

# Drilling Is Stalled Even After Ban Is Lifted

**Ben Casselman and Daniel Gilbert, Wall Street Journal, 1-3-11**

More than two months after the Obama administration lifted its ban on drilling in the deep-water Gulf of Mexico, oil companies are still waiting for approval to drill the first new oil well there. Experts now expect the wait to continue until the second half of 2011, and perhaps into 2012.

The Deepwater Horizon oil rig burns on April 21; the spill halted deep-water drilling in the Gulf of Mexico for months.

The administration says it is simply trying to enforce new safety rules adopted in the wake of the April 20 explosion of the Deepwater Horizon drilling rig, which killed 11 workers and set off the worst offshore oil spill in U.S. history. Environmental groups say the administration is right to take its time because the Gulf disaster exposed the risks of offshore drilling.

But the delay is hurting big oil companies such as Chevron Corp. and Royal Dutch Shell PLC, which have billions of dollars in investments tied up in Gulf projects that are on hold and are paying hundreds of thousands of dollars a day for rigs that aren't allowed to drill. Smaller operators such as ATP Oil & Gas Corp., which have less flexibility to focus on projects in other regions, have been even harder hit.

The impact of the delays goes beyond the oil industry. The Gulf coast economy has been hit hard by the slowdown in drilling activity, especially because the oil spill also hurt the region's fishing and tourism industries. The Obama administration in September estimated that 8,000 to 12,000 workers could lose their jobs temporarily as a result of the moratorium; some independent estimates have been much higher.

The slowdown also has long-term implications for U.S. oil production. The Energy Information Administration, the research arm of the Department of Energy, last month predicted that domestic offshore oil production will fall 13% this year from 2010 due to the moratorium and the slow return to drilling; a year ago, the agency predicted offshore production would rise 6% in 2011. The difference: a loss of about 220,000 barrels of oil a day.

Drilling in waters of less than 500 feet also has been snared by the government's increased scrutiny. Regulators requested modifications to 101 shallow-water drilling plans in 2010, compared with 59 such requests in 2009 and just 31 in 2008. Rig operators say drilling permits once approved in a matter of weeks have taken up to five months to process as the government introduced new rules.

The lengthy delays in reviewing new permits have caught the industry off guard. When the Obama administration lifted its ban on deep-water drilling on Oct. 12, many experts had expected a few permits to be issued before the end of 2010, followed by a gradual ramp-up of activity this year.

Among the new rules: Companies must hire outside engineers to certify key well-safety equipment and subject the gear to more rigorous tests. They require more worker training, more documentation and detailed plans of how they would respond to a worst-case well blowout.

Environmentalists say the Deepwater Horizon disaster proved reviews needed to be more thorough. "The process can work efficiently. Maybe not as quickly as it did before, but that's understandable," said Elgie Holstein, a staff expert at the Environmental Defense Fund.

But with no deep-water permits yet issued and companies still struggling to comply with new, tougher safety rules, experts say it could be 2012 before drilling approaches pre-disaster levels. Even when it does, projects that were once approved in weeks will likely take months to get past increased regulatory scrutiny.

"There was a sense that we would start to see deep-water permits approved by year end," said Arun Jayaram, an energy analyst with Credit Suisse in New York. Mr. Jayaram said he now doesn't expect much deep-water drilling at all this year.

Some companies are shifting investments out of the Gulf. BP PLC recently said it would move a brand-new rig that was meant to work in the Gulf, Pride International Inc.'s Deep Ocean Ascension, to Libya. Marathon Oil Corp. has tried to cancel a contract for a newly built Gulf rig owned by Noble Corp. Noble declined to comment, but last month it said it would "vigorously defend its rights under the drilling contract."

Erik Milito, a senior official at the American Petroleum Institute, the oil industry's main lobbying group, said more rigs will leave soon if drilling isn't allowed to resume. "They're doing everything they can to keep the contracted rigs in the Gulf," said Mr. Milito. "But they're idle, they're not able to do the work they intended to be out there doing, and that can only go on so long."

This isn't the first time the industry has issued such warnings. When the Obama administration first announced its moratorium on deep-water drilling in May, industry leaders predicted thousands of layoffs and a quick exodus of rigs from the Gulf. Instead, most companies either kept their rigs on stand-by or kept them busy with jobs that weren't covered by the moratorium, such as cleaning up old wells.

There are signs that companies remain committed to the Gulf. Chevron has in recent weeks announced two major deep-water projects there, which together will cost nearly \$12 billion.

"The deep-water business is a very long-term business, so we take a very long-term view," Gary Luquette, the head of exploration and production for Chevron in North America, said in an interview. BP and Shell also have said they have no plans to sell their Gulf properties.

Smaller oil companies, however, are less able to wait out the slowdown. ATP Oil & Gas, one of the smallest deep-water operators in the Gulf, has seen its share price fall 27% since the Deepwater Horizon exploded, a sign investors are concerned about lost revenue from its delayed wells. ATP's chairman, Paul Bulmahn, has said the company is now looking for projects in other countries. In a letter to President Barack Obama last month, Mr. Bulmahn pleaded for a drilling permit.

The slow pace of permitting has drawn fire even from some Congressional Democrats, especially Louisiana Sen. Mary Landrieu, who has said the policy is hurting the region's economy.

Louisiana Department of Natural Resources Secretary Scott Angelle pushed for a return to drilling last month. "It's time to get the men and women of this industry back to work, as well as the other industries that are dependent upon drilling activity for survival—the welders, the boat captains, the pipefitters and caterers," he said. "There is a multitude of individuals on the coast who want to get back to work finding the fuel to energize America."

The Obama administration's newly formed offshore drilling regulator, the Bureau of Ocean Energy Management, Regulation and Enforcement, says it isn't trying to stall new drilling but won't be rushed by industry pressure. The agency notes it has approved permits for deep-water activity that wasn't covered by the moratorium, such as modifications of existing wells.

"We will not cut corners in the permit review process," agency spokeswoman Melissa Schwartz wrote in an email. "Our priority remains, as it must, to ensure that oil and gas drilling is done in a safe and environmentally responsible manner."