



Bureau of Safety and Environmental Enforcement

# Houston Association of Petroleum Landmen Offshore Seminar

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**November 8, 2016**

*"To promote safety, protect the environment and conserve resources offshore through vigorous regulatory oversight and enforcement."*

# Decommissioning Cost Assessment

- BSEE is responsible for estimating decommissioning costs for wells, facilities, pipelines, and site clearance.
- BOEM then uses these costs to ensure the proper financial assurance is in place.
- BSEE cost estimates and BOEMs financial assurance protect the interests of the American taxpayer.

# Decommissioning Cost Assessment

- BSEE cost estimates are not based on the lowest cost that can be performed by any specific oil and gas company.
- Instead, estimates are based on what BSEE would have to pay a third party to perform the work should decommissioning liabilities ultimately fall to BSEE.
- BSEE estimates provide more certainty than that of the mean, median, or most likely.
- Without proper coverage, DOI would need to seek funding from Congress in cases where DOI must assume the responsibility to decommission (e.g., operator bankruptcies).

# Global Update of GOM Decommissioning Cost Estimates

- Two workshops were held in advance of the 2016 global update: August 10<sup>th</sup> (Houston) and August 25<sup>th</sup> (New Orleans)
- The Global update occurred on August 29<sup>th</sup> and was made available to industry via the BSEE on-line query
  - Per industry requests, additional detail was added on September 8th
- Cost assessments for each lease, RUE, and ROW are conducted daily. Only those with a change in the assessed value are updated.

[https://www.data.bsee.gov/homepg/data\\_center/leasing/LeaseLiab/master.asp](https://www.data.bsee.gov/homepg/data_center/leasing/LeaseLiab/master.asp)

- Operators have the ability to challenge any specific cost estimate by submitting supporting information (e.g., executed contracts).

# Why the Global Update?

- Responsibility to protect the American public
- Cost estimates were outdated
  - For example:
    - Well and structure/facility cost methods/algorithms had not materially changed since 2011
    - Pipeline cost methodology had been in place since 2012
- Historically, some costs were low - especially for shallow water wells and shallow water platforms
- Some costs were on the high side
- Increased oversight on program due to bankruptcies, etc.

# Procedural Changes

- No longer assess costs based on proposed wells submitted in BOEM Plans (EP/DOCD)
  
- BSEE now assesses costs upon receiving:
  - Applications for Permit to Drill
  - Applications to install platforms
  - Applications to install pipelines

# Global Update

## Basis for change in BSEE estimates included:

- Actual costs submitted per regulation and NTL 2016-N03
- BSEE commissioned studies
- Challenges from industry
- Industry publications and academic research
- Operator presentations to bankers/analysts
- Data from operators gathered as part of bankruptcy proceedings
- BSEE professional experience

# Global Update

What costs stayed the same in the global update?

- Estimates for pipelines in:
  - WD > 300 feet
  - Fairways
  - Sand resource areas
- Platforms in WD > 400 feet (including floaters)
- Dry tree wells in WD > 400 feet
- Subsea wells in WD ≤ 400 feet
- Subsea wells in WD > 400 feet with COM status
- Site Clearance and Verification



# Global Update

What costs changed in the global update?

- Large decrease due to exclusion of Plan well estimates
- General decrease on shallow water pipeline segment estimates (WD  $\leq$  300 feet) not related to navigation fairways or sand source areas.
- Increase on shallow water wells (WD  $\leq$  400 feet) with the exception of wells with TA status and SCPs in place
- Increase on shallow water fixed platforms (WD  $\leq$  400 feet).
- Decrease on subsea wells (WD  $>$  400 feet) for all statuses except COM status.

# Global Update

Overall impact on a lease, ROW, RUE basis on August 29<sup>th</sup> was:

● Lease Total: Decrease ~ \$5 billion

● ROW Total: Increase ~ \$450 million

● RUE Total: Increase ~ \$372 million

Note that while there was a large overall decrease on a lease level, any individual lease could have increased (e.g., shallow water leases due to increase in well and platform estimates)

## Actual Cost Expenditure Data

- The BSEE cost estimates for shallow water wells may be low based on the actual expenditure data received from operators to date:
  - 70 shallow water wells
  - Mean Value: \$1.9 million
  - Median Value: \$1.3 million
- A sufficient amount of data has not been received yet for deep water wells and platforms in any water depth.

BSEE Website: [www.bsee.gov](http://www.bsee.gov)



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