# Subcommittee on Energy and Mineral Resources
Doug Lamborn, Chairman
Hearing Memo

April 13, 2015

**To:** Natural Resource Committee Members

**From:** Majority Committee Staff

**Hearing:** Oversight Hearing entitled*: "Examining the Future Impacts of President Obama's Offshore Energy Plan"*

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The subcommittee hearing will take place on **Wednesday, April 15th at 10:00A.M. in Room 1334 Longworth House Office Building.** This hearing will focus on the 2017-2022 Draft Proposed Outer Continental Shelf Oil and Gas Leasing Program ("five-year plan") and the impacts this plan will have on state and local communities as well as our national economy.

**<u>Policy Overview</u>**

- The 2017-2022 Outer Continental Shelf (OCS) Draft Proposed Program (DPP) includes 14 lease sales: 10 lease sales in the Gulf of Mexico planning area, three lease sales in the Alaska planning area, and one lease sale in the Mid/South Atlantic planning areas.
- Less than 2% of the 1.71 billion federal OCS acres are currently under lease. Production on that acreage, mostly in the Gulf of Mexico, accounts for 18% of total U.S. crude oil production and 5% of total U.S. natural gas production.
- Diversifying exploration and production to new offshore areas through the leasing process now will help to increase production on federal lands in the future.
- There is strong bipartisan support from Members of Congress, governors, state and local leaders and the general public for increased access to the nation's OCS resources.

**<u>Witnesses</u>**

**<u>Panel I</u>**
*The Honorable Pat McCrory*
Governor, State of North Carolina

**Panel II**
*Ms. Abigail Ross Hopper*, Director
Bureau of Ocean Energy Management
U.S. Department of the Interior

**Panel III**
*Mr. Mark Shuster*, Executive Vice President Upstream Americas Exploration,
Shell Oil Company

*Mr. Robert Hobbs*, Chief Executive Officer
TGS

*Mr. Chett C. Chiasson*, Executive Director
Greater Lafourche Port Commission

*Ms. Emilie Swearingen*, Commissioner
Town of Kure Beach, North Carolina (*minority witness*)

**Hearing Focus**

Until 2008, access to new outer Continental Shelf (OCS) acreage for oil and gas production was prohibited under both a Presidential moratorium and a Congressional moratorium. The moratoria were lifted in 2008 in recognition that greater development of domestic OCS resources could alleviate skyrocketing energy prices and help to tackle our nation's growing dependence on foreign energy resources at the time.

Despite the vast amount of acreage available for leasing, the Obama Administration has neglected to encourage exploration and development in these new geographical areas through the five-year planning process for offshore leasing. The last five-year plan was finalized by the Administration in 2012, and locked up 85% of our nation's 1.7 billion offshore acres. Of the low number of sales in the last plan, nearly all remained focused on existing acreage in the Gulf of Mexico, with the exception of three Arctic lease sales which the Administration may postpone or cancel at any time.[1]

This hearing will focus on the current Draft Proposed Plan for 2017-2022, published by the Administration in January. In its current form, this plan is nearly identical to the 2012-2017 plan – with most of the sales taking place in the Gulf of Mexico, and three in the Arctic. The main difference is the *potential* inclusion of a Mid/South-Atlantic lease sale, as well as the

[1] 2017-2022 Outer Continental Shelf Oil and Gas Leasing Draft Proposed Program, January 2015; p. S-3.

inclusion of a 50-mile buffer zone for the Atlantic areas and a 25-mile buffer zone for Arctic sale areas.

The House of Representatives has voted on a multitude of occasions (113th: H.R. 4899; H.R. 2231; H.R. 2) to reverse the Administration's de facto moratorium on access to new acreage under the last five year plan – including pushing forward with a lease sale off the coast of Virginia that had been canceled in 2010 and not included in the ensuing leasing plan. The draft plan we examine this week has the lowest number of lease sales in the history of the planning process and does very little to expand access to our nation's OCS resources. That said, in response to the broad bipartisan support demonstrated through legislative action in the 113th Congress to advance further exploration in the Atlantic, the plan does include one Atlantic lease sale late in the schedule – though Secretary Jewell recently stated before the House Natural Resources Committee that she "cannot guarantee"[2] that the Atlantic sale will remain in the final plan.

This hearing will provide Members with the opportunity to hear from state officials and industry on vast oil and gas production potential that begins with opening up access to new acreage; the successful coexistence of the tourism, fishing and energy industries in the Gulf of Mexico; as well regional economic benefits that come from increased offshore energy development. Additionally, Members will have the opportunity to question the Director of the Bureau of Ocean Energy Management (BOEM) on a number of issues including the rationale behind scheduling just one potential Atlantic lease sale, and whether or not buffer zones are necessary.

## Background

Under the Outer Continental Shelf Lands Act (OCSLA), the Secretary of the Interior is required to prepare, revise and maintain an oil and gas leasing plan for our nation's outer Continental Shelf resources. The plan must consist of a schedule of proposed lease sales indicating size, timing and location of the leasing activity – all of which is supposed to "best meet national energy needs for the five-year period following its approval or re-approval." The leasing process is the bedrock step of future offshore energy production. Under the current regulatory environment, it takes an average of seven years to go from acquiring a lease block (which is generally a three-mile by three-mile square, comprising roughly 5, 760 acres) to commercial production, presuming a significant discovery is made on the leased acreage. Given this timeframe, an aggressive leasing strategy should result in new production coming online in the future.

In July 2008, as a result of escalating oil and gas prices, the Bush Administration lifted a long-standing executive moratorium on new offshore drilling; the Congress soon followed suit, allowing the annual Congressional moratorium on offshore drilling to expire on September 30, 2008. In response to the lifting of the offshore drilling moratoria, the Minerals Management

[2] http://naturalresources.house.gov/news/documentsingle.aspx?DocumentID=398087

Service moved early to issue a Draft Proposed Plan for the 2010 – 2015 period, which was published on January 16, 2009[3]. This plan opened up the entire Atlantic OCS planning area, very small areas off the coast of California with known resources, a small area in Alaska, the Western and Central Gulf of Mexico, and an area in the Eastern Gulf of Mexico – 12 planning areas in total (4 areas off Alaska, 3 areas off the Atlantic coast, 2 areas off the Pacific coast, and 3 areas in the Gulf of Mexico).

However, upon assuming office, the Obama Administration and Secretary Salazar slowed the process for the 2010-2015 Draft Proposed Plan by extending the comment period for an additional 180 days. Following the Deepwater Horizon event on April 20, 2010, the Department of the Interior decided to scrap the 2010-2015 Draft Proposed Plan and instead created a new 2012-2017 plan. Additionally, the Administration revised the existing 2007-2012 Five Year Plan to cancel several lease sales – including Lease Sale 220 scheduled to take place off coast of Virginia.[4]

In November 2011, Secretary Salazar introduced a Draft Proposed Five Year Plan for 2012-2017. The Administration claimed that the plan "makes available more than 75 percent of undiscovered technically recoverable oil and gas resources (UTRR) estimated in federal offshore areas."[5] By focusing on UTRR rather than focusing on opening new acreage, the Administration downplayed the fact that no new areas were opened up to new oil and gas leasing under the 2012-2017 plan – which is currently in place today. The plan also omitted key areas such as the Atlantic and the Pacific planning areas. Since the Secretary does not have the authority to add new lease sales to a plan once finalized, the 2012-2017 leasing plan successfully prohibited access in new offshore areas for the current five year period.

## **Current Draft Proposed Plan for 2017-2022**

The last offshore leasing plan was finalized two months late by the Obama Administration on August 27, 2012. However, on June 16, 2014, the Department of the Interior moved early to initiate the development of the next five year plan for 2017-2022[6]. The 2012-2017 plan does not expire until August 2017, however BOEM aims to finalize this draft plan in late 2016 - prior to the end of President Obama's term. Some speculate whether or not the Administration aims to implement this plan early. If finalized in 2016, the Obama Administration will have controlled a decade of offshore oil and gas lease planning.

[3] http://www.boem.gov/Oil-and-Gas-Energy-Program/Leasing/Five-Year-Program/2012-2017/DDP.aspx
[4] http://www.boem.gov/Oil-and-Gas-Energy-Program/Leasing/Regional-Leasing/Gulf-of-Mexico-Region/Lease-Sales/220/Virginia-Lease-Sale-220-Information.aspx
[5] http://www.boem.gov/uploadedFiles/5-Year_Program_Factsheet.pdf
[6] Federal Register. Vol. 79, No. 115, Monday, June 16, 2014: Notices; p. 34349.

The draft five-year plan for 2017-2022 lists 14 lease sales - the lowest number of lease sales in the history of the planning process (see CRS table below). The 60-day comment period for this draft program ended two weeks ago on March 30 2015. Next, BOEM has indicated it intends to issue a draft environmental impact statement (EIS) for the program by early 2016, which has a 90-day comment period[7]. Once that comment period is complete, the Bureau will review comments and issue a Proposed Final Program along with a Final EIS – this final plan is then considered enacted after a 60-Day review period with Congress. Allegedly the Administration is aiming for a Final Plan in late 2016.

Historically, the process outlined in OCSLA for the development of the five year plan has winnowed down the area that will be included in the final plan for lease. Thus, it is unlikely that all sales and acreage will remain in the final plan. Additionally, the Secretary has the authority to postpone or cancel lease sales even if they are included in the final plan[8]. For example, the 2002-2007 plan included Lease Sale 220 – the sale off the coast of Virginia that was scheduled for 2011. This sale was first postponed and then canceled by the Obama Administration[9]. Under the current plan, if Mid/South-Atlantic lease sale is actually retained in the final plan, the earliest a sale could occur off the coast of Virginia is 2021, a full decade later.

Today, our vast OCS resources are a vital lifeline for our nation's energy needs – though less than 2% of the 1.71 billion federal OCS acreage is under lease. Production on that acreage, the vast majority of which is located in the Gulf of Mexico, currently accounts for 18% of total U.S. crude oil production and 5% of total U.S. natural gas production. Additionally, this leasing is a significant source of revenue into the federal treasury in the form of bonus bids to secure the lease and annual rental fees. In 2014, offshore oil and gas rents generated roughly $238 million and bonus bids from offshore oil and gas lease sales generated $967 million[10] – and these revenues are generated prior to any well being drilled.

**Table 1. OCSLA Section 18 Submissions to Congress Since 1980**

| Years | Administration Submitting Plan | Congress | Number of Sales Listed in Submission | Number of Sales Held | Approximate Acreage Leased (in millions)[a] |
|---|---|---|---|---|---|
| 2012-2017 | Obama | 112th | 15 | 6 (through Jan. 2015)[b] | 4.7 (through Jan. 2015)[b] |
| 2007-2012 | | | | 11 | 21.7 |
| Revised Program[c] | Obama | 111th | 16 | | |
| Original Program | George W. Bush | 110th | 21 | | |
| 2002-2007 | George W. Bush | 107th | 20 | 15 | 20.5 |
| 1997-2002 | Clinton | 105th | 16 | 12 | 22.9 |
| 1992-1997 | George H. W. Bush | 102nd | 18 | 12 | 22.6 |
| 1987-1992 | Reagan | 100th | 42 | 17 | 24.7 |
| 1982-1987 | Reagan | 97th | 41 | 23 | 21.0 |
| 1980-1982[d] | Carter | 96th | 36 | 12 | 4.1 |

**Source:** CRS.

There is no doubt that hydrocarbons will remain a key component of our nation's energy portfolio for decades. The Department of the Interior has the obligation, by statute, to plan for the efficient development of oil and gas resources on federal lands in accordance with national

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[7] http://www.boem.gov/2017-2022-Frequently-Asked-Questions/; p. 2.
[8] 43 U.S.C. §1344(d)(e)
[9] http://www.boem.gov/Oil-and-Gas-Energy-Program/Leasing/Regional-Leasing/Gulf-of-Mexico-Region/Lease-Sales/220/Virginia-Lease-Sale-220-Information.aspx
[10] http://statistics.onrr.gov/

need. Increasing access to new OCS acreage would not only maintain our nation's global competitiveness with other countries who are seeking to develop their offshore resources, but it would also increase our nation's energy security by bringing new product online to invigorate East Coast markets and increase dwindling throughput for the Trans-Alaska Pipeline.

## State Input

When developing a five year offshore leasing plan, BOEM is required by statute to consult with affected coastal states many times throughout the process[11]. For instance, BOEM must invite and consider suggestions from the Governor of any state that might have leases off their coast, and may also invite and consider suggestions from affected local governments. Once the plan is proposed, BOEM must submit the draft to the Governor of each affected state for review and comment. If the Governor submits a request to the Secretary to modify the plan prior to its submission to Congress, the Secretary must respond in writing explaining why he or she is granting or denying the modification[12].

## Buffer Zones

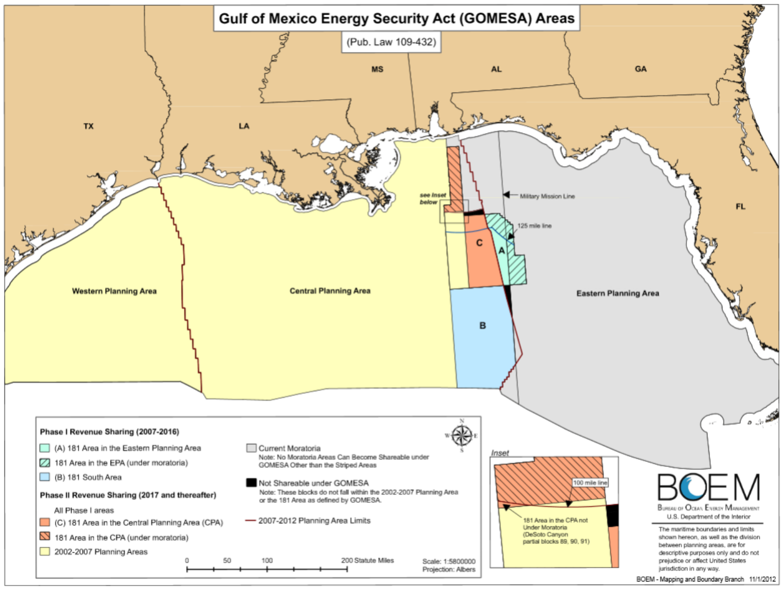
The draft plan includes a 25-mile buffer zone in the Chukchi and Beaufort sea planning areas off the coast of Alaska, and a 50-mile buffer zone in the Mid and South Atlantic planning areas[13]. These buffer zones begin at three nautical miles from shore, where state jurisdiction ends, and extend outward into federal waters. The Administration will likely cite commercial fishing, tourism and recreation, commercial shipping and transport, and DoD activities as reasons to include these buffer zones. However, witnesses are expected to attest to the coexistence of all of these activities in the Gulf of Mexico today. Additionally, BOEM has existing agreements in place with the appropriate agencies (such as DoD) to mitigate for all of these activities – and would consult with the appropriate agencies prior to issuing any lease in order to prevent any conflict in multiple-use.

## Eastern Gulf of Mexico

Under the Gulf of Mexico Energy Security Act (GOMESA), leasing in the Eastern Gulf of Mexico Planning area is currently prohibited, except for a small area known as the Section

[11] 43 U.S.C. §1344 (c); §1345 (a)-(e)
[12] 43 U.S.C. §1344 (c)(2)
[13] http://www.boem.gov/2017-2022-DPP-Alaska-Program-Areas/; http://www.boem.gov/Oil-and-Gas-Energy-Program/Leasing/Five-Year-Program/2017-2022/2017-2022-DPP-Mid-Atlantic-and-South-Atlantic.aspx

181 area (see map below). This prohibition expires in 2022. As such, the Eastern Planning Area was not included in the 2017-2022 draft plan.




## <u>Revenue Sharing</u>

While revenue sharing is currently not the topic of this hearing, this issue is intrinsically tied to any push to bring exploration and production to new areas of the OCS. Currently, coastal states are entitled to 100 percent of the royalties for oil and gas development in state waters. Revenues from leasing and production on federal OCS lease blocks is currently only shared with four Gulf states – Alabama, Louisiana, Mississippi, and Texas, as stipulated in the Gulf of Mexico Energy Security Act (GOMESA; P.L. 109-432).

REVENUE DISTRIBUTION OF QUALIFIED OCS REVENUES UNDER GOMESA 2007–2016

| Recipient of qualified OCS revenues | Percentage of qualified OCS revenues (percent) |
|---|---|
| U.S. Treasury (General Fund) .......................... | 50 |
| Land and Water Conservation Fund ........... | 12.5 |
| Gulf Producing States .... | 30 |
| Gulf Producing State Coastal Political Subdivisions ..................... | 7.5 |

Additionally federal-state offshore revenue sharing is afforded to seven coastal states but only for areas known as section 8(g) lands - federal areas that are adjacent to state lands where production could cause drainage from state-owned oil and gas resources. Under this provision, seven coastal states, Alabama, Alaska, California, Florida, Louisiana, Mississippi, and Texas, receive 27 percent of the revenue for oil and gas development outside of their three nautical mile seaward boundary and typically extending to a total of six nautical miles offshore.

In order for all remaining coastal states to be entitled to a share of federal revenue derived from offshore leasing and production, legislation must be enacted. The Administration, in its FY 2016 budget for the Department of the Interior, proposed controversial changes to this program that would potentially re-direct revenues from those seven coastal states to programs unrelated to GOMESA's statutory purpose.

## Seismic

In the past, the Department of the Interior has cited lack of data on potential resources as a reason to not include areas for a lease sale. For instance, one of the reasons given by BOEM for not including an Atlantic sale in the last five year plan was that there is little knowledge of the Undiscovered Technically Recoverable Resources (UTRR) in those areas[14]. Unfortunately, the seismic data utilized to estimate the UTRR off the Atlantic derives primarily from data collected in the late 1970s. Technology has matured significantly since that time, which in turn has changed the face of geological and geophysical (G&G) activities and field recoverability. For instance, in 2002, the USGS estimated that the Marcellus Shale contained only 1.9 trillion cubic feet of natural gas. Increased exploration and development, as well as technological advances, resulted in USGS concluding nearly a decade later in 2011, that they now believe the Marcellus has roughly **44 TIMES** the previously estimated amount, at 84 trillion cubic feet of natural gas[15]. While this is an onshore example, it simply demonstrates why estimates based on decades-old data is an inappropriate reason for excluding new areas in a 5-Year Plan.

Additionally, the primary source of G&G data and information used by BOEM to conduct resource evaluations is the oil and gas industry. BOEM issues permits to industry for conducting pre- and post-lease data collection, and then requires industry to share certain data with the federal government. For this reason, it is important that an Atlantic sale remain in the final plan – as it provides industry with incentive to invest in capturing new seismic data for the Atlantic outer Continental Shelf.

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[14] "First, the oil and gas resource potential in the Mid- and South Atlantic is not well understood and surveys of these areas are incomplete and out of date. Prior to scheduling lease sales in these planning areas, it is prudent to develop information evaluating the oil and gas resource potential of these regions." Testimony provided by then-BOEM Director Tommy Beaudreau before the House Natural Resources Committee on May 9, 2012 (http://naturalresources.house.gov/calendar/eventsingle.aspx?EventID=293490).

[15] Ibid.