August 5, 2022

BY ELECTRONIC MAIL

The Honorable Congressman Kevin Brady
1011 Longworth House Office Building
Washington D.C. 20515

Re: Inflation Reduction Act of 2022

Dear Congressman Brady:

I am writing in regard to the Inflation Reduction Act of 2022 (the “Bill”) currently under consideration by the U.S. Senate, specifically the revisions proposed to the Outer Continental Shelf Lands Act (“OCSLA”) to increase the minimum royalty in the Outer Continental Shelf (“OCS”) from its current 12.50% to 16.67%. We believe you should consider maintaining the minimum royalty at 12.5% (and support the proposed maximum royalty of 18.75%). Preserving the option for the lower 12.5% is beneficial for the following reasons:

- It encourages the exploitation of existing, low margin oil and gas reserves in mature areas of limited activity such as the shallow water OCS (water depths less than 200 meters, as currently defined by the Bureau of Ocean Energy Management (BOEM) whose economic viability depends on the lower royalty burden and the use of existing infrastructure (platforms and pipelines). With one of the lowest environmental footprints of any oil and gas producing basin in the world, there is no better place to encourage new oil and gas development. A 12.5% minimum royalty on more oil and gas production creates significantly more value for the American taxpayer than a higher minimum royalty on less production. At the higher minimum royalty, much of the remaining oil and gas reserves would be uneconomic to drill, leaving them stranded. Without the additional drilling, existing infrastructure will remain underutilized and ultimately be removed which would permanently strand many of these reserves, effectuating a “death spiral” that jeopardizes the resilience of the oil and gas industry where this occurs.

- Lower royalty leases encourage further investment by industry operating in the OCS, where companies can continue to devote and risk the significant capital expenditures needed to develop new technologies not previously deployed at scale in the shallow water OCS. Technological advancement applied in the OCS helps identify and develop oil and gas reserves that we believe far exceed the quantities that have been estimated by BOEM. A real-life example is full azimuth (FAZ) 3D geophysical data which has been proven in the deep-water OCS and other areas to properly image previously unidentified large oil and gas resources, and to image the geology of the Gulf with unprecedented resolution and certainty. A lower royalty rate encourages operating companies to then acquire and utilize this technology to explore for higher risk, higher potential unproven reserves that are uncommonly sought after in shallow water. The lead-time from initial funding of this extremely expensive 3D seismic dataset is several years until revenue is received. These investments were made relying on a 12.5% royalty, which was the statutory rate at the time the seismic was commissioned. When companies like ours decide to acquire seismic data and spend years working on it, we rely on a stable, predictable set of economic conditions. Subsequent decisions such as raising the royalty, may cause wells that would have otherwise been drilled to be scrapped.

- Our company, Juneau Oil & Gas, LLC, is a case-in-point. In mid-2019 we acquired approximately 650,000 acres of state-of-the-art FAZ data to evaluate an area in the shallow water OCS. Since that time, we have acquired leases on ~ 50,000 acres that we believe hold significant oil and gas reserves. The first exploration well targeting new reserves, as a result of this work, is currently drilling. We want to stress that it was this new technology that showed us a prospect that we never would have seen on older data. Should we make a new discovery on our deep wildcat well, along with the efforts and discoveries of many other active exploration companies, the resulting development cost can run into the billions of dollars.
- This capital flows into local and regional businesses, creating and sustaining thousands of high paying American jobs. Investment and hiring will come from industries involved in seismic acquisition and processing, engineering consulting, drilling equipment and personnel, service and supply boats, facility design, manufacturing and installation, pipeline and midstream infrastructure development and installation … the list is long. The corresponding benefits to the coastal and national economies are material, resulting from the additional royalties, payroll, taxes, and improved quality of life. One prospect catalyzes this cascade of employment and engagement of thousands of people over the course of its lifespan, a process we are currently observing firsthand and that we have many times in the past when drilling new prospects. All of this depends on a stable set of economic parameters, with the OCS royalty rate being one of the most important.

We believe that the option of the 12.5% minimum royalty should remain in place to give the Secretary of the Department of the Interior (under the current and future administrations) the freedom to use it as a lever to increase the leasing and development of the shallow water OCS (and other federal lands with limited activity) and to realize the full value for these resources for the American people: value derived from the contribution of new oil and gas supplies, the geopolitical security and balance of payments advantages, new technologies developed, increased tax revenues received, and employment for thousands of workers. Without the prospect of this royalty relief (lowering of royalty rates to encourage activity), project economics suffer materially, and these valuable resources will remain stranded in the ground until the conditions are once again met for viable drilling and exploration.

Thank you for your consideration and please call on us if we can be of any service to you as you consider this important Bill.

Sincerely,

Juneau Oil & Gas, LLC

Brad Juneau
President