CENTER FOR ENERGY STUDIES
LOUISIANA STATE UNIVERSITY

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NEWSLETTER

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November 1994

INDEPENDENTS v THE MAJORS: NOT TO WORRY?

As major oil and gas companies shift their exploration and production (E&P) investment to foreign countries, independents are expected to take up the slack in domestic E&P. Within both industry and government circles, the fear is that a shift from the majors to the independents will result in domestic oil and gas resources being developed less aggressively and less efficiently.

With grant support from the Minerals Management Service, LSU's Sea Grant program, and matching funds supplied by the Center's Industry Associates, we have been studying the implications of the "majors-to-independents shift." A report summarizing our work to-date was recently sent to MMS and to our industry associates. According to the report, at least thus far, the bottom line seems to be "not to worry."

Contrary to the conventional wisdom, analysis of data on drilling effort and outcomes on the Gulf of Mexico OCS indicates independents have been both more aggressive and more successful than the majors in exploration while the majors have been only moderately more successful than independents in development drilling. On an aggregate basis, independents have done at least a little better.

Some illustrative findings:

" Over the past ten-years (1983 to 1993) independent operators accounted for 57 percent of cumulative wildcat permits issued to search for new hydrocarbons and 70 percent of total exploratory wells drilled on the OCS. Moreover, small independents accounted for more than 40 percent of all exploratory wells drilled by independents and 28 percent of total exploratory wells.

" More than 55 percent of the independents' collective drilling effort was exploratory, in comparison to 21 percent for the majors. And while only one in every four wildcat wells drilled by the majors was successful, one in every three wildcats drilled by independents was successful during the same period.

" If success is measured by barrels-of-oil-equivalent(BOE)-added-per-foot-of-successful-wells-drilled, on average, independents were more successful than the majors--adding 267 BOE per successful foot drilled over the 1983-1993 period compared to 226 BOE per successful foot drilled for the majors.

" If total footage drilled, rather than successful footage, is used to make the comparison the difference narrows but independents as a group still do slightly better than majors with 110 BOE of new reserves added per foot, compared to 108 BOE for the majors.

To check these observations the Center has constructed a hydrocarbon supply model. Empirical estimates made with the model confirm the inferences drawn from descriptive statistics summarized above. Copies of the report are available upon request.

RECRUITMENT CONTINUES

CES is currently conducting searches to fill two faculty positions. One position is focused on downstream (refining, chemical and marketing) economic and policy issues and the second on regulation of the oil and gas industry, especially environmental regulation. Allan Pulsipher of CES is chairing the search committee for the downstream position. Also serving on the committee are Ralph Pike, interim chair of LSU's Chemical Engineering department and Bill Rainey of Exxon. The search committee for the regulatory position has not been named, but individuals interested in either position may contact Allan Pulsipher at CES.

CES TO HELP MONITOR TEXACO STATEMENT

Department of Natural Resources Secretary Jack McClanahan, announced at the State Mineral Board meeting of October 12, 1994, that DNR will issue a contract to CES to assist in monitoring the Texaco Settlement. CES, with the assistance of Mr. Mike Swanwick, a mineral attorney from Lafayette and a former secretary to the Mineral Board, will perform several services. The key product to be produced is a report that will summarize the settlement document in an easy to follow format including timelines and milestones. The report will act as a guide to accomplishments to be expected in each semi-annual report that Texaco is required to submit to the Mineral Board. In addition, CES will report on the actual economic development achieved by "The Economic Expansion Program" aspects of the settlement as verifiable data is made available. CES, through Bob Baumann, also will be available to respond to information requests concerning progress on the settlement from any interested parties or individuals.

NEW INDUSTRY ASSOCIATES

Vastar Resources and Meridian Oil have both become members of CES' Industry Associates. Vastar Resources will be represented by Mr. Chip Gill and Meridian Oil will be represented by Mr. Larry Aimes.

Vastar's donation will be used in support of policy studies that are examining the differences and similarities of majors and independents in their environmental and safety records in operating in the Gulf of Mexico OCS. The studies are funded by the U.S. Minerals Management Service and the Louisiana Sea Grant Program and require matching funds from non-federal sources.

Funds donated by Meridian Oil will help support CES' efforts in monitoring the impacts of oil and gas tax incentives legislation that have been recently enacted in Louisiana, Mississippi, Oklahoma and Texas. In addition, New Mexico has requested background information from CES as they plan to propose legislation in their next session.

CES TO ENTER TECH TRANSFER AGREEMENT WITH LOS ALAMOS NATIONAL LABORATORY

As one of ten Regional Lead Organizations (RLOs) of the Petroleum Technology Transfer Council (PTTC), CES is planning to provide Louisiana oil and gas operators direct electronic access to several oil and gas data bases. In addition, CES desires to provide the same type of access to some of its existing databases including its *Louisiana Energy Indicators*.

To improve CES's data handling capabilities and increase speed in transmitting and receiving electronic information, fiber optic cable is being installed at CES this fall. Hardware and software upgrades will also be required and several options exist. CES will enter into an agreement with Los Alamos National Laboratory to assist in the selection of the appropriate hardware and software. The CES system design will have to be compatible with other systems being implemented at the other nine RLOs. Los Alamos will also be providing direct assistance to the RLOs located in New Mexico and Oklahoma. The other six RLOs will receive assistance from the Lawrence Livermore, Oak Ridge, or Sandia National Laboratories.

The national laboratories also will combine efforts to develop security systems so some data sets may be transmitted through systems such as Internet without jeopardizing commerciality. Funding for the laboratory assistance is being provided through the Gas and Oil National Database Infrastructure program (GO-NII).

ARTICLE ON STATE INCENTIVES LEGISLATION TO BE PUBLISHED IN OIL & GAS JOURNAL

Pointing out that "programs intended to cushion repercussions from changing world markets have been regularly adopted to help industries ranging from mohair to motor vehicles," and documenting that "economic dislocations visited on the `oil patch' have been as serious as those associated with the decline of any major industry in any region of the United States in recent history," Bob Baumann and Allan Pulsipher then go on to describe and compare the state incentives-legislation that was passed this past year in Louisiana, Texas, Mississippi and Oklahoma. The article is scheduled for publication in the November 14, 1994, Oil and Gas Journal.

After describing the state-level incentives, the authors conclude that they "may be doubly useful to proponents of federal assistance [for oil and gas]. First they demonstrate that producing states are willing to do something on their own account rather than simply try to raid the federal treasury. And, second, they suggest a strategy for achieving revenue neutrality. To wit, target incentives so both the public's budget and the operators are in a win-win or lose-lose position. That is, for the operators to receive the incentive, they must drill and the drilling activity is what produces the immediate sales, property and other taxes, as well as the jobs that, in turn, generate public revenues." Copies of the article will be available on request.

CENTER'S STUDY OF SAFETY AND ENVIRONMENTAL RISKS OF MORE INDEPENDENTS ON THE OCS IS FUNDED BY MMS

Will the shift abroad of the majors' E&P investment and the consequent, new prominence of independents, increase the safety and environmental risks associated with oil and gas exploration and development on the OCS?
The Minerals Management Service recently funded a proposal by the Center for a study to try to answer this question. The project will build on the study of the economic implications of the majors-to-independents shift summarized above, and is scheduled to start in January, 1995. The project also will be supported by matching funds furnished by the Center's industry associates.

1993 LOUISIANA NATURAL GAS DATABASE IS IN

CES has received the form EIA-176 data from the U.S. Department of Energy for calendar year 1993. We are currently loading and formatting the data and it will be available shortly. The database contains information on acquisition costs, volumes, and sales prices by customer-class for all distributors of natural gas in the state. Contact Barbara Kavanaugh at 388-4400 if you would like to acquire the data.

ENVIRONMENTAL CONCERNS RANK HIGH AMONG SOUTH LOUISIANA OPERATORS

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and technology transfer problems facing Louisiana operators. Twenty-three operators, consultants, and service companies along with 9 facilitators and organizers met all afternoon. The participants were divided into four working groups to cover: 1) Exploration and Reservoir Management, 2) Drilling Completion Workover and Well Stimulations, 3) Production and 4) Environmental and Regulatory topics. Despite having a separate environmental group, environmental problems were prominent in each discussion group. The consensus was that the first PTTC workshop should focus on produced water problems and technology.

Participants filled out a questionnaire which will be combined with results of a second workshop, to be held in Shreveport on November 29, 1994. The results of the questionnaires, combined with the priority lists put together by the individual working groups, will be issued as a report and form the basis of a proposal for prioritizing tech transfer services to area operators by the PTTC.

Individuals interested in attending the meeting in Shreveport and/or receiving a copy of the forthcoming report (mid December) should contact Keith Long at (504)388-4538.

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