Gulf Economic Survival Team

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Study: Extreme Cost of Proposed Federal Rule Risks Shuttering Gulf Energy Production and Intensifying Economic Pain

Proposed Well Control Rule Poses Risks to U.S. Job Creation, Federal Revenue, and Energy Supply

Initial findings from a study conducted by international research consultancy Wood Mackenzie confirm that the high cost of a proposed new rule governing oil and gas operations in the Gulf of Mexico could significantly reduce domestic energy production and curtail U.S. economic activity, energy supplies, and state and federal offshore revenues.

The Interior Department's Bureau of Safety and Environmental Enforcement (BSEE) in April 2015 proposed the sweeping Well Control Rule, a set of complex and highly technical regulations that impose expansive new requirements on offshore oil and gas drilling. The new requirements included in the proposed rule call for far reaching changes to the rules by which the oil and gas operators are governed and would increase costs in a manner that will severely impact Gulf Coast economies.

According to initial findings released today, the study found that under an $80 oil assumption, comparable to the price assumptions used by BSEE in developing the rule, the Interior Department's draft rule would:

- Decrease exploration drilling by up to 55% or 10 wells annually
- Reduce Gulf of Mexico production by as much as 35% by year 2030
- Result in 105,000 - 190,000 jobs at risk by 2030; this may include jobs beyond the energy sector;
- Most notably, 80% of these jobs could be in Louisiana and Texas.

"The extreme costs associated with the proposed Well Control Rule will simply force operators out of the Gulf of Mexico, leaving valuable energy resources untapped, causing massive unemployment, devastating communities already hurt by the energy industry downturn, and slashing our federal government's revenue from offshore production," said Lori LeBlanc, Executive Director of the Gulf Economic Survival Team (GEST).

"It is important that we conduct further study of the finer points and practical effects of this new rule before forcing it on companies engaged in operations in the Gulf. Our nation as a whole would feel the impact of reduced domestic energy production stemming from this rule, with a particularly harsh blow to Gulf energy-producing states, where people are already suffering from the impacts of low crude oil prices," said LeBlanc.

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"We share BSEE's intent of developing a rule that enhances safety and environmental protection; however, several provisions in the rule are not consistent with this goal," said LeBlanc. "Some provisions of the Well Control Rule inadvertently increase risk to the safety of workers due to the one-size-fits-all prescriptive approach, as well as the exceedingly high costs involved in implementing it as written today."

The Wood Mackenzie study found that the proposed Well Control Rule could significantly reduce rig counts, exploration drilling and ultimately industry investment, which also impacts drilling contractors and service providers. These additional costs may make some exploration and development projects too expensive to pursue, which has far-reaching economic impacts throughout our Gulf Coast communities.

Other significant findings, in an $80 environment, from the study include:

- Reduced industry investment by up to $11 billion annually
- Reduced government tax revenues of up to $5 billion annually through 2030
- Reduction of GDP by a cumulative total of $260-390 billion by 2030
- Reduction of lease sale revenues by as much as 40% through 2025

"Our port, our tenants and our local community will not be able to sustain the economic impacts of this new rule. Our region is already grappling with the local impacts of low crude oil prices. With the proposed rule in place, we would be looking at massive unemployment, more local businesses closing, and significant drops in tax revenue that would hurt our region for many years to come," explained Chett Chiasson, Executive Director of the Greater Lafourche Port Commission.

"We urge the Administration to direct the Interior Department to address the rule's far-reaching economic impact and the serious concerns of our local communities before sanctioning this new federal regulation. As many as 190,000 American jobs and our nation's energy security are at stake," LeBlanc concluded.

The Wood Mackenzie study is based on a scenario analysis built upon specific assumptions around pricing, costs, and field developments. The forecasting period is depicted to 2030 with period to 2025 separated out to differentiate between a 10-year and 15-year impact. A final report detailing all of the study's findings is expected to be released later this month.

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GEST is a Louisiana-based, grassroots advocacy organization advocating for safe and robust offshore oil and gas development in the Gulf of Mexico. Visit our web site at www.GulfEconomicSurvival.org, follow us on Facebook at www.facebook.com/gulfeconomicsurvivalteam and on Twitter @GESTNews.

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