

US drilling decisions ripple on 2 coasts

Harry R. Weber, Associated Press, 12-3-10

NEW ORLEANS -- Less than a year ago, struggling states and coastal towns saw crude exploration off the Gulf Coast and Atlantic seaboard as an economic savior. Yet the backlash from the BP oil spill - most recently the Obama administration's decision this week not to open up some of that area to new drilling - has residents wondering if the industry will ever thrive again in U.S. waters.

Some fear an exodus of oil rigs in search of friendlier waters overseas. And with each passing day, folks that rely on deepwater drilling say the damage is multiplying, creating a ripple affect from blue-collar Main Street to beachside drives. They warn it will only get worse.

"Deepwater was the future," said Lori Davis, owner of Rig-Chem, a Houma, La., business that sells chemicals to oil companies. If there's less new exploratory drilling, everyone from industry suppliers to doctor's offices who treat oil field workers will have less business.

Davis has already cut a consultant, reduced a profit-sharing plan for workers and left a recent job vacancy unfilled. "Today, we have to rethink that because we have an administration that's clueless, with no interest in supporting oil and gas," she said.

President Barack Obama's latest move to maintain a drilling ban in both the eastern Gulf of Mexico and along the Atlantic seaboard is a reversal of his promise to do just the opposite three weeks before the disaster. And it shows that more than seven months after the Deepwater Horizon rig explosion killed 11 men and led to some 200 million gallons of oil spewing from BP's undersea well, the worst offshore oil spill in U.S. history is still very much shaping national oil policy.

After the April spill, the government placed a moratorium on issuing new deepwater drilling permits in the Gulf. The moratorium was lifted Oct. 12, but industry watchers say it effectively remains in place. In the nearly eight weeks since the ban was lifted, the government has not issued a single permit that would allow the resumption of any previously suspended drilling activities.

The administration previously backed the major expansion of offshore drilling, in part to gain support for comprehensive climate legislation in Congress, one of Obama's top legislative goals. But with that bill now off the table, the president stands much to gain politically by saying no to powerful oil interests, particularly in tourism-conscious Florida, which is expected to be a crucial swing state in the 2012 election campaign.

Many other tourism-driven towns stand to gain, too, simply because of the perception of a pristine ocean.

Ask Marsha Henson of Tybee Island, Ga., and she'll tell you Obama's decision brings her a sense of relief. She's co-owner of Sea Kayak Georgia, which gives offshore tours and paddling lessons to thousands of tourists along Georgia's 100 miles of Atlantic coast each year.

"Obviously he (Obama) is listening to people's current feelings of how we may in this lifetime never see a healing of what has happened in the Gulf," said Henson, whose business picked up after the BP spill because of more vacationers coming to oil-free coastal Georgia rather than risk having their trips ruined by fouled Gulf beaches.

In Maryland, Marie-Noelle Sayan, owner of the 22-room King Charles Hotel in Ocean City, Md., said she was thankful.

"If we have offshore drilling, one, just one, accident could put the whole town out of business because the town is completely driven by tourism," Sayan said.

On Wednesday, the Obama administration reversed a March plan that would have authorized officials to explore the potential for drilling from Delaware to central Florida, plus the northern waters of Alaska. The new approach allows drilling in Alaska, but officials said they will move cautiously before approving any leases. The focus instead will be on areas with active leases, which is largely in the central and western Gulf of Mexico and in a limited area of Alaska.

So far, rigs aren't leaving the Gulf en masse, but industry officials fear they will.

According to ODS-Petrodata, which follows the market for oil and gas producers, there were 36 floating rigs in the Gulf on Thursday, one more than were there the day before the explosion aboard the BP-leased Deepwater Horizon. However, the firm said that only six of the rigs were conducting operations Thursday - basically maintenance work, not exploratory drilling.

The lack of a decline could be due to the way contracts work. Because of the absence of deepwater drilling, some oil and gas firms have tried but failed to get out of leasing contracts with rig owners that were signed before the moratorium. Other firms have softened the blow by negotiating lower rates with rig owners to remain in the Gulf on a standby basis, but that reduces the rig owners' revenue because they command higher lease rates when rigs are drilling. Also, a number of rigs were headed to the Gulf before the BP well blowout, and those offset some of the rigs that departed.

"The government hates it, but it's true, there is a de facto moratorium in place," said ODS-Petrodata's Julian Gunther.

The Interior Department maintains it is simply making sure rig operators are in compliance with tough new regulations before issuing permits.

Chevron and Exxon Mobil both criticized the latest decision by the Obama administration. Technology Professionals LLC of Houma, La., a firm that sells and services computers and works with oil companies, has had a lot of projects put on hold or delayed, owner Jason Bergeron said. "At some point, we're all tied to the oilfield. Even the doctors offices we work with, they've seen a downturn," Bergeron said.

Todd Hornbeck, CEO of Covington, La.-based Hornbeck Offshore Services, which provides vessels and other services for the offshore industry, said Thursday he has already laid off some employees and may have to lay off more. While he wouldn't provide specific numbers, he said he will likely have to consider redeploying assets in friendlier waters overseas. He said half of his 85 ships are idle.

"Everyone is scared," Hornbeck said.