The Future of OCS After Macondo

2011 EIA Conference
Washington, DC
April 26, 2011

National Ocean Industries Association

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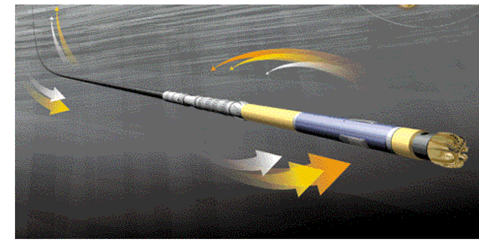
www.noia.org

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



Last year's view through the crystal ball was far different than today's

- A year ago, the off shore oil and gas industry was poised to come out of the economic doldrums

- Spurred by earlier deep water discoveries, the future looked promising

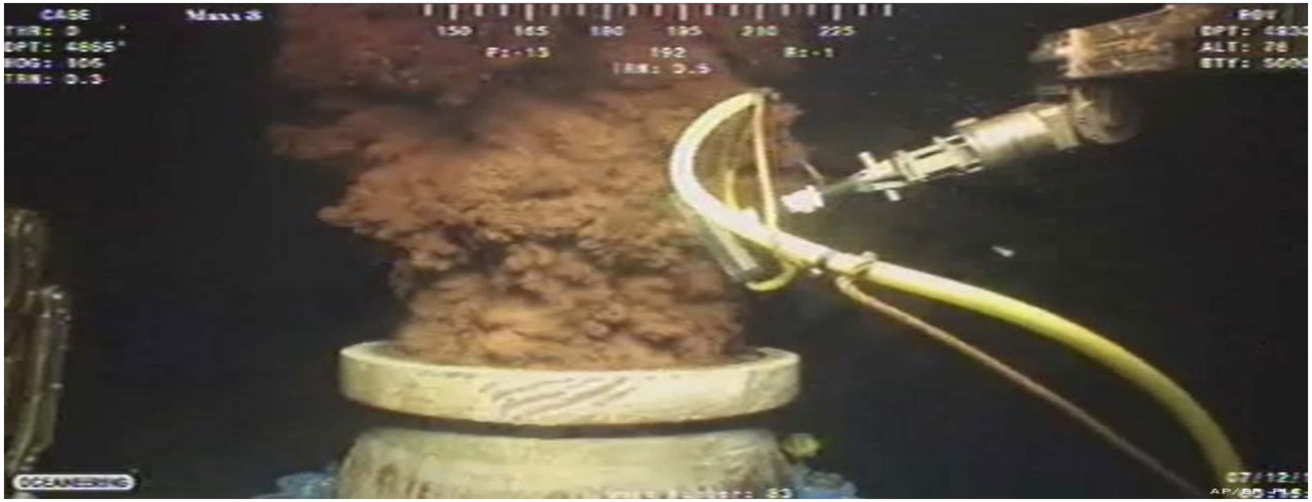
- The Obama Administration actually proposed opening new areas on the Atlantic coast for exploration

Deepwater Horizon

April 20, 2010

Washington's Reaction and Response

Images Compel



Congressional Reaction

- More than 35 Congressional Hearings
- Legislative Proposals Introduced Included:
  - Amendments to the Oil Pollution Act, including changes to liability
  - BOP Legislation
  - 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
  - Amendments to overall OCS policy under the OCSLA
  - 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

Congressional Action: Nothing or Overreaction?

- While legislative proposals were numerous, none were enacted.

- Why?
  - No consensus emerged for the proper response – some chose to overreach
  - Some in Congress said let's see what happened before legislating
  - Proactive response by industry
  - The predicted environmental apocalypse apparently did not occur
  - Many policy changes took place administratively

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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Administrative Actions

4 Lease Sales Cancelled

Exploration Moratorium

2 Lease Sales Cancelled

Virginia Sale Cancelled

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Impacts of the Moratorium & Permitorium

- Administration estimated loss of 23,000 jobs
- Economic losses over those direct costs of the spill
- Loss of 18-24 months of development momentum
- Some estimates of 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 & Permitorium

- 7 deepwater rigs have left the GOM
- There is a high possibility that another 5 will leave the GOM in the near future
- In 2009 Majors and Independents spent $23.6 billion in deepwater drilling and support.
- In 2009 Independents and Majors spent $1.9 billion in shallow water drilling and support.
- DOI estimates the new rules will add an additional $1.4 billion in cost for each deepwater well and extra $90 million 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)
    - Draft SEIS for WGOM sale 218 issued (comments due June 6)
  - **2012-2017 OCS Oil & Gas Leasing Plan**
    - Programmatic EIS (18-24 months)

- 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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Industry Actions

- Joint Industry Task Forces
  - Safety
  - Containment
  - Response
- Education of Congress on liability issues
- Education and focus on jobs and economy
- Offshore Energy Safety Center

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Oil Spill Response Task Force

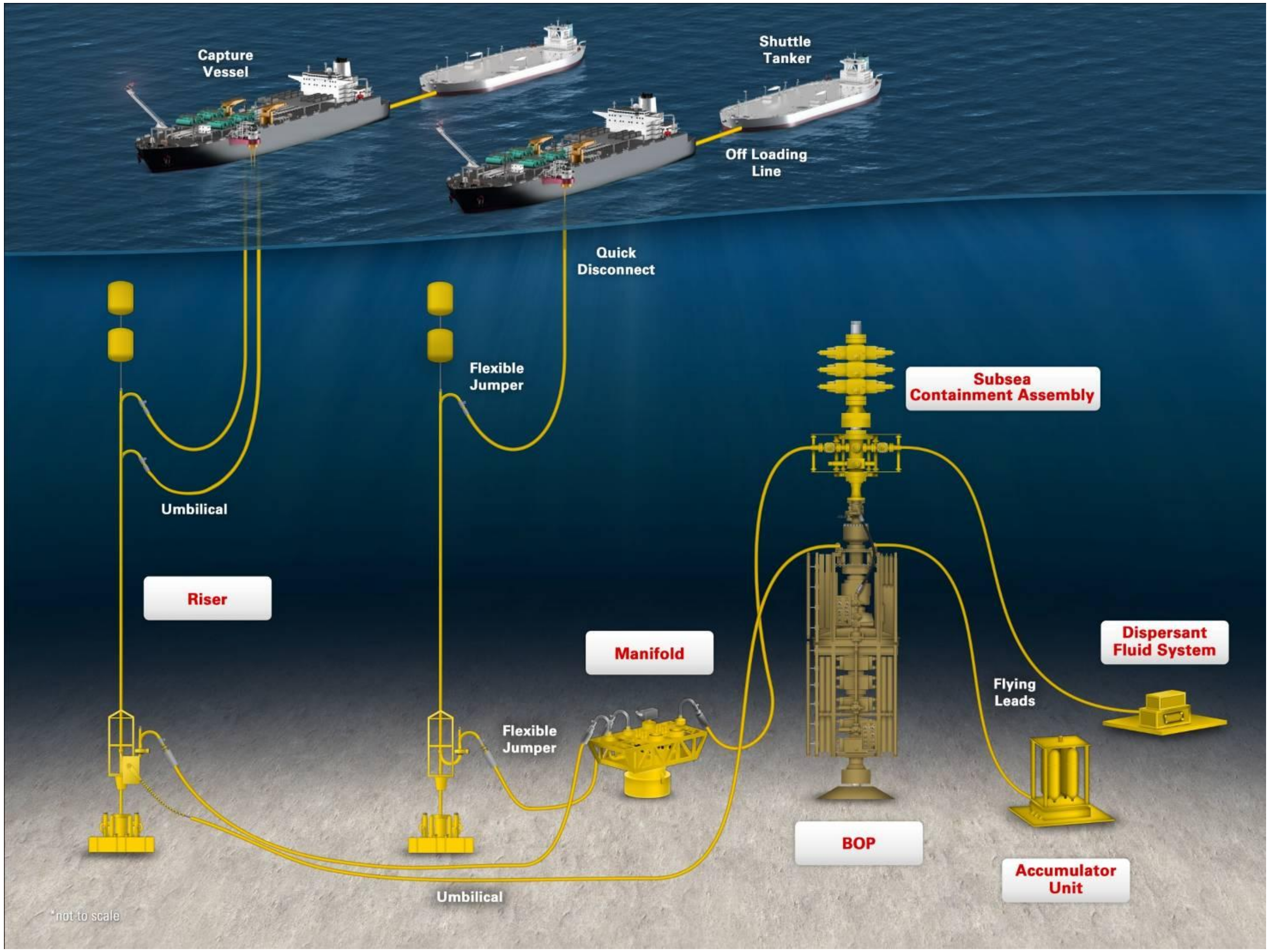
ITF Oil Spill Response Task Force Make Up

- 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
- Anadarko
- BHP Billiton
- Statoil
- Hess

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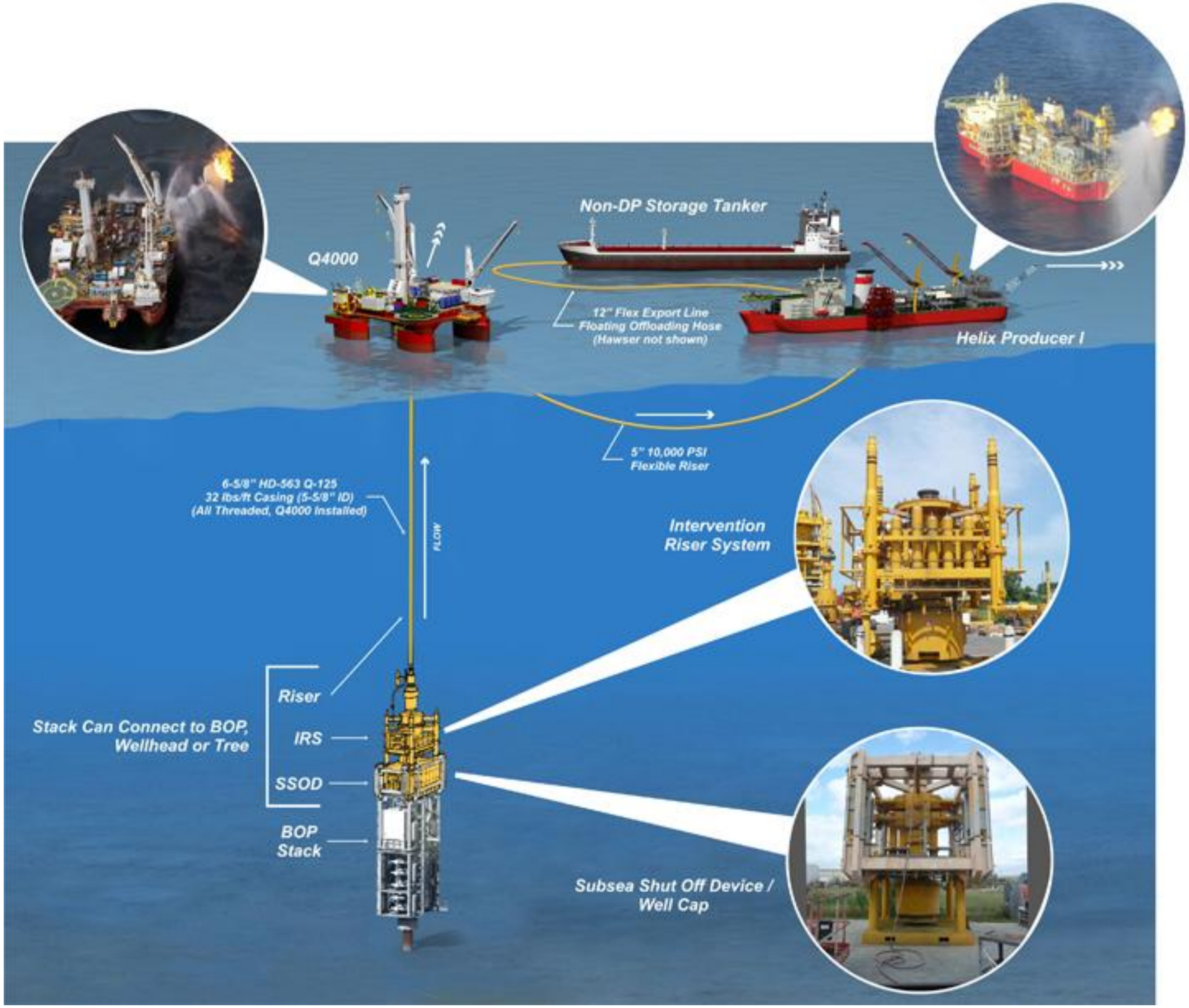
Helix Fast Response System

- Second containment system.



What Has Changed?

- Increased oversight from a new House Majority
- Significant Congressional focus on concerns over spending
- Political and philosophical difference with Senate and Administration
- Rising prices at the pump will drive the debate - $4 gas, $5 gas?
- Administration sends mixed messages to the oil and gas industry
  - Public pronouncements about increasing domestic oil production to cut imports - no actual policy proposals that would result in increased domestic production
  - Administration's proposed 2012-2017 plan does not have new areas for production

What Will the 112th Congress Do?

- House Natural Resources Chairman Doc Hastings introduced three pro-production bills – likely to see floor action in May
  - Reforms to permitting process to add certainty – includes safety and equipment review
  - Mandate cancelled lease sales – Central and Western GOM and Virginia
  - Expand access to OCS in areas of greatest potential for 2012-2017 Plan
  - Require strategic production goals in 5 year plans

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What Will the 112th Congress Do?

- Many more pro-production proposals expected from House.
  - Legislative outcome is uncertain, but new production is likely to remain as the hot topic.
  - Likely to be substantial support in Senate for new production.

- Other looming issues in the legislative arena:
  - Legislating lease extensions in wake of moratorium
  - Liability reforms
  - Oil Spill Commission Recommendations
  - Codifying agency restructuring
  - President's FY '12 budget request
    - Includes elimination of tax deductions
    - Increased inspection fees on rigs and facilities
    - "Non producing" fee

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What Will the 112th Congress Do?

- OCS policy likely to remain a hot topic for the duration of the 112th Congress
- Continued oversight regarding administrative actions
- New legislative reforms unlikely to be enacted into law without significant new production measures

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

Comparison of NEPA Lawsuits

NEPA lawsuits 2001-2008									
Lead Defendant	2001	2002	2003	2004	2005	2006	2007	2008	Total
Forest Service	40	40	66	76	50	30	40	46	388
BLM	20	18	15	19	12	21	7	14	126
Army Corps	7	13	12	13	8	25	1	15	94
NOAA	8	10	6	15	3	4	2	8	56
FWS	17	12	2	5	3	6	3	6	54
Park Service	7	4	1	4	4	0	2	6	28
Reclamation	1	2	11	1	3	0	3	1	22
DOE	2	4	1	4	3	0	1	6	21
EPA	4	1	0	6	2	2	2	1	18
FERC	0	0	0	2	4	2	2	3	13
BIA	3	3	2	0	2	1	2	0	13
NRC	0	0	1	2	0	3	0	3	9
OSM	0	0	1	0	1	0	1	1	4
BOEMRE	**0**	**0**	**0**	**0**	**1**	**0**	**2**	**0**	**3**
Other agencies	29	40	22	19	24	14	18	19	185

Source: White House Council on Environmental Quality

Gulf of Mexico Oil & Gas Production

- Before the Deepwater Horizon, we actually had decreased our reliance upon foreign oil

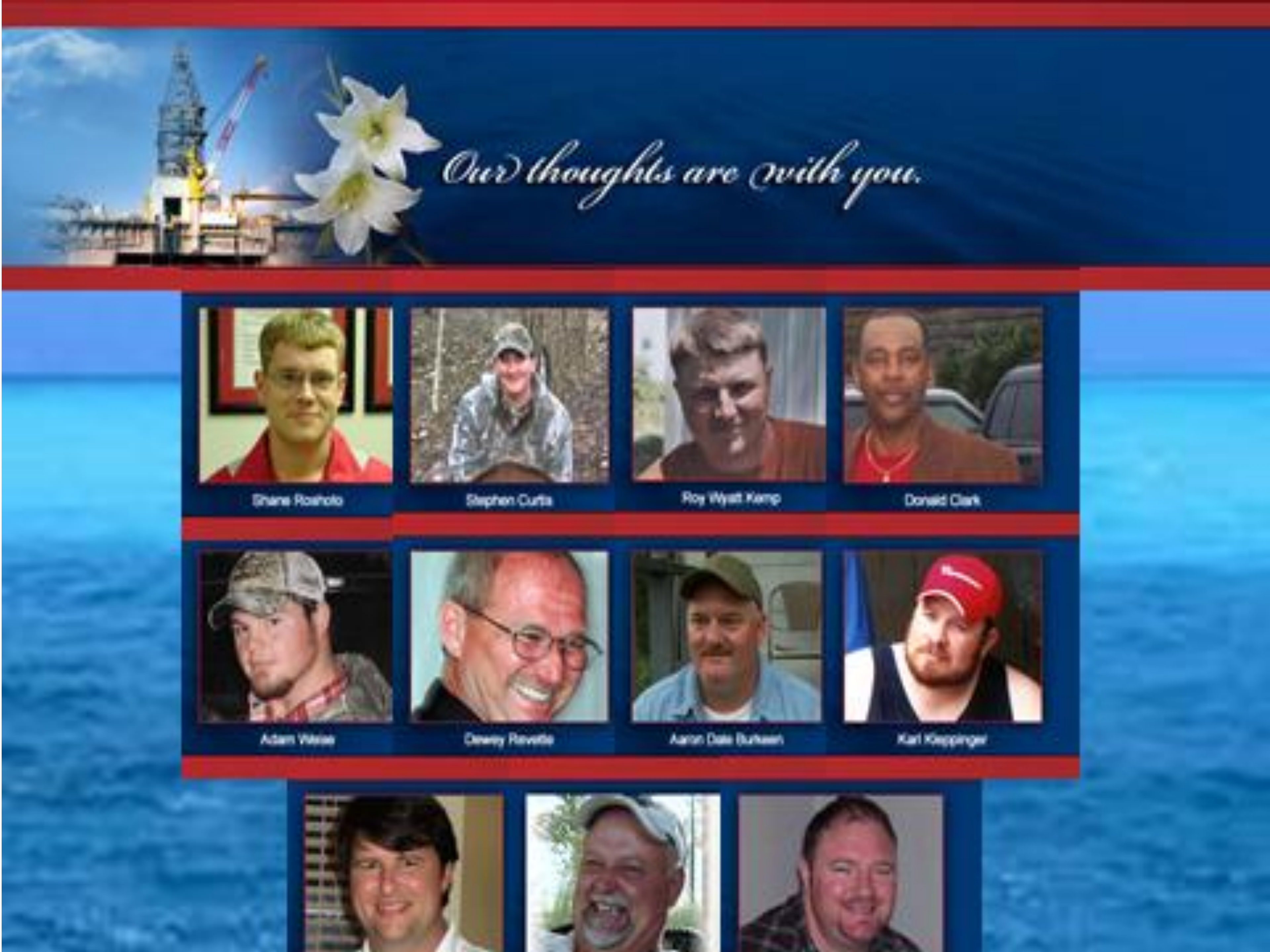
- Approximately 30% of our oil is produced from the Gulf of Mexico

- Approximately 11% of our natural gas comes from the Gulf of Mexico

Summary

- The OCS should be a major source of energy for the United States
- Yes we can develop oil and gas safely, but where will we be allowed to look?
- Issuance of drilling permits needs to be accelerated
- Certainty and clarity are desired
- All will pay more for energy
- Energy is global market, other countries will gladly sell to us
- We can decrease our imports, part of the solution is more home grown production
- Once you look, you may find more
- Industry is committed to safety

Sign of the times


Our thoughts are with you.
Shane Roshto
Stephen Curtis
Roy Wyatt Kemp
Donald Clark
Adam Weise
Dewey Revette
Aaron Dale Burkeen
Karl Kleppinger

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