

Industry frustration, pessimism linger in wake of deepwater ban

Nathanial Gronewold, *Environment & Energy Publishing*, 3-10-11

HOUSTON -- The Obama administration lifted the moratorium on deepwater drilling in the Gulf of Mexico last October, but as far as the offshore industry is concerned, the ban is still in place.

That is because nothing has happened since the federal government gave the nod for drilling in the Gulf to resume. The last permit approved for a deepwater operator arrived last week, allowing Noble Energy Inc. to resume a drilling program that was under way before the catastrophic Deepwater Horizon rig explosion and oil leak last spring.

What exists today is what James Noe, senior vice president at Hercules Offshore, calls "a *de facto* moratorium," one enforced by a virtual freeze in permitting. Other oil and gas company executives agree.

Indeed, the mood among most offshore oilfield service providers here suggests they are convinced the Obama administration wants to maintain the freeze on Gulf drilling indefinitely, a decision they say has been devastating to the economies of southern Texas and Louisiana.

"The deepwater drilling moratorium has been lifted in name only," declared Hess Corp. CEO John Hess in a speech before hundreds of energy industry peers at the IHS CERA Week energy conference here this week. "Since the announcement, no new permits have been granted for new exploration or production wells," he said.

Candida Scott, an analyst at IHS CERA, the conference sponsor, recalls that just before the moratorium, 33 deepwater rigs were drilling in the Gulf. Several specialized companies were supported by those operations, earning contracts to assist large hydrocarbon producers with exploration and production activities that had in the recent past helped boost U.S. output of oil and gas for the first time in decades, just before the BP PLC oil spill.

Today only 15 of those rigs remain in the Gulf, put on standby by companies hoping operations can resume. Analysts at IHS Herold in Norwalk, Conn., are optimistic the industry will bounce back this year as oil is now trading at more than \$100 a barrel.

But company executives remain pessimistic.

John Nesser, chief operating officer at J. Ray McDermott, initially saw 2010 "as an opportunity to grow a backlog, and that didn't happen," he said. Executives at McDermott and Hercules say they were lucky since they had international operations to fall back on while their Gulf business "completely collapsed," as Noe put it.

"Any Gulf of Mexico, Gulf-focused company that doesn't have international positions is suffering," Nesser said. "It breaks my heart to see what these people are going through now."

Noe and Nesser attribute the sharp drop in permitting to an attitude in the Obama administration that is hostile to fossil fuel industries in general and to offshore production in particular. Noe was especially livid, noting how the moratorium and its aftermath have affected even shallow-water drilling, which is generally considered less challenging than deepwater operations.

"We've had a tone in Washington which I've never seen," Noe said. "They're treating the industry, frankly, like criminals."

Scott would not go that far, but she confirmed that the flow of permits is way down from the levels it was at

prior to the BP spill. The end of 2010 saw a slight uptick, though activity has dropped off and has not recovered yet, she said.

'No man's land'

The dearth in activity in the Gulf of Mexico six months since the end of the formal drilling freeze there has been a prominent topic at the energy industry gathering here.

The talk here is of a new federal permitting system that is rife with confusion. Permits that once took 30 days to obtain now take months, industry officials say, and the inconsistency in what work is quickly approved and what isn't has sowed confusion and despair.

Scott said her firm is calculating how many people the offshore industry has had to lay off because of the moratorium and its aftermath. Press reports suggest as many as 95,000 workers have lost their jobs, she said.

"At the end of the day, everybody wants to see this process moving ahead," Scott said. "They want to see it moving ahead in a safe manner, but they want to see an opening up of the permits."

Business opportunities for offshore service providers are out there but almost entirely abroad, executives say.

"We saw a huge uptick in the international markets," said Jim Johnson, executive director at Hunting Energy Services Inc. Most of his company's new business has come from Brazil, Angola and Australia, he said.

As for the Gulf of Mexico? "It is kind of like in a no man's land," Johnson said. "It really hasn't come back."

Joe Dunbar, a business unit manager at Parker Hannifin Corp., concurred, saying: "Our client base in the Gulf of Mexico is looking elsewhere, and they have to."

The 18 deepwater rigs that have left the Gulf to drill in other parts of the world are now committed to drilling programs that can take several months to finish. Add travel times and the capacity could take a year to 18 months to return to U.S. waters, even if the permitting troubles were to end tomorrow, Scott said.

Still, Scott is more forgiving of the new governmental processes as a whole. Given the new regulatory framework, there will inevitably be an adjustment period, although this one is taking longer than most would have assumed, she said.

"It's obviously taking longer to approve permits than it used to," Scott said. "There's not a full understanding of everything that's required to achieve a permit right now and therefore the uncertainty around that is still causing problems."

"It's like any new process," Scott added. "It's going to take a while for people to get a better understanding of what's being anticipated of them, as well as the government having the resources to be able to put the time into them."

Offshore operators expect their business to remain depressed for some time to come.

Experts say the moratorium and the months-long halt in activity following its lift will result in a drop in domestic projected oil and gas production by up 400,000 barrels of oil equivalent per day by 2015, even if activity starts up again tomorrow.

"We're going to experience that production loss for years to come," Noe said.