

**Planning,
Analysis, &
Competitiveness
Subcommittee**

**Recommendations from the Onshore Working Group to the
Planning, Analysis, and Competitiveness Subcommittee
for the February 2018 Royalty Policy Committee**

February 5, 2018

The sense of the Onshore Working Group is that rather than consider a royalty rate increase at this time, which would further decrease the competitiveness of federal lands that already carry higher regulatory costs, the Department of the Interior (DOI) should instead focus its efforts on removing obstacles. By making federal lands more attractive and increasing certainty, DOI could spur more development. The Onshore Working Group proposes the following recommendations:

1. Reducing timelines for project approvals, including Applications for Permit to Drill (APD), Rights-of-Way (ROW), sundries, lease nominations, and unit agreements.

Slow approvals, including APDs, ROWs, unit agreements, sundries, etc., are a major distortion in the federal onshore process. APDs can be delayed for several months to years, even after potentially years of delay obtaining NEPA approvals. BLM admits to a [257-day average processing time](#), but that number is likely much higher if [better data were collected](#). State permits usually take around 30 days, on average, depending on the state. Shorter approval times are crucial for federal lands to increase their competitiveness with nonfederal lands. Below are several recommendations related to various permitting and approval processes:

- Operators must obtain a state permit for all new wells within the state's borders, including on federal lands. The state permit is largely redundant with the federal permit. The Interstate Oil & Gas Compact Commission (IOGCC), a multi-state government agency representing oil and natural gas producing states, has issued [a resolution](#) urging delegation to the states for approval of drilling permits on federal public land. The House Natural Resource Committee has passed the Secure Energy Act, which includes delegation of APDs to the states, out of committee. DOI should embrace this concept and work with Congress to get it passed. Short of legislation, BLM could enter into memoranda of understanding (MOU) with states to delegate many downhole permitting aspects to the states while retaining the final official approval.

- BLM field offices arbitrarily add new requirements to APDs and require producers to conduct new and redundant analysis without a basis in law or regulation. Companies have been asked to perform extra cultural, wildlife, flood plain or other surveys, even after complying with existing regulations. Arbitrary requirements lengthen the APD processing time both for the operator and for BLM. Requirements vary greatly from field office to field office, further frustrating operators. In an overall permitting IM or further guidance resulting from Secretarial Order 3354, BLM should direct field offices to follow established regulations and onshore orders when requesting information from operators for their APDs, and prohibit them from requiring extraneous analysis and surveys.
- Lengthy APD timeframes often occur because BLM is conducting redundant NEPA analysis. BLM is not granting Categorical Exclusions (CX) when companies meet the criteria under Section 390 of the Energy Policy Act of 2005 and in many situations automatically requires another Environmental Assessment, rather than even considering a CX. In contravention of EPA Act, BLM is requiring duplicative NEPA for: 1) wells involving less than five acres of disturbance with total lease disturbance of less than 150 acres that already have site-specific NEPA; 2) new wells on pads drilled within the last five years; and 3) areas covered by an existing NEPA document that is five years old or less. As a result, APDs are delayed months and years awaiting redundant NEPA analysis, in direct violation of statute. In an overall permitting IM or further guidance resulting from Secretarial Order 3354, BLM should direct all field offices to issue CXs when any of the Section 390 criteria are met. BLM's NEPA handbook already provides that direction, so a rewrite is not required.
- Over the past several years decision making has been moved from the field office level to Washington, and as a result many different types of approvals are being held up indefinitely. Washington should devolve more decision making to the state and field offices, while enabling support when field offices struggle due to lack of staff or expertise. For example, unit applications have been particularly slow and could benefit from support from state office personnel who handle unit issues on a more regular basis.

2. Limiting the federal nexus for wells without a majority federal interest, i.e., reducing the situations in which the full gamut of federal approvals is required

BLM requires NEPA approvals and APDs for wells on private or state lands even when only a minority of the oil and natural gas resources being accessed are federal, using the "federal nexus" as a way for BLM to become involved in wells in which it has only a minority of mineral interest. Once the federal nexus is invoked, the full gamut of BLM processes applies, resulting in long delays.

- BLM should work with Congress on the Secure Energy Act, which has passed out of the House Natural Resources Committee, which would limit the federal nexus to situations only where federal lands are involved and/or there is a majority of federal minerals. The federal government would then receive royalties as any other minority mineral owner through a normal pooling/unitization agreement.
- Short of legislation, BLM could adjust guidance to the field and reduce the number of situations considered a major federal action requiring NEPA, such as redefining just the obtaining of a federal right-of-way as a minor action.
- BLM uses the federal nexus to require tribal consultation for cultural artifacts on private land, even when there's no federal public or tribal lands in the area and only a minority of federal minerals interests. When private landowners refuse access to their lands, it puts operators in a bind because BLM won't let the process move forward.
- Furthermore, BLM arbitrarily defines the Area of Potential Effects (APE) to incorporate a broad area of land so that the need to consult is triggered even when the actual cultural site is avoided. In the Powder River Basin in particular, BLM is conducting far-reaching tribal consultations for 23 tribes who do not have tribal lands in the area. These consultations can hold up project NEPA and APDs indefinitely.
- The Fish & Wildlife Service should review its final rule, "Management of Non-Federal Oil and Gas Rights," 81 FR 79948 (Nov. 14, 2016) to determine whether revision would be appropriate to reduce burden on energy. In particular, FWS should streamline Rights-of-Way (ROW) for pipelines and electricity transmission. The approval process for new ROW access can be overly restrictive and excessively lengthy. The FWS should work with stakeholders to revise its ROW regulation to streamline the current ROW granting process to significantly decrease the time to obtain ROW approval from the current 3-12 month time frame.

3. Improving land use planning and NEPA approvals

- Issue an IM specifying that State Directors and Field Office Managers must move forward with processing nominations in accordance with existing RMPs until amended RMP Records of Decision are signed, and end the practice of deferring lease parcels while RMPs are being amended. The IM should clearly state that ongoing RMP updates, amendments, supplements, or Master Leasing Plans are not legitimate reasons for lease deferral.
- When finalizing RMPs and RMP amendments, only impose resource development restrictions that accord with FLPMA, the Mineral Leasing Act (MLA) and other statutory authority.

- BLM should adhere to the principles established in the 2005 Desk Guide to Cooperating Agency Relationships and Coordination with Intergovernmental Partners. Many counties across the West have planning processes that are not given full consideration by BLM. BLM should improve the recognition and incorporation of state and local government land use plans, data, and policies in RMP amendments.
- BLM should follow existing law and utilize Resource Management Plans and their associated EISs, programmatic EAs/EISs, and project EAs/EISs that are less than five years old, and grant Categorical Exclusions (CX) in all cases that meet the Energy Policy Act of 2005 criteria, rather than requiring redundant NEPA analysis. BLM's NEPA handbook already specifies that this is allowed, so simple direction to the state and field offices is all that is required.
- Project NEPA documents often take several years, and are usually a longer source of delay than APD delays. BLM should incorporate the following project-specific NEPA improvements:
 - Provide proactive initial guidance to proponents when they announce projects that are likely to require an EA or EIS. Proactive coordination between BLM and the proponent would increase efficiencies and save time once the environmental analysis begins.
 - Establish clear criteria for what constitutes extraordinary circumstances for project NEPA documents and implement these criteria through an Instructional Memorandum and the NEPA handbook. BLM should also implement an appeal process to enable project proponents to challenge decisions regarding the level of environmental analysis required for a project.
 - Identify known anticipated impacts from proposed projects in NEPA documents, and should not incorporate or require information based on purely speculative impacts. The scope of NEPA documents should be limited to information that is truly required for NEPA compliance. Field offices should be directed to stop requesting ad hoc information not required by regulation, statute or official BLM policy.
 - Develop stipulations and restrictions attached to NEPA documents in coordination with the project proponent and based on operator-committed measures. BLM should also finalize EISs based on currently identifiable impacts, and not postpone completion while awaiting new information to surface.

- Assign strike teams to EAs that exceed six months and EISs that exceed eighteen months. These strike teams could be composed of planning specialists, perhaps at the state office level, who have the expertise to move forward expeditiously with NEPA documents, as often staff at the field office level are not as experienced in the NEPA process and focused on other tasks.
 - Inform project proponents at least every four to six weeks regarding where NEPA documents are in the process, the cause of delays, and what BLM is doing to move forward.
 - Issue an IM directing state and field offices to develop NEPA templates for both EAs and EISs, including questions related to on-the-ground factors in the states and planning areas that can be answered simply. The IM could also include a template for common aspects nationwide as a starting point.
 - Provide project proponents with draft documents before the public. BLM should accept clarifications from companies and make any adjustments before they are published in the Federal Register for official public comment. Doing so would reduce the amount of work BLM must spend responding to public comments and allow for additional collaboration and problem solving between the project proponent and BLM, saving resources and time.
- The Secretary should rescind Secretarial Order 3310 on Protecting Wilderness Characteristics on Lands Managed by the Bureau of Land Management. Congress has explicitly denied funding for the implementation of this order because the designation of “Wild Lands” is a violation of FLPMA’s multiple-use mandate, yet BLM still treats “lands with wilderness characteristics” as de facto wilderness.
 - BLM should also rescind IM 2011-154, Requirements to Conduct and Maintain Inventory for Wilderness Characteristics and to Consider Lands with Wilderness Characteristics in Land Use Plans, and IM 2011-147, Identification of Areas with Broad Public Support for Possible Congressional Designation as Wilderness.
 - BLM has identified over 60 different land use designations used in RMPs, many of which may lead to additional restrictions on the use of the land. One example is the Area of Critical Environmental Concern (ACEC) designation, which is authorized by FLPMA but are often identified without adequate public comment. The Eastern Interior RMP, finalized on January 3, 2017, designated over 2 million acres of ACEC, much of which was recommended for closure to mineral entry and mineral leasing. BLM should further evaluate the need for these numerous land use designations as a part of the ongoing review of its planning process working with state, local, and

tribal partners to incorporate efficiencies and update policies on the use of land use designations that may burden or hinder energy development on Federal lands.

- Furthermore, FLPMA defines a withdrawal as "withholding an area of Federal land from settlement, sale, location, or entry, under some or all of the general land laws. . . ." 43 U.S.C. § 1702(j). For tracts of lands greater than 5,000 acres, the Interior Secretary must provide Congress a variety of information in order to fully disclose the closure's impacts, costs, and need so that Congress can decide whether to disapprove the withdrawal. A withdrawal also requires public notice and hearing, and consultation with state and local governments. 43 U.S.C. at § 1714(c)(1)-(12), (h); 43 C.F.R. Parts 2300, 2310. BLM should not continue to effect a *de facto* closure of thousands of acres of public lands to oil and gas leasing without following FLPMA's Section 204 withdrawal procedures.

4. Revising and simplifying Onshore Orders 3, 4 and 5 to ensure more equitable and timely implementation

BLM should make common-sense changes to onshore orders 3,4, and 5 to reduce their overly burdensome nature.

- **Recommended Overall Policy and Approach:** The simplest and most equitable means of modifying the regulations would be to adopt the American Petroleum Institute (API) and GPA Midstream (GPA) standards in their entirety. The API and GPA standards are based on proven measurement technologies and constitute the consensus of industry's foremost experts in oil and gas measurement. Participation by government agency representatives in the API standards program allows for input by these representatives on the standards referenced by BLM.
- **Facility Measurement Points (FMP):** Implement a phase-in approach for FMP approvals, with one year to comply for wells with greater than 5,000 MCFD/500 BOPD; two years for 1,000 – 5,000 MCFD/100-500 BOPD; and three years for less than 1,000 MCFD/100 BOPD.
- **Cancellation of all Variances, Commingling Agreements, and Off-Site Measurement Agreements:** Continue to honor all variances, commingling agreements, and off-site measurement agreements approved prior to the effective dates of the new rules and the new rules should only be applied to applications submitted after the effective date of the new rules.
- **Site Facility Diagrams:** Each operator is responsible for compliance with the requirements of the Rules and the BLM should not hold one operator responsible for information that is

the duty of another operator to provide the agency. We urge removal of the requirement to submit information on non-operated facilities, and clarification that the obligation arising under these subsections of the rules does not require a regulated party to submit information on a facility that it does not operate.

- Existing Commingling and Allocation Approval: The practice of commingling offers a number of operational benefits. Adding unnecessary operational barriers and/or costs to commingling would result in otherwise recoverable oil and gas reserves being left in the ground, a matter of physical and economic waste for both operators and the federal government as the steward of public lands and collector of royalty and other revenues therefrom on behalf of the nation. BLM should incorporate into the rule a definition of “economically marginal” that would establish when commingling of production is always allowed from a property meeting that definition.

Royalty Policy Committee
Planning, Analysis and Competitiveness Subcommittee
Offshore Oil and Gas working group
Proposed recommendations

1. **Set future OCS lease sales through 2024 at 12.5% royalty rate to bring into parity with new GOM shallow water rate.**
 - a. The Western and Central GOM planning areas have been leased in whole or part multiple times on an annual basis (with very few exceptions) for decades. In this sense they are maturing basins with only the most challenging prospects remaining.
 - b. “Frontier” area risks, challenging reservoir characteristics, Paleogene discoveries with massive new engineering requirements, HPHT issues, record depths, tight rock, and other 21st century factors (including seasonal restrictions in Alaska) contribute to substantially more cost-and-time-intensive projects to safely appraise, develop, and produce.
 - c. In spite of these obstacles and challenges, there are substantial additional resource volumes still accessible and producible under the right leasing, fiscal, and regulatory terms.

2. **Establish a clearer, more workable process for royalty relief or reduced royalty rate for declining or particularly costly fields.**
 - a. Similar rationale as above.
 - b. BSEE has discretion to offer post-lease royalty relief to increase production as noted in “Designing Offshore Oil and Gas Lease Sales” of Dec. 15, 2017. However, it is reported widely that the process for obtaining such relief is not in practice clear, and not exercised with any frequency.
 - c. A recommendation is that BSEE hold a workshop to discuss how it might provide transparent guidelines for granting relief, especially for deepwater projects with complex reservoirs and high appraisal costs.

3. **Increase the offshore acreage available for oil and natural gas leasing.**
 - a. Without expanded acreage, the urgency of above recommendations grows and there is less opportunity to compare frontier/underexplored opportunities with those in mature regions.
 - b. DOI should set and abide by targets to keep OCS resources competitive by regularly making the best acreage available under reasonable timelines.

Royalty Policy Committee
Planning, Analysis and Competitiveness Subcommittee
Alaska Working Group
Proposed recommendation

DOI Should:

- 1) Conduct a lease sale in the 1002 Area of the Arctic National Wildlife refuge as soon as practicable and ahead of the statutorily required timeline.
 - a. The Department of Interior should expeditiously and carefully take all the necessary steps to conduct the first lease sale within the 1002 as soon as is reasonably practicable and consistent with all required due diligence and review.
 - b. A prompt first lease sale will allow industry to more quickly initiate exploration and potentially field development, which in turn will more quickly realize federal royalty production and return to the federal treasury.

Royalty Policy Committee
Planning, Analysis and Competitiveness Subcommittee
Non-fossil/Renewables working group
Preliminary recommendations

This work group was established to analyze opportunities to improve the economics of non-fossil and renewable energy development on federal lands. To date, two issues have been identified which the work group supports for further investigation, though not yet prepared to provide concrete suggestions for improvement to the RPC. We wanted to provide the RPC with an opportunity to review and provide input on these preliminary recommendations.

Preliminary recommendation #1: BOEM should conduct additional offshore wind lease sales on a scheduled basis to increase predictability and opportunities for developing this resource in the U.S. Outer Continental Shelf.

- Increasing opportunities for offshore wind development will increase revenue generation to the U.S. Treasury. It will also spur investments in local economies, creating job growth and avoiding the need to export hard-earned energy dollars. Harnessing this resource and engaging industry requires a significant commitment from the agencies responsible for leasing and opening the OCS. Experience from Europe has shown that a significant and consistent commitment to annual leasing is necessary to establish a supply chain in the offshore wind industry. By making this commitment, the Administration will demonstrate a long-term interest in investing in the domestic offshore wind industry. Input and dialogue with interested parties should establish parameters for determining the necessary amount of developable resource leasing and timing intervals for lease offerings.

Preliminary recommendation #2: BOEM needs to review and, if appropriate, revise the operating fee it assesses on offshore wind development.

- BOEM is required to receive a “fair return” for development of its resources. For its offshore wind energy program, the three primary revenue sources include a bonus bid, a rental and an operating fee.
- The operating fee is comprised of five components: nameplate capacity, hours per year, capacity factor, power price and an operating fee rate. On its face, this computation seems simple. But in practice it has been difficult to calculate and to find agreement on proper inputs.

- BOEM has indicated that this is an area worth further investigation. Advice from the RPC in support this effort should align with the concepts of simplicity, predictability and understandability.

Royalty Policy Committee
Planning, Analysis and Competitiveness Subcommittee
Studies Work Group
Proposed recommendation

- 1) **(Short-term)** The following recommendation was developed with the objective of providing DOI/BOEM with insight into what factors BOEM should consider in order for the U.S to remain competitive with emerging areas. The RPC recommends that:
 - a. The Department of the Interior procures a study that assesses and compares 3 regimes (U.S. GOM, Guyana and Mexico).
 - b. The study will assess the following factors: current tax laws, royalty/royalty equivalents (e.g. profit sharing) and other revenues, and lease block sizes.
 - c. The study will use recent lease sales (conducted over the last ~3 years) within each regime, examining trends – particularly if there were big finds within an area – and seek to assess if there are common drivers across the regimes encouraging development or widely divergent drivers for development.

- 2) **(Long-term)** The following recommendation was developed with the objective to provide the Department of the Interior (DOI) and the RPC with information based on current market conditions and regulatory policies. The RPC recommends that:
 - a. The Department of the Interior pursue a contract with a 3rd party consultant to update the IHS/CERA Comparative Assessment of the Federal Oil and Gas Fiscal System (October 2011) so that the assessment reflects current market conditions and regulatory policies.
 - b. DOI staff, with advice from RPC members as appropriate, should review the U.S. locations as well as the international locations selected in the original study and consider whether to update the selected locations to ensure that relevant and emerging markets are properly covered. Possible U.S locations that could be considered for inclusion within the study are onshore Federal, State and/or private lands and offshore shallow and deepwater Federal lands.



Royalty Policy Committee

Planning, Analysis and Competiveness Subcommittee
(Economics)

Recommendations

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Economics Subcommittee Working Groups

✓ Onshore Oil & Natural Gas
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✓ Non-fossil/Renewables
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✓ Future Studies
Emily Hague

✓ Coal
Matthew Adams

Onshore Recommendations

- » Reduce timelines for project approval, including APDs, ROWs, sundries, lease nominations and unit agreements
- » Limit the federal nexus of wells without a majority federal interest
- » Improve land use planning and NEPA Approvals
- » Revise and simplify Onshore Orders, 3, 4 and 5 to ensure more equitable and timely implementation



Onshore

Onshore Next Steps

- Continue to study and make recommendations from the Review of the Department of the Interior Actions that Potentially Burden Domestic Energy



968+
PROFESSIONALS

Offshore Recommendations

- » Set future OCS lease sales through 2024 at 12.5% royalty rate
- » Revise, clarify and simplify process for granting varying royalty rate for declining or particularly costly fields
- » Increase offshore acreage available for oil and natural gas leasing



Offshore

Offshore Next Steps

- Continue to evaluate recommendations to Interior including consideration of varying size of lease blocks
- Other



Alaska

Recommendations

- Interior should conduct a lease sale in the 1002 area of ANWR ahead of statutory deadlines



Alaska

Alaska Next Steps

- Will continue evaluation of recommendation concerning implementation of executive and secretarial orders regarding the NEPA process in Alaska
- Will continue evaluation of recommendation to revise ONRR regulations and policies regarding transportation costs for Alaska offshore and remote





Coal Next Steps

- No recommendations at this time
- Will continue to evaluate recommendations concerning determination of fair market value for third party transactions
- Evaluate bonus bid payment schedule





Non-Fossil/ Renewables Next Steps

- Continue evaluation of recommendation for Interior to set long-term goal of twenty gigawatts of offshore wind resources
- Continue evaluation of recommendation to revise the operating fee



Future Studies Recommendations

- The Department of the Interior should contract for a study to compare the U.S GOM, Guyana and Mexico of royalty rates, total revenue, block sizes and recent lease sales (last 3 years)
- The Department of the Interior should contract to update the IHS-CERA 2011 study, for both onshore and offshore data





Future Studies Next Steps

- Receive recommendations from the other work groups on potential areas for study

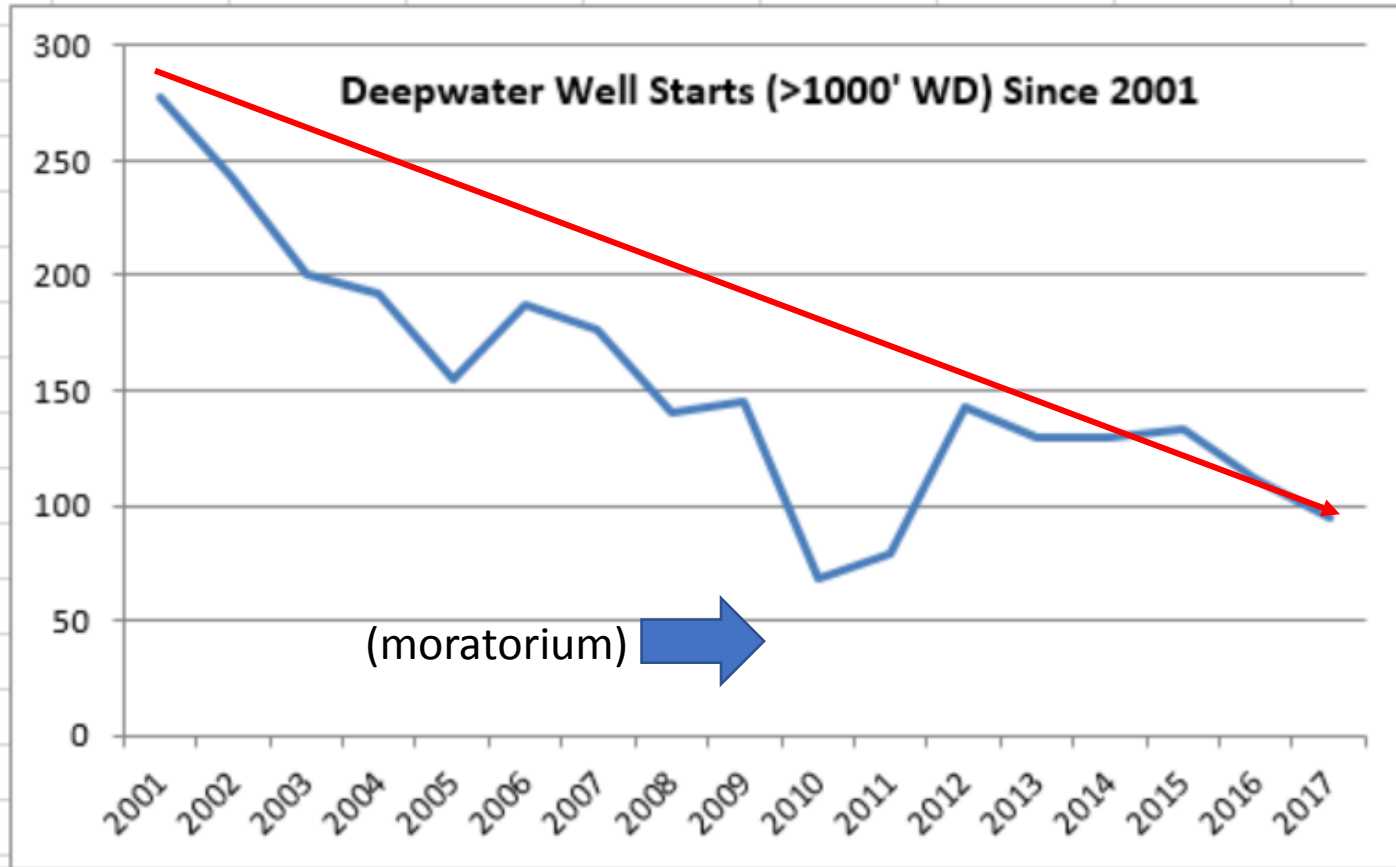


Conclusion



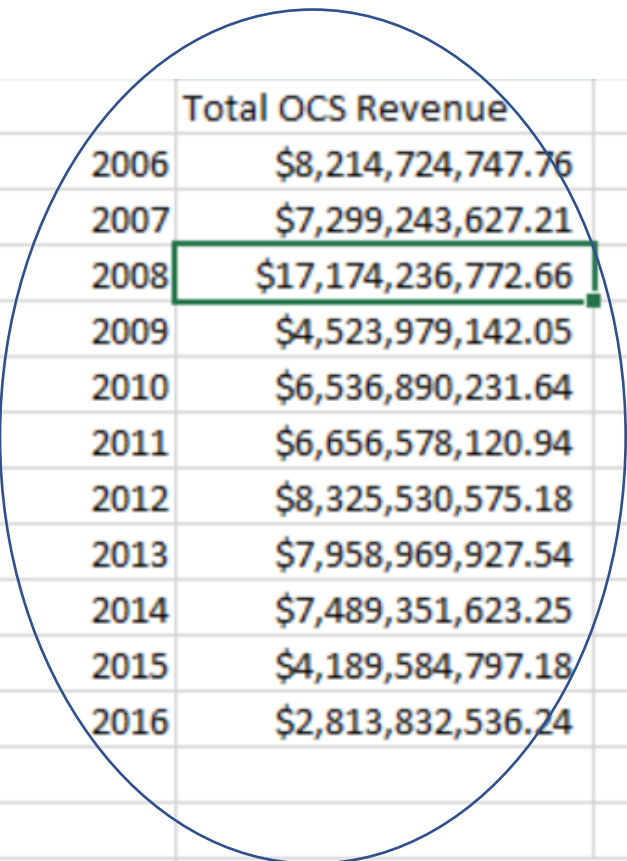
15 year sustained decline in deepwater well starts.

Deepwater Wells (>1000') Since 2001	
2001	277
2002	243
2003	200
2004	192
2005	155
2006	187
2007	176
2008	140
2009	145
2010	68
2011	79
2012	143
2013	129
2014	129
2015	133
2016	111
2017	95



GOM faces rapid increases in depletion rates as reported by Schlumberger (March 2017). According to Schlumberger, deepwater GOM depletion rate is approaching 25%. These rates will accelerate further absent increases in drilling and reserve additions. The OCS program's survival hinges on increased exploration activity.

10 year sustained decline in revenue

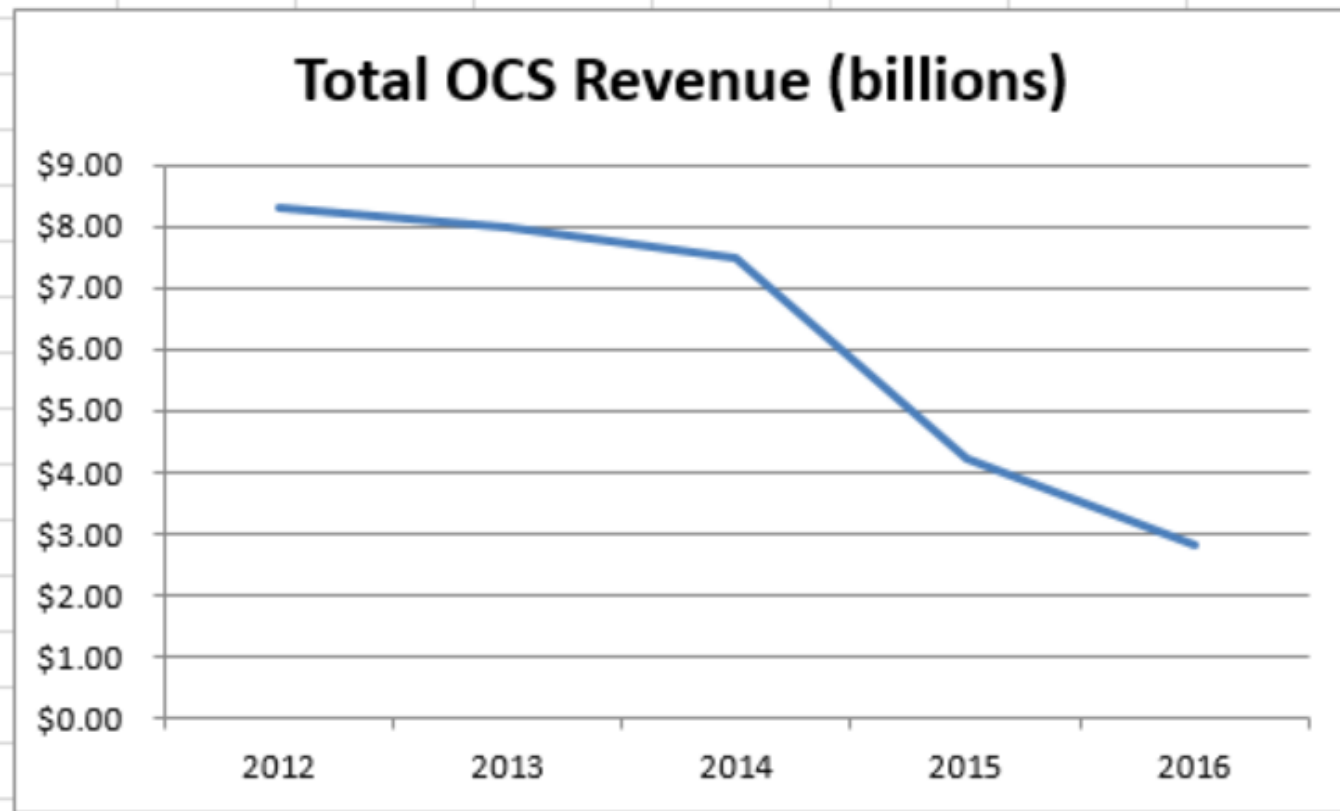


Total OCS Revenue

2006	\$8,214,724,747.76
2007	\$7,299,243,627.21
2008	\$17,174,236,772.66
2009	\$4,523,979,142.05
2010	\$6,536,890,231.64
2011	\$6,656,578,120.94
2012	\$8,325,530,575.18
2013	\$7,958,969,927.54
2014	\$7,489,351,623.25
2015	\$4,189,584,797.18
2016	\$2,813,832,536.24

Total OCS Revenue (billions)

2012	\$8.30
2013	\$8.00
2014	\$7.50
2015	\$4.20
2016	\$2.80



Source: ONRR Data. (CY 2017 data not yet available)

- Leasing revenue declining

- **\$538 million/central sale 235/March 2015**

- \$22 million/western GOM 246/aug 2015

- \$176 million/ central sale 241/March 2016

- \$18 million/western sale 248/August 2016

- \$274 million/central sale 247 /March 2017

- **\$121 million/areawide sale 249/August 2017**

What might drive the decline which is in control of the gov't?

“The wide ranges of **government takes between 53% for profitable projects to 86% for marginal projects in Deepwater GOM suggests a highly regressive fiscal system that penalizes marginal fields.” P.5**

“The GOM is an attractive investment environment; however it is also among the most expensive next to Alaska and other arctic environments. As exploration and production move beyond 5,000 feet, which seems to be the area with the greatest growth potential in the GOM according to EIA and DOI, achieving desirable rates of return is going to be quite challenging. P. 60

“...the GOM nominal royalty rate is already higher than all offshore oil and gas jurisdictions outside the United States.” P. 133

-IHS CERA BOEM (<https://www.boem.gov/Oil-and-Gas-Energy-Program/Energy-Economics/Fair-Market-Value/CERA-Final-Report.aspx>)

However, the challenge is that the key to unlock the next phase of significant volumes in the GoM lies with ultra-high-pressure exploration and development. What is still especially relevant to move projects forward in deepwater GoM are potential policy incentives specific to these ultra-highpressure developments. Without some stimulus, these volumes will struggle to compete with more attractive reservoirs in Brazil and Mexico.

Where does 12.5% come from?

“Despite the risk of instability, **the introduction of a 12.5% royalty rate significantly improves the attractiveness of the GOM fiscal systems.** However, this rate reduction may not prove sufficient to bring the GOM marginal fields on stream.” P.147

“**The 12.5 percent royalty alternative improves the competitive position of the GOM fiscal systems** by placing them in the middle of the select peer group.” P. 150

“Any increase of the already high royalty rate levied in the GOM will increase the risk of system instability. **Any potential gains from higher royalty rates are likely to be offset by reduced revenue** from signature bonuses and the slower pace of leasing.” P. 150


-IHS CERA BOEM (<https://www.boem.gov/Oil-and-Gas-Energy-Program/Energy-Economics/Fair-Market-Value/CERA-Final-Report.aspx>)

What is different since 2011 Studies?

- GOM is more mature/developed.
- Sustained downturn results in projects being harder to finance.
(Higher price environment enabled more options.)
- Mexico now a competitor.

Supporting non-industry commissioned studies

OCS Study
BOEM 2011-xxxx



Comparative Assessment of the Federal Oil and Gas Fiscal System

Final Report

U.S. Department of the Interior
Bureau of Ocean Energy Management

U.S. Department of the Interior
Bureau of Land Management



Wood Mackenzie
A Verisk Analytics Business

January 2018

Deepwater GoM: 5 things to look for in 2018

OCS Study BOEMRE 2011-013

Final Report

Policies to Affect the Pace of Leasing
And Revenues in the Gulf of Mexico
Summary Report

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