

NEWSLETTER

August 1995

OFFSHORE LEASE ABANDONMENT AND PLATFORM DISPOSITION TO BE ANALYZED AT INTERNATIONAL WORKSHOP ORGANIZED BY CES

There are over 4,000 offshore platforms and 22,000 miles of pipelines located on the continental shelf (OCS) in the United States. Almost all of these are located in the Gulf of Mexico. Many platforms are 25 or more years old and are approaching their end of service. Between 100 to 150 platforms have been removed from the OCS each year for the past six or seven years, and that trend is projected to continue for the foreseeable future.

Platforms must be removed and disposed of onshore and the site at which they were located returned to its natural state--unless the platform is approved for conversion to an artificial reef under one of the relatively small, state-administered, "rigs-to-reefs" programs.

Current regulations set limits on the explosives commonly used to sever the structural elements of platforms during removal. However, a recent Government Accounting Office (GAO) report alleges these regulations still allow unnecessary environmental damage and do not encourage the use or development of nonexplosive techniques. Industry experts argue that prohibiting explosives will increase costs significantly as well as the risks to their workers.

The figure below summarizes a CES estimate of how much more it would cost to remove existing platforms (not including future installations), if explosives were to be prohibited. The estimates reflect differences in the size and water depth of existing platforms but are quite conservative since they assume that nonexplosive techniques would be as reliable as explosives, which industry experts dispute.

Platforms provide habitat for reef fish that are highly valued by recreational and commercial fishermen. Some estimate oil and gas platforms and pipelines have increased such habitat in the Gulf of Mexico by as much as one third. If platforms continue to be disposed of onshore, this additional habitat ultimately will be lost permanently. Further, it is considerably less expensive for operators to dispose of many platforms offshore rather than onshore.

Some environmentalists favor offshore disposal in order to preserve habitat for marine life, others consider any change in policy that would permit leaving platforms offshore to be unacceptable "ocean dumping."

These and other equally contentious issues will be analyzed and debated at an international workshop CES is organizing that will be held on April 15-17 at the Doubletree Hotel in New Orleans.

Since U.S. lease abandonment policies and practices establish precedents for other countries (where platform removal episodes such as the Brent Spar storage facility in the North Sea already have become controversial and contentious) considerable participation from other countries is anticipated.

Speaking of the workshop in a recent issue of the *Journal of Petroleum Technology* (August, 1995) Bud Danenberg of the Minerals Management Service said "[T]he way this issue is blowing up, we may need a superdome for it."

At the moment, however, we anticipate a maximum crowd of 400 participants who will be divided into "working groups" to discuss issue papers distributed prior to the workshop outlining an important aspect of lease abandonment and platform disposition practices and policies.

The goal of the workshop, according to CES' Allan Pulsipher who will be the workshop chair, is not to try

that OCS resources would be developed less aggressively or efficiently by independents. According to Professor Omowumi Iledare who constructed the model, the measurements of the responses by majors and independents to changes

at 8:00 a.m. on September 28, 1995 in the Cotillion Ballroom of the LSU Union in Baton Rouge.

LMOGA/BROOKSHER SCHOLARSHIP

Michael Delany, senior geology major with a 4.0 GPA since 1992, was awarded a \$1,500 LMOGA/Brooksher Scholarship. He is a member of several honor societies and Vice President of the local student chapter of the AAPG.

LOUISIANA ELECTRICAL RATE SURVEY

The Center For Energy Studies conducted a survey of electrical rates in North Louisiana. This study used a sample of six operators representing twenty-five major fields and six different electrical providers. The sampling represented 3.3 MM barrels of oil or approximately 2.5% of total state production.

The preliminary results indicated an average electrical cost of \$0.49 per barrel of oil produced. However, two-thirds of the production used to make this calculation came from one field. Excluding this field, the average cost per barrel was \$1.02. The range for all barrels was from \$0.19 to \$2.78. Electricity costs as a percentage of total lease operating expenses varied considerably from less than 1 percent to 28.7 percent.

The variation in lease operating expenses was indicative of general production efficiency rather than simply electricity costs. Factors affecting costs included: percentage of field production under artificial lift; amount of water produced with hydrocarbons; the electric provider and the operators' management of electric load.

RECENT CES PUBLICATIONS

Applied Technology Research Corporation. *Economic and fiscal impacts of the Energy Rated Homes of Louisiana program.* Prepared in association with the Center for Energy Studies, Louisiana State University for the Louisiana Department of Natural Resources, Baton Rouge, LA, March 1995.

Report determines the current (pre-program) level of energy efficient mortgage

activity in the state; estimates the economic impacts from a successful initiation of the program; estimates the tax revenue impacts of the program and more specifically, the impact on sales tax collections; and estimates the greenhouse gas emission reductions from a successful initiation of the program.

Baumann, Robert H.; Kavanaugh, Barbara S.; and Pitcher, Deborah J. *Energy overview and analyses, 1993.* Prepared for Center for Legislative Energy and Environmental Research, Dallas, TX, June 1995.

Report provides statistical comparisons and brief narratives of the energy features of each of the member states/province of The Energy Council including reserves, exploration, production, generation, consumption, employment, and economics.

Iledare, O. O.; Pulsipher, Allan G.; and Baumann, R. H. *Effects of an increasing role for independents on petroleum resource development on the Gulf of Mexico OCS. The Energy Journal 16(2), 57-76.*

Paper reports on continuing research on modeling the performance of firms of different sizes in the search for and development of petroleum resources on the Gulf of Mexico OCS. Concludes OCS resources would not be developed less aggressively or less efficiently if independents were to do more of the development.

Iledare, O. O.; Pulsipher, Allan G.; and Baumann, R. H. *Empirical supply model of hydrocarbon reserve additions on the Gulf of Mexico OCS.* Presentation before the Institute of

incentives on petroleum drilling outcomes.

Pinsonat, Michelle M., and McKenzie, Lawrence S., III. *A historical perspective of early discussions and negotiations between the United State of America and the State of Louisiana regarding financial arrangements associated with outer continental shelf oil and gas production.* Applied Technology Research Corporation under contract with the Center for Energy Studies, Louisiana State University, Baton Rouge, LA , June 1995.

Report identifies and describes research documents that provide insight into the events and parties associated with outer continental shelf jurisdiction and revenue sharing negotiations during the 1940s and early 1950s.

Pulsipher, Allan G. *TVA's debt limit. Public Utilities Fortnightly.* March 1, 1995, 39-42.

Article concludes that TVA's Congressional debt limit has been largely cosmetic and provided neither accountability nor external control for the federally owned power system. It recommends that Congress amend the TVA act to provide an enlarged, regional, part-time board, clearly separated from managerial decisions, and also remove the ineffectual TVA debt limit.

Pulsipher, Allan G. *Comment on the Tennessee Valley Authority Case. Regulating regional power systems,* Clinton J. Andrews, ed. Quorum Books, Westport, CT, 1995, 321-332.

Comment analyzes the reorganization of TVA under the chairmanship of Marvin Runyon and the reasons for the renewed commitment to completing the agency's unfinished nuclear power plants that accompanied it.

Swanwick, W. Miguel and Baumann, Robert H. *Chronological achievements and requirements of the State of Louisiana, Texaco Global Settlement Agreement of February 22, 1994.* Prepared for Louisiana Department of Natural Resources and the Louisiana State Mineral Board, April 1995.

Report describes the major elements of the settlement, which include the payment on the part of Texaco of \$250,000,000 and the further commitment of \$152,250,000 for an economic expansion program. It also summarizes and gives the due date of each of Texaco's commitments.

OTHER CURRENT PROJECTS

In addition to the projects mentioned elsewhere in this issue, CES personnel are currently involved in the following projects:

Assistance in monitoring the State of Louisiana, Texaco Inc. Global Settlement Agreement - Louisiana Department of Natural Resources.

Replacing Integrated companies with independent producers: implications for coastal/OCS oil and gas development policy - Louisiana College Sea Grant Program and U. S. Minerals Management Service.

Impacts of Act 2 of 1994 (Oil and Gas Incentives). Louisiana legislative requests.

Louisiana's oil spill regulations and programs for platforms and pipelines located in state waters. U. S. Minerals Management Service.

CWEL, First Use and Transportation taxes

Estimating the costs of alternative policies for the disposition of offshore platforms - CES Industry Associates.

A strategy for external control and accountability for TVA - In house.

Environmental externalities and the least-cost selection of electric generating facilities - In house.

Nuclear power project disallowances - In house.

Electric Utility Mergers: A Regulator's Guide - In house.

Effects of depletion, taxation and economic incentives on petroleum drilling outcomes of firms of different sizes - Industry Associates.

PRODUCED WATER WORKSHOP AGENDA --SEPTEMBER 28, 1995

8:00am- 8:45am	Registration
8:45am- 9:00am	Welcome Address
9:00am- 9:15am	Overview of PTTC John Benton , PTTC Project Manager
9:15am- 9:45am	Produced Water: Analyzing the Magnitude of the Problem Clay Kimbrell

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