is unnecessary, further jeopardizing future energy security. The inclusion of the Mid-Atlantic and South Atlantic planning areas in this DPP for leasing is an important step, one which we applaud, but more can be done to take advantage of new seismic work that will be concluded by 2017, including additional and earlier lease sales. Large sections of the Atlantic and Arctic planning areas, as well as nearly the entire Eastern Gulf of Mexico, are excluded from this DPP. This again represents a missed opportunity to put the country on a path to greater energy security in the next decade.

At this stage of the process, we urge BOEM to reconsider including additional new areas in the final leasing program, including the Eastern Gulf of Mexico and Arctic, and to provide more lease sales in all accessible planning areas, including the Atlantic. We also urge BOEM to reconsider the proposed withdrawal in the Arctic, and to further engage the states and industry before finalizing the new withdrawals along the Atlantic and Alaskan coasts.

## **Economic**

Offshore energy development has been a critical component of the U.S. economy for decades, and is even more crucial to the regional economy of the Gulf Coast. This region is still recovering some five years later after the double economic hit of the Department of Interior's moratoria on offshore exploration layered on top of the Great Recession.

A December, 2014 study conducted by Quest Offshore examined the economic benefits that could follow if the planning areas included in the Atlantic, Pacific and Gulf of Mexico OCS were open to energy exploration and production. The study concluded that by 2035, an active leasing program would add nearly \$550 billion to the economy, generate more than \$200 billion in government revenue, and create nearly 840,000 jobs. This demonstrates the potential economic boost a thriving offshore energy program can provide for the economy of the region hosting it, as well as the nation as a whole.

These data are especially timely as last year BOEM concluded the environmental scoping process in the Mid-Atlantic planning area for exploration activities off of the coast of Virginia. The Quest study estimates that active leasing in this area would lead to more than \$14 billion in greater investment in Virginia by 2035. This investment would create 25,000 jobs, contribute \$2.2 billion in economic activity, and generate \$1.9 billion in revenue for Virginia. Similarly, the study found that Atlantic leasing could create more than 55,000 jobs in North Carolina and 36,000 jobs in South Carolina and generate \$4 billion and \$3.7 billion, respectively, in state government revenues.

As the nation continues to struggle with economic growth and job creation, a robust and expanded OCS leasing program would generate hundreds of billions of dollars of economic activity and create hundreds of thousands of jobs.

## Energy Security

The recent and massive growth in domestic production of natural gas and oil brought about by the Shale Revolution has significantly diminished U.S. energy security risks. The resource base, technology, and market conditions are such that we can sustain this trend for decades to come—but we also need the right policy environment. Virtually all to the increase in U.S. natural gas and oil output is attributable to increased production on private and state land, not federal lands or waters.

Since 2009, federal offshore oil production has decreased more than 10%, falling from a 30% share to a 17% share of total U.S. production. Natural Gas production in the Gulf of Mexico has declined 50% over the same period. If not for astounding production increases on private and state land of 35% for natural gas and more than 90% for oil, the U.S. would have continued the decades-long trend of declining domestic production and increasing imports.

Even with the tremendous net increases in U.S. domestic production, there is still a need for additional production. This draft OCS Leasing Program will not result in any actual new production for up to 15-20 years due to the long planning and development periods required of offshore development. This is precisely why the 2017-2022 program must represent a forward-looking vision ensuring the country will be able to rely on adequate domestic production in 2030 and beyond.

The first inclusion of the Mid-Atlantic and South Atlantic Planning Areas in several decades is an important first step in harnessing America's offshore energy resources. However, BOEM should accelerate this lease sale to 2017 and add at least one additional lease sale in the later years of the plan. Additionally, BOEM should solicit further input from adjacent states and industry before withdrawing any areas to create a "buffer zone," which may not be warranted in all circumstances.

The DPP's aggressive withdrawal of Arctic areas represents another step backwards for the country's energy security and continues a recent trend of making land use decisions that ignore the clear will of Alaskans. The Presidential withdrawal is unnecessary, as there are significant vehicles already available for the government to protect environmentally sensitive areas. A withdrawal is difficult to remove and makes bad policy the default position. This is especially relevant to the future of the Trans-Alaska Pipeline System (TAPS), a tremendous national asset that requires a steady flow of crude oil to remain operational.

Production on Alaska's North Slope continues to decline, and without a robust new source of production, such as from the Arctic OCS, to augment throughput, TAPS is at serious risk of running below the statutory threshold whereby it must be shuttered and dismantled. Such an event would severely jeopardize U.S. energy security by essentially stranding energy resources in Alaska. However, such a result is not fated and can be prevented. The final Leasing Program should not only remove the proposed withdrawals, but also expand the areas availability for leasing.

The final Leasing Program represents an opportunity to reverse the trend of declining production on federal lands and finally put the U.S. on a path of sustained production growth and increasing energy security.

## **Geopolitical & Trade**

The current instability and uncertainty witnessed in the Middle East and Eastern Europe create tremendous risks for countries around the world by threatening access to reliable and affordable energy resources. However, the risks created by recent political threats have been significantly mitigated by the increased energy production in the U.S.

According to Energy Information Administration data, domestic oil production has increased by 4.4 million barrels per day since 2006, a staggering 88% increase. That eight-year increase represents about 5% of global production and is greater than the total oil production of any country save Russia, Saudi Arabia, and China. Just the recent increase in U.S. oil production is the equivalent to adding another Canada to the global market.

As oil production has sky-rocketed, U.S. crude imports have decreased more than 38% since 2006. Producing these additional 4.4 million barrels domestically corresponds to 4.4 million barrels per day on the global market that the U.S. has not had to purchase and import. This new spare capacity of oil supply has helped the entire global oil consuming community weather the volatility of any one country's production that might be jeopardized by conflict or political disturbances.

This additional buffer the U.S. has provided to the global market has created the greatest benefits at home. Even discounting the tremendous benefits derived from the investments that generated the increased production, the steep reduction of U.S. imports coupled with the corresponding increase in global spare capacity has stabilized gasoline and diesel fuel prices and prevented spikes that would otherwise have occurred when global supplies are interrupted.

More stable fuel prices for American consumers and businesses is just one of the benefits created by the increases in domestic oil production. Reversing the trend of declining offshore production can add to resurgent U.S. oil production and increase those growing benefits to the U.S. economy and American consumers.

While the impacts of increased U.S. oil production have been increasingly felt around the world, constraints on the transport of natural gas has limited the global impacts of increased U.S. production. However, this is slowly changing with the first shipments of U.S. liquefied natural gas expected to reach Europe and Asia later this year and can be expected to continue as increasing volumes are exported when other facilities come on line in subsequent years.

These initial volumes are not likely large enough to have large market impacts alone. However, successfully demonstrating that American gas can be permitted, licensed, and exported will have geopolitical implications by providing importing nations with additional leverage over exporting nations which utilize exports to achieve political means, such as Russia. Moreover, as increasing amounts of U.S. natural gas enter the market the volumes will likely be large enough

to impact market prices and further reduce the leverage that exporting nations have over their importing customers.

The advent of U.S. gas exports could reshape the energy landscape in many regions around the globe and decrease geopolitical risks of importing nations without many other short-term import options. In turn, this benefits U.S. businesses and consumers by creating more political stability abroad, enabling new and broader markets and trading partners. This would also force exporting nations to act more cautiously in attempting to exploit their energy exports for political purposes.

In addition to the direct and indirect geopolitical benefits of increase domestic energy production, the U.S. is realizing tremendous benefits by a declining trade deficit mostly attributable to declining oil imports. The Department of Commerce's most recent U.S. international trade data, for January, 2015, reported that imports of petroleum decreased to the lowest level in nearly 4 years. While the U.S. dollar continues to outperform other currencies, pricing U.S. exports out of many options, continued decreases in imported energy helps to prevent the trade deficit from widening more and causing additional headwind for economic growth.

Moreover, increased production has also enabled the U.S. refining sector to increase exports of refined products, further reducing the trade deficit. A trade deficit tends to drag overall economic growth. Thus, by continuing to decrease crude oil imports and increase exports of refined products, the resulting reduction of the trade deficit will produce additional economic growth. For this reason, it is critical that BOEM expand the areas available for exploration and production even while production of natural gas and oil on land continues to increase.

## **Safety**

In the nearly five years since the Macondo incident, the offshore industry has made wholesale changes that have significantly reduced the risks posed by offshore energy development. In addition to reviews conducted by the Department of Interior and the President's Oil Spill Commission, the offshore industry formed panels to review all aspects of offshore operations from machinery to operations to spill response.

Industry standards were changed, revised, and expanded to ensure lessons learned would be incorporated. 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 regulators to engrain safety culture into day-to-day operations. Offshore operators created the Marine Well Containment Company and the Helix Well Containment Group to provide containment and response capabilities specifically designed to stop the uncontrolled flow oil and natural gas and to capture any that is released in the event of a spill.

Additionally, the Department of Interior reorganized its entire offshore energy regulatory structure and issued new or revised regulations to further reduce the risk of future incidents. Interior is currently developing regulations specifically focused on arctic OCS development.

Because of the steps taken by industry and regulators, the risk to human and marine health and the environment have been reduced substantially.

## **Conclusion**

The continued development of the 2017-2022 OCS Oil and Gas Leasing program represents an opportunity for BOEM to reverse the trend of declining natural gas and oil production from federal offshore areas. Unfortunately, the DPP continues on the same path forgoing the economic and energy security advantages that greater OCS production can generate. American consumers and businesses have missed out on the benefits of expanded OCS energy production. We encourage BOEM reconsider its proposal and make new areas available for lease in the Eastern Gulf of Mexico, Arctic, and Atlantic, while also adding an additional and earlier lease sale in the Atlantic areas included in the DPP.

Creating a stable regulatory environment that allows the safe exploration and production in more OCS planning areas will generate hundreds of thousands of jobs and hundreds of billions of dollars in economic activity for the entire country, and help reshape the geopolitical balance towards free markets, Democracy, and greater energy security.

Sincerely,

A handwritten signature in black ink, appearing to read "K Harbert". The signature is fluid and cursive, with a large initial "K" and a stylized "Harbert".

Karen A Harbert