

To seal or sell? BP has options on remaining oil

Harry R. Weber, Associated Press, 8-6-10

NEW ORLEANS — The vast oil reservoir beneath BP's blown-out well could still be worth billions of dollars even after it spewed crude into the Gulf of Mexico for more than three months - but the multinational company blamed for causing the disaster isn't saying whether it plans to cash in on this potential windfall.

As BP on Thursday finished pumping cement into the blown well in hopes of sealing it for good, it insisted it had no plans to use it or its two relief wells to produce oil. But the company won't comment on the possibility of drilling in the same block of sea floor someday or selling the rights to the entire tract to another oil company.

None of this is likely to sit well with the people who lost their livelihoods from one of history's worst oil spills - and who might find it distasteful for a company with revenues of \$147 billion in the first half of 2010 even to consider revisiting the scene of April's fatal rig explosion as a profit source.

Linda Kaye Randolph, 54, a real estate investor who grew up on the coast in Pass Christian, Miss., said Thursday it disturbs her that anyone might use the site commercially.

"People died out there on that rig," she said, her voice cracking. "It isn't about the money. It would bother me that they're not respecting the people who died there. There's thousands of other wells. They can find another place. Leave that one alone."

One question is whether a relief well BP is drilling to plug the well for good, and its backup, could one day be used for production.

In recent days, the company has hinted it might not be necessary to pump mud and cement through the relief well, especially after news this week that a preliminary step - pumping the same filler into the top of the broken well - appeared to be working on its own.

Since sending filler into the runaway well via the relief hole would render it useless and unprofitable in the future, BP's apparent reluctance to do so raises suspicions it might be thinking about using the site later for commercial purposes, and BP isn't talking.

"I can't speculate on what the future might bring," spokesman Daren Beaudou said Thursday evening. "We're focused on the response."

BP has not been approached by any other company about buying the relief wells, spokesman Scott Dean said.

But with the company and its partners facing tens of billions of dollars in liabilities, the incentive to exploit the wells and the reservoir could grow.

Outgoing BP Chief Executive Tony Hayward said in June that the reservoir feeding the busted well was believed to hold about 2.1 billion gallons of oil. Roughly 200 million gallons have leaked out, leaving about 1.9 billion gallons, or about 45,238,000 barrels. At the current market price per barrel - \$82 - that would make the reservoir still worth \$3.7 billion.

The method of plugging the well could help determine how easily the reservoir can be tapped in the future.

In a procedure dubbed "static kill," crews this week pumped mud down the blown-out wellhead and forced the rogue crude back down into the reservoir for the first time since the Deepwater Horizon rig exploded off Louisiana, killing 11 workers. On Thursday, they finished pumping cement down the well to seal off the oil at the source.

The next step will involve completing the relief well, which is now only about 100 feet from intersecting the busted well just above where it touches the reservoir.

For months, BP and government officials have said the plan was to pump mud and cement down the relief well - or a backup one also near completion - and stop the flow oil from the bottom, ensuring a tight seal.

BP is now saying only that the relief wells will be used in some fashion, while retired Adm. Thad Allen, who's overseeing the response for the government, continued to insist the relief wells will be completed on schedule in a procedure known as the "bottom kill."

"The well will not be killed until we do the bottom kill and do whatever needs to be done," Allen said Thursday, responding to reports of differences between BP and the government over the issue. "I am the national incident commander and I issue the orders. This will not be done until we do the bottom kill."

Company scientists are debating different strategies on how to use the primary relief well, BP Senior Vice President Kent Wells said Wednesday, without elaborating.

"I wouldn't put it government versus BP," he said. "This is just about some really smart people debating about what's the best way to do things."

Even if BP abandons the idea of using the three wells to bring up oil again, it still has access to a roughly 3-by-3-mile block of sea floor that could contain multiple reservoirs, "so there is a lot more potential" for oil production, said George Hirasaki, a Rice University professor in chemical and biomolecular engineering an expert on oil containment.

Industry analyst Fadel Gheit of Oppenheimer & Co. said it was unlikely that BP would subject itself to an outcry by producing at the site. But that, he said, doesn't apply to others.

"There are people that would pay top dollar for any reservoir that produces 50,000 barrels of oil a day," Gheit said.

Anadarko, which is based in The Woodlands, Texas, has a minority stake in the busted well. An Anadarko spokesman declined to say Thursday whether the company would consider selling its rights to it.

BP's priorities appear to have changed completely over the past 90 days, Gheit said.

"It is like bringing a blank sheet of paper and rewriting everything you know," he said. "They don't know the assets that will stay, what assets will go, what fines will be assessed on them, how much they will be paying and for how long, and whether they will be able to hold onto these leases as part of the government punishment."

Melissa Schwartz, spokeswoman for the Bureau of Ocean Energy Management, Regulation and Enforcement, which oversees offshore drilling, said her agency was not aware of any plans by BP to produce hydrocarbons at the blown-out well or to sell the lease to another company. The energy bureau would have to approve the assignment of the lease if it were sold or if a permit for drilling was requested.

Asked if the energy bureau would approve production on the lease after the well is plugged and the disaster cleaned up, Schwartz said it was "too early to make a determination until a thorough investigation has been completed."