

POLICY TRENDS FOR OIL & GAS EXPLORATION

A Washington Perspective

**IOGCC Annual Meeting
November 16, 2010, Tucson, AZ**



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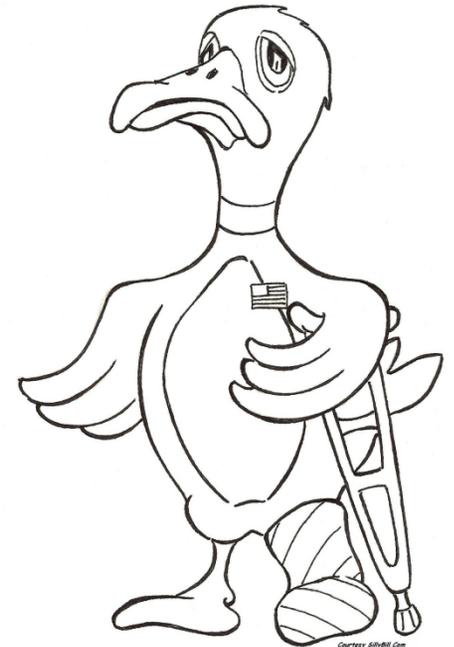
- **Rollercoaster Ride**
- **Trend – anti oil & gas**
- **Policies chipping away**
 - **Moratorium**
 - **Layers of regulation**
 - **Delays**
 - **Litigation**
- **Some progress made offshore**
- **Then the oil spill**
- **“You don’t want a good crisis to get away”**





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- **The Good News: List grows shorter everyday**
- **Expiring Tax Cuts**
- **Medicare reimbursement**
- **Omnibus Spending Bill**
- **Charlie Rangel – House Ethic**
- **Class Photo – Rained out to**



Courtesy: 500Bill.com



LAME DUCK ENERGY POSSIBILITIES

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Promoting Natural Gas and Electric Vehicles Act of 2010, S.3815, Reid

- *Doubles OSLTF payments to 21 c/bbl (not really held in trust)*

DOE to develop a Natural Gas Vehicle and Infrastructure Development Program

- *\$3.8 billion in direct spending for natural gas vehicles*
- *rebates that cover 90 percent of the incremental cost of converting or repowering to CNG/LNG*
- *DOE to Develop Electric Vehicles National Plan*
- *\$3.8 billion in new federal spending authorized*

• *S. 3663 Clean Energy Jobs & Oil Spill Accountability Act of 2010*

- *HF Disclosure*
- *CLEAR Act Provisions would be on the table*



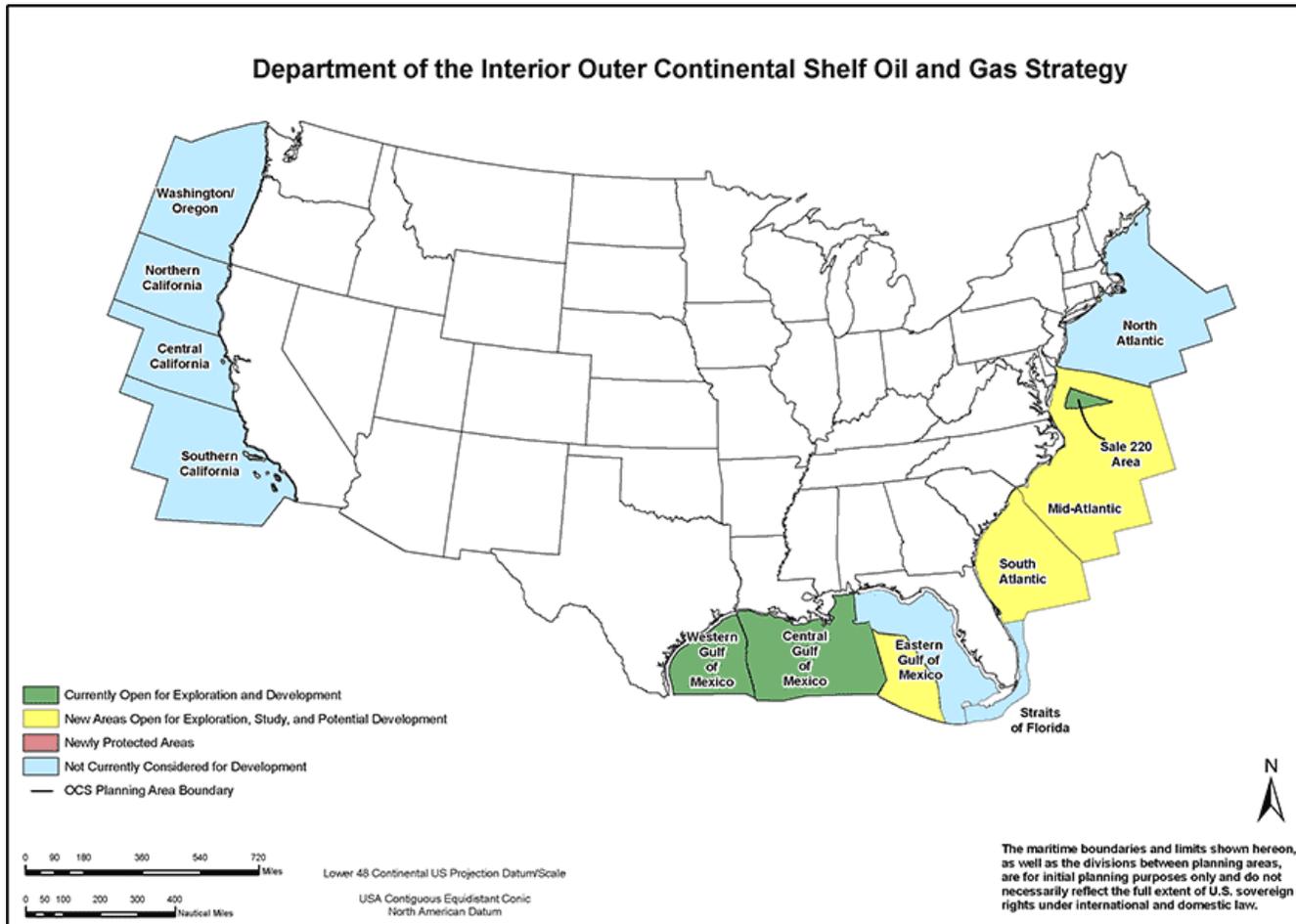
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WHERE WE WERE

- **Trend for opening new areas**
 - **Public support at new highs and Congress allowed moratorium to expire**
- **Robust external outreach campaign garnered more than 350,000 comments in support of offshore energy**
- **Industry & coalition efforts accounted for more than 71% of the 500,000+ comments received by MMS**
- **Draft Proposed Plan offered new areas but:**
 - **Took Bristol Bay off table**



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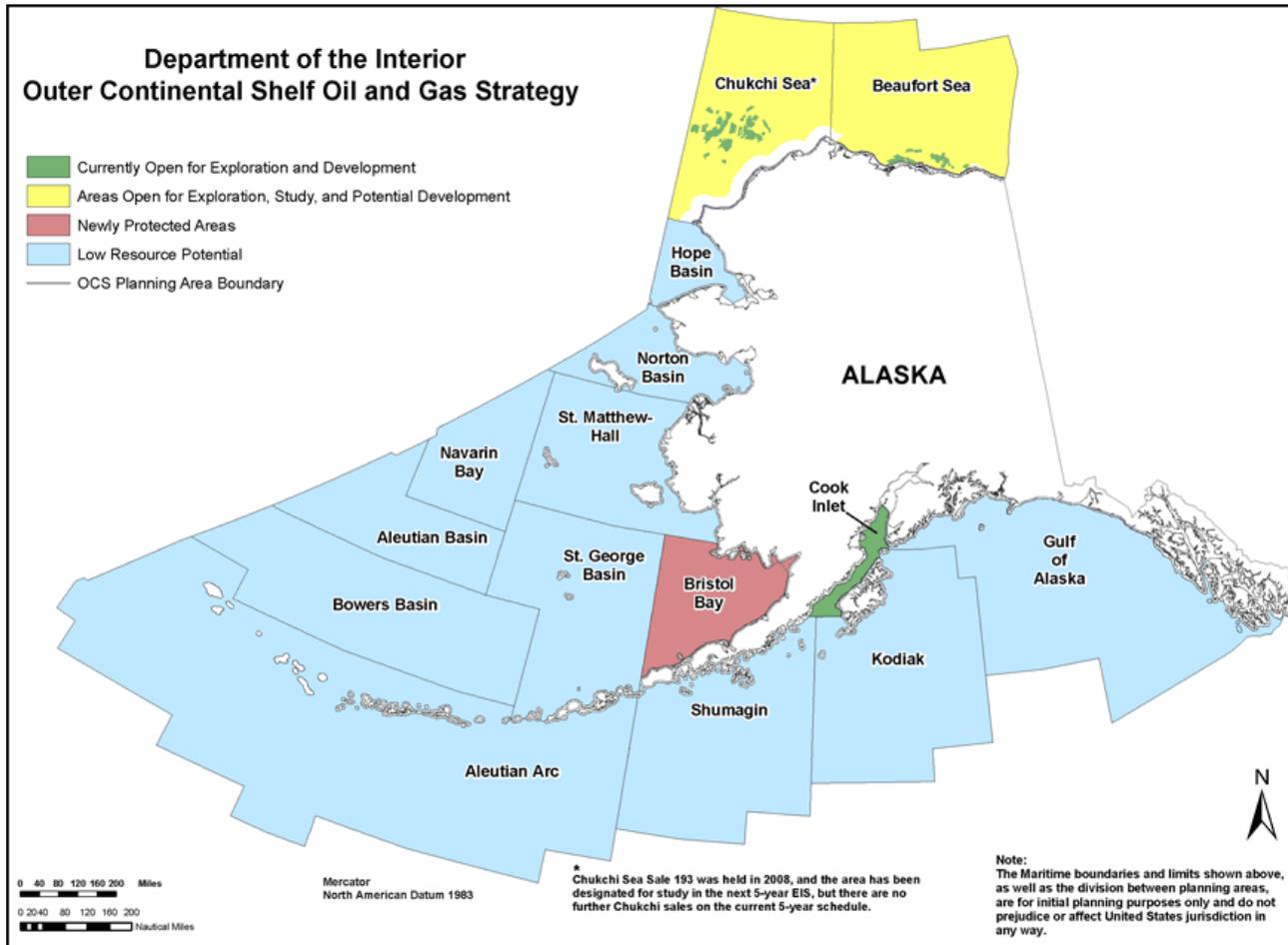
DRAFT PROPOSED PLAN

ALASKA AREAS

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Department of the Interior Outer Continental Shelf Oil and Gas Strategy

- Currently Open for Exploration and Development
- Areas Open for Exploration, Study, and Potential Development
- Newly Protected Areas
- Low Resource Potential
- OCS Planning Area Boundary





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ELECTION RESULTS

Current House
Dem 255 GOP 178

New House
GOP 240 Dem 189

Current Senate
Dem 59 GOP 41

New Senate
Dem 53 GOP 47

Current Governors
Dem 26 GOP 24

New Governors
GOP 29 Dem 19 Und 1 (MN)

Current State House
27-14-8

New State House
17-26-5



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What it means

- Less punitive
- Slow down administrative actions
- No major energy tax
- House investigations
- State legislation/law suits
- Climate change off the table

What it doesn't mean

- Major pro-energy legislation
- Stop administrative actions
- Opening new areas
- Love for oil and gas industry





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- These guys need education
- Don't assume they know
- Many think they know even
- Opportunities abound
- Repetition is the key
- Attention Deficit Disorder
- Energy = Jobs





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- **Energy Reform Team Salazar Initiative**
 - **Alleges past giveaways to oil companies**
 - **More tension/less certainty in leasing**
- **Federal leasing policies are restricting access to land suitable for oil and gas extraction:**
 - **Bureau of Land Management has revoked 77 leases in the Rockies and is withholding formerly issued leases valued at \$100 million**
 - **Termination of categorical exclusions has opened the door to increased litigation (in Wyoming, reportedly contributing to a 90% decrease in federal lease payments)**
 - **Few leases issued**
 - **More redundancy in environmental reviews**
 - **More delays**
- **Hydraulic fracturing: state and federal regulatory and**



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- **Disclosure issue has been looming for years**
- **Exemption from Safe Drinking Water Act**
- **Congressional threats decrease**
- **Increased public pressure/Gasland**
- **Potential in states/water regulation in general**
- **EPA Study**
 - **Huge public interest**
 - **Long process**



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- **Taxes**
- **NAAQS Standard**
- **Water Issues/Control**
- **ESA**
- **Access/Roadless Rule**
- **Permits and NEPA**



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- **Deepwater drilling suspension lifted on October 1, 2010**
- **However, de facto drilling moratorium still in place**
 - **Shallow water permit approvals down roughly 90% since DWH incident**
 - **Sec. Salazar: oil and gas industry to remain in “dynamic” regulatory environment**
 - **More rules, more uncertainty**
- **One financial institution has estimated that permitting delays associated with the *de facto* moratorium could delay the resumption of significant drilling until 2012**
- **Supplemental EIS for GOM Central and Western Lease**



OIL SPILL POLICY DRIVERS/MILESTONES

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- **Obama Administration Objectives**
- **DOI Decisions/NTLs**
- **Offshore moratorium**
- **Obama Oil Spill Commission**
- **Congress & Elections**
- **US Public Opinion**
- **US Economy**
- **States/Lawsuits**
- **Courts**
 - **Mobil v. US – Breach of Contract**
 - **Feldman Decision**



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- On June 22, the first moratorium was enjoined/invalidated by the Federal Court under the Hornbeck decision. US District Court Eastern District of Louisiana
- On June 8, Obama's DOI issued NTL-05, a national notice to lessees and operators with a series of additional duties on operators and lessees, mandating new certifications and safety inspections that were not in place before. ([NTL-05](#))
- On July 12, Obama's DOI issued a second moratorium to replace the enjoined/invalidated moratorium.
- On July 20, a new lawsuit was filed by Ensco Offshore challenging BOTH the second moratorium and NTL-05.
- Feldman on October 19 -- An excuse for delay
- 'Notice and comment were required by law. The government did not comply, and the NTL -05 is



GOVERNMENT RESPONSE: PIPER ALPHA vs. DWH

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- **Piper Alpha:**
 - **Cullen Inquiry carried out comprehensive investigation and produced over 100 recommendations that were accepted by industry**
 - **Ensured that safety and operational oversight were carried out at different agencies**
 - **No halt to drilling during investigation**
- **DWH:**
 - **Multiple investigatory bodies**
 - **New agency (BOEMRE) created that oversees both safety and operational issues**



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- **Executive Order 13547:**
 - Ocean zoning (coastal and marine spatial planning)
 - Implications for offshore as well as onshore operations
- **National Ocean Policy Coalition:**
 - Diverse group of commercial and recreational user groups brought together to ensure a sound and balanced policy
 - Will provide input at the national, regional, and state/local levels, pursuant to comprehensive federal, state/local, and media strategies
- **Next Significant Steps:**
 - National Ocean Council principals meet



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AIR & WATER REGULATIONS STATE & FEDERAL

- **Increased concern – Stricter Standards**
- **EPA and States not going away**
- **Clean Air Act – More stringent NAAQS Standard**
- **Ozone, NOx, VOCs, PM, SO2, HAPs**
- **Impacts drilling, HF, completion & production, gas treatment, compression and processing**
- **CWA, EPA & States**
- **HF, Produced Water, Water usage, Disposal, Surface, Groundwater**
- **Water rights, Colorado, Louisiana**
- **Drinking water – PA & NY**
- **Technological solutions needed for water and air**



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- **Energy Compromise Failed**
- **House Passed/Senate didn't have the votes**
- **New Congress will not pass climate legislation**
- **Off the table in Congress**
- **Carbon Tax as Revenue Raiser**
- **Administration efforts EPA, other federal agencies**
- **Fight in Congress, Appropriations**
- **Lawsuits will continue to proliferate**
- **Voluntary reporting will continue**



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- **Budget Deficits**
- **Energy Taxes/Budget Deficits**
- **Incentives at risk**
- **Local policies**
- **Air & Water**
- **Lawsuits**



MEAN?

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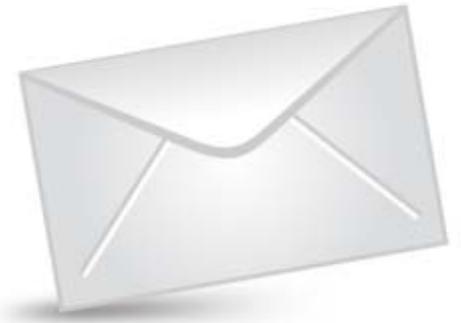
WHAT DOES IT ALL

- **Tough times will continue for oil and gas**
- **Increased oversight**
- **“Gridlock” or “Divided Government”**
- **Congress and Administration will do battle**
- **States and local pressures will matter more**
 - **Rulemakings**
- **Key roles for governors**
- **Opportunities to Educate**
- **Energy = Jobs**



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QUESTIONS?



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Gulf of Mexico Leases

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Water Depth in Meters	Active Leases	Approved Applications to Drill	Active Platforms
0 to 200	2,250	33,648	3,365
201 to 400	146	1,102	21
401 to 800	339	835	10
801 to 1000	421	506	7
1000 and Above	3,512	1,635	25



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- **Seven (1 + 6) month drilling moratorium (at least)**
- **Commission may take longer than six months**
- **Recommendations will need to be implemented (regulation & legislation)**
- **Drilling will not take place immediately**
 - **Several months to consider drilling plans – now have 90 days**
 - **Availability of drilling rigs**
 - **Rigs, activity will move overseas**
- **History suggests it will take a year or more**
- **Moratoria having major impact on Gulf Coast economy**
 - **Layoffs**
- **Moratoria could be a material breach of contract – ongoing litigation**
 - **Alaska drilling permit breach – Shell \$3 billion commitment**



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- **High Oil Prices**
- **Low Gas Prices**
- **Slow Recovery/Demand**
- **High Debt/Deficits**
- **Shrinking Revenue Sources**
- **Bank of America Merrill Lynch – Tough Environment**
- **Barclays – Shift to Liquids**
- **But majors increase investments in Gas**



CLEAR Act: HR 3534 - House Passed

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- Passed House 209 to 193
- Codifies MMS Reorganization
- Amends Outer Continental Shelf Lands Act to create tougher burden for leasing (more emphasis on other ocean uses/impact)
- Increased requirements/mandated standards for BOPs, cementing, systems, well design, 3rd party verification
- Repeals EPACT Categorical Exclusions under NEPA
- Requires same standards for state waters (or comparable)
- Commerce/NOAA review of proposed lease sale
- Extend to 90 days review of exploration plans
- More stringent requirements including best available technology
 - Removes economic consideration of BAT
- Increased inspections and audits & annual certifications for equipment facilities and plans
- Increased civil and criminal penalties for violations
- More stringent approval criteria
- Repeals Royalty in-kind and royalty relief
- Revised regulations for employment of foreign nationals
- Codifies Obama Oil Spill Commission – subpoena powers
- Regional Ocean Councils – Ocean Policy

CLEAR Act: HR 3534 - House Passed (cont'd)



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- **Removes \$75 million liability cap**
- **Conservation Fee \$2//bbl, \$.20/Btu federal oil and gas onshore and offshore**
- **Place oil and gas operations under Clean Water Act storm water regs**
- **Increases COFR requirements to \$300 million with Presidential discretion to raise them**
- **Host of new requirements for MODUs**
- **Sensing and monitoring systems**
- **Buy America requirements**

Observations

- **Worse language on Federal intrusion into states removed**
- **Onshore language from CLEAR Act removed**
- **Moratorium Amendment – Actually increases federal power**

S. 3663 Clean Energy Jobs & Oil Spill Accountability Act of 2010



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- **Pushed back until September**
- **Disclosure of HF chemicals**
- **Removes \$75 million liability cap**
- **Increased fee for Oil Spill Liability Trust Fund**
- **Federal research for oil spills – Interagency Coordinating Committee**
- **Tougher burden for leasing/other considerations**
- **Study on impact of moratorium**
- **New National Commission on oil spills**
- **Increased punitive damages**
- **Increased remedies for wrongful death**
- **Increased role for NOAA**
- **Coordination of National Response Plan and National Contingency Plan**
- **Natural gas vehicle program & Electric Vehicle Act**
- **HomeStar Retrofit Act**
- **Increased \$ for Land & Water Conservation Fund**



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- **Fracturing Responsibility and Awareness of Chemicals (FRAC) Act**
- **Amends the Safe Drinking Water Act to:**
 - **Repeal the exemption from restrictions on underground injection of fluids near drinking water sources granted to hydraulic fracturing operations under such Act; and (**
 - **Require oil and gas companies to disclose the chemicals used in hydraulic fracturing operations.**



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Is There Backpedaling?

- My quick optimistic moment
- Some evidence to suggest the Administration wants a way out
- Moratorium has backfired
- Beach damage has been limited
- Looks bad in the face of high unemployment/trade deficit
- Looking for a way out
- Internal struggles over path forward
- Rendell and Marcellus Shale
 - Embraced economic development





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- **Little Respect for Oil and Gas**
- **Compromise Opportunity with offshore**
- **Went away with DWH Incident**
- **Policies aren't helping Administration**
- **Public wants domestic oil & gas, renewables and environmental protection**
- **Overreached with Cap & Trade, especially after health care**
- **Energy did not play a big role in midterms – jobs did**



Election Results

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Committee Leaders



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Senate Energy & Natural Resources

Jeff Bingaman (NM)
(AK)

Lisa Murkowski

Senate EPW

James Inhofe (OK)

Barbara Boxer (CA)

House Energy & Commerce

Fred Upton (MI)

Henry Waxman (CA)

House Natural Resources

Doc Hastings (WA)

Nick Rahall (WV)



OTHER ISSUES OF CONCERN TO OFFSHORE PLAYERS

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- **The fate of previously scheduled lease sales scheduled for the Gulf of Mexico**
- **The future of offshore drilling in Alaska and the mid-Atlantic (Virginia)**
- **Potential legislative action, including changes to liability limits and financial responsibility requirements**



POLICY FACTORS IMPACTING U.S. OIL & GAS SECTOR

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- **Energy Policy & Politics**
 - Administration/Lame Duck
 - New Congress
- **Oil Spill/Offshore moratorium**
- **Jobs & the Economy**
- **Federal leasing policies & NEPA**
- **Hydraulic fracturing**
- **Air & Water regulations**
- **National Ocean Policy**
- **Climate Change**

