



Submitted Testimony

Of

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Regarding

House Committee on Natural Resources Subcommittee on
Energy and Mineral Resources

February 28, 2023 Legislative Hearing on H.R. _____,
"Transparency and Production of American Energy Act of
2023"

February 28, 2023

These comments are submitted by the Independent Petroleum Association of America (IPAA). IPAA appreciates the Committee holding this legislative hearing.

IPAA is a national trade association representing thousands of American independent oil and natural gas producers. Its members operate in 33 states as well as offshore and are the primary producers of the nation's oil and natural gas and account for 83 percent of America's oil production and 90 percent of its natural gas output. These independent producers are a driving force in the American economy and support roughly 4.5 million jobs in the United States. IPAA member companies are innovative leaders that broke the code to usher in the shale oil and natural gas revolution in the United States. Furthermore, the average member company employs 20 people. These small businesses are unique and are best served by having a cooperative regulatory system with input from the states and the federal government rather than a one-size-fits-all structure coming from Washington.

IPAA thanks Chairman Westerman, Chairman Stauber, and Representative Graves for the thoughtful reforms outlined in the Transparency and Production of American Energy Act of 2023 (TAP Act). Many of the reforms outlined in the TAP Act will help to revitalize oil and natural gas producers operating on federal lands and waters to the benefit of the nation. The "multiple-use mandate" provided in the Federal Lands Policy and Management Act (FLPMA) requires the Bureau of Land Management (BLM) to balance the resources and uses of public lands to the benefit of the American people. While this mandate includes a variety of uses beyond oil and natural gas production, it clearly is not intended to prevent the production of American oil and natural gas. IPAA believes that safe and responsible development of the nation's natural resources needs to remain an integral part of the equation.

Currently, of the 640 million acres of land that are federally owned in the United States, roughly four percent are leased for oil and natural gas development. Yet, even with this small percentage, oil and natural gas still have an enormous monetary impact for the federal treasury. All federal oil and gas royalty, rental fee, and bonus bid revenue is split roughly half between the U.S. Treasury and the states where development occurs. That revenue helps fund critical investments in communities across the United States and supports jobs, schools, conservation efforts and infrastructure projects. The amount of annual revenue that Federal mineral development provides to the U.S. Treasury is second only to that provided by the Internal Revenue Service. (Bureau of Land Management)

There are several commonsense reforms in the TAP Act that will increase certainty for American producers and will ultimately lead to a more streamlined process for federal oil and natural gas development. While IPAA is supportive of the bill in its entirety, there are a few key provisions that I would like to highlight in my testimony this morning.

IPAA supports language in the TAP Act requiring the Secretary of the Interior to resume quarterly onshore oil and natural gas lease sales. Quarterly lease sales are mandated as part of the Mineral Leasing Act (MLA) that governs proper stewardship and handling of mineral extraction. The Biden Administration's program to halt quarterly onshore lease sales will be felt for years to

come as companies typically plan their next stages of development many years in advance. IPAA also believes it is important to include in a sale all parcels that were nominated and eligible for lease under the resource management plan (RMP) of each state. Many times, a company's plans for development are put on hold while they are forced to wait on a specific parcel to tie a swath of land together whether for the purposes of a right of way, communization agreements, or simply for economic reasons. Producers must make sure that all the pieces are in place before they can pursue an Application for Permit to Drill (APD) and be able to contract for a drilling rig and crew. For these reasons, IPAA also supports the additional language in the TAP Act on suspension of operations permits.

Another issue that IPAA would like to highlight is the language in the bill returning the federal royalty rate for onshore oil and natural gas to "not less than 12.5 percent." Sponsors of the Inflation Reduction Act (IRA) argued that the historic royalty rate was too low and significantly increased the royalty rate last year. However, as discussed earlier, there are many factors that play into a company's decision on whether and where to bid and lease for mineral extraction on federal lands. These include the location of a specific area with relation to other properties, transportation costs, operational costs, taxes and rents. However, the most impactful are the regulatory costs associated with a project. Operating on federal land triggers a variety of regulatory actions that must be taken in order for a company to receive a permit to drill. Satisfying the suite of federal regulations can take many months as a company pays overhead costs while awaiting specific federal approvals. Raising the royalty rate in isolation without taking other critical factors into account will have an impact on a company's decisions to develop federal resources or not. As such, IPAA supports returning the royalty rate to 12.5 percent for oil and natural gas on onshore federal lands.

Transparency in the permitting and leasing process is of the utmost importance. It is not unreasonable to ask the BLM, the Bureau of Ocean Energy Management (BOEM), and other federal agencies identified in section 106 of the TAP Act to collate and submit information that they already have on file to the authorizing congressional committees of jurisdiction. This oversight function will help bring the leasing practice in line with the original intent of the MLA by increasing transparency and including timelines for how the Secretary of the Interior plans to address issues to prevent unnecessary delays in the process.

IPAA also represents many independent producers operating in federal waters. As such, IPAA supports the revisions to the offshore oil and gas leasing program found in section 107 of the TAP Act. Operating offshore is a capital-intensive endeavor. Unlike the major oil companies, independent producers often work together in consortium with more than one company involved in a project. Federal offshore production makes up about 15 percent of total US oil production, which is a significant component to America's energy security. That said, IPAA supports language in the legislation mandating two region-wide annual lease sales in the prescribed offshore areas. Last year, the Secretary of the Interior failed to act in a timely manner on the Five-Year Plan and let it expire without another plan in place. The proposed program that closed for comment in October 2022, offered between zero and ten potential lease sales in the Gulf of Mexico and the option for only one potential lease sale in the northern portion of the Cook Inlet in Alaska. A "leasing program" that has the potential to offer no lease sales is not a leasing program; it is a federal mandate to end offshore oil and natural gas production in the United

States. It is also not in the best interest of Americans who benefit from the increased revenue to the federal treasury and significantly harms American national security.

Oil and natural gas projects on federal lands also face months of delay due to regulatory obstacles with National Environmental Policy Act (NEPA) analysis. For example, in 2020, it took an average of 142 days to complete an APD to drill on Federal lands. By comparison, in the state of Texas, in 2018 and 2019, it took an average of two days to process a standard drilling permit. IPAA believes legislative language is needed to define specific agency actions where a lower threshold of environmental analysis could be used. IPAA supports the committee's efforts to develop workable reforms to NEPA that will bring the law closer to its original intent of analyzing projects that require "major federal actions" rather than the current process, which is simply being used to delay and disrupt activities on federal lands by a determined minority. While not being discussed in this hearing, IPAA also supports the BUILDER Act, introduced by Representative Graves, which enacts additional reforms to NEPA.

IPAA endorses section 213 of the TAP Act dealing with split estates. BLM currently triggers NEPA analysis for wells on state or private lands if any of the oil and natural gas resources being drilled are federally owned. This occurs even when the federal government has a small/minority mineral interest. For too long, the BLM has used this federal nexus as a way for the agency to become involved in state and private mineral development decisions. In addition, once the federal interconnection is established, the full cavalcade of Washington's regulatory agencies can become involved in projects. Even when there is the smallest percentage of federal ownership, an operator must go through an entire NEPA review that would not otherwise be required. While adding time to the project, it is also a burden on federal resources at the regional BLM level. Simply because the federal government holds a minority mineral interest in a drilling project should not allow it to impose burdensome restrictions or delay projects where it has a limited role.

The current program governing oil and natural gas activities on onshore and offshore federal lands needs a significant overhaul. The TAP Act provides important solutions to many of the problems hampering the safe, continued development of mineral resources on federal lands and waters. Unfortunately, the Biden Administration is ignoring both the MLA and the Outer Continental Shelf Lands Act (OCSLA) requiring reasonable development of the nation's mineral resources on federal lands and waters. Instead, the Administration is focused on land conservation to the detriment of other activities from which all American taxpayers benefit. Rather than working with stakeholders at the local level, the land managers now make decisions based on edicts from the national office. IPAA supports efforts to require the Department of the Interior and its leadership to better engage the states when taking actions that impact development in their areas.

Oil and natural gas will remain a key component of energy supply in the world for the foreseeable future. No modern economy can function without them. This is clearly true in the United States where oil and natural gas contributes approximately 70 percent of the energy consumed in the country. Growth in other energy sectors, such as wind, solar and nuclear will also occur, clearly more energy from many sources will be needed to maintain a robust American economy.

Artificial political efforts to suppress American oil and natural gas supply will not reduce demand; they will only lead to a return to an import dependent energy structure with attendant energy security risks. False attacks targeting American oil and natural gas producers will reduce supply while hurting independent producers, particularly small businesses, and royalty owners. These policies will not reduce greenhouse gas emissions. The ultimate beneficiaries of these actions would be foreign national oil companies that produce with fewer environmental and safety controls than those in the United States.

IPAA applauds the House Natural Resources Committee for holding this hearing today and looks forward to the Committee acting on the TAP Act that will protect and enhance American energy security.