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Oilgram News/OPR Extra

A special edition from the editors of Platts

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As it has during other crises affecting oil and other energy markets, such as hurricanes Katrina, Rita and Ivan, Platts is producing this special summary of events surrounding the Deepwater Horizon rig disaster in the Gulf of Mexico. This special joint edition of Platts Oilgram News and OPR Extra will be published as frequently as Platts believes necessary to give its readers a quick summary of developments surrounding the leak at the wellhead, the growing footprint of the spill, and the impact these occurrences are having on markets and on US federal energy policy.

US Senate considering bill to end deepwater incentives

■ Legislation to remove financial incentives for deepwater drilling was introduced in the US Senate June 29, one of several bills aimed at removing tax breaks and other financial benefits for the oil and gas industry. Senator Diane Feinstein, Democrat-California, has authored legislation to repeal royalty relief for deepwater wells that had been granted in two previous laws. The bill would eliminate any royalty relief for wells drilled in water depths of 400 meters or more. "The BP spill catastrophe in the Gulf of Mexico proves that offshore drilling in deep waters is extremely risky and that safety, prevention and response technologies are totally insufficient," Feinstein said in a statement. "Yet energy companies have long benefited from federal incentives that encourage drilling at increasingly greater and greater depths. This to me makes no sense." Feinstein said incentives should be reserved for emerging clean energy technologies, such as wind, solar and advanced biofuels instead of the "dirty business of deepwater drilling." The bill would only apply to leases issued after its enactment and would not be retroactive. The 1995 Deepwater Royalty Relief Act waived royalties on certain leases until minimum production volumes were achieved. The bill was passed at a time of low crude prices to encourage exploration in the Outer Continental Shelf. In 2005, Congress passed the Energy Policy Act, which mandated royalty relief for wells deeper than 400 meters. A bill proposed by Senator Lisa Murkowski, Republican-Alaska, would authorize the president to set liability caps for deepwater drilling based on risk, the depth of the well and other factors. Currently, the Oil Pollution Act of 1990 sets a cap of $75 million for economic damages resulting from a spill. The bill would also impose a 20 cents/barrel tax on crude produced domestically and a 60 cents/b tax on imported refined products in order to increase the Oil Spill Liability Trust Fund to a maximum $10 billion from $2.7 billion.

Drillers: Don't bring back deepwater ban

■ CEOs of a group of offshore drilling companies have urged the government not to reimpose a deepwater moratorium that was struck down last week by a federal court judge. The CEOs of Seahawk Drilling, Noble Corp., Ensco, Pride International, Rowan Companies, Hercules Offshore, Diamond Offshore Drilling and Delta Towing sent a letter June 29 to Interior Secretary Ken Salazar. The companies met with Salazar and other Interior officials June 28 to discuss drilling safety in the Gulf of Mexico. In the letter, the drillers noted they told the Interior officials that recent government orders boosting safety requirements for blowout protectors and imposing new well construction requirements were reasonable and sufficient. New permits should be issued under the stricter guidelines, the drillers said. "In light of this, any discussion of a moratorium is not justified on the record, is contrary to law, and simply would make matters worse for the energy and economic security of our nation," the CEOs wrote. "We believe that the loss of experienced personnel to non-US opportunities created by a moratorium will undermine safe operations and will be in direct contradiction of our shared goal for safe operations." Any further delays in issuing drilling permits in either shallow or deep water would cost hundreds of jobs, the CEOs said. "As we discussed in our meeting, we now stand at the point at which continued delay and uncertainty regarding federal policy toward offshore drilling is inflicting serious economic hardship and job loss to communities along the Gulf Coast," they wrote. "Because drilling rigs are highly mobile, many will leave the Gulf of Mexico for distant parts of the world, taking thousands of jobs with them. Strategic energy infrastructure and experienced personnel will be lost for the foreseeable future." The six-month federal moratorium was struck down by a federal judge last week after being challenged by drillers. Salazar has testified before Congress that he is likely to issue a revised moratorium that would contain specific criteria for lifting the drilling ban sooner in some cases. That new moratorium is expected soon. The government has appealed the court's decision.

Rigs in US Gulf deepwater drops

■ The number of deepwater rigs working on drilling or other activity in the Gulf of Mexico dropped to 19 in the week that ended June 25, from 23 in the prior week, the US Bureau of Ocean Energy Management, Regulation and Enforcement said June 29. The "Current Deepwater Activity" report released by the BOEM, formerly known as the Minerals Management Service, tracks the number of deepwater rigs working in the US Gulf at depths greater than 1,000 feet. The number of active rigs has been dropping through May, when the US Department of Interior declared a three-week moratorium on all new wells and permits in the Gulf. The deepwater rig count dropped further when Interior extended the moratorium for six months on drilling in water depths of 500 feet or greater. The ban initially affected 33 rigs, although by then the deepwater rig count had dropped from 42 the week of April 19, a

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day before the blowout of the BP-operated Macondo well. The accident caused an ongoing oil spill in the Gulf and triggered the moratoria. BOEM's report said that the deepest water work in the Gulf is now being performed by Shell at the Great White field in 7,814 feet of water, which is part of the major's producing Perdido Hub Development. The second deepest is work at Noble Energy's Santa Cruz discovery, in 6,526 feet of water, the agency said. The 19 rigs active last week include two semisubmersible rigs drilling relief wells at Macondo which aim to intercept the runaway well and halt its flow of crude, currently estimated at 35,000-60,000 b/d. The two Transocean-owned rigs drilling the wells are the Development Driller II and Development Driller III.

■ The Federal Reserve Bank of New York has determined that banks' exposure to BP does not present a systemic risk, and it has not asked the banks to change their credit relationships with the oil company, a source familiar with the issue said June 29. The Fed's probe was undertaken in the normal course of its supervision process and was "not in response to anything other than the event," the source said. The Fed "hasn't found anything that shows more than a moderate risk and nothing that points to a systemic risk. It continues to monitor the banks' positions as part of the regular course of business." Although the Fed identified a moderate risk in some cases, it is not of great concern, the source said.

■ BP collected or flared a total of 23,395 barrels of crude oil from its leaking Macondo well on June 28, the company said June 29. Of the total, 15,310 barrels were recovered by the lower marine riser package containment system and another 8,085 barrels were flared, BP said in an update on its web site. Some 54,100 Mcf of gas was flared June 28. BP is using a two-pronged system to recover oil leaking from its blown-out well. The LMRP containment cap on the well's failed blowout preventer takes oil and gas to the drillship Discoverer Enterprise, which collects the oil and flares the gas. A second system is connected directly to the BOP and carries oil and gas to the vessel Q4000, which flares both hydrocarbons. Oil taken on the Enterprise is then transferred to tankers and shipped to storage on shore, where BP intends to sell the crude. Some 35,000-60,000 b/d of oil is spewing from the Macondo well, according to the US government's most recent estimate.

Lukoil wants BP to share 'experiences'

■ The head of Russia's Lukoil has called on BP to divulge information on its "experiences" relating to the Macondo spill to help stop other accidents in the future, the company said June 29. Lukoil President Vagit Alekperov met with BP CEO Tony Hayward in Moscow a day earlier and said particular attention was paid to the accident at the Macondo well, Lukoil said in a statement. "Alekperov, in particular, noted that the experience gained by BP from the accident and its consequences should become the property of the international oil community to prevent similar incidents in future," it said. Alekperov and Hayward also discussed possible cooperation between the two companies in the future in Russia and abroad, Lukoil said. In 1997, the two companies formed the LukArco joint venture, which was a partner in the Caspian Pipeline Consortium and the Tengizchevroil consortium that operates the Tengiz oil field in Kazakhstan. However, BP sold its stake in LukArco to Lukoil for $1.6 billion in December last year.

■ The US Gulf of Mexico oil spill will steer oil majors away from investment in deepwater drilling, Andrew Safran, vice chairman of global banking at Citigroup, said at the 7th annual Renewable Energy Finance Forum in New York June 29. "The gulf disaster will lead to major oil companies exiting deepwater drilling," he said. "It will change the way oil companies invest capital." Safran said the spill marked a "total sea-change" in the global and domestic-US oil exploration industry. He said the spill would "speed capital dollars onshore" in an investment climate that has become increasingly aware of environmental risk.