

STUDY TITLE: The Social and Economic Consequences of Onshore – OCS-Related Activities in Coastal Alabama

REPORT TITLE: Economic Effects of Coastal Alabama and Destin Dome Offshore Natural Gas Exploration, Development, and Production

CONTRACT NUMBER: 1435-01-96-CT-30829

SPONSORING OCS REGION: Gulf of Mexico OCS Region

APPLICABLE PLANNING AREAS: Central and Eastern Gulf of Mexico

FISCAL YEARS OF PROJECT FUNDING: FY 1995-1996, FY 1997-1998, FY 1998-1999

COMPLETION DATE OF REPORT: June 2000

COSTS: FY 95-96: \$125,000; FY 97-98: \$23,639; FY 97-98: \$59,954; FY 98-99: \$18,426

CUMULATIVE PROJECT COST: \$227,019

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KEY WORDS: natural gas, Alabama, Destin Dome, Mobile, Louisiana, Texas, economic effects, offshore gas industry, economic input-output model, employment, expenditures.

BACKGROUND: Following the 1979 discovery of Norphlet gas in Mobile Bay during the early 1980s, the Coastal Alabama region experienced the emergence of a large offshore gas industry. Development and subsequent discoveries of natural gas in coastal Alabama and Mobile OCS waters introduced a specialized, capital-intensive industry into Mobile County. Little or no infrastructure existed to support the development activities during the early years of development. Much of the specialized materials and labor required to explore and develop offshore resources came from Louisiana and Texas where the offshore industry has long been established. Mobile County, the rest of Alabama, and Louisiana/Texas has been affected in different ways. This study is the second in a series of investigations analyzing the social and economic impact of the Coastal Alabama offshore gas industry on Gulf Coast states.

OBJECTIVES: This study analyzes the industry's impacts on employment, population, and personal income for Mobile County, the State of Alabama, and the combined economies of Louisiana and Texas. The study documents historical economic effects of the industry's impacts through 2020. The economic effects of upcoming production in the Destin Dome Area of the Eastern Gulf of Mexico Planning Area are included.

DESCRIPTION: Forecasting economic effects of the offshore gas industry on the Coastal Alabama region involved three major steps:

- 1) developing regional economic input-output models to determine how local, state, and regional economies are affected per unit amount of spending by offshore gas producers;
- 2) determining how many dollars offshore operators spend by year and major expenditure category to explore, develop, and produce offshore natural gas resources; and
- 3) combining results of (1) and (2) to estimate the total economic effects of offshore gas exploration and development activity by year.

SIGNIFICANT CONCLUSIONS: The study found that total industry spending on exploration, development, and infrastructure to fully develop existing Coastal Alabama fields will total close to \$4 billion. Expenditures for ongoing operations and maintenance will add over \$3 billion more through 2020. The State of Alabama received close to a billion dollars in lease bonus payments from offshore operators in State waters during the 1980's. Coupled with ongoing production taxes and royalties, and a share of federal 8(g) royalties for fields in the Mobile OCS, the State of Alabama and coastal counties are expected to spend close to \$6 billion through 2020 from trust fund earnings. Because the principal of the trust fund is never drawn down, spending of trust fund earnings will provide a significant economic stimulus to Alabama long after gas reserves have been exhausted.

Coastal Alabama and Destin Dome OCS gas development are expected to support at least 7,000 jobs in the Gulf region over a 35 year period and could peak to 10,000 jobs in some years. Most of the employment in Louisiana and Texas occurred in the early years of development. Mobile County and Alabama employment grew as local gas-related businesses grew. Employment is not expected to peak beyond 2001 unless significant new fields are discovered and produced.

STUDY RESULTS: The research found that the majority of expenditures, and thus jobs and income, from exploration and infrastructure (platforms and pipelines) phases of development accrue to Louisiana and Texas. Mobile County received a large share of spending from construction of onshore treatment plants and receives the majority of economic effects from ongoing operations and maintenance. Employment due to Alabama State production—dominated in later years by government spending of interest from trust funds, which grows to over \$200 million annually—becomes most significant in later years.

STUDY PRODUCTS: Kelley, J.Q. and W.W. Wade. 1999. Social and Economic Consequences of Onshore OCS-Related Activities in Coastal Alabama: Final Baseline Report. OCS Study Minerals Management Service 98-0046. A final report by Foster and Associates, Inc., for the U.S. Department of the Interior, Minerals Management Service Gulf of Mexico Region, New Orleans, LA. Contract No. 1435-01-97-CT-30829. 102pp.

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