Date: Thursday, September 2 2021 03:38 PM
Subject: Re: FW: Reconciliation coordination
From: Redacted
To: Megan B. Bloomgren <[redacted]@api.org>;

Hey Meg,

Redacted

On Thu, Sep 2, 2021 at 9:40 AM Megan B. Bloomgren <[redacted]@api.org> wrote:

Redacted

Redacted

Call me with any questions.

Meg

From: Lem Smith
Sent: Wednesday, September 1, 2021 11:28 AM
Subject: House Oil & Gas Leasing Proposal Is All Cost & No Benefit

The Natural Gas and Oil Industry

House Oil & Gas Leasing Proposal Is All Cost & No Benefit

Dear Friend,

As the Administration looks to foreign nations to boost energy production, the House Natural Resources Committee's baseline reconciliation bill proposes a double-whammy of punitive policies to discourage U.S. energy development with new, targeted measures against the U.S. natural gas and oil industry. That combination could lower domestic production and boomerang the U.S. back to 1970s-era dependence upon foreign energy imports.

Most concerning, instead of advancing effective solutions that build on the nation's progress in reducing emissions, the Committee would inundate producers with a myriad of new taxes and fees to create a *de facto* natural gas and oil development ban on federal lands.

Given the Committee's markup tomorrow, a course correction is urgent as the broader, multi-trillion dollar reconciliation package takes shape. Read on about why the Committee's proposal could harm the environment, weaken the economy and jeopardize America's national security.

Harm to the Environment

⇒ Lowering U.S. production on federal lands and waters does not reduce energy demand in any meaningful way – it just means the U.S. will have to import more natural gas and oil from countries with less environmentally-friendly production, and transporting it to the U.S. will result in more emissions.

- A recent study from energy analytics firm OnLocation projects that a reduction in natural gas production from U.S. leases would lead to an increase in emissions for power generation due to a reversion to coal use for power generation.
- The World Bank's April 2021 Global Gas Flaring Tracker Report shows that the U.S. reduced gas flaring by 32% from 2019 to 2020 and the U.S. has one of the lowest flaring intensities when compared to its producing peers – like Russia – around the world.

Harm to the Economy

⇒ In 2019, this industry supported nearly 8% or $1.7 trillion (PWC Study July 2021) of the U.S. GDP, generating over $100 billion in federal, state and local tax revenue each year – which goes to important programs like education, infrastructure and conservation across all 50 states.

- Workers who explore for and produce oil and natural gas earn significantly more than their state's average salary in nearly each of the top oil and natural gas producing states. Most jobs associated with solar and wind energy pay far less than the average salary of upstream natural gas and oil workers.

Harm to National Security

⇒ Restricting development on federal lands and waters is nothing more than an "import more oil" policy. Energy demand will continue to rise—especially as the economy recovers—and we will be forced to rely on oil produced outside the U.S. to fill the gap. Such reliance places the U.S. at the mercy of foreign countries – often adversaries such as Russia.

Scroll down for detailed information and specific reasons why the House Natural Resources Committee bill would disincentivize federal lease bidding, impose huge new costs on production, exclude huge areas of rich natural resources and increase pipeline transportation costs.

Sincerely,
Lem Smith
API Vice President – Federal Relations

Some of the Punitive Measures in the House Proposal

1. ***Disincentivizing Federal Lease Bidding***

- **500% Minimum Bid Increase:** Would raise onshore minimum lease bid from $2/acre to $10/acre. By BLM office 2020 sales, 11% of leases sold in New Mexico were below $10/acre; 78% in Colorado; and 30% in North Dakota.
- **Cuts Time to Produce in Half:** Would reduce the primary term for new onshore leases from 10 years to 5 years, even though a significant percentage of leases require more than 5 years to start producing. For example, recent data shows that 37% of leases in New Mexico started production more than 5 years after authorization.
- **More Than Doubles Annual Rent:** Would raise annual rental rates to $3/acre for the first 2 years, and then $5/acre, increasing costs by at least $123 million per year.
- **Eliminates Possibility of Royalty Relief:** Would eliminate authority to grant royalty relief in difficult times or national emergency.
- **Imposes New Inspection Fee:** Would raise the minimum inspection fees each operator will pay annually to anywhere from $800-$11,300 per lease, varying by lease.

2. ***Imposing Huge New Costs on Production***

- **Increased Royalty Rates:** Would raise onshore royalty rate floor by more than half from 12.5% to 20% on new leases and would raise the already high offshore royalty rate floor to 20%.
- **New Royalties on Venting/Flaring:** Would require royalties to be paid on all gas produced, including gas used or consumed for the benefit of the lease such as gathering compressors and gas that is consumed or lost by venting, flaring, or fugitive releases, with limited exceptions, which would raise royalty payments on average by 6.5%.
- **1500-2000% Bonding Increase:** Would increase onshore federal lease bond minimum by 15X for a federal lease bond, by 20X for a statewide bond, and removes the nationwide bond option. Additionally, it calls for rulemaking that will require bonding to cover 100% of the reclamation costs of a lease on federal lands that have less than 0.05% of federal wells orphaned.
- **New Expression of Interest Fee:** Would impose a minimum $15/acre to notify the government of public interest in leasing. Onshore leases can be as large as 2,560 acres, thus costing up to $38,400/lease.
- **New "Resource" Fee:** Would impose a $4/acre annual fee on producing leases, thus costing up to $10,240/lease for onshore leases, and $23,040/lease for offshore leases.
- **New Leasing Fee:** Would impose a $6/acre annual fee on non-producing leases, thus costing up to $15,360 for each onshore lease, and $34,560 for each offshore lease.
- **New Severance Tax Fee:** Would impose a new annual, non-refundable Federal severance fee "tax" on every barrel of oil equivalent produced from new leases on federal lands and waters.
- **New Idled Wells Fee:** Would impose an annual cost anywhere from $500-$7,500 per idled well per year, and would deem a well "nonoperational" after 2 years, down from 7 years.

3. ***Excluding Huge Areas of Rich Natural Resources:*** Several measures would severely limit access to federal natural gas and oil development – including terminating some existing leases – in Alaska (ANWR/NPRA) and the Gulf of Mexico (Eastern Planning Area), which would hurt local communities that use this royalty revenue for conservation, education, and infrastructure.

4. ***Increasing Pipeline Transportation Costs***: Would impose a new $10,000/mile annual fee for water depths greater than 500 ft.; and $1,000/mile for water depths less than 500 ft. There are approximately 26 thousand miles of pipelines in the offshore with about 12.6k miles in waters less than 400 ft and 13.7k miles in waters greater than 400 ft. Increased annual costs would total ~$149 million.

API represents all segments of America's oil and natural gas industry. Its more than 600 members produce, process, and distribute most of the nation's energy. The industry supports more than 11 million U.S. jobs and is backed by a growing grassroots movement of millions of Americans. API was formed in 1919 as a standards-setting organization. In its first 100 years, API has developed more than 700 standards to enhance operational and environmental safety, efficiency and sustainability.

To learn more about API and the value of oil and natural gas, please visit API.org.

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