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James Kendall
Regional Director
Bureau of Ocean Energy Management, Regulation and Enforcement
Alaska OCS Region
3801 Centerpoint Drive, Suite 500
Anchorage, AK 99503-5820

Re: Revised Draft SEIS, OCS Oil and Gas Lease Sale 193, Chukchi Sea, Alaska

Dear Mr. Kendall:

The American Petroleum Institute (“API”) and the Alaska Oil and Gas Association (“AOGA”) appreciate this opportunity to submit comments on the Revised Draft Supplemental Environmental Impact Statement (“SEIS”), Outer Continental Shelf (“OCS”) Oil and Gas Lease Sale 193, Chukchi Sea, Alaska. API is a national trade association that represents over 470 members involved in all aspects of the oil and natural gas industry. AOGA is a private, nonprofit trade association whose member companies account for the majority of oil and gas exploration, development, production, transportation, refining, and marketing activities in Alaska.

We endorse the comments on the Revised Draft SEIS being submitted by Shell Gulf of Mexico Inc. (“SGOMI”) and encourage the Bureau of Ocean Energy Management, Regulation and Enforcement (“BOEMRE”) to consider and incorporate the suggestions contained therein. We offer the following additional comments.

The purpose of the SEIS is for BOEMRE to provide new National Environmental Policy Act (“NEPA”) analysis as directed by the U.S. District Court for Alaska in a July 2010 order. The order instructed BOEMRE to address three specific concerns: (1) the environmental impact of natural gas development; (2) whether missing information identified in the original EIS was essential or relevant under 40 CFR 1502.22; and (3) whether the cost of obtaining the missing information was exorbitant, or the means of doing so unknown. BOEMRE completed this analysis and released a Draft SEIS in October 2010. Following a public comment period, BOEMRE announced in March 2011 that it would also analyze a Very Large Oil Spill (“VLOS”) from a hypothetical exploration well blowout. API and AOGA believe that the detailed analysis

provided in the Revised Draft SEIS, along with other supporting environmental documents and additional assessments being conducted by BOEMRE, provide a thorough analysis upon which to make decisions related to Lease Sale 193, new or revised exploration and development plans in the Chukchi Sea Planning Area, and future permit applications, without delay. We also support BOEMRE's continued practice of tiering Environmental Impact Statements ("EIS") and Environmental Assessments ("EA") under NEPA. The Revised Draft SEIS, issued on May 27, addresses both the deficiencies identified by the court and a hypothetical VLOS scenario and recommends that Lease Sale 193 be affirmed as held. API and AOGA urge the Secretary to accept the conclusions of the SEIS and expeditiously affirm the sale so that the suspension of operations imposed on the leases may be removed.

Natural Gas Development and Production

The SEIS considers the most viable natural gas development and production scenario for the Chukchi leases – including use and potential expansion of existing infrastructure (due to oil development and production) and an offshore/onshore gas pipeline transportation system in the same corridor as existing pipelines – in the context of the alternatives analyzed (and evaluated to the satisfaction of the Court) in the original EIS for Lease Sale 193. On this point, the SEIS correctly assumes that first commercial gas production would only follow the oil exploration, development, and production activities already analyzed in the Final EIS (and deemed sufficient by the Court). Gas production would utilize the same oil production platform described in the original EIS, no additional exploration seismic surveys are expected, no additional exploration or development well drilling is anticipated, and no produced water discharges would occur. For each resource category identified, BOEMRE determined that natural gas development and production would either not have any significant adverse impacts or that potential impacts could be avoided or mitigated through stipulation and mitigation measures, adherence to construction protocols, and compliance with existing law and regulation. We support this analysis.

Missing Information

BOEMRE conducted an extensive evaluation effort with regard to the missing information identified by the Court and determined that while many items of incomplete, missing or unavailable information were relevant to the issues at hand, none were essential for a reasoned choice among alternatives. We also agree with this analysis and conclusion.

Very Large Oil Spill

We commend BOEMRE for the comprehensive VLOS analysis contained in the SEIS. However, we suggest that BOEMRE clarify exactly what the VLOS scenario is and the differences between the VLOS and the worst case discharge analysis associated with an actual exploratory well plan.

BOEMRE correctly emphasizes that the VLOS is hypothetical, that the discharge numbers associated with it do not reflect any particular well, and that any operator that proposes drilling a well must provide its own worst-case discharge analysis based on the unique characteristics of the well prior to an exploratory plan being approved and well drilled. However, BOEMRE should better explain the probability of a VLOS actually occurring. Throughout the SEIS,

BOEMRE recognizes and refers to the VLOS as a “low-probability, high impacts” event, but does not explain how it arrived at this characterization or how unlikely such an event would be. BOEMRE included an assessment of the probability of a VLOS occurring in Appendix B, but not in the text of the SEIS. BOEMRE should cross-reference, summarize, and/or otherwise provide this information in the appropriate sections of the SEIS document to provide more guidance to the reader. BOEMRE should also highlight the extreme assumptions used to construct the VLOS scenario to better contextualize the probability of such an event occurring in the real world. This would avoid the inaccurate potential expectation by decision-makers and the public that the VLOS scenario applies to each and every well for which permit approval is sought.

We commend BOEMRE for including in the SEIS information about oil spills from blowout events on the OCS from 1971-2010. This data shows how rare large scale spill events are. BOEMRE should, however, clarify that spill events do not always result from well control incidents and in fact, past experience and history show that spill events from well control incidents have not occurred more often than they have. For example, as BOEMRE appropriately acknowledges in the SEIS, of the 249 well control incidents that occurred during exploratory and development/production activities over 38 years (1971-2009) only 50 resulted in oil spills. Importantly, the total spilled from these incidents was less than 2000 barrels of oil.

BOEMRE should also clarify that the VLOS scenario analyzed in the SEIS does not include the beneficial effects of cleanup, recovery, and intervention efforts (on the estimated spill volume or spill duration) and explain why the analysis does not include these effects. This distinction is important since oil spill contingency and response plans are required prior to the approval of any OCS exploration or development and production plan. Clearly, in the unlikely event that a blowout does lead to an oil spill, these activities would help decrease the spill volumes reaching the environment and the duration of an uncontrolled flow. Including such a discussion would help provide better context to the VLOS scenario.

The regulatory and administrative changes made by BOEMRE following the Deepwater Horizon incident serve to increase safety and further reduce the risk of blowouts and oil spills on the OCS. We commend BOEMRE for providing a discussion of these changes in the SEIS, including the Notices to Lessees (“NTL”), but believe this discussion could be strengthened by a more complete description of the intent and requirements of the changes as well as the beneficial impacts they will have on safety and the probability of a VLOS or other large scale spill event from occurring. In addition, many new studies and data collection efforts are currently underway that are helpful to the Natural Resources Damage Assessment process. The ongoing nature of these studies, however, which are likely to continue for decades, does not diminish or adversely affect the agency’s ability to conclude that there is no incomplete or unavailable information that is deemed relevant to making a determination regarding reasonably foreseeable significant adverse impacts of new leasing operations in the Chukchi Sea Planning Area or that is essential to a reasoned choice among alternatives.

Important to emphasize moving forward is that this is a lease sale, which authorizes lessees to engage only in “ancillary activities” that do not harm the environment. Parties seeking to conduct ancillary activities are required to notify BOEMRE, and the proposed activities are reviewed for compliance with performance standards contained in federal regulation. A lease sale is not an authorization to drill. Further environmental review, public process and federal agency approvals are required before any exploration, development or production activities may occur.

Lessees seeking to engage in these activities must submit an exploration plan or a development and production plan for BOEMRE review and approval, which involves the preparation of the appropriate level of environmental review by BOEMRE. Importantly, in the SEIS, BOEMRE specifically puts lessees on notice that it intends to prepare an EIS for any development and production plan submitted for a lease issued from Lease Sale 193. As BOEMRE acknowledges in the SEIS, an EIS for development and production activities typically takes 2-3 years, which allows time for exhaustive environmental review and public process of those specific activities. Proposed plans are evaluated for compliance with applicable regulations, lease stipulations, and other requirements, including the adequacy of the oil spill response plan. Prior to conducting any drilling operations, the lessee must submit and obtain approval for an Application for Permit to Drill (“APD”). The rulemaking which followed the Deepwater Horizon incident, as well as the new NTLs, augment and strengthen prior regulatory and administrative requirements for exploration plans, development and production plans, and permitting on the OCS, including the Chukchi Sea.

Importance of New Production for Continued Throughput for the Trans-Alaska Pipeline System

The importance of oil and gas development on Alaska’s OCS cannot be overstated. According to resource estimates, including those performed by the U.S. Geological Survey, this largely untapped area may hold as much as 27 billion barrels of oil and 132 trillion cubic feet of natural gas. By comparison, total production from the Alaska North Slope is approximately 16 billion barrels of oil. Development of the oil and gas resources in the Chukchi Sea will not only add to domestic energy supplies and our nation’s energy security, but such development is also necessary for the continued operation of the Trans-Alaska Pipeline System (“TAPS”). TAPS has been identified as critical infrastructure for national security because of the transportation link that it provides to present and future development of crude oil resources in Alaska’s Arctic region. The significance of the subject of diminishing Alaska production to provide throughput for TAPS merits more detailed discussion.

Since commencement of its operation in August of 1977, TAPS has proven to be a strategically critical component of America’s energy infrastructure. Designed as a 48 inch pipeline, TAPS has transported over 16 billion barrels of American oil from the Alaska North Slope to the Valdez Marine Terminal, from which tankers carry the oil to U.S. West coast terminals and refineries. At its peak in the late 1980s, TAPS was transporting about 2.1 million barrels of crude oil per day, or about 25 percent of our nation’s domestic crude oil supply. Since 1989, there has been a steady decline in Alaska North Slope production, and current average TAPS throughput is about 600,000 barrels per day compared to 2 million barrels per day in 1988, or about one-third of its

capacity and now approximately 11 percent of our nation's oil production. Over the same period, while production from existing fields has diminished, efforts to find and develop potentially promising new crude oil resources in Alaska's Arctic Outer Continental Shelf have been stymied by regulatory delays and litigation.

Decreasing oil throughput presents significant challenges for the operators of TAPS. Notable among these is the fact that the temperature of the oil flowing through the line decreases as flow or throughput rates decline. With lower flow rates it takes longer for the crude oil to move from the current production areas on the North Slope to the Valdez Marine Terminal where the tankers are loaded. This allows more time for the oil to cool.

During peak production in 1989, it took approximately four and a half days for Alaska North Slope crude oil production to travel the pipeline's 800 mile length to reach Valdez. Today, each barrel takes about 15 days to move through the pipeline. Were the throughput rate to diminish to 300,000 barrels per day, it would take just over a month for a barrel of oil to move the entire length of TAPS. In the not too distant future, were present trends to continue, crude oil temperatures in the line could become cold enough to accelerate wax deposition and even possible ice formation in the pipeline. These situations present operational challenges because they make conditions favorable to corrosion more likely, and greatly increase the cost and complexity of maintenance and repairs along the pipeline.

As noted, TAPS is among the most important components of our nation's energy transportation infrastructure. While its maintenance and operational record has been exemplary, if production from existing Alaska North Slope fields that now moves through TAPS continues to decline, and administrative and litigation-driven barriers prevent the discovery and development of new crude oil resources such as those in the Chukchi Sea, the continued operation of one of America's energy supply lifelines could be prematurely placed at risk decades before the end of its useful design life. Access to the crude oil resource potential both onshore and offshore Alaska is thus important not only for the additional supplies of domestically produced energy that discovery and development of those resources would bring, but the continued viability of TAPS which depends upon increasing safe and environmentally responsible production.

Importance of Chukchi Sea Production to Economic Health of State of Alaska and the U.S.

The oil and gas industry accounts for more than 41,000 jobs in Alaska, which is 9.4 percent of all employment in the state and 11.2 percent of all wages at \$2.4 billion. Employment and payroll include direct impacts of 4,497 jobs and \$643.8 million in payroll for the primary companies. Indirect and induced impacts include \$5 billion in industry spending in Alaska on goods, services and capital, generating 8,000 support industry jobs and \$769.2 million in payroll. Almost 29,000 additional jobs, with \$987 million in payroll, are created throughout the rest of the state by support industry spending on payroll and purchasing, and by primary company employee spending.

An analysis by the University of Alaska Anchorage showed the oil industry supports as many as 110,000 jobs in Alaska (one-third of the state's workforce), including funding for three-quarters of state government jobs. The report does not merely count the number of jobs that exist in each industry and its support sector. It estimates how many of Alaska's 357,000 jobs rely on cash flow created by a specific sector. The Anchorage Economic Development Corporation has reasoned that the total spinoff from oil and gas activity, state revenues and employment accounts for approximately 40 percent of Alaska's economy.

According to a recent study by Northern Economics and the University of Alaska, an annual average of 54,700 new jobs would be created and sustained through the year 2057 from the Alaska OCS, with 68,600 during production and 91,500 at peak employment. A total of \$145 billion in new payroll would be paid to employees through the year 2057, including \$63 billion to employees in Alaska and \$82 billion to employees in the rest of the U.S. In addition, a total of \$193 billion in government revenue would be generated through the year 2057, with \$167 billion to the Federal government, \$15 billion to the State of Alaska, \$4 billion to local Alaska governments, and \$6.5 billion to other state governments. In short, action to expedite completion of the SEIS and to affirm the lease sale will provide considerable benefit to the nation's economic and employment situations, and will be of profound importance to the economic health and well-being of the State of Alaska.

Concluding Remarks

Lease Sale 193 is one of the most successful oil and gas lease sales in U.S. history, generating \$2.7 billion in revenues for the federal government for 487 leases. However, over four years later, not a single exploratory well has been drilled and production activities are at least a decade away.

Exploring for oil and gas offshore in Alaska is not a new concept. A total of 30 wells have been drilled in the Beaufort Sea and five wells drilled in the Chukchi Sea. These wells were drilled over 20 years ago using older technology. Today's technology has resulted in reduced environmental impacts and footprints for infrastructure for oil and gas development projects. Advancements in 3-D and 4-D seismic technology allow industry to focus their "targets," reducing impacts even more. Moreover, there has never been an oil spill caused by a blowout from offshore exploration and production drilling in state or federal waters off Alaska or the Canadian Arctic.

Alaska's North Slope and OCS are now perhaps the most studied energy basins in the U.S. In the past decade alone, over 250 scientific studies have been funded in the Arctic, with the majority focused the Beaufort and Chukchi Seas. All told, at least \$500 million has been spent on more than 5,000 independent studies since 1973. In this effort, Alaska's oil and gas industry has proven itself to be an important partner not only in the development of the Arctic, but in expanding our knowledge of an Arctic environment in which the industry has explored for and produced energy resources for nearly 40 years. This operating record demonstrates that a balance is achievable in the Arctic between production of valuable and needed energy resources and

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advancement of knowledge and conservation of habitat, wildlife, and subsistence resources in the region.

In conclusion, API and AOGA strongly urge the Secretary to affirm Chukchi Sea Lease Sale 193, as recommended by the SEIS. The leases issued under Sale 193 were sold only after exhaustive environmental analysis, and the specific concerns the District Court raised are adequately addressed by the SEIS. Moreover, the SEIS analyzes a VLOS, which is hypothetical and extremely unlikely. Any further exploration or development activities would not occur until additional environmental review, public process, and BOEMRE approval occurs. Failure to affirm Lease Sale 193 would allow the moratorium on exploration and development of Alaska's OCS to continue harming the Alaska and U.S. economies and the nation's energy security without a corresponding benefit to the environment.

If you have any questions on these comments, please do not hesitate to contact Kate Williams with AOGA at 907.272.1481 or Richard Ranger with API at 202.682.8057.

Sincerely,



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