

security Gulf Coast **safe** families **income**
floating factories protection
40,000 jobs **livelihood** **freedom**
energy **dependable**
pride **natural** **\$12.5 billion nationally**
clean **American** **heartland**
homes



Executive Summary

Contact:
James W. Noe
(713) 350-8306

Executive Director
Shallow Water Energy Security
Coalition
www.shallowwaterenergy.org

Senior Vice President, General
Counsel and Chief Compliance
Officer – Hercules Offshore,
Inc.

Chief Executive Officer and
President, Delta Towing

What is Shallow Water Drilling?

- Shallow Water vs. Deepwater Drilling
- Long Record of Safety and Environmental Responsibility

Economic Impact

- Rigs are “Floating Factories” 1 Rig = 500 Jobs
- SMU Study: 40,000 jobs in jeopardy
- \$4.3 billion direct economic impact
- \$12.5 billion indirect impact

How Did We Get Here?

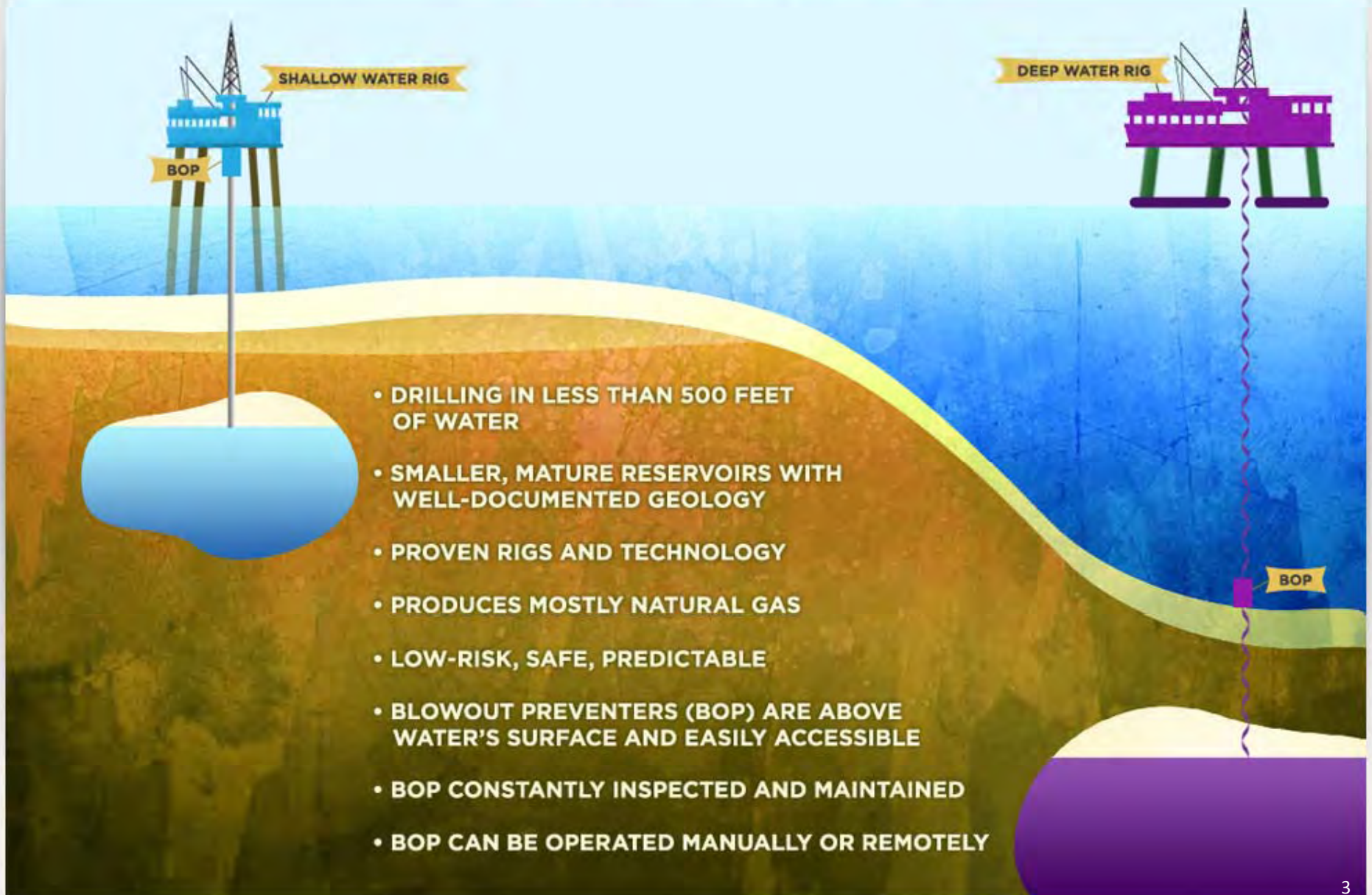
- Timeline of Events
- Only 21 shallow water permits for new wells approved in last 7 months
- Historic approval rate: 10-15 per month

Why are Permits Being Delayed?

- Changes in the Regulatory Process
- Plans versus Permits
- Worst Case Discharge Regulations
- Alternative Proposal From SWES

SHALLOW WATER DRILLING VS. DEEP WATER DRILLING

SAFE. SECURE. IMPERATIVE.



Shallow Water: Safe, Secure, Imperative

Shallow Water is Different and Safer than Deepwater, Even Secretary Salazar Says So:

- “Drilling that takes place in the deepwater environment poses more significant risks than drilling in shallow waters.”
- “In addition to the heightened risks associated with the use of floating rigs and platforms [as opposed to shallow water rigs], deepwater wells can be very productive and have flow potentials that can be 5 to 10 times higher than shallow water wells.”
- “Shallow water spills tend to be more confined and easier to address ...”
- “... The BP Oil Spill response has demonstrated that water depth, pressure, and temperature are major factors affecting the ability of well control crews to bring deepwater blowouts under control.”

Physical and Operational Factors Make Shallow Water Drilling Safe, Reliable, and Environmentally Sound.

- ✓ Well-known, predictable formations – known geology and pressures
- ✓ Mature reservoirs
- ✓ Immediate access to wellhead – at surface allowing for rapid response
- ✓ Traditional and proven well control methods and equipment
- ✓ BOPs on surface: allows easy inspection, maintenance, and repair, and places all pressure below the device
- ✓ Manual or remote control of BOP
- ✓ Simple controls of BOP

Sources:

May 27, 2010 Report to the President
July 12, 2010 Decision Memorandum
FAQ on “Shallow Water Drilling”

WWW.SHALLOWWATERENERGY.ORG

- 284 Independent operators accounted for 73% of total production on Gulf of Mexico shelf in 2009

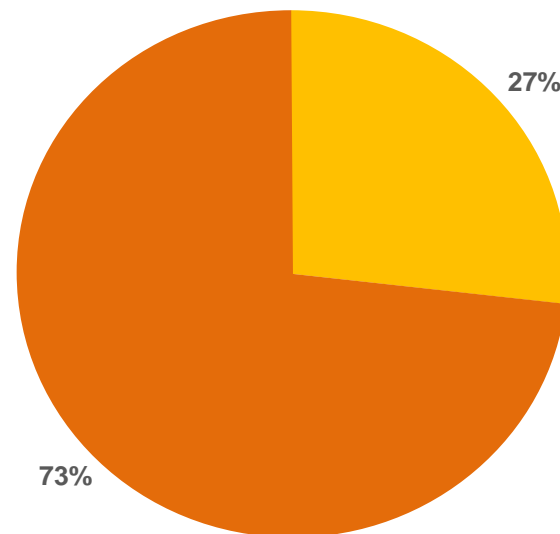
- 293 companies produced 234 MMBOE on the GOM shelf (<500') during 2009

- Independent operators will be forced to shut down Gulf of Mexico operations if liability caps are removed or significantly increased

- Majors may decide risk is not worth the potential reward

Shallow Water Operators are not “Big Oil”

Percentage of Total Production in US GOM shelf (<500ft)

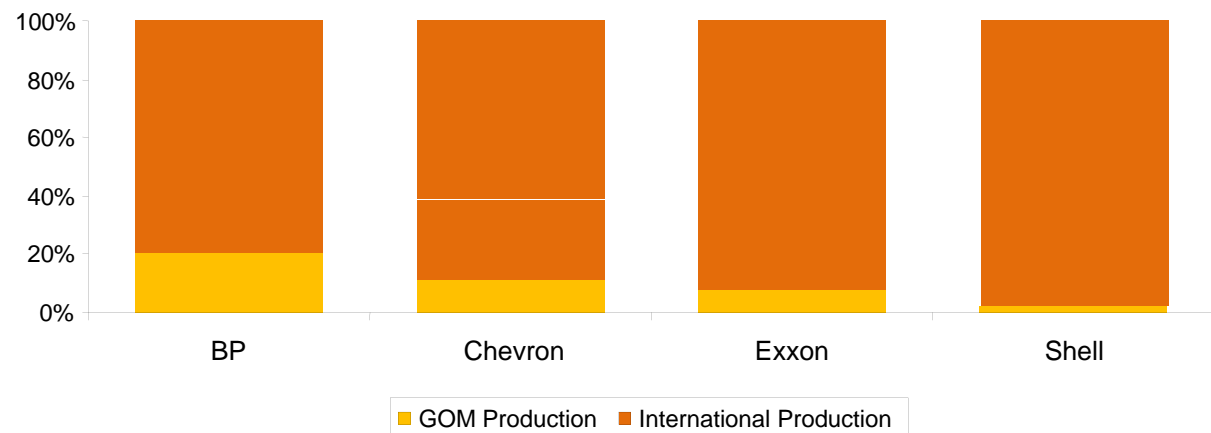


- Major operators can redirect investment to large existing assets outside of GOM

- Smaller independent GOM operators have a large majority of their assets in the US, and many have 100% of assets in US Gulf of Mexico

“Big Oil” Operators Not Dependent on U.S. GOM

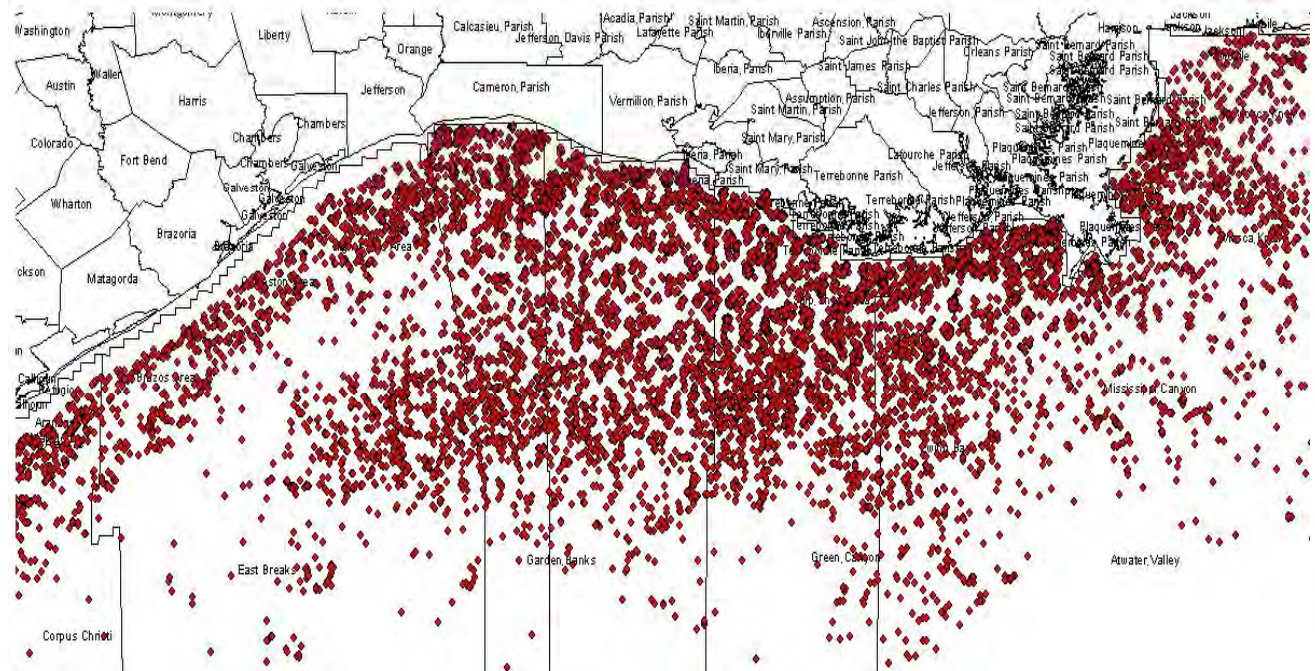
US GOM Crude Oil Production as a Percentage of Worldwide Crude Oil Production



Shallow Water Drilling: Proven, Reliable and Safe

- 46,011 wells drilled in less than 1,000 feet of water since 1949
- 11,070 wells drilled in less than 500 feet of water in last 15 years
- 15 barrels of oil spilled in 15 years
- Actual worst case spill: 10 barrels spilled off Louisiana on March 8, 2003

*Source, BOEM Data



- Recreational marine vessels (i.e. jet-ski) produce almost twice as much and land-based river runoffs produce 18 times more petroleum discharge

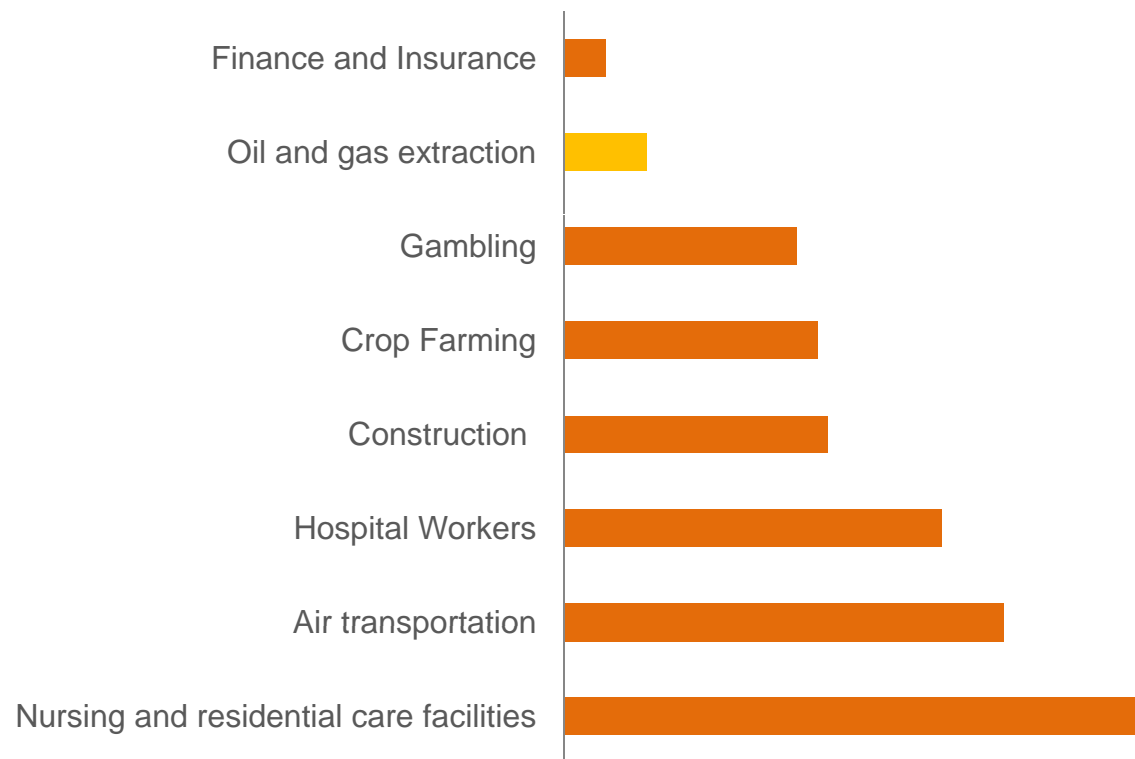
Source: Based on Recreational marine vessels (i.e. jet-ski) produce almost twice as much and land-based river runoffs produce 18 times more petroleum discharge research from the National Research Council of the National Academies, *Oil in the Sea III: Inputs Fates and Effects 2003*, for the periods between 1990-1999.

•According to the Bureau of Labor Statistics, oil & gas extraction has a lower injury rate than 89% of the total 134 million working Americans based on industry groups

*Source: Bureau of Labor Statistics - Incidence rates of nonfatal occupational injuries and illnesses by case type and ownership, selected industries, 2009, <http://www.bls.gov/news.release/osh.t01.htm>

Oil & Gas Drilling Among the Lowest Injury Rate of All Industries

Oil & Gas Industry Shows Culture of Safety

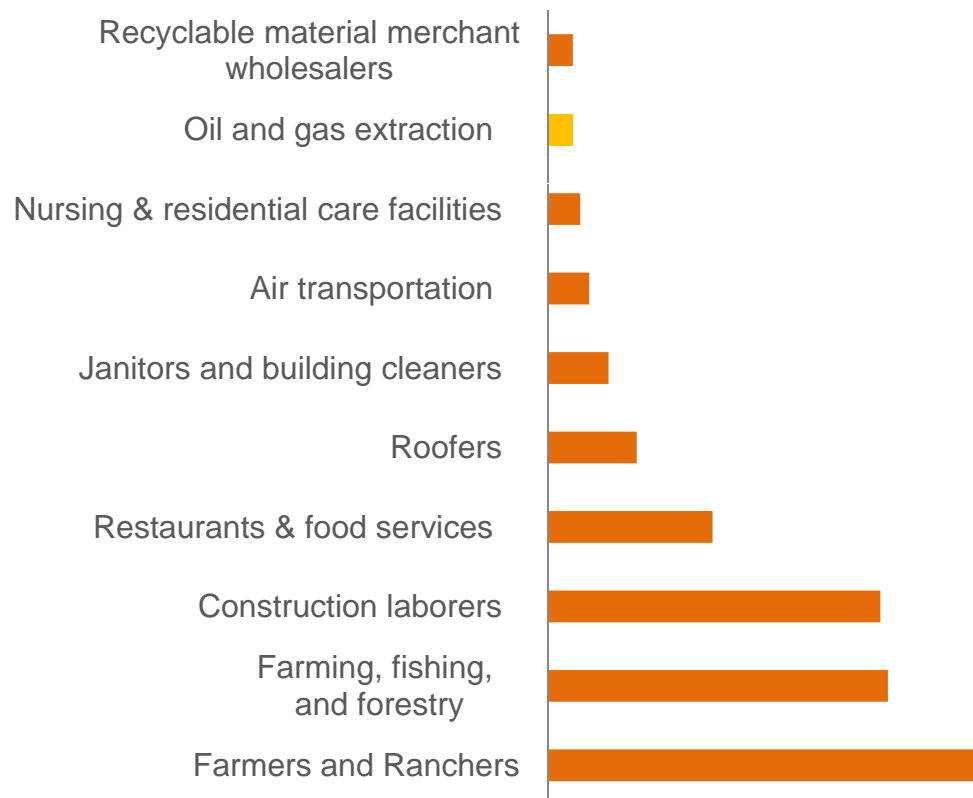


•According to the Bureau of Labor Statistics, Oil & Gas Extraction accounted for 21 of the 5,214 total fatal workplace injuries in 2008 – among the lowest number of fatalities across all industries

Source: Bureau of Labor Statistics – 2009 incidence rates of fatal occupational injuries
http://www.bls.gov/iif/oshwc/cfoi/cfoi_rates_2009hb.pdf

Record of Safety for Oil & Gas Drilling Evident from Low Fatality Rate Across All Industries

Oil & Gas Extraction Among Safest Industries



SHALLOW WATER DRILLING KEEPS 40,000 JOBS AFLOAT

EVERY 100 JOBS ON ONE OF THESE "FLOATING FACTORIES" CREATES 400 JOBS, INCLUDING:

 SHIPYARDS

HELICOPTER COMPANIES 

SUPPLY BOATS 

 LONGSHOREMEN/
PORTWORKERS

STEEL SUPPLIERS 


 REPAIRMEN

CREW BOATS 

 FUEL DEPOTS

EQUIPMENT MANUFACTURERS 

 TRUCKING

FOOD SUPPLIERS 



Lack of Drilling Permits = Idle Rigs and Workers

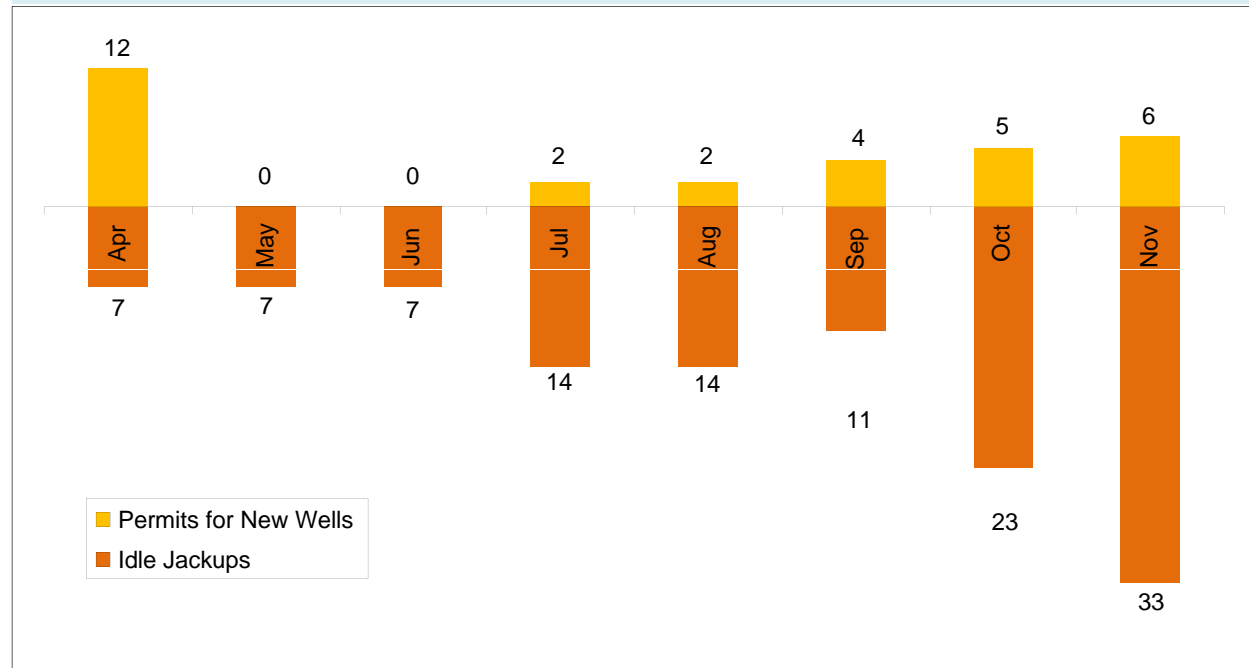
- Average of 12 permits per month until Macondo incident

- Total of 21 permits in the 7 months since moratorium was officially lifted

- Jackup rigs going idle unless permit approvals resume

- Most jackup rigs will not be able to secure new contracts after their current jobs unless permits for new wells are issued at a faster pace

Permits for New Wells versus Idle Jackups



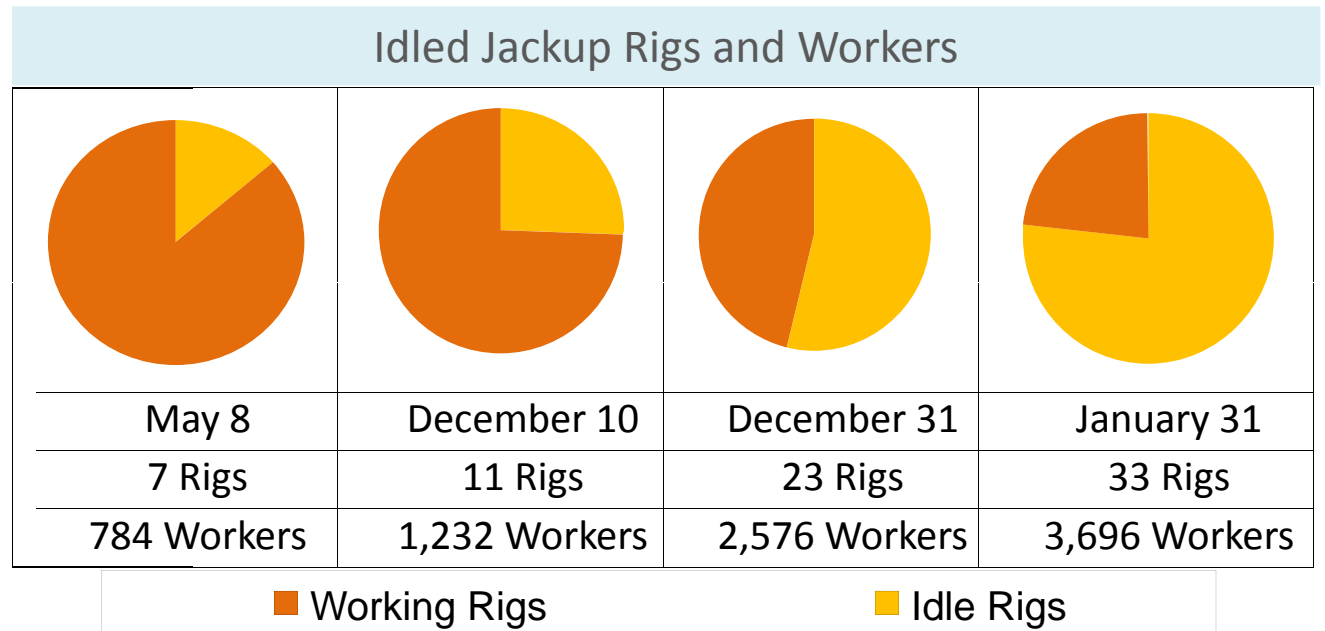
Source: BOEM, ODS-Petrodata, and Coalition Estimates
 Total of 45 marketed jackups as of December 10, 2010
 Idle Jackups are defined as uncontracted.

- Idled workers estimate above, does not include rig support (crewboats, etc.) and shore-based personnel. According to Secretary Salazar, some 150,000 jobs are related to offshore operators. Of those, it is estimated that 40,000+ are specifically employed in shallow water drilling operations.

- The de facto moratorium on shallow water operations already idling rigs, killing jobs

- Only 21 permits for new wells approved by federal government since issuance of rules

Shallow Water Rigs Rapidly Going Idle – Workers Losing Jobs



Source: ODS-Petrodata and Coalition estimates if no new permits are issued
 Total rigs includes 43 currently marketed rigs in US GOM and excludes 36 cold stacked rigs



Study available
online at:

[http://tinyurl.com/
SMU-Cox-Study](http://tinyurl.com/SMU-Cox-Study)

SMU Study

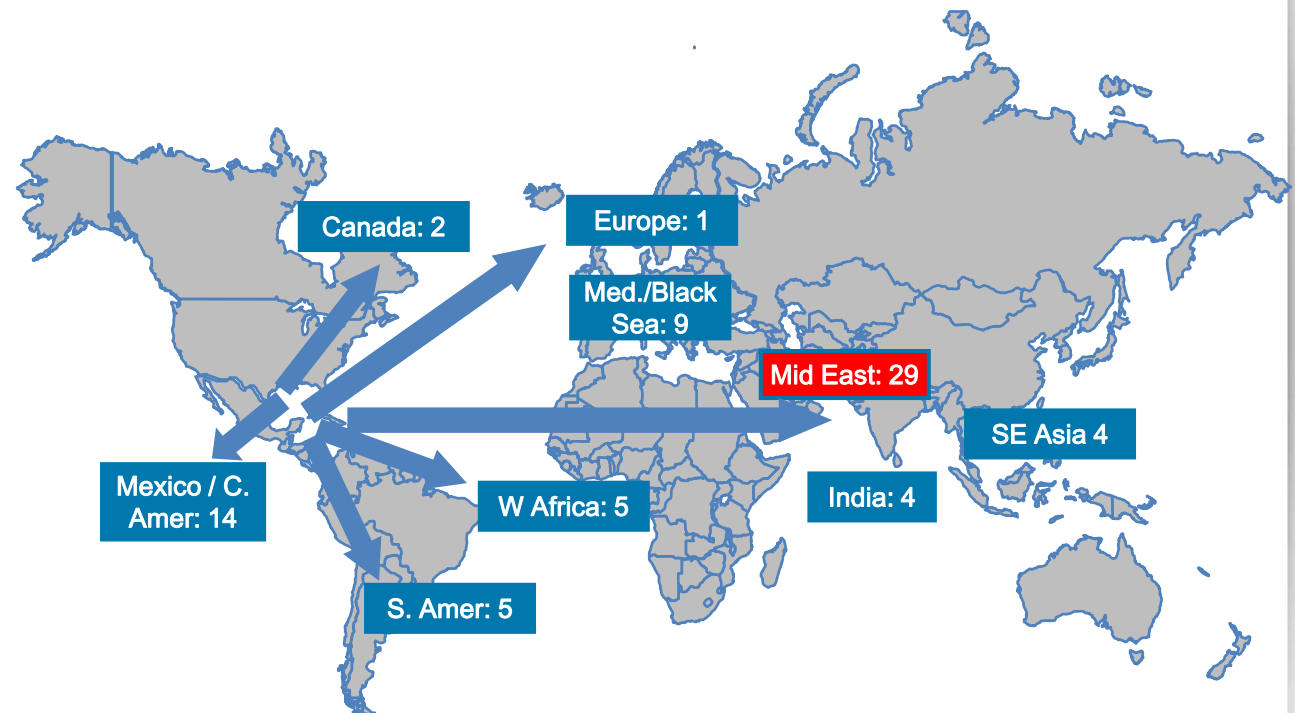
- Report commissioned by SWES
- Conducted by Maguire Energy Institute at the Southern Methodist University School of Business
- Should 75 percent of rigs become stacked (idled) by BOEM inaction on permits:
 - 40,000 jobs lost
 - \$4.3 billion direct economic impact
 - \$12.5 billion indirect economic impact

- Since 2001, approximately 78 Jackups have left the U.S. Gulf of Mexico – leaving 44 available shallow water rigs

- Current regulatory and legislative uncertainty continues
 - All rigs that can leave, will leave

- Since the moratorium began on May 6th, five jackup rigs have announced they will leave the Gulf of Mexico.
 - 13 total rigs (Shallow and Deep) have left, and many others have been mothballed

Rigs Are Leaving, Taking Jobs and Jeopardizing Energy Security



- Choking off shallow water drilling increases our dependence on foreign oil.

- The United States already imports oil from a host of nations whose governments or people are hostile to our interests.

- Recently, Cuba announced plans to drill 7 test wells in the Gulf of Mexico, with drilling assistance from China.

- Taking from American reserves

Energy Security is National Security

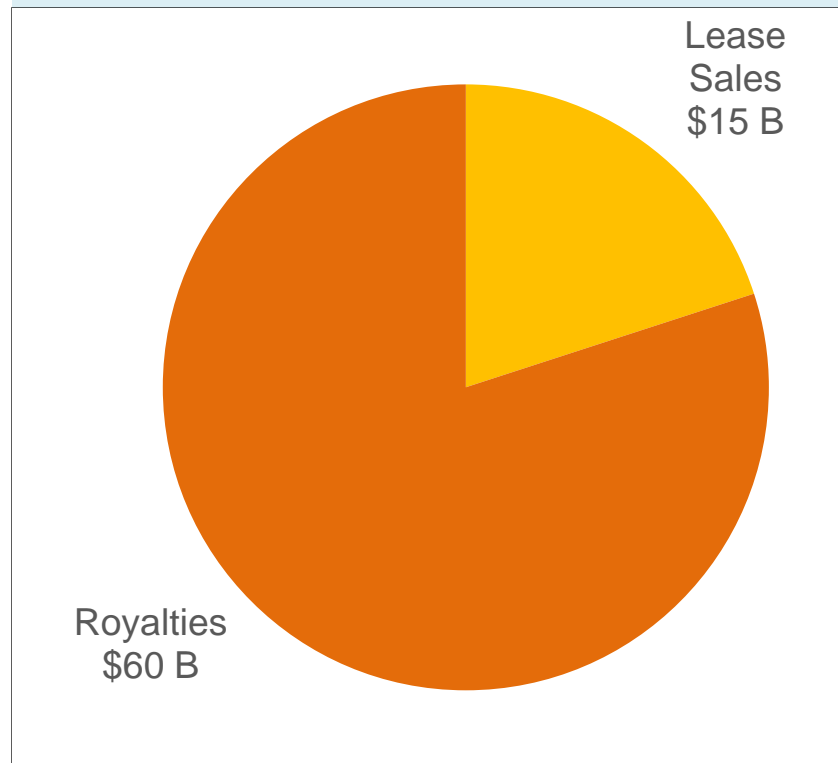
Oil-Producing Nations outside of North America	US Crude Oil Imports July 2010 (1000 bpd)
Nigeria	1,143
Saudi Arabia	1,033
Venezuela	1,016
Iraq	430
Colombia	381
Angola	374
Russia	367

Regulatory Delays Cost Taxpayers Lost Royalties

- From 2001 through 2009, the U.S. Gulf of Mexico has generated a total of \$75 billion in federal royalty revenue and lease sale proceeds
 - \$60 billion in federal royalty payments
 - That's equivalent to the economy of Nebraska
 - \$15 billion in proceeds from offshore lease sales

- The lack of lease sales and royalty revenue is costing taxpayers money and adding to the national debt.

US GOM OCS Royalty Revenues and Lease Sales Proceeds
(2001 – 2009 Cumulative)



How Did We Get Here? Timeline of Events

- April 20: Tragedy at Macondo well
- 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: MMS is replaced with Bureau of Ocean Energy Management, Regulations and Enforcement (BOEM), Bureau of Ocean Energy Management and Office of Natural Resources Revenue. 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 the BOEM outlining the first round of new safety regulations including CEO certification of equipment and third party verification and reviews
- June 18: NTL 06 issued by the 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
- November 8, 2010: NTL 2010-N10 issued by BOEM for subsea BOP or surface BOP’s on floating facilities
- December 10: Only 21 permits have been approved for the drilling of new wells

Why are Permits Being Delayed?

Regulatory Process: Drilling a Well

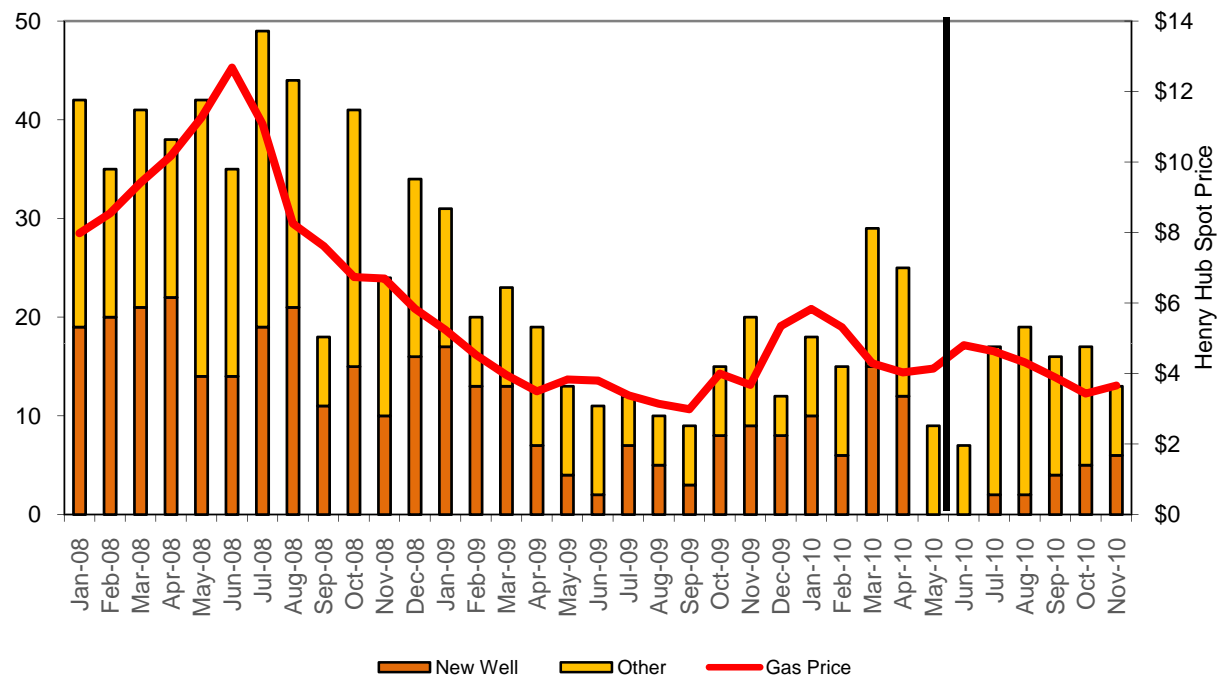
- Exploration or Development Plan
- Oil Spill Response Plan
- Provide Certificate of Financial Responsibility
- Application for Permit to Drill (“APD”)
- Commence Drilling

Regulatory Approval – Then and Now

- 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 December 10, BOEM had issued only 21 permits for new shallow water wells in five months.
 - There were 12 permits issued in the 20 days of April before the Deepwater Horizon accident.
- Previously, the Interior Department issued an average of 10 to 15 permits per month.
- Oil forecasters say, due to natural decline rates, 20 new wells need to be drilled each month just to maintain flat production in the Gulf.

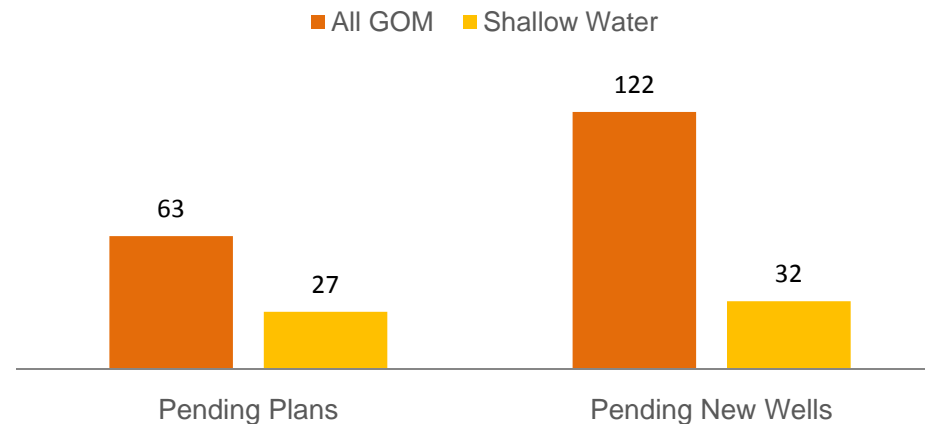
Permit Approvals Have Not Recovered

Permits for all well types have fallen dramatically since the moratorium



Plans versus Permits

- When BOEM Director Michael Bromwich states that he has approved the majority of shallow water permits, he is being disingenuous.
- Before permits can be approved, Exploration and Development Plans must be approved.
- Based on BOEM data we have calculated that there are 63 pending plans as of October 26th (27 in shallow water).
- Each Exploration and Development Plan involves 1-10 wells and there are 122 new wells included in the pending plans (32 in shallow water) that are being delayed by BOEM inaction.



- 46,011 wells drilled in less than 1,000 feet of water since 1949

- 11,070 wells drilled in less than 500 feet of water in last 15 years

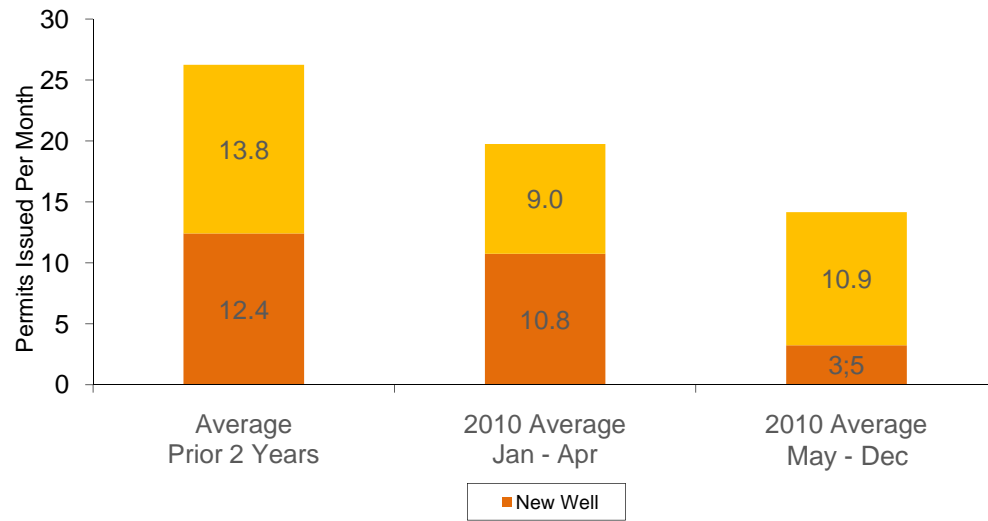
- 15 barrels of oil spilled in 15 years

- Actual worst case spill: 10 barrels spilled off Louisiana on March 8, 2003

*Source, BOEM Data

Shallow Water Drilling: Proven, Reliable and Safe

U.S. GOM Shallow Water Average Permits Approval per Month



- Recreational marine vessels (i.e. jet-ski) produce almost twice as much and land-based river runoffs produce 18 times more petroleum discharge

•Source: Based on Recreational marine vessels (i.e. jet-ski) produce almost twice as much and land-based river runoffs produce 18 times more petroleum discharge research from the National Research Council of the National Academies, Oil in the Sea III: Inputs Fates and Effects 2003, for the periods between 1990-1999.

NTL – 05 : Safety NTL

- Issued – June 8, 2010
- Implements significant provisions of DOI's May 27th Safety Measures Report issued to President Obama
- CEO compliance certification
 - Examined well control equipment
 - Reviewed drilling well control practices
 - Emergency procedures
- Compliance with operating regulations (30 CFR 250)
- Enhanced record keeping requirements, including BOP maintenance record
- Supplemental documentation regarding BOPs
- Recertification of BOPs – floating operations
- Verify BOP compatibility with rig and operations
 - Capable of shearing the drill pipe under maximum anticipated surface pressures

NTL – 06 : Worst Case Discharge

- Issued – June 18, 2010
- Requires submission of “additional” information of worst case discharge in a blowout scenario.¹
- Applies to all new exploration and development plans, and existing exploration and development plans unless drilling permits already issued before effective date of NTL
- Required information:
 - Estimated flow rate, total volume and maximum duration of potential blowout
 - Assumptions/calculations used in determining worst case discharge



How Many Ambulances Do You Need at Giants Stadium?

- IBOEM'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.
- If 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
 - Graduated risk analysis
 - Tiered approach: Worst Case Discharge estimates tied to established benchmarks such as reservoir pressure and size of production zone
 - Move the permitting process forward without sacrificing safety
 - Our good-faith efforts have been met with months of delay