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The Honorable Deb Haaland
Secretary
Department of the Interior
1845 C St NW
Washington, DC ZIP 20240

April 14, 2021

Dear Secretary Haaland:

Shell Offshore Inc. and its affiliates ("Shell"¹) welcome the opportunity to comment on the Department of the Interior's ongoing review of the federal oil and gas program, pursuant to President Biden's January 27, 2021 Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad." We applaud the United States' reentry to the Paris Agreement and fully support the U.S. goal of achieving a net-zero-emissions economy by 2050. In fact, Shell in 2018 announced its own ambition to become a net-zero energy company by or before 2050, in pace with society². Shell recently published a scenario sketch outlining a possible path for the U.S. to achieve a carbon neutral energy system by 2050³.

¹ The companies in which Royal Dutch Shell plc directly and indirectly owns investments are separate legal entities. Likewise, the words "we", "us" and "our" are also used to refer to Royal Dutch Shell plc and its subsidiaries in general or to those who work for them.

² Shell's operating plan, outlook and budgets are forecasted for a ten-year period and are updated every year. They reflect the current economic environment and what we can reasonably expect to see over the next ten years. Accordingly, Shell's operating plans, outlooks, budgets and pricing assumptions do not reflect our net-zero emissions target. In the future, as society moves towards net-zero emissions, we expect Shell's operating plans, outlooks, budgets and pricing assumptions to reflect this movement.

³ This scenario starts with data from Shell's Sky scenario. In developing this scenario, we have assumed that the U.S. energy system reaches net-zero CO₂ by 2050. We then work back to see how this could occur. Of

Likewise, we advocate for and support well-designed climate policies that achieve robust emission reductions in line with achieving net-zero emissions by 2050. In particular, we appreciate the opportunity for a collaborative and data-driven approach which will bring stakeholders together in support of an energy transition that achieves our mutual climate ambitions while ensuring an equitable transition and improving regional and national prosperity. Through well-designed government policies and commitment from business and industry, we can capture this moment together.

With respect to our activities in federal waters, Shell has operated in the United States Outer Continental Shelf (OCS) for over 65 years, and we are currently the largest operator, leaseholder, and producer of energy in the OCS. Compared to any other federal onshore or offshore leaseholder, Shell has also paid either the highest or second highest revenues (e.g., bonus bids, rents, and royalties), to the U.S. Treasury during the past five years, and we support tens of thousands of well-paying jobs in Louisiana, Texas, and across the United States through our direct and indirect investments, including our upstream, chemicals, renewables, power, and retail businesses. Accordingly, Shell appreciates the challenges of executing multi-billion-dollar ventures in the OCS, and the importance of working with the U.S. Government as both a lessee and an operator to achieve a predictable, balanced, and well-regulated federal oil and gas program generating vital revenues to the U.S. Treasury.

Global commodity prices, access to new acreage, and a competitive and predictable regulatory and fiscal regime have always factored into our decisions whether to invest in federal waters. In that context, Shell also pursues hydrocarbon *and* wind energy production opportunities in the U.S. OCS in support of our ambition to become a net-zero emissions energy business by 2050. We recognize that demand for all forms of energy will only grow, and society will continue to need oil and natural gas in its energy systems for decades to come. For instance, the Energy Information Administration's (EIA) reference case for 2050 shows U.S. demand for oil being approximately 20 Mmbld,⁴ and using Shell's scenario to model how the U.S. could achieve a net-zero CO₂ emissions energy system by 2050, the U.S. would still require around 5 – 10 Mmbld even if global production adjusts to achieve the goals of the Paris Climate Agreement.⁵ In turn, governments and industry must work in good faith to ensure this demand is supplied with the most cost-effective, secure, and lowest emissions production. To that effect, the overwhelming evidence indicates that the U.S.

course, there are many possible paths for the U.S. to travel to a net-zero CO₂ energy system, but this is what we believe to be a technically possible path while maintaining a growing U.S. economy. While this scenario is more aggressive in its goal and assumptions than our Sky scenario, we believe, while extremely challenge it is still today technically possible. However, we believe the window for success is quickly closing and without significant action it may take longer for the U.S. to achieve a net-zero CO₂ energy system.

⁴ <https://www.eia.gov/outlooks/aeo/pdf/02%20AEO2021%20Petroleum.pdf>

⁵ https://www.shell.com/energy-and-innovation/the-energy-future/scenarios/scenario-sketches/new-sketch-a-us-net-zero-co2-energy-system-by-2050/_jcr_content/par/relatedtopics_copy.stream/1608105095043/36f4b50591385de987b23a76b42338aadce86c77/us-scenario-sketch.pdf

deepwater Gulf of Mexico (GOM) meets that need and will be critical to the U.S. and Shell achieving our shared climate ambitions.

The U.S. deepwater GOM is a unique basin in the federal portfolio of lands and waters, and is uniquely situated to help the U.S. and the world achieve their climate ambitions and to drive the energy transition without compromising other U.S. national policy objectives, such as national security, economic resiliency, environmental protection, safe operations, and shared multiple uses. Therefore, Shell believes the U.S. Government should maximize its access to these needed domestic volumes, while ensuring their lifecycle greenhouse gas emissions are minimized and/or mitigated wherever feasible.

Shell appreciates this opportunity to respond to the Interior Department's request for comments as to concepts and proposals that serve to improve the federal oil and gas program, especially where opportunity exists to achieve the President's climate objectives. Most importantly, Shell believes the federal offshore program can be improved by (1) encouraging continued investment and production in the U.S. deepwater GOM, including by continuing to hold lease sales in the GOM Central and Western Planning Areas, and (2) ensuring robust environmental compliance, including timely decommissioning of idle assets, and revising the Interior Department's offshore financial assurance program to achieve the same.

In support of these general recommendations, Shell respectfully provides the following comments and detailed suggestions:

- I. **Oil and natural gas produced from the U.S. deepwater GOM have the lowest GHG intensity in the U.S. and the second lowest in the world; therefore, the federal oil and gas program should prioritize, and not discourage, the production of these hydrocarbons to meet society's current and future demand.**

As the Interior Department is already aware, the best available information indicates that the U.S. deepwater GOM yields among the lowest GHG-intensive oil and gas produced in the world. In fact, GHG emissions from the extraction and consumption (combustion) of fossil fuels in GOM OCS accounts for ~5% of the U.S.' total GHG emissions.⁶ This is due to a variety of factors, such as (1) fluid qualities and gravity, reducing the energy required to both extract and process the oil, (2) high pressure reservoirs that reduce the need for substantial "artificial lift" in the extraction process, (3) the significant volumes that can be extracted from these reservoirs using relatively few new facilities and wells, and (4) these reservoirs' direct proximity to the GOM's highly developed and accessible subsea pipeline network that provides immediate access to the U.S. Gulf Coast's sophisticated and highly regulated manufacturing, refining, and chemical facilities.

⁶ [U.S. Geological Survey, "Federal Lands Greenhouse Gas Emissions and Sequestration in the United States: Estimates for 2005-14 - Data Release](#) when compared to [EPA's annual U.S. GHG Emissions inventories](#).

These same conclusions are shared by a 2016 Interior Department analysis, conducted in collaboration with the Energy Information Administration and used to support the current 2017-2022 National OCS Oil and Gas Leasing Program (2017-2022 Five-Year Plan). This report, entitled "OCS Oil and Natural Gas: Potential Lifecycle Greenhouse Gas Emissions and Social Cost of Carbon,"⁷ used an offshore environmental cost model (OECM) to calculate the environmental and social costs and GHG emissions associated with oil and gas activity occurring on the OCS. The report concluded,

America's GHG emissions will be little affected by leasing decisions under BOEM's 2017-2022 OCS Oil and Gas Leasing Program ("2017-2022 Program") and could, in fact, increase slightly in the absence of new OCS leasing.

BOEM also correctly assumed in its analysis that "...foreign sources of oil will substitute for reduced OCS supply, and the production and transport of that foreign oil would emit more GHGs," determining that foreign emissions were in some cases 350% higher than emissions from the OCS. Specifically, as has been further substantiated by subsequent, independent research, the 2016 report finds,

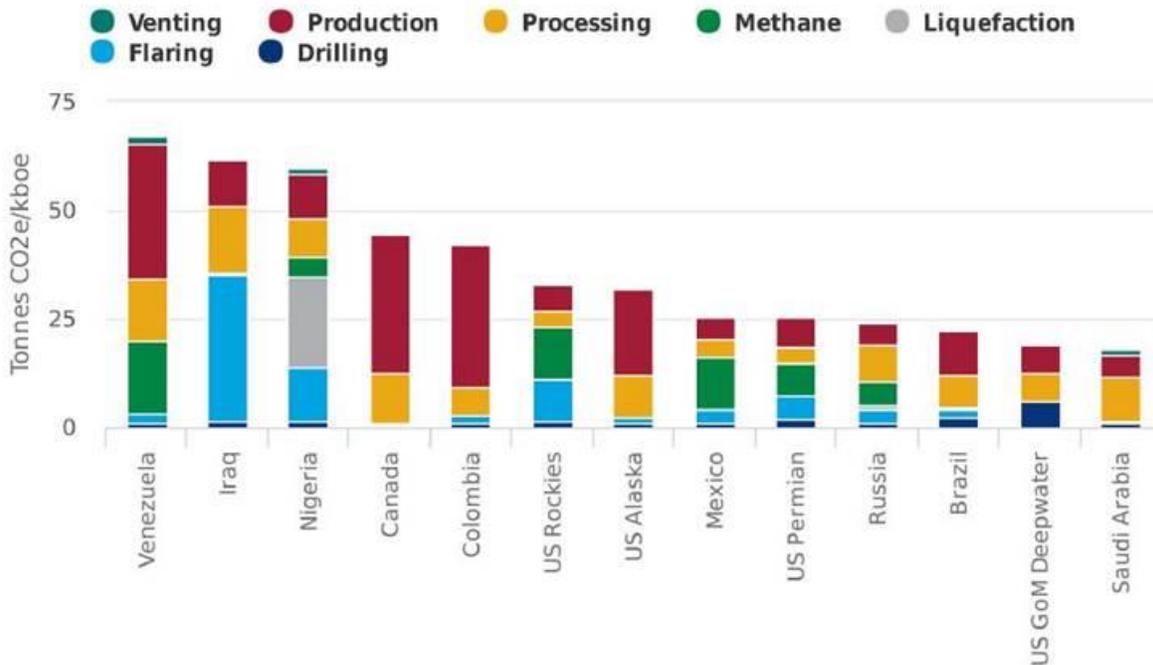
For example, CO₂ emissions occurring on the OCS are approximately 0.007759 metric tons per barrel of oil equivalent (boe) versus overseas production, which OECM estimates at 0.036522 metric tons per boe. This relationship between OCS and foreign oil production has been corroborated by other studies (Gordon 2015). To a lesser degree, these higher emissions can also be attributed to OECM assuming two-way trips of tankers bringing oil to the U.S.⁸

A recent Wood Mackenzie study on the emissions intensity for U.S. crude importers further supports this finding, as illustrated by the following chart; they, too, concluded that the U.S. deepwater GOM has the second lowest carbon-intensive production in the world among assessed basins:

⁷ https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2012-2017/BOEMOceanInfo/ocs_oil_and_natural_gas.pdf

⁸ Id. at 24.

Emissions intensity for US crude importers



Source: Wood Mackenzie Emissions Benchmarking Tool. Shipping/transport emissions are not included. Countries averaging over 100,000 b/d imports to US over last three years are shown, Ecuador excluded.

These conclusions are critically important because U.S. deepwater GOM oil and natural gas that is delivered to Gulf Coast facilities is used to meet domestic energy demand, as well as to create the feedstocks and products that meet society’s everyday needs, such as cleaning products, medical supplies, and pharmaceuticals. By extracting the lowest GHG-intensive barrels so close to existing infrastructure and U.S. downstream facilities, there is less production consumed from more GHG-intensive domestic and foreign sources. Moreover, those substitute barrels from foreign sources would necessarily reach Gulf Coast’s facilities by way of oceangoing tankers traveling great distances from other continents, adding substantial Scope 1, 2, and 3 emissions and risks of incidents along the way compared to the relatively efficient existing production to pipeline delivery network situated in the U.S. GOM.

- II. Imposing higher royalty rates in the U.S. GOM in lieu of a national carbon price would reduce GOM production while increasing GHG emissions to the detriment of American workers and the environment.

Since 2008, newly-issued U.S. deepwater GOM leases have been assessed at the highest royalty rate in the entire U.S. federal estate (first at 16.67% in 2008, then 18.75% for every year thereafter), and two BOEM-sanctioned studies have found U.S. government take in the federal OCS is not globally competitive among peer regimes.

The 2018 *Comparative Analysis of the Federal Oil and Gas Fiscal Systems: Gulf of Mexico International Comparison*,⁹ commissioned by the Interior Department and conducted independently by IHS Markit, assessed the U.S. deepwater GOM against competing peer groups. The report found that “When the entire range of government take is taken into account, Brazil, Guyana, and Mexico outperform the U.S.”¹⁰ This is significant given that Mexico, Brazil, and Guyana all represent relatively *new* deepwater regimes which are already competing for capital, workforce, and assets.

These findings echo a previous Interior Department study, conducted by the Obama Administration in 2011. That report found,

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.¹¹ [Emphasis added.]

...

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.¹² [Emphasis added.]

...

[T]he GOM nominal royalty rate is already higher than all offshore oil and gas jurisdictions outside the United States.¹³

These assessments are further supported by BSEE’s public data showing a substantial *decline* in new U.S. deepwater GOM well starts and platform installations. Specifically, in the past 10 years deepwater operators have drilled only 1,172 new wells and installed only 13 new platforms compared to 1,871 new wells and 31 new platforms in the preceding 10 years.¹⁴

To be abundantly clear, this commentary is not intended to suggest that U.S. deepwater GOM royalty rates should be reduced per se; instead, it presents strong evidence that royalty *increases* in the U.S. deepwater GOM would compound upon an already challenged fiscal regime against global peers. In turn, with at least some production no longer being extracted in the U.S. deepwater GOM in lieu of these other more fiscally competitive fiscal regimes, the

⁹ Link: [2018 Comparative Analysis of the Federal Oil and Gas Fiscal Systems: Gulf of Mexico International Comparison \(boem.gov\)](https://www.boem.gov/2018-Comparative-Analysis-of-the-Federal-Oil-and-Gas-Fiscal-Systems-Gulf-of-Mexico-International-Comparison)

¹⁰ Id. at 16.

¹¹ Link: [2011 Comparative Assessment of the Federal Oil and Gas Fiscal System \(boem.gov\)](https://www.boem.gov/2011-Comparative-Assessment-of-the-Federal-Oil-and-Gas-Fiscal-System) at P. 5

¹² Id. at 60.

¹³ Id. at 133.

¹⁴ <https://www.data.bsee.gov/>

remaining U.S. and global demand would be met by overseas shipments with worse Scope 1, 2, and 3 emissions footprints and risks of incidents during transit.

For instance, during the Interior Department's March 25th Forum, a panelist raised the concept of levying higher royalty rates on federal oil and gas production in lieu of a national carbon tax, leaving production on state lands and private lands unburdened and unassessed for their own GHG impacts. The panelist indicated that this would be a less efficient but somehow "analogous" method compared with a national carbon tax to capture the externalities associated with hydrocarbon production. However, this piecemeal approach is still fundamentally flawed as it would implement a disjointed and incomplete system for achieving the nation's climate ambitions. This is because assessing a carbon price on one fraction of the nation's production ignores, and thereby unfairly advantages, the GHG emissions of some production based merely on where that production is geographically located and whether it is a foreign, federal, state, or private lease. Instead, the proper focus should be reducing emissions by bolstering the lowest GHG-intensive production and avoiding replacing those hydrocarbons with higher GHG-intensive production.

To expand, policies that target the *production* of hydrocarbons rather than *emissions* would discourage innovation and limit the ability of the U.S. to meet the demands of its own economy. Companies such as Shell are investing in new technologies to reduce their emissions, such as Carbon Capture, Utilization, and Storage (CCUS) and low carbon fuels for multiple sectors. A royalty regime that fails to account for these investments and reductions in the lifecycle of our GHG emissions discourages these investment decisions and creates new barriers to our shared net-zero emissions ambitions. As the century unfolds, we expect oil demand to decline, but even in the year 2100 under a "1.5C" scenario, global oil demand is estimated to be 20.8 Mmbbd—similar to the global use in 1960. Furthermore, it is entirely possible that the lowest cost opportunities to meet this demand will continue to exist in the U.S., perhaps from yet-to-be-developed fields using efficient low-cost production techniques that aren't available today. One need only consider the rapid expansion of horizontal drilling and the economic production of Light Tight Oil (Shales) to appreciate the potential for innovation in hydrocarbon production, as well as the incredible engineering deployed to achieve deepwater exploration and production in the U.S. GOM since 1978.

A proposal to raise royalty rates and other costs on U.S. deepwater GOM oil and gas leases would be counterproductive, *increasing* GHG emissions by disincentivizing production of lower GHG-intensive volumes while incentivizing, and thereby substituting, production of higher GHG volumes. Instead we encourage the Interior Department to pursue policies that encourage investments in new GHG-reducing technologies—such as streamlining the permitting of facilities that deploy CCUS technologies in the OCS, streamlining leasing, permitting, and the installation of offshore renewable energy, infrastructure—and working with Congress and the White House to implement a national carbon pricing scheme. Shell has long supported an economywide U.S. carbon price as the most effective way to reduce U.S. GHG emissions when coupled with appropriate complementary policies that drive innovation

and support infrastructure development. Even a sectoral approach to carbon price may have merit if well-designed and applied consistently across the entire sector. However, selectively applying a carbon price or climate-related regulatory burden to select oil and gas assets (such as increasing royalty rates on solely federal leases) will produce distortions that will negatively impact the competitiveness of the U.S. economy without yielding desired reductions in global emissions.

Shell strongly encourages the U.S. federal government to impose a robust and transparent carbon price to drive decarbonization across the economy in line with the U.S. net-zero 2050 ambitions.

III. BOEM should revise its risk management, financial assurance, and loss prevention program to ensure that current owners sufficiently assure their decommissioning obligations, and BSEE should timely, orderly, and consistently enforce current owners' outstanding decommissioning obligations.

With hundreds of platforms and thousands of wells sitting idle in the U.S. GOM, there is tremendous opportunity for the Interior Department to support energy industry jobs, protect the environment, and ensure that US taxpayers are not saddled with debt to decommission any legacy oil and gas wells located in federal waters. By improving its policies around offshore decommissioning, the Interior Department can also expeditiously implement tangible actions toward achieving the Biden Administration's national policy objectives. However, as with most subjects in this comprehensive review of the federal oil and gas program, the Interior Department need not institute a pause on new leasing to optimize policy improvements on the bonding and financial assurance regime.

For the better part of a decade, BOEM, BSEE, and their predecessor agencies have sought various ways to determine whether, when, and how the government should seek financial assurance from offshore lessees for any outstanding decommissioning obligations. This regulatory uncertainty has led to thousands of wells and scores of platforms sitting "temporarily abandoned" beyond their useful life and without adequate financial assurance; in turn, lessees are filling the void via their private transactions, some of which involve individual corporate entities being established solely to compartmentalize these liabilities into thinly-capitalized ventures.

Previous proposals as recent as the Interior Department's 2020 Proposed Rule on Risk Management, Financial Assurance, and Loss Prevention (2020 Proposed Rule)¹⁵ included concepts that, if enacted, could allow thinly capitalized leaseholders to ignore, evade, and redirect their financial responsibility to distant predecessors and the US Taxpayer. This makes

¹⁵ <https://www.federalregister.gov/documents/2020/10/16/2020-20827/risk-management-financial-assurance-and-loss-prevention>

no sense and could be easily remedied by revising the risk management, financial assurance, and loss prevention program to the following effect:

- Require lessees to promptly decommission their “idle iron” consistent with current regulations and policies;
- Establish a revised policy to decommission-in-place end-of-life infrastructure where it would augment or preserve marine habitat created by these structures and the fisheries dependent upon them¹⁶;
- Specifically, issue a regulation on financial assurance that¹⁷:
 - Requires sufficient financial assurance to ensure current owners (1) carry out their decommissioning liabilities, and (2) responsibly maintain their OCS assets;
 - Requires current owners to provide financial assurance based on their own financial wherewithal and not allow them to rely on the financials of predecessor lessees, operating rights owners, or holders of rights-of-way and rights-of-use and easements;
 - Prioritizes obtaining financial assurance from the highest risk leaseholders by utilizing public and implied credit ratings, and allowing only those entities with “investment-grade” credit ratings to self-insure and to be third-party guarantors;
 - For “non-investment grade” lessees, require security when the net present value of the remaining proved reserves of a lease is less than three times the value of the present and future decommissioning obligations. Where there are unsecured obligations on properties that currently meet these criteria, DOI should require security via a phased approach;
 - Avoids requiring owners and co-owners to post redundant security that is issued to the benefit of the U.S. Government;

¹⁶ Shell’s comments to the 2020 Notice of Proposed Rulemaking can be found at <https://www.regulations.gov/comment/BSEE-2018-0017-0008>; Shell also supports API’s comments found at <https://www.regulations.gov/document/DOI-2017-0003-0266>.

¹⁷ Shell supports the OOC’s comments found at <https://www.regulations.gov/comment/BOEM-2018-0033-0029>; Shell also notes that properly decommissioned facilities that remain in the OCS often support diverse and robust marine habitats, and that many communities along the Gulf Coast rely on these decommissioned facilities to meet their commercial and recreational fishing needs.

- o Maintains those provisions in the 2020 Proposed Rule that would improve the financial assurance program, such as provisions that would (1) remove financial assurance criteria that has been difficult to administer and not reliably indicative of an entity's likelihood to default, such as "unencumbered net worth in the United States," "trade references," and "business stability" as an operator in the oil and gas industry, (2) tailor indemnification to the specific obligations that will be guaranteed by the guarantor (e.g., "decommissioning obligations" instead of "all obligations"), and (3) issue decommissioning orders in reverse chronological order through the chain of title in the event all current owners fail to perform their decommissioning; and
- o Pursues INCs, civil penalties, and disqualification against current owners that repeatedly fail to timely perform their decommissioning obligations.

IV. Exploration and Active, Non-producing Leases

A. Shell only acquires leases after performing a deep and considered analysis.

Considering Shell's 2020 announcement to reshape its portfolio of assets and products to meet the cleaner energy needs of its customers in the coming decades, Shell has adjusted its focus on "value over volume" by simplifying our global Upstream portfolio to nine significant core positions. Accordingly, we focus on obtaining only new U.S. deepwater GOM leases that will complete our commercial positions and grow high-value prospects within our already-active exploration focus-areas while meeting our GHG emissions goals for sustainable production.

Shell is mindful of concerns voiced around non-producing or "inactive" leases, however these characterizations paint an incomplete picture of the U.S. deepwater GOM. In reality, Shell maintains its focus on delivering a competitive, resilient deepwater business and we continuously look to the U.S. deepwater GOM for sustainable growth opportunities. New lease sales are central to this strategy. Moreover, great care and deliberative decision-making go into every decision to expend our capital on new leases. For each lease sale opportunity, a dedicated cross-functional team follows a stringent process which includes subsurface and value assurance reviews when making lease sale investment decisions. Shell also performs a carbon management assessment to ensure all prospects for which Shell seeks to submit a bid are consistent with Shell's GHG ambitions. These decisions are also subject to Shell's global portfolio and investment prioritization decisions. The approved bid amounts are also considered carefully and developed in line with our prospect assessments, valuations, and appreciation of the competitive landscape within each focus area—all with an eye toward meeting or exceeding BOEM's Minimum Range of Values (MROV), as required for BOEM to obtain fair market value for the lease. In turn, these opportunities that Shell pursues

in U.S. deepwater GOM lease sales create sustainability for the portfolio while existing U.S. deepwater GOM opportunities are matured and other international deepwater ventures are polarized.

As an example of the above, in Lease Sale 256 BOEM offered 14,755 leases, 328 of which were offered for the first time. However, Shell only bid on 22 leases (being 0.15% of leases offered), and merely 11 of those leases were newly available.

B. The U.S. deepwater GOM is technically challenging, and it requires considerable time and effort to achieve economic production within the lease term; some leases expire or they are relinquished, but they are not "stockpiled."

Shell does not – and could not – “sit on”, stockpile, or hoard leases for a multitude of reasons – but primarily because it makes no economic sense to do so. Shell pays the government a bonus at lease issuance plus a significant annual rental for leases that are non-producing. And while there is occasionally the misconception that all leases contain oil that could be produced, and that lessees would delay production for some reason or another, the reality is that there is a low chance that any given lease contains commercial hydrocarbons (typically 15 to 20%), which makes exploration drilling a high business risk where drilling a well to test a lease will cost between \$50-100 million.

For several reasons pursuant to the above, some leases in Shell’s portfolio may expire before they can be drilled or produced. First, Shell explores and produces in deepwater and ultra-deepwater. Sometimes, this includes operating in high-temperature and / or high-pressure reservoirs (greater than or equal to 350 degrees Fahrenheit and 15,000 psig, respectively) that require us to design, test, fabricate, and safely deploy complex technology used in thousands of feet of water located hundreds of miles offshore. Second, Shell may need new seismic acquisition and/or reprocessing—which often takes up to half the lease’s primary term to permit, contract, and execute—before sufficient information can be analyzed and well planning can begin. Third, evaluation of oil and gas prospectivity is iterative. The robust evaluation required for Shell merely to take a lease sale investment decision is much less detailed than a well-delivery evaluation, and after leases are obtained and evaluated in greater detail (including the new seismic acquisition or reprocessing), a lease does not always meet the technical, regulatory, or commercial hurdles to justify U.S. deepwater exploration and development drilling. In those instances, the lease may expire before we establish production.

For similar reasons, Shell also affirmatively relinquishes its leases on a regular basis after performing the above assessments and determining that we will not produce and / or develop them. For example, in the past ten years, Shell has voluntarily relinquished back to the U.S. government 156 leases.

As outlined above, Shell does not “stockpile” leases. To the contrary, we take a considered approach to our leasing decisions—just as we do for our exploration, development, and production activities—and we invest only in leases that we believe will best help us achieve our strategic ambitions.

- V. BOEM should continue to hold the scheduled, region-wide lease sales in the U.S. deepwater GOM for the remainder of the current 2017-2022 Five-Year Plan, which is an important part of serving the U.S.’ climate ambition, and consider holding one annual (as opposed to biannual) lease sales in the next Five-Year Plan.¹⁸

The 2017-2022 National OCS Oil and Gas Leasing Program, published in 2016, calls for two annual region-wide lease sales in the GOM. Prior to each Lease Sale, BOEM issues a Record of Decision (ROD) considering the proposed lease sale against multiple alternatives, including whether to hold the proposed lease sale. With each ROD, BOEM elected to hold every lease sale in the 2017-2022 Five-Year Plan because it best balanced and achieved the many statutory considerations charged to the agency. For instance, in the ROD published for the last sale (Lease Sale 256, held on November 18, 2020), BOEM determined that,

The decision to hold Lease Sale 256 recognizes the crucial role that GOM oil and gas resources play in addressing the Nation's demand for domestic energy sources and fosters economic benefits realized through continued exploration and development in the GOM region. This decision promotes domestic energy production, which can reduce the need for oil imports.[] Additional benefits flowing from OCS leasing include continued employment, labor income, tax revenues, and other positive economic impacts; these benefits, though highest in the Gulf Coast States, are widely distributed across the United States. Continued oil and gas leasing on the OCS may also reduce the risk of spills from the transportation of imported energy resources (e.g., the reduced need for tankers to transport oil). Moreover, revenue sharing with applicable coastal states and political subdivisions, such as under the Gulf of Mexico Energy Security Act of 2006 (GOMESA), can help mitigate risks and costs assumed by the States and communities in the area of the lease sale.¹⁹

Each ROD also affirmed the Interior Department’s findings contained in its 2016 Final Programmatic Environmental Impact Statement for the 2017-2022 Five-Year Plan (PEIS). Namely, the PEIS found that,

Even if the U.S. moves decisively towards the demand and emissions trajectory implied by the IEA[’s] climate-friendly 450 Scenario, large scale investment in oil and natural

¹⁸ Shell’s endorsement of continued lease sales in the U.S. deepwater GOM does not necessarily guarantee that Shell will or will not participate in future leases sales. Shell’s investment decisions are made on a lease sale by lease sale basis using a multitude of factors.

¹⁹ <https://www.boem.gov/sites/default/files/documents/regions/gulf-mexico-ocs-region/leasing-and-plans/GOM-LS-256-Signed-ROD.pdf> at 7.

gas remains an important component of a lower-cost energy bridge to a low-carbon future through the next several decades (IEA 2015a, IEA 2015b).²⁰

Any decision not to hold lease sales in the U.S. deepwater GOM as called for in the 2017-2022 Five-Year Plan would be contrary to the Interior Department's own findings and in failing to prioritize the lowest GHG-intensive barrels, would frustrate U.S. efforts to accomplish our shared climate ambition.

However, if the Interior Department believes lease sales are held too frequently, it may, as part of the 2022-2027 Five-Year Plan, consider testing one annual area-wide lease sale for the GOM (i.e., Western and Central Planning Areas) in lieu of biannual auctions. By reducing the absolute number of auctions by 50%, DOI could likewise conduct a highly informative and real-world test of the market dynamics and relative commercial interest in this region. For instance, if the number of lease bidders, levels of winning bids, or absolute acreage won in a single annual sale were to vary widely from previous auctions, the lease sale statistics will provide the Interior Department with rich and current data to better inform its future policy approach.

VI. Long term synergies are needed between U.S. offshore wind and deepwater oil and gas.

Shell has made sizeable portfolio investments in U.S. offshore wind power generation, and to achieve our ambitions in this space, we must leverage our investments, learnings, and capabilities in our U.S. OCS oil and gas portfolio. This has enabled, and will continue to provide, much of the foundational expertise, infrastructure and technology support, and equipment necessary for the construction and operations for all of Shell's offshore energy facilities.

In other words, the institutional knowledge of the OCSLA, the U.S. offshore safety and operational regulatory regime, key stakeholder partnerships, and technical capacity acquired from this specific fossil fuel program has allowed Shell, and many of our industry partners, to build on our operational capacity that will be pivotal for Shell, DOI, and the nation to accelerate, secure, and maintain robust offshore renewable ambitions.

These two interrelated industries—offshore oil and gas and offshore wind—should not be viewed, and cannot optimize, as mutually exclusive or as interchangeable substitutes for one another. The opportunity, instead, is to embrace the technical and regulatory expertise and infrastructural economies of scale which our U.S. deepwater GOM business provides to Shell and the U.S., where existing capabilities are and will be needed to accelerate and sustain

²⁰ https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2012-2017/BOEMOceanInfo/fpeis_volume1.pdf at 1-11.

the scale of the offshore wind industry and its supply chain to achieve the Administration's goal of reducing the nation's carbon emissions.

VII. Summary

Shell appreciates the challenges this comprehensive review poses to the Interior Department and its staff, and we are especially grateful for the opportunity to provide these comments and recommendations on the federal oil and gas program. We believe there are numerous areas where the Interior Department can readily improve upon the program to accomplish its new national climate goals without discouraging innovation and continued investments in the U.S. deepwater GOM, such as by instituting an extended pause on oil and gas lease sales or increasing royalty rates. The federal government can best achieve its climate ambitions by working with stakeholders to incentivize investments in emissions-reducing technologies, enacting policies that focus on reducing emissions rather than simply reducing hydrocarbon production in the U.S. deepwater OCS, establishing a national climate pricing system, and ensuring companies timely perform their outstanding decommissioning obligations.

We welcome any additional opportunities to further discuss the federal oil and gas program as the Interior Department works to balance the many interests that Congress and the President have charged to it. In the meantime, please contact Kevin Simpson at Kevin.C.Simpson@shell.com if you have any questions concerning these comments.

Sincerely,



Rick Tallant
Vice President Gulf of Mexico



Bill Langin
Vice President of Exploration, North
America and Brazil