

Energy Strategy on the OCS and Regulatory Response to Macondo



**Outlook Conference
Houston, TX
March 24, 2011**

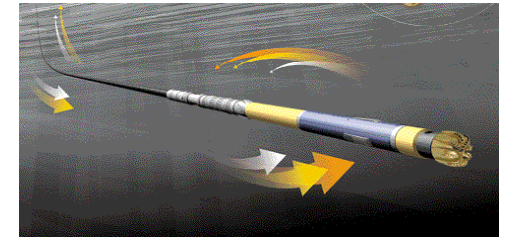
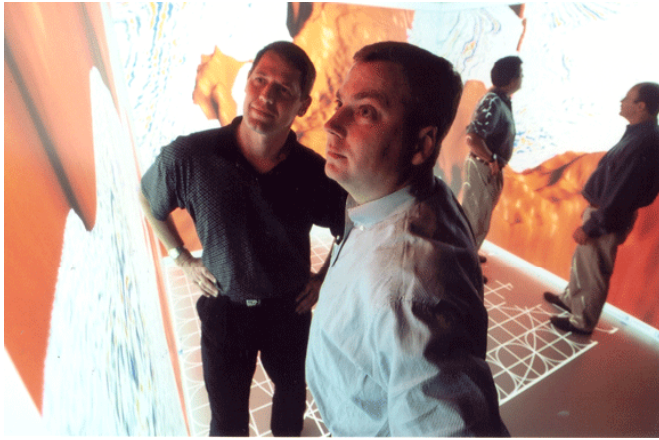
National Ocean Industries Association



Randall Luthi, President

www.noia.org

NOIA represents the full spectrum of U.S. businesses that produce energy offshore



One's outlook can change in a day

- A year ago, the off shore oil and gas industry was poised to come out of economic doldrums
- Spurred by deep water discoveries, the future looked promising
- The Obama Administration actually proposed opening new areas on the Atlantic coast for exploration



Deepwater Horizon

April 21, 2010



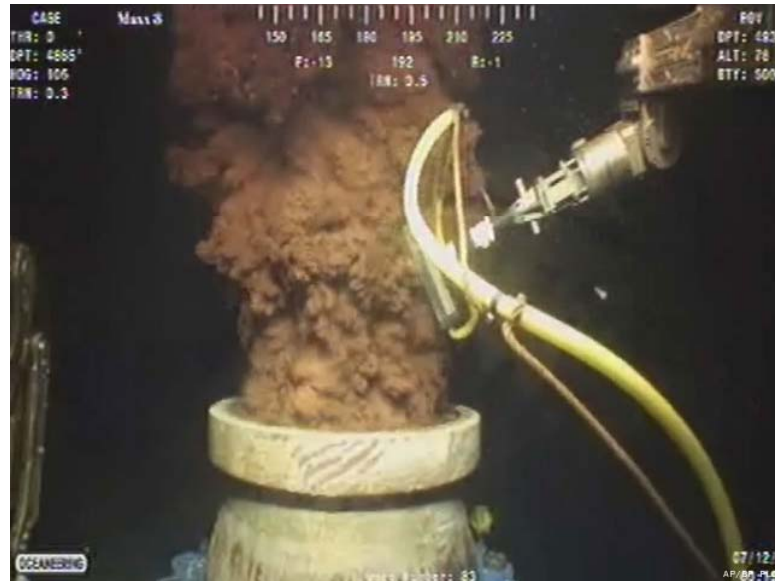
Washington 's Reaction and Response to the Macondo Well Accident



Washington's Reaction and Response



Images Compel



In 2010, Congress Considered . . .

- Elimination of certain oil and gas tax deductions
- Increase in the Oil Spill Liability Tax Fund (OSLTF)
 - 48 cent to 78 cent increase per barrel from 8 cents per barrel
- BOP legislation
- Legislation affecting both offshore and onshore leasing and development
- Reinstatement of the exploration moratorium on the Pacific and Atlantic Coasts
- Increased fees to fund BOEM activities



The Good News!

Congress Did Not Act Hastily in 2010

- More than 35 Congressional Hearings
 - Testimony from Energy Executives
 - Oil Pollution Act
 - Blowout Preventers
 - Liability Limits
 - Financial Responsibility Thresholds
 - Exploration Plans
 - Response Plans



What Will 2011 Bring?

- A new House of Representatives– increased oversight
- A new political climate, one that appears more focused at present on federal spending than oil spill legislation
- A political and philosophical difference with Senate and Administration
- Administration determined to shift energy focus to nontraditional sources -- NOW



What Will the 2011 Congress Do?

- Senate does show interest in oil spill legislation/moratorium
- Landrieu and Begich announced agreement on introduction of liability bill, but is yet to be introduced
- Focus on increasing liability limits
- Creation of a mutual fund in addition to the Oil Spill Liability Trust Fund
- Upcoming FY2012 Budget related oversight hearings
- Bingaman announces retirement



What Will the 2011 Congress Do?

- Act upon recommendations of the President's Oil Spill Commission?
 - Increased liability limits
 - Establishment of a industry “Safety Institute”
- President's budget request?
 - Includes elimination of tax deductions
 - Increased inspection fees on rigs and facilities
 - “Non producing” fee
- Immortalize the MMS/BOEMRE restructuring



Industry Actions

- Joint Industry Task Forces
- Education of legislators on liability issues
- Education and focus on jobs and economy
- Response and surface containment studies

Oil Spill Response Task Force

ITF Oil Spill Response Task Force Make Up

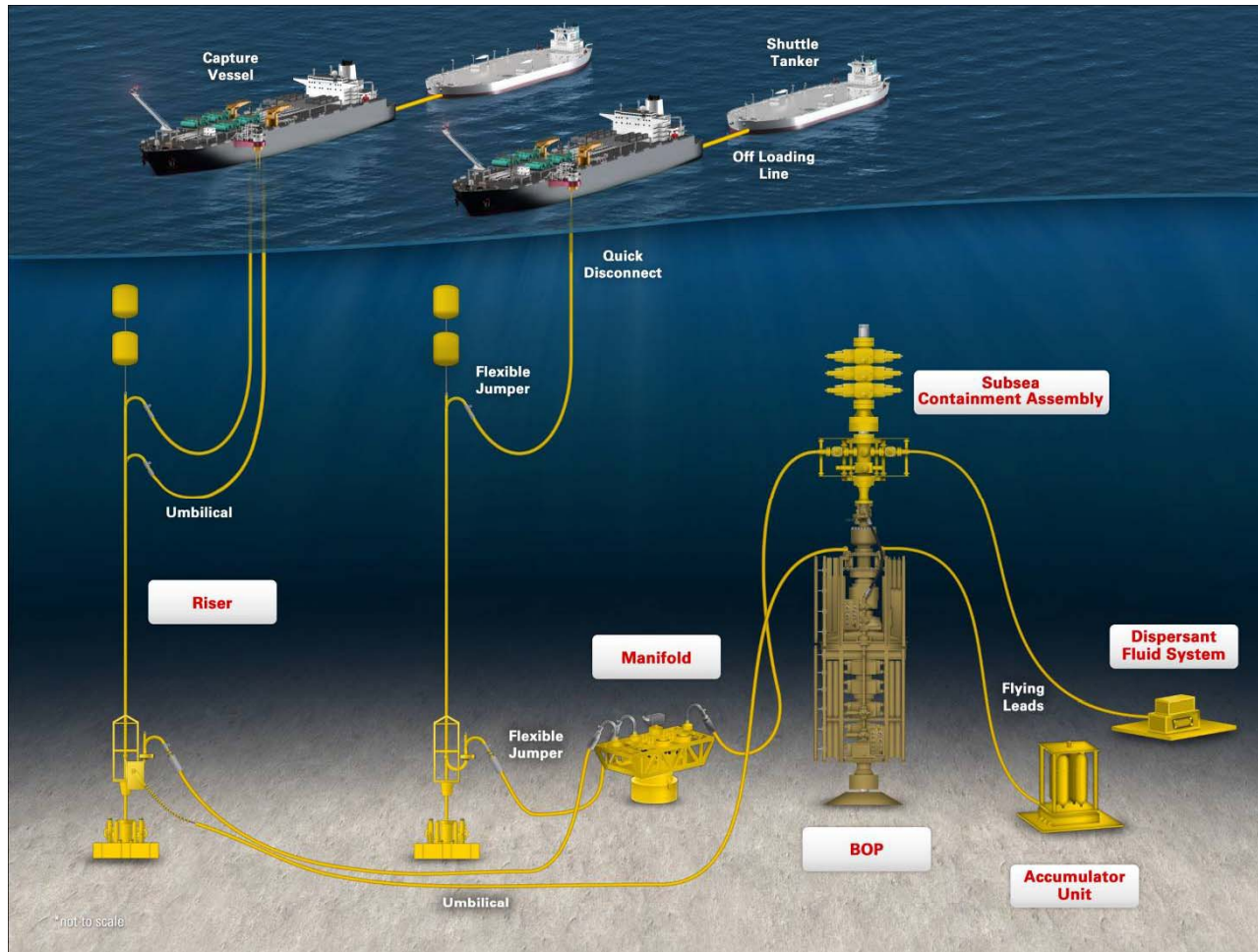
- 30+ member companies
- 60+ task force members

Addressing:

- Oil spill response plans
- Oil sensing and tracking
- Dispersant use and application
- *In situ* burning
- Mechanical recovery capabilities
- Shoreline protection and cleanup
- Alternative response technologies



Industry Actions

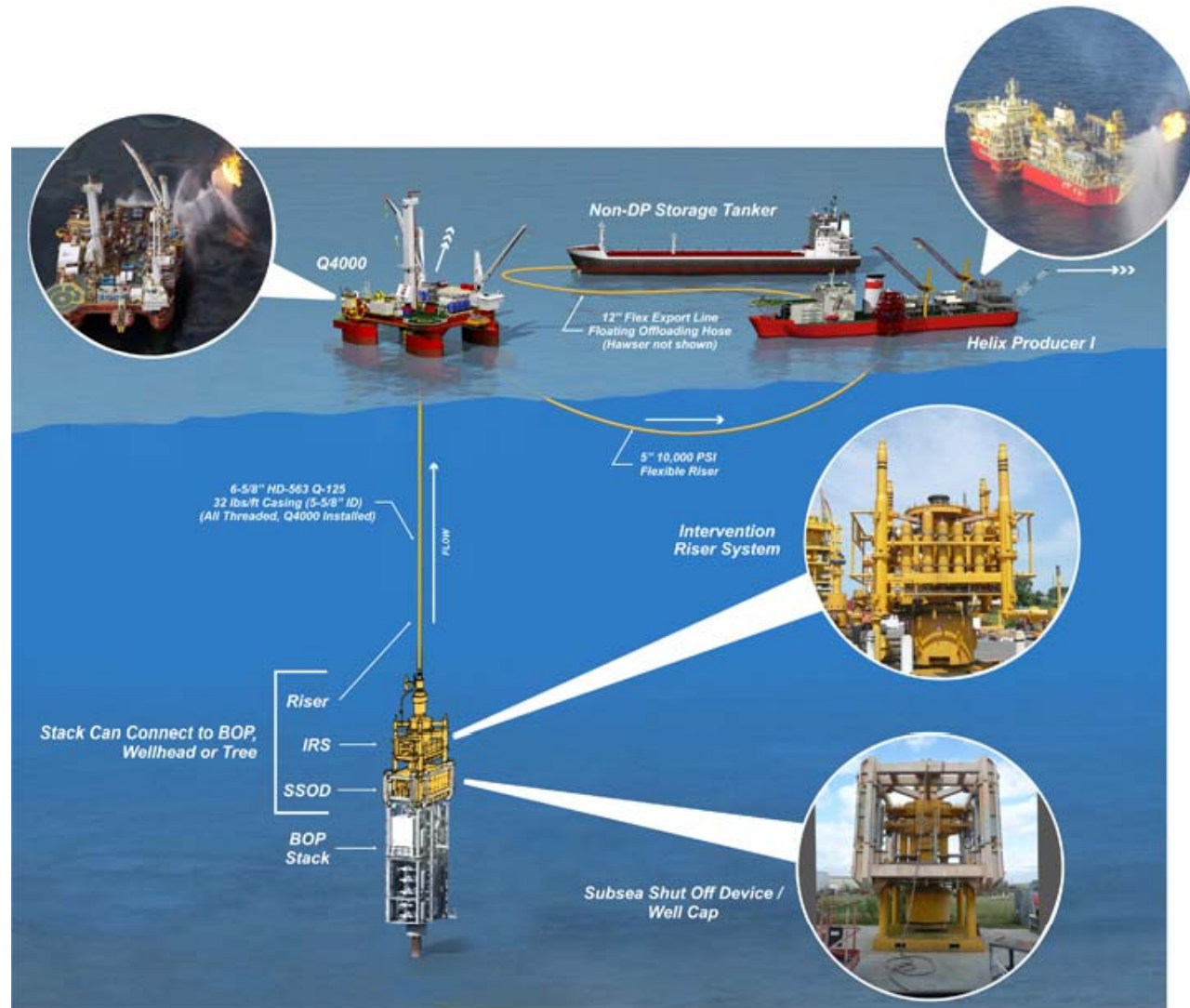


Marine Well Containment Company (MWCC)

- Exxon Mobil
- Conoco Phillips
- Shell
- Chevron

- BP
- Apache

Helix Fast Response System



- Second containment system.
- Due to be ready at the end of March.

Administrative Actions

- All New Offshore Well Permits halted for 3 weeks (May 7)
- MMS Dismantled/BOEMRE Established (May 19)
- National Commission on the BP Deepwater Horizon Oil Spill and Offshore (May 22)
- DOI Cancels sales in Western Gulf, Alaska and Virginia (May 27)
- Deepwater Drilling Moratorium (May 27-Oct 12)
- Notices to Lessees (NTLs)
- Interim Final Drilling Rule (Oct 14)
- Workplace Safety Rule (Nov 15)
- De Facto Moratorium on all Gulf Operations due to Lack of Permitting (Ongoing)
- The Interagency Ocean Policy Task Force (July 19)
- Ocean Energy Safety Institute (Nov 2)
- Supplemental EIS for remaining GOM sales in current plan (Nov 4)
- Atlantic Seismic EIS Announced (Dec 17)
- Announce structures for BOEM and BSSE (Jan 19)
- Announce Offshore Energy Safety Advisory Committee (Jan 19)



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Impacts of the Moratorium & Permittorium

- Administration estimated loss of 23,000 jobs
 - LA has lost more than 25,000 jobs statewide since June 2010
- Economic losses over those direct costs of the spill
- Loss of 18-24 months of development momentum
- 300,000-500,000 b /d less per year by 2017-2018
- 2011 offshore oil production will fall 13% compared to 2010 (DOE).



Impacts of the Moratorium & Permittorium

- At least 5 jackups have left the GOM.
- At least 14 deepwater and shallow water rigs have left.
- In 2009 Majors (\$13.6 billion) and Independents (\$10.4 billion) spent \$23.6 billion in deepwater drilling and support.
- In 2009 Independents (\$1.78 billion) and Majors (\$ 121 million) spent \$1.9 billion in shallow water drilling and support.
- DOI estimates the new rules will add an additional \$1.4 MM in cost for each deepwater well and extra \$90 M in cost for each shallow water well (excluding additional insurance costs).



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Administrative Actions

- OCS Five Year OCS Oil & Gas Leasing Plans
 - 2007-2012 OCS Oil & Gas Leasing Plan
 - Lease Sales cancelled in Western Gulf, Alaska and Virginia
 - BOEMRE completing an SEIS for remaining Gulf of Mexico Sales
 - Appears Central Gulf Sale 216 Will be Cancelled
 - Supplemental EIS for remaining GOM sales in current plan (Nov 4)
 - **2012-2017 OCS Oil & Gas Leasing Plan**
 - Programmatic EIS (18-24 months)
 - Scoping meetings now underway
- We are now limited to looking for oil and gas in the same areas we have looked for 30 years until 2017



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What is the regulatory future?

- NEPA and categorical exclusions
- The almost universal use of environmental analysis
- Increased numbers of EIS?
- Increased litigation both under NEPA and MMPA

Positives

- A New congress
- The nation needs the energy
- The engineering challenges will be solved
- An improving global economy
- Our industry just keeps getting better with new technology.
- Chinook is installed as the first FPSO in the GOM and is also the worlds deepest moored FPSO
- Prior to Macondo industry drilled over 3,100 deepwater wells (wd >1000') without a major spill



U.S. Energy Facts

- We consume +/-18.7 MMBO/day
- We produce +/-7.2 MMBO/day
- We import +/-11.5 MMBO/day (63%)
- +/-5.9 MMBO/day comes from OPEC
- We are the largest consumer of oil in the world
- Our consumption continues to rise
- We will be dependent upon fossil fuels for years
- Crude oil prices will continue to rise
 - Growing global economies – China and India
 - as political unrest spreads through the Middle East



Gulf of Mexico Oil & Gas Production

- Before the Deepwater Horizon, we actually had decreased our reliance upon foreign oil
- Approximately 30% of our oil is produced from the Gulf of Mexico
- Approximately 11% of our natural gas comes from the Gulf of Mexico



Summary

- Significant progress has been made to improve prevention, intervention and spill response.
- Yes we can develop oil and gas safely
- Issuance of drilling permits needs to be accelerated
- Certainty and clarity are desired
- All will pay more for energy
- We are committed to making further progress





Shane Pashoto



Stephen Curtis



Roy Wyatt Kemp



Donald Clark



Adam White



Dewey Reynolds



Aaron Dale Durham



Karl Klayinger





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