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Impacts of President Obama's Order Halting Work on 33 Exploratory Wells in the Deepwater Gulf of Mexico

The Presidential Order does not affect the 4,515 shallow-water wells, and it does not affect 591 producing deepwater Gulf wells.

Roughly 33% of nation's domestically produced oil comes from the Gulf of Mexico, and 10% of the nation's natural gas.

80% of the Gulf's oil, and 45% of its natural gas comes from operations in more than 1000 feet of water – the deepwater (2009 data).

Suspension of operations means roughly 33 floating drilling rigs – typically leased for hundreds of thousands of dollars per day – will be idled for six months or longer.

$250,000 to $500,000 per day, per rig – results in roughly $8,250,000 to $16,500,000 per day in costs for idle rigs;

Secondary impacts include:

- Supply boats – 2 boats per rig with day rates of $15,000/day per boat - $30,000/day for 33 rigs – nearly $1 million/day
- Impacts to other supplies and related support services (i.e., welders, divers, caterers, transportation, etc.)

<u>Jobs –</u>

Each drilling platform averages 90 to 140 employees at any one time (2 shifts per day), and 180 to 280 for 2 2-week shifts
Each E&P job supports 4 other positions

Therefore, 800 to 1400 jobs per idle rig platform are at risk
Wages for those jobs average $1,804/weekly; potential for lost wages is huge, over $5 to $10 million for 1 month – per platform.
Wages lost could be over $165 to $330 million/month for all 33 platforms

Secondary impacts: Many offshore workers live in Louisiana. The state is going to see a decrease in income taxes and sales taxes that would normally be paid by those employees. (The state does not collect a sales tax on oilfield supplies and equipment used offshore.)
Companies Impacted:

Oil Companies Impacted -

Shell has seven (7) exploratory wells that will be impacted

Others include:
Chevron (4)
Anadarko (3)
Marathon (2)
Noble Energy (2)
Eni US Operating Co. (2)
ATP Oil & Gas (2)
Statoil (2)
ExxonMobil (1)
Petrobras America (1)
BHP (1)
BP (1)
Kerr McGee (1)
Murphy (1)
LLOG (1)
Newfield (1)
Hess (1)

The 33 gulf wells where operations are suspended were the ones inspected immediately after the Deepwater Horizon blowout (per Interior Secretary Ken Salazar); in those inspections, "only minor problems were found on a couple of rigs". Salazar believes "additional safety measures can be taken including dealing with cementing and casing of wells and significant enhancements and redundancies of blowout prevention mechanisms. Although these rigs passed the inspections, we will look at standards that are in place."

Longer term impacts include -

Idle drilling rigs in the Gulf could mean that they will be contracted overseas for work in other locations, and if/when the halt is lifted, rigs will not be available for completing the work in the Gulf.

Loss of tolls on LA Highway 1 resulting from loss of traffic related to deepwater operations; tolls go directly to retiring the bond debt for construction of LA Highway 1 improvements, and if those tolls are lost, the state of Louisiana – as the other responsible party on the bonds - will have to pay to retire that debt, meaning loss of funding for some other programs in the state's budget.

A 6-month halt in new drilling would defer 80,000 barrels/day, or 4% of 2011 deepwater Gulf of Mexico production. (Wood MacKenzie)

Higher drilling costs might jeopardize exploration in frontier areas. More immediately, estimates are that seven current discoveries could be rendered sub-economic, putting U.S. $7.6 billion in future government revenues at risk. Proposals to increase the cap on oil companies' liability for oil spill damages to U.S. $10 billion could exclude U.S. independents from offshore Gulf of Mexico activities. (Wood MacKenzie)

Since these wells are not yet producing, there is no decrease in the available oil supply. However, it could lead to a decrease in the availability of domestic oil, and it is hard to tell how commodity speculators are going to respond over the next six months; there is the possibility for driving oil prices to levels well over $100 per barrel.

Prepared May 28, 2010, based on most recent data available; will be updated as needed.