SLS 19RS-2215 **ENGROSSED**

2019 Regular Session

SENATE CONCURRENT RESOLUTION NO. 116

BY SENATORS CHABERT, ALLAIN, GATTI, LAMBERT, MILLS AND WARD

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

WHEREAS, for the last two decades, 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby 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 in order to ensure maximum benefit for the nation to grow the national economy, to help create American energy dominance, and doing all in a manner that minimizes the risk to Federal Revenue Sharing to the eligible states.

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

Dr. Walter Cruickshank, acting director, Bureau of Ocean Energy Management; and 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

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