



**J. Keith Couvillion**

Land Advisor/Land Management Officer & Assistant  
Secretary - Chevron U.S.A. Inc.

August 17, 2017

Ms. Kelly Hammerle,  
National Program Manager  
Bureau of Ocean Energy Management  
45600 Woodland Road – Mailstop VAM-LD  
Sterling, Virginia 20166

**Re: Request for Information and Comments on the Preparation of the  
2019-2024 Outer Continental Shelf (OCS) Oil and Gas Leasing Program  
Federal Register Volume 82, Number 126 (Monday, July 3, 2017)**

Gentlemen and Ladies:

Chevron U.S.A. Inc. (Chevron) appreciates the opportunity to comment on the Bureau of Ocean Energy Management's (BOEM) Federal Register Notice requesting comments on the preparation of a new 5-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program for 2019-2024. Chevron, as an owner of over 330 leases located in federal jurisdictional waters in the United States, and as a lessee with both producing and non-producing leases, supports the continuation of a viable offshore leasing program.

A comprehensive, diversified offshore oil and gas leasing and development program is vital to a healthy U.S. economy. In 2016, the Energy Information Administration estimated 18% of domestic oil and 4% of natural gas was produced from federal offshore sources. Offshore production helps fuel the economic engine that drives our economy and supports a quality of life that is unparalleled among the developed countries of the world.

For over 60 years, production from offshore areas has primarily come from wells located in the Central and Western portions of the Gulf of Mexico. While limited oil and natural gas is produced from a very small area in both the Pacific and Alaska Regions of the OCS, most federal offshore submerged lands have been off limits to leasing and development for decades. This country can no longer afford to look to only the federal waters off the coasts of Texas, Louisiana, Mississippi and Alabama to carry the burden of providing such a large portion of the offshore segment of our nation's energy needs. As long as our economy continues to rely on hydrocarbon related energy for our quality of life and national security, we have no choice but to broadly diversify our domestic energy sources. The onshore renaissance in the unconventional oil and natural gas sectors continues to contribute significantly to the

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domestic energy mix, but these new sources of production are not enough. If our domestic economy continues to grow as our population increases, dependable secure sources of domestic hydrocarbon production will be needed.

Access to certain federal offshore submerged acreage currently off limits to leasing and development must be made available to allow those willing to risk the capital the ability to assist in building new sources of supply for this country. All federal offshore submerged lands located off the coasts of the lower 48 states and Alaska need to be evaluated for their hydrocarbon potential. The resources potentially existing in the submerged lands underlying the waters of the U.S. Exclusive Economic Zone (EEZ) belong to all Americans and should not continue to remain off limits if viable resource potential exists. The federal government should move expeditiously to open unavailable submerged lands with believed resource potential for exploration and development. Even if areas currently off limits were made available today, it will take decades to evaluate and, if commercial quantities of hydrocarbons are discovered, to develop these resources for domestic consumption. The Secretary of Interior should act now in creating a new 5-Year Leasing Program that will allow access to not only areas traditionally available for offshore leasing and development, but new areas that are underexplored or unexplored in the OCS.

### **Information Requested**

Below we have summarized certain questions asked by BOEM in the Federal Register Notice and have provided our comments as requested.

### **General Comment:**

- (1) BOEM requests information and comments on the national energy needs for the period relevant to the new Five Year Program (i.e., July, 2019 to June, 2024), in particular, the role of OCS oil and gas leasing activities in achieving national energy policy goals; the economic, social, and environmental values of the renewable and nonrenewable resources contained in the OCS; and the potential impact of oil and gas exploration and development on other OCS resource values and the marine, coastal, and human environments;

**Comment:** The Energy Information Administration predicts that an increase of as much as 26% in worldwide liquids production will be needed to meet growing global energy demand by 2040, and that natural gas demand will increase by over 60%. The OCS has an important role to play in helping to meet the growing U.S. energy demand and it is essential that the federal government plan accordingly by allowing continued access to OCS Planning Areas currently available for leasing and to other Planning Areas presently off-limits. The demand for hydrocarbon production will continue to be significant, and the exploration and development of offshore areas should match this demand.

- (2) BOEM requests information concerning geographical, geological, and ecological characteristics of the OCS planning areas and near shore and coastal environments;

**Comment:** There are 26 Planning Areas encompassing the EEZ of the continental United States and Alaska. Only the unleased tracts in two Planning Areas (Western and Central Gulf of Mexico), and a small portion of the Eastern Gulf of Mexico Planning Area and the Cook Inlet Planning Area in Alaska, are available for leasing under the current 5-Year Leasing Program. Where OCS leasing has taken place, and subsequent drilling allowed, the coastal economies have thrived through sharing of revenues. With approximately 94% of all federal offshore areas off limits, the offshore oil and gas industry has not had the opportunity to use its newest technology in the search for new oil and gas resources in those areas that have remained off limits for over 30 years. Until access is allowed in areas designated off-limits for decades, it is extremely difficult to estimate the resource potential in these areas.

- (3) BOEM requests information on the equitable sharing of developmental benefits and environmental risks among the various planning areas;

**Comment:** The coastal and state economies along the Western and Central Gulf of Mexico Planning Areas have benefited tremendously because of OCS related activities. Numerous jobs have been created, substantial property and severance taxes have been paid supporting the local schools and infrastructure, and the overall quality of life has increased significantly in those areas that support OCS exploration and development. The coastal Gulf of Mexico states that have supported OCS activities have been instrumental in providing this country with a large portion of its oil, natural gas and refined products energy consumed. More diversification is needed in areas other than the Gulf of Mexico to share the benefits and assume some of the burden of providing critical energy to U.S. businesses and households. With one exception (the loss of well control event in 2010), history has shown that the economic benefit of offshore exploration and development along the coast can be substantial with minimal impact on the natural environment. Without expanded access to areas currently off-limits, opportunities for job growth and economic stimulus in the coastal communities bordering these off-limits areas will see no direct benefit from an OCS exploration and development program.

- (4) BOEM requests feedback on the location of planning areas with respect to, and the relative needs of, regional and national energy markets;

**Comment:** OCS planning areas lie offshore along the coastal areas of the lower 48 States and Alaska. Most planning areas offsetting the Atlantic and Pacific currently have no OCS production. Only a small amount of oil and gas production comes from the 43 leases serviced by the 23 platforms in the Southern California Planning Area. Many coastal states will not support refineries to operate or offshore production platforms to be constructed. Where refineries have been built, most must receive crude supplies either by pipeline, ship or barge. Approximately 50% of this oil comes from foreign sources. Coastal population centers should bear their proportionate share of their energy burden. This is generally not the case, particularly along the Atlantic coast and in gulf coastal states like Florida.

- (5) BOEM requests information on other uses of the sea and seabed, including fisheries; navigation; military activities; existing or proposed sea lanes; potential sites of deep water ports (including liquefied natural gas facilities); potential offshore wind, wave, current, or other alternative energy sites; and other anticipated uses of OCS resources and locations;

**Comment:** OCS exploration and development in the Gulf of Mexico has co-existed with many other ocean-based industries for decades. To this day, marine transportation, fishing, scientific research and military testing and training have been able to conduct their activities with little impact on each other. It is believed this co-existing relationship can continue as other industries (e.g. Wind Energy) are created or expand into the OCS. There is no reason to believe that offshore oil and gas resource development in areas currently off-limits could not co-exist with other ocean stakeholders.

- (6) BOEM asked for feedback on the relative environmental sensitivity and marine productivity of the different planning areas and/or a specific section(s) of a given OCS planning area;

**Comment:** The environment in all the OCS areas is important in various ways. Areas offsetting large population centers encounter different challenges than those where coastal populations are sparse. The oil and gas industry has proven, especially in the last 30 years, that it has the technical capacity and safety procedures in place to minimize the adverse impact on all aspects of the natural environment as it conducts its operations. This is especially evident after the Gulf of Mexico loss of well control event in April of 2010. Though the incident was a tragedy, and adversely impacted the lives of many, the offshore oil and gas industry came together in developing the equipment and processes to better prepare for addressing another loss of well control event - should one occur. One example is the significant capacity that is now in place for well capping and containment. Since 2011, the Marine Well Containment Company (MWCC) has been continuously ready to respond to a deep-water well control incident in the Gulf of Mexico. MWCC has the equipment, organization, and training necessary to mount a response to any event. The ten industry member companies who comprise the MWCC take this rapid response and preparation seriously, and have dedicated their time and money to ensure well control expertise is available to meet the evolving needs in the OCS. There are risks in providing energy from any source. However, these risks can be minimized with the right people focused on the right activities to ensure protection of people and the environment.

- (7) BOEM requests environmental and predictive information pertaining to offshore and coastal areas potentially affected by OCS oil and gas development including, but not limited to, socio-cultural and archaeological information;

**Comment:** The offshore oil and gas industry rivals NASA in regards to the use of new technologies in frontier areas, especially in deep water areas of the OCS. As oil and gas companies have explored in these frontier areas, they have made numerous discoveries on the seafloor of biological and archaeological significance. Colonies of chemosynthetic organisms have been discovered throughout the deep-water areas of the Gulf of Mexico. Certain species discovered over the last 30 years were unknown before the oil and gas companies found them during their offshore operations. Similar discoveries have uncovered lost ships and submarines; many of which may never have been seen without the intervention of the offshore oil and gas industry. In addition, offshore operations allow met-ocean data to be collected over time giving scientists more information about the changing weather and water conditions. The study of currents and weather patterns, specifically with regard to loop currents and eddies, has proven useful not only for the oil and gas industry, but also to the shipping industry. This data gathering

and sharing will continue for decades. Without industry's involvement in areas where we are allowed to operate, some of the meteorological, oceanographic, and biological data we have today would not exist.

- (8) BOEM requests comments on BOEM's methods and procedures for assuring the receipt of fair market value for lands leased.

**Comment:** BOEM's current methods for evaluating bid sufficiency without competition on a OCS high bid block seems to work effectively but not always efficiently. Improvement is needed in the BOEM evaluation process in those areas where competition exists during a Sale. When three or more unrelated bidders submit bids on the same block, the high bidder should automatically be awarded the lease in Phase I of the BOEM's bid sufficiency determination process. Competition for a lease is the best indicator of the current market value for a particular block. The Phase II analysis performed by BOEM on blocks where sufficient competition is evident has some tendency of bias towards bid rejection. The Phase II analysis is based on the interpretation of known data, some of which may be provided by the bidders on a block, as well as certain economic factors determined at the discretion of BOEM. The high bidder is placed in a situation where, in a good faith effort, a fair bid was submitted only to have that bid rejected by BOEM. This rejection is partly based on BOEM's interpretation of select data and information potentially provided by other bidders, which the rejected bidder may not have had access. If the free market system in the U.S. is working, and competition is fair and unburdened, three or more separate bids submitted on a single block should be sufficient to ensure the American public and the federal government are receiving fair market value for the offshore federal lease.

One other area of concern deals with the restricted bidders list maintained by BOEM. When implemented years ago, one of the objectives of implementing the restricted bidders list was to keep large companies from bidding together. The thought was that if a small group of well-funded companies could jointly bid, there was a possibility these companies could somehow corner the market restricting competition and creating a presumed oligopoly or monopoly in holding offshore leases. This threat may have had some basis of reason in the past, but that basis no longer exists today. In deep water, the cost of doing business has significantly increased over the past 10 years. It is not uncommon for lessees to execute joint ventures for the purpose of drilling together and sharing risk and cost. In some cases, these lessees are the same companies identified on the restricted bidders list. While BOEM does not discourage the offshore industry from entering joint ventures and sharing the cost and risk of offshore drilling and development, BOEM does discourage certain companies from bidding together. With fewer offshore lessees willing to operate in the OCS, it is time for BOEM to revisit the regulations and policies regarding the restricted bidders list. In our opinion, the need to restrict companies from bidding together is no longer justified or necessary.

### **Additional General Comments:**

BOEM has also asked for comments to the following questions:

- (1) If DOI continues leasing in the Gulf of Mexico planning areas, are there changes to lease terms that will better meet the objectives of the OCS Lands Act? Lease terms subject to change include:
  - a. Minimum bids
  - b. Rental rates
  - c. Royalty rates, royalty structures (e.g., flat or sliding scale)
  - d. Initial period (also known as primary term) of the lease term and extended initial period (such as 7 years plus 3 years more if drilling commences)

**Comment:** Because of the unfounded belief that a lessee needs to be forced to more quickly explore and develop every exploration lease it holds, as exemplified by the slogan “use it or lose it,” the offshore oil and gas industry has had to adjust to new and unjustified minimum bids, rental rates and royalty rates that are currently used in offshore lease sales. The main challenge we have is with the current 7+3-year lease term for offshore leases located in water depths between 800 and 1600 meters. The entire premise for the changes in the fiscal terms of the offshore oil and lease is flawed. The OCS Lands Act is designed to encourage offshore resource development, not to inhibit it. The fiscal terms implemented by DOI have had the latter effect. Fewer bids are being submitted and, in many cases, the bid amounts are less. Chevron has made the conscious decision not to bid in certain areas of the Gulf of Mexico where the 7+3 leases will be issued. We know we will not have the time to fully evaluate those leases before having to drill them prior to lease expiration. Since OCS leases can only be acquired through periodic competitive leases sales, or from someone else who already holds a lease, many leases are acquired by lessees with the idea that they may be prospective. There will be months or years of additional data gathering and analysis that will need to be completed before a decision can be made to drill. The rare exception is when a company can bid on a block where significant effort and money has already been spent to make a newly acquired lease drill-ready. This is normally not the case. Most lessees will not spend the time or money to fully evaluate an open OCS block with no guarantee it will be leased or assigned to them in the future. Buying an inventory of leases allows lessees the opportunity to spend their limited capital on projects in which they have an interest. If they have a partial interest in the prospect, even if they do not control all the leases in that prospect, they will be encouraged to develop their prospect to be drill-ready. Drilling in deep water is a complex and expensive proposition. A prospect could take years of geological evaluation to become drill-ready. If the lessee does not control all the leases in the prospect, it is prudent to negotiate a joint venture with the owners of the other leases in the prospect. Often, creating these joint ventures are difficult and take time to negotiate. It also takes time to decide on a location to drill, design a well, and contract for the drilling and facilities equipment. If this process is repeated numerous times covering a variety of prospects, shorter lease primary terms are problematic. Our recommendation is that the Secretary of the Interior

reverse the current Department policy regarding the 7+3 year leases and issue new deep water leases located in water depths from 800 to 1600 meters with primary terms of 10 years.

- (2) If DOI offers acreage for lease in planning areas outside the Gulf of Mexico, what fiscal terms for each planning area will best meet the objectives and limitations of the OCS Lands Act regarding the lease terms listed in items 1a. to 1d. above?

**Comment:** The DOI has over 60 years of history with implementation and experimentation of the bidding systems included in the OCS Lands Act. The systems that have proven most generous to the U.S. taxpayer, and beneficial to the offshore oil and gas industry, have been those where all open blocks in a planning area are offered and only one bidding variable (lease bonus) is used. In the last 20 years, the bidding system proven most advantageous to all parties has been the one using one bidding variable (lease bonus) with some form of royalty relief. We encourage DOI to continue to use the bidding systems that have historically been most beneficial. We would not recommend attempting to use any other bidding systems offered in the OCS Land Act.

In the OCS, there are two geographical areas where changes in certain fiscal terms of an oil and gas lease would be beneficial and should be considered by the Secretary. It would be helpful to implement changes on leases issued in what we refer to as frontier areas. These frontier areas are those that are either unexplored (no wells drilled) or underexplored (few wells drilled). In these areas, leases covering larger blocks for longer primary terms would be preferable. As stated above, when building an inventory of prospects to drill, some of that inventory may include high risk frontier areas. These risky prospects will take even more time to high grade before they are considered drill-ready. Fifteen (15) year lease terms would be preferable for these frontier leases, as would be larger lease blocks (20,000 acres). While the OCS Lands Act limits the size of offshore leases to nothing greater than 5760 acres, and restricts primary terms not to exceed 10 years, consideration should be given to amending the Lands Act in a way to give DOI more authority to offer different lease terms when justified.

#### **Special Information Requested from Industry:**

- (1) Indicate the OCS Planning Area(s) where the industry respondent would be interested in acquiring oil and gas leases, regardless of whether the area currently is unavailable. If more than one Planning Area is of interest, rank all areas of interest (including those now being offered, if appropriate) in order of preference.

**Comment:** Significant hydrocarbon potential remains in the Gulf of Mexico. Most of this potential is in the Central and Western Gulf of Mexico. The Eastern Planning Area is also believed to contain significant accumulations of commercial hydrocarbons, but this assumption is only based on speculation and limited data. The Eastern Planning Area continues to be underexplored. Until more data is available to evaluate the Eastern Planning Area, the potential resource estimates in the Eastern Gulf are only speculative.

In terms of ranking the planning areas by priority, the Gulf of Mexico Central Planning Area would be ranked first with the Gulf of Mexico Western Planning Area ranked second. The Gulf of Mexico Eastern Planning Area would be ranked third. Planning areas in the Atlantic are of some interest to us, but with limited current information, the actual resource potential in these planning areas is difficult to assess. We would rank the Mid, North and South Planning Areas in the Atlantic Region as 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> in that order. The Southern California Planning Area in the Pacific would be ranked as 7<sup>th</sup>. We have no preference or ranking for the remaining 19 planning areas.

- (2) Indicate the number and timing of lease sales in the period 2019-2024 that would be appropriate for each Planning Area. If only one lease sale in a Planning Area is appropriate, indicate whether that area should be considered for leasing early or late in the five-year schedule. If more than one lease sale in a planning area is suggested, indicate the preferred interval between lease sales.

**Comment:** For the 7 priority planning areas ranked above, we would support continued annual lease sales in the Central and Western Gulf of Mexico. We would recommend two lease sales for each of the remaining planning areas that we ranked with those sales taking place in the third, fourth or fifth year of the 2019-2024 Leasing Program.

- (3) Indicate the lead time to production in areas that are not part of the 2017-2022 Program or currently do not have infrastructure or production, relative to lead-times to new production in previously leased areas like the Central and Western Gulf of Mexico.

**Comment:** This is a difficult question to answer for several reasons. Assuming no lawsuits to stop development, and reasonable certainty in obtaining necessary permits (which is not the case in the Alaska OCS), an estimate from discovery to first oil is approximately 12 years. The farther from shore the discovery is located the longer the time it will take to bring production to market. If any major delays are encountered with securing the necessary permits from any state or federal regulatory body to move forward with developing a commercial discovery, first production may be delayed for 20 or more years. These time estimates are a guess at best. There are many factors that impact our ability to develop a discovery. Without a discovery to incentivize a company to move a project forward expeditiously, it is difficult to speculate how long it would take to bring first oil/natural gas to market.

- (4) In addition, BOEM requests information on industry's view of the utility of region-wide sales in the Gulf of Mexico as planned in the 2017-2022 National Program.

**Comment:** We support implementing region-wide sales in the Gulf of Mexico. The first of these Sales is scheduled for August 16, 2017, associated with OCS Lease Sale 249. After the conclusion of the Sale, and the awarding of leases, we will be in a better position to comment on whether the region-wide sale process is superior to the individual Planning Area Sale concept used by DOI over the past few decades.



## **Conclusion**

Thank you for the opportunity to comment on the next 5 Year Leasing Program. Should you have any questions regarding any of our comments, please do not hesitate contacting me at the address shown above.

Sincerely,  
**Chevron U.S.A. Inc.**



J. Keith Couvillion  
Assistant Secretary