

2019 Regular Session

SENATE CONCURRENT RESOLUTION NO. 116

BY SENATOR CHABERT

U S DEPARTMENTS. Requests the U. S. Department of Interior to adopt a policy encouraging avoidance of stranding assets in the Gulf of Mexico Shallow Water Province to ensure maximum benefit for the nation.

A CONCURRENT RESOLUTION

To urge and request the United States Department of the Interior to adopt a public policy that encourages the avoidance of stranding assets in the Gulf of Mexico Shallow Water Province to ensure maximum benefit for the nation.

WHEREAS, for the last two decades, the Gulf of Mexico Shallow Water Province (GOMSWP) has been defined as water depths less than two hundred meters; and

WHEREAS, the GOMSWP has experienced declining leasing, discoveries, reserves, average field sizes, and production; and

WHEREAS, previous attempts to address the decline in the GOMSWP have been unsuccessful; and

WHEREAS, the GOMSWP has been explored and produced for seventy-two years, with the first well drilled in 1947; and

WHEREAS, more than forty seven thousand wells have been drilled in this province since 1947; and

WHEREAS, natural gas is now the dominant commodity produced in the GOMSWP; and

WHEREAS, the United States Energy Information Administration's Annual Energy Outlook 2019 with Projections to 2050, dated January 24, 2019, concludes, "Natural gas

1 prices remain comparatively low during the projection period."; and

2 WHEREAS, the report dated November 2018, titled 2018 Comparative Analysis of
3 the Federal Oil and Gas Fiscal Systems: Gulf of Mexico International Comparison, prepared
4 by IHS Global, Inc. (IHS Report), states, "Natural gas fields face significant challenges to
5 drive offshore exploration and development on the shelf and deepwater areas of the GOM,
6 even despite its relatively low government take. Potential natural gas projects are met with
7 marginal or negative internal rates of return in the base case scenario, reflecting the value
8 of current gas commodity prices. These projects also face stiff competition from the
9 abundance of onshore natural gas supply from shale and associated gas."; and

10 WHEREAS, the GOMSWP has experienced a seventy-seven percent reduction in oil
11 production and a ninety-two percent reduction in natural gas production in the last twenty
12 years; and

13 WHEREAS, the number of wells drilled per year in the GOMSWP has decreased
14 eighty-nine percent from 2008 to 2018; and

15 WHEREAS, the number of wells producing in the GOMSWP has decreased
16 sixty-one percent in the last twenty years; and

17 WHEREAS, the average reservoir size discovered in the GOMSWP in the last ten
18 years is approximately eleven times smaller than the reservoir size of the Deepwater
19 Province, defined by a water depth of more than two hundred meters; and

20 WHEREAS, the IHS Report referenced above states, "The U.S. GOM shelf is limited
21 in terms of resource availability. With the expected field sizes matching the small reserve
22 size under this study, the best hope for such projects on the shelf is reliance on existing
23 facilities and infrastructure. The market conditions do not favor development of the small
24 reserves in the U.S. GOM shelf on a stand-alone basis. With the wave of decommissioning
25 continuing strong in the shelf – more than 100 structures being decommissioned each
26 year – the establishment of efficient policy solutions that encourage such developments
27 could be necessary."; and

28 WHEREAS, research conducted by several others indicates, "The largest fields in
29 a basin tend to be discovered early in the exploration cycle, while smaller fields are generally
30 discovered in the mature phase of exploration."; and

1 WHEREAS, by all accounts, the GOMSWP is a mature oil and natural gas basin,
2 first produced more than seventy years ago; and

3 WHEREAS, the remaining GOMSWP opportunities are increasingly limited in size
4 as "Mature fields may still have potential but since they are presumably marginal targets a
5 special effort is required to pursue these high-risk, small-upside opportunities."
6 (Kaiser & Siddhartha, 2018); and

7 WHEREAS, smaller companies usually make those special efforts " ... because the
8 size of the projects does not often meet the scale requirements for the majors." (Diffley, et
9 al., 2010); and

10 WHEREAS, the Kaiser and Siddhartha 2018 publication states it is important to
11 safely and responsibly extract economically-recoverable hydrocarbons while the
12 infrastructure to do so is still in place "[a]s long as the net revenue generated by a structure
13 is greater than its direct operating cost, the structure will likely continue to produce."
14 (Kaiser & Siddhartha, 2018); and

15 WHEREAS, once production from a structure drops below that economic threshold,
16 however, the wells are typically abandoned and the platform removed, making it nearly
17 impossible, absent some unforeseen technology advances or substantial increases in
18 commodity prices, to justify the reinstallation of platforms for only a fraction of the
19 remaining resources; and

20 WHEREAS, consequently, stranding the remaining resources for the foreseeable
21 future along with the associated royalties would reduce the full benefit the nation receives
22 from the development of its Outer Continental Shelf oil and gas resources; and

23 WHEREAS, the denial of these benefits appears to be substantial when calculated
24 using estimated recoverable reserves and current commodity prices; and

25 WHEREAS, reserves are defined as being commercially recoverable by application
26 of development projects to known accumulations; and

27 WHEREAS, these accumulations are discovered, recoverable, commercial, and
28 remaining; and

29 WHEREAS, these volumes are expected to be produced, however, contingent
30 resources may be more at risk of not being produced; and

1 WHEREAS, contingent resources are potentially recoverable from known
2 accumulations by application of development projects but may not be recovered; and

3 WHEREAS, in some cases, contingent resources have been identified by a previously
4 drilled and plugged well, and capital expenditures are required to access these volumes; and

5 WHEREAS, historically, GOMSWP fields were largely the domain of the major oil
6 companies who sold them to large independents, and who, after additional production, sold
7 the assets to smaller companies; and

8 WHEREAS, this historical practice has resulted in most current GOMSWP leases
9 being owned by companies classified as "non-majors", of which approximately forty-three
10 percent are privately owned; and

11 WHEREAS, interest in acquiring new leases in the GOMSWP has been consistently
12 trending downward for a decade; and

13 WHEREAS, approximately seven thousand production platforms have been installed,
14 and approximately five thousand one hundred production platforms have been removed, in
15 the GOMSWP since 1947, for an all-time ratio of platform installation to removal of 1.37
16 to 1; and

17 WHEREAS, during the last twenty years, approximately one thousand three hundred
18 production platforms have been installed, and approximately three thousand five hundred
19 have been removed, for a twenty-year ratio of platform installation to removal of 0.37 to 1;
20 and

21 WHEREAS, the removal to installation activity has further accelerated during the
22 past five years, with only thirteen production platforms installed and five hundred sixteen
23 production platforms removed, for a five-year ratio of platform installation to removal of
24 0.025 to 1; and

25 WHEREAS, in 2018, no platforms were installed and ninety-seven platforms were
26 removed; and

27 WHEREAS, these data points serve as evidence that the GOMSWP is a mature and
28 declining hydrocarbon basin; and

29 WHEREAS, the combination of the sharp decline of drilled and producing wells with
30 the sharp decline of new platform installations and accelerated platform and pipeline

1 infrastructure removal has resulted in a situation where the nation is on a "shot clock" to
2 avoid stranding oil and gas resources in the GOMSWP; and

3 WHEREAS, the loss of these benefits appears to be substantial when calculated by
4 the Bureau of Ocean Energy Management (BOEM) using estimated recoverable reserves and
5 current commodity prices as of April 10, 2019; and

6 WHEREAS, BOEM has estimated as high a value as twenty-four billion dollars
7 could be stranded in the GOMSWP, of which the nation's share would be a function of its
8 applicable royalty rate, less allowable costs, multiplied by this twenty-four billion dollar
9 value for the portion of those resources that would be economically viable to produce; and

10 WHEREAS, without a significant increase in drilling activity in the near term in the
11 GOMSWP, there is a significant risk that many of these resources will never be developed;
12 and

13 WHEREAS, foreign offshore competition is increasing, as two of the largest
14 GOMSWP lessees and platform owners have begun to deploy capital in the Mexico territory
15 of the Gulf of Mexico despite their significant assets in the GOMSWP; and

16 WHEREAS, contributing factors of declining interest in the GOMSWP include: the
17 size of the reservoir is too small, the high cost of GOMSWP development versus onshore,
18 the margins do not match risk, the GOMSWP is predominantly a natural gas province, and
19 too few players are operating in the province; and

20 WHEREAS, using BOEM's MAG-Plan Gulf of Mexico model and accompanying
21 analyses, BOEM estimates that for every million dollar investment in shallow water, the
22 total economic impact, including the reinvestment of state and local taxes, is approximately
23 \$1.7 to \$2.0 million and largely benefits the parishes of Orleans, Jefferson, St. Bernard,
24 Plaquemines, Terrebonne, Lafourche, St. Mary, Iberia, Lafayette, Calcasieu, Jefferson Davis,
25 Vermilion, and Cameron, where drilling and production activities are hosted; and

26 WHEREAS, the goals to ensure a fair and equitable return on the resources and to
27 maximize ultimate recovery are becoming increasingly challenging in the GOMSWP, the
28 most mature offshore province on the planet; and

29 WHEREAS, the IHS Report referenced above states: "Declining production sees
30 little benefit from the current end-of-life royalty relief, the best hope for extending the useful

1 life of existing assets is finding additional reserve volumes beyond the existing field profile.
2 This means considering a special case relief to improve the economics of tying-back nearby
3 discoveries to existing facilities to access new reserves. Investments that access significant
4 additional reserves better supplement declining field incomes used to support the baseline
5 field facility operations."; and

6 WHEREAS, over two hundred thirty of the nearly six hundred active GOMSWP
7 platforms could permanently cease production within the next three years; and

8 WHEREAS, these same platforms are expected to produce about two hundred sixty
9 million dollars in federal royalties over the next three years; and

10 WHEREAS, as production from each lease ceases, the lease will terminate within a
11 year, after which the lessee has one year to decommission all infrastructure on that lease,
12 including platforms, wells, and pipelines; and

13 WHEREAS, the IHS Report states, "[d]ue to the mature nature of the GOM, it is
14 anticipated that a significant number of structures on the shelf will be decommissioned in
15 the relatively near term."; and

16 WHEREAS, since the royalties generated from the GOMSWP, eligible to be shared
17 with the states through Federal Revenue Sharing, is currently trending downward, as a result
18 of the significant decline of the wells drilled and thus the production within this province,
19 there is limited risk decreasing the amount of federal revenue shared with the eligible states
20 resulting from targeted policies designed to avoid stranding assets in the GOMSWP, and
21 more than likely, an upside to these targeted policies when considering the impacts to jobs
22 as a result of increased activity.

23 THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby
24 request the United States Department of the Interior to adopt a public policy that encourages
25 the avoidance of stranding assets in the Gulf of Mexico Shallow Water Province in order to
26 ensure maximum benefit for the nation to grow the national economy, to help create
27 American energy dominance, and doing all in a manner that minimizes the risk to Federal
28 Revenue Sharing to the eligible states.

29 BE IT FURTHER RESOLVED that a copy of this Resolution be transmitted to the
30 Honorable David Bernhardt, secretary, United States Department of the Interior;

- 1 Dr. Walter Cruickshank, acting director, Bureau of Ocean Energy Management; and
2 Mr. Scott Angelle, director, Bureau of Safety and Environmental Enforcement.

The original instrument and the following digest, which constitutes no part
of the legislative instrument, were prepared by Alan Miller.

	DIGEST	
SCR 116 Original	2019 Regular Session	Chabert

Requests the U. S. Dept. of Interior to adopt a public policy that encourages the avoidance of stranding assets in the Gulf of Mexico Shallow Water Province in order to ensure maximum benefit for the nation.