Houston Association of Petroleum Landmen Offshore Seminar

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November 8, 2016

“To promote safety, protect the environment and conserve resources offshore through vigorous regulatory oversight and enforcement.”
Decommissioning Cost Assessment

- BSEE is responsible for estimating decommissioning costs for wells, facilities, pipelines, and site clearance.

- BOEM then uses these costs to ensure the proper financial assurance is in place.

- BSEE cost estimates and BOEMs financial assurance protect the interests of the American taxpayer.
Decommissioning Cost Assessment

- BSEE cost estimates are not based on the lowest cost that can be performed by any specific oil and gas company.

- Instead, estimates are based on what BSEE would have to pay a third party to perform the work should decommissioning liabilities ultimately fall to BSEE.

- BSEE estimates provide more certainty than that of the mean, median, or most likely.

- Without proper coverage, DOI would need to seek funding from Congress in cases where DOI must assume the responsibility to decommission (e.g., operator bankruptcies).
Global Update of GOM Decommissioning Cost Estimates

- Two workshops were held in advance of the 2016 global update: August 10th (Houston) and August 25th (New Orleans)

- The Global update occurred on August 29th and was made available to industry via the BSEE on-line query
  - Per industry requests, additional detail was added on September 8th

- Cost assessments for each lease, RUE, and ROW are conducted daily. Only those with a change in the assessed value are updated.

  https://www.data.bsee.gov/homepg/data_center/leasing/LeaseLiab/master.asp

- Operators have the ability to challenge any specific cost estimate by submitting supporting information (e.g., executed contracts).
Why the Global Update?

- Responsibility to protect the American public

- Cost estimates were outdated
  - For example:
    - Well and structure/facility cost methods/algorithms had not materially changed since 2011
    - Pipeline cost methodology had been in place since 2012

- Historically, some costs were low - especially for shallow water wells and shallow water platforms

- Some costs were on the high side

- Increased oversight on program due to bankruptcies, etc.
Procedural Changes

- No longer assess costs based on proposed wells submitted in BOEM Plans (EP/DOCD)

- BSEE now assesses costs upon receiving:
  - Applications for Permit to Drill
  - Applications to install platforms
  - Applications to install pipelines
Basis for change in BSEE estimates included:

- Actual costs submitted per regulation and NTL 2016-N03
- BSEE commissioned studies
- Challenges from industry
- Industry publications and academic research
- Operator presentations to bankers/analysts
- Data from operators gathered as part of bankruptcy proceedings
- BSEE professional experience
Global Update

What costs stayed the same in the global update?

- Estimates for pipelines in:
  - WD > 300 feet
  - Fairways
  - Sand resource areas
- Platforms in WD > 400 feet (including floaters)
- Dry tree wells in WD > 400 feet
- Subsea wells in WD <= 400 feet
- Subsea wells in WD > 400 feet with COM status
- Site Clearance and Verification
Global Update

What costs changed in the global update?

- Large decrease due to exclusion of Plan well estimates
- General decrease on shallow water pipeline segment estimates (WD <= 300 feet) not related to navigation fairways or sand source areas.
- Increase on shallow water wells (WD <= 400 feet) with the exception of wells with TA status and SCPs in place
- Increase on shallow water fixed platforms (WD <= 400 feet).
- Decrease on subsea wells (WD > 400 feet) for all statuses except COM status.
Global Update

Overall impact on a lease, ROW, RUE basis on August 29th was:

- Lease Total: Decrease ~ $5 billion
- ROW Total: Increase ~ $450 million
- RUE Total: Increase ~ $372 million

Note that while there was a large overall decrease on a lease level, any individual lease could have increased (e.g., shallow water leases due to increase in well and platform estimates)
Actual Cost Expenditure Data

- The BSEE cost estimates for shallow water wells may be low based on the actual expenditure data received from operators to date:
  
  - 70 shallow water wells
  - Mean Value: $1.9 million
  - Median Value: $1.3 million

- A sufficient amount of data has not been received yet for deep water wells and platforms in any water depth.
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