

OFFSHORE ENERGY:

FY 2022

BUDGET RECONCILIATION



WHAT IS BUDGET RECONCILIATION?

Budget reconciliation is a special parliamentary procedure of the United States Congress set up to expedite the passage of budgetary legislation in the United States Senate. Under reconciliation, a bill can be brought up for a vote and pass with a simple majority, instead of the usual 60-vote majority that is typically required.

Provisions included in the House Natural Resources Committee budget reconciliation text could dramatically change our nation's offshore energy outlook. While the text includes offshore wind provisions that could substantially strengthen America's offshore wind energy outlook, and fairly generate new Federal revenues, certain offshore oil and gas provisions are punitive measures that would fundamentally weaken one of America's most important economic, energy, emissions and national security assets.

OFFSHORE OIL & GAS PROVISIONS

As Louisiana begins to sort through the aftermath of Hurricane Ida, residents of the state have to worry about the possibility of a Federal budget that attacks their economy and jobs. There are close to 100,000 jobs in Louisiana supported by Gulf of Mexico oil and gas production. Shifting production away from the U.S. won't tackle energy demand and reduced emissions, it will instead be a gift to higher emitting producers like Russia and China that wield their energy resources as a geopolitical tool.

Bans New Areas of Oil & Gas Access: The draft language would ban future exploration and development of offshore areas outside of the Western and Central Gulf of Mexico, including regions in the Pacific and Atlantic Oceans and the Eastern Gulf of Mexico. Globally, 30% of all oil and gas development comes from the offshore. However, 94% of Federal offshore areas are closed, including the eastern third of the Gulf of Mexico.

With reduced opportunities to invest in the U.S. offshore investment, investment capital will flow to other regions. For example, the Mexican side of the Gulf of Mexico currently has more than twice the leased acreage than the U.S. side of the Gulf of Mexico. These lost opportunities amount to lost jobs, lost revenues for parks and conservation, and a shift in energy production to higher emitting foreign regions.

Increases Minimum Offshore Royalty Rates: The draft language would increase the minimum offshore royalty rate to 20%. While the current minimum royalty rate is 12.5% and most active leases pay a royalty of 18.75%. Interior already has the authority to raise royalty rates if they feel it is warranted and Interior has been able to effectively raise and lower royalty rates for each lease sale based upon market conditions. **It is not clear that this will raise revenues and it may actually lead to lower bonus bids and less revenues for the Federal government.**

Eliminating Royalty Relief: Royalty relief is a targeted program to help make leases more competitive when circumstances warrant. Historically, this has been a tool that has enabled continued domestic production that would otherwise come to a halt and helps ensure that a critical funding mechanism for the government also continues. Royalty relief is also normally subject to a price threshold, which means that royalty relief is not available when the prices are above a certain level (which is normally at a fairly low level). **As a result, the repeal of royalty relief is punitive and counterproductive for safe, low emissions domestic energy.**



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Increased Inspection Fees as Revenue Generators: The includes significant new fees for offshore energy, including up to \$35,176 for facilities with a number of wells per year and up to \$34,059 for deepwater drilling rigs per inspection. Interior already assesses its funding needs for inspections and provides that funding request to the appropriators each year as part of the federal budgeting process. **Adding new fees under the guise of inspections is simply amounts to a punitive tax on the industry.**

Creation of New Pipeline Fees: The bill would create of new annual pipeline fees of at least \$10,000 per mile in deepwater or \$1,000 in shallow water. With more than 8,600 miles of active pipelines in the Gulf of Mexico (and more than 45,000 miles of total pipeline), the fee would add millions of dollars in new annual costs to the production of low carbon barrels in the U.S. Gulf of Mexico. The offshore industry *already* pays inspection fees to cover the costs of inspections and asset retirement/decommissioning obligations are already covered by existing financial assurance and surety bond requirements. **These fees would dramatically increase the cost of safe, environmentally-responsible U.S. Gulf of Mexico energy production, creating a market opening that high emitting countries like Russia and China will happily seize.**

Creation of Resource & Leasing Fees: Other new fees include the creation of a new “resource” fee that would cost up to \$23,040 per lease for offshore leases. A new “leasing fee” would cost up to \$34,560 per offshore lease. A \$6 per acre annual fee would be applied to non-producing leases, which already pay rent to the Federal government. **These fees are more punitive charges against a fundamentally important American industry that will end up shifting energy production away from the U.S.**

New Conservation of Resources Fee, Speculative Leasing Fee, and Idled Well Fee: The legislation also includes fees described as conservation of resources fees and speculative leasing fees, as well as idled well fees. These proposed fees are recycled proposals related to non-producing leases that are unsupported by the actual leasing system. Companies already pay rental fees that must be paid on leases while the leases are not producing oil or gas. For offshore, these fees are in the thousands of dollars per lease annually. These fees are also duplicative of the financial assurance companies must provide to BOEM. **These new proposed conservation of resources fees and speculative leasing fees are duplicative of the existing rental fee requirements, and they will make U.S. projects much less competitive against projects around the world.** These are ultimately punitive provisions that favor countries like Russia and China at the expense of U.S. offshore energy workers.

OFFSHORE WIND PROVISIONS

Budget reconciliation does provide an opportunity to improve America’s offshore energy resources and generate revenues for the Federal Treasury, and we see that spirit in the inclusion of several wind provisions. There are budget reconciliation provisions that would simultaneously increase offshore wind access for U.S. states and territories and Federal revenues.

Restoring Offshore Wind Opportunities: The bill includes a provision introduced by Representative Paul Tonko (H.R. 2635) that would allow for leasing of offshore wind in all federal waters, including North Carolina, South Carolina, Georgia, and Florida. As the Trump Administration was winding down, an Executive Order withdrew vast swaths of acreage for 10 years from future federal energy leasing, starting in North Carolina and reaching down around Florida and into the eastern Gulf of Mexico. The language been reviewed by the House Natural Resources Committee and has already been voted into Chairman Raul Grijalva’s Oceans-Based Climate Solutions Act (H.R. 3764).

Offshore Wind for the Territories: The bill would allow U.S. territories to participate in the offshore wind leasing process. Currently, Interior does not have the authority to hold wind lease sales offshore U.S. territories. Allowing the often-forgotten U.S. territories to tap their renewable energy resources will provide greater energy security and economic growth.

FOR MORE INFORMATION

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