



BUREAUCRATIC DELAY

Despite lifting the moratorium on shallow water drilling in May 2010, regulatory inaction and bureaucratic foot dragging have prevented new drilling permits for shallow water operations from being issued. As of November 9, 2010, the Bureau of Ocean Energy Management (BOEM) had issued only 13 permits for new shallow water wells in five months. Prior to the Deepwater Horizon accident, the Interior Department issued an average of 10 to 15 permits per month.

The timeline of regulatory inaction since the April 20, 2010 tragedy at the Macondo well is as follows:

MAY 6: U.S. Department of Interior (DOI) declared a moratorium on all new drilling permits

MAY 7: Shallow Water Energy Security Coalition (SWESC) led by Hercules Offshore was created to educate policymakers on differences between shallow and deepwater drilling

MAY 19: Minerals Management Service (MMS) is replaced with Bureau of Ocean Energy Management (BOEM). Director of the MMS resigns.

MAY 21: SWESC obtained signatures from 66 members of Congress urging DOI Secretary Salazar to lift moratorium on shallow water drilling operations

MAY 26: SWESC met with DOI Secretary Salazar

MAY 28: Shallow water drilling moratorium is lifted, but deepwater drilling moratorium extended for six months

MAY 31: BOEM confirmed approval of two shallow water drilling permits, both of which were revoked shortly thereafter

JUNE 8: NTL-05 issued by BOEM, outlining the first round of new safety regulations, which includes

CEO certification of equipment and third party verification

JUNE 18: NTL-06 issued by BOEM, requiring operators to include blowout scenarios in all new drilling permit applications

SEPTEMBER 30: DOI announces "new" Drilling Safety Rule and Workplace Safety Rule

OCTOBER 12: Deepwater drilling moratorium lifted

JUNE 18 - NOVEMBER 9: Only 13 permits that comply with both NTL-05 and NTL-06 requirements have been approved for the drilling of new wells

When BOEM Director Michael Bromwich states that he has approved the majority of shallow water permits, he is being disingenuous. Before permits can be granted, Exploration and Development Plans must be approved. That is where the backlog lies. As of August 17, 2010, BOEM admitted that it had 69 Exploration and Development Plans still awaiting approval. Each Exploration and Development Plan involves three to five new wells, therefore at least 200 new wells are being delayed by BOEM inaction. Since mid-August, Director Bromwich has refused to release new information about the backlog of Exploration and Development Plans.

For more than six decades, shallow water operators have complied with existing regulations with minimal incident. In the last 15 years, shallow water operators have drilled 11,000 wells and spilled just 15 barrels of oil. Our employees have developed significant experience, expertise and oversight capabilities to conduct shallow water operations. These skilled employees use some of the best technologies in the world to manage risk, such as surface blowout preventers that are constantly maintained and can be instantly deployed in the event of an emergency.



A new regulation, NTL-06 – issued on June 18, 2010 – is most responsible for this permitting backlog. NTL-06 requires the submission of “additional” information of worst case discharge in a blowout scenario. The regulation applies to all new exploration and development plans. A shallow water operator must supply information on a worst case discharge such as estimated flow rate, total volume and maximum duration of potential blowout.

Unfortunately, BOEM’s assumptions about worst case discharge have been colored by fears resulting from the Deepwater Horizon spill. BOEM is ignoring history, geology and established science. They ignore the fact that shallow water wells are being drilled in mature, proven reservoirs where the pressures are well known production zones. Suppose you had to plan for a “Worst Case Scenario” at Giants Stadium. How many ambulances would you need? 1 per 100 fans? 1 per 50? 1 ambulance for every fan? Would you cancel the NFL season while you argued over the number?

Shallow water operators have proposed a good-faith alternative: a graduated risk analysis. Under this tiered approach, a worst case discharge estimates tied to established benchmarks such as reservoir pressure and size of production zone. This approach will move the permitting process forward without sacrificing safety.