

Deepwater Drilling Permit Update

Presented to Gulf Economic Survival Team

Prepared by IHS CERA

November, 2011



CERA

Context

- **IHS report "Restarting the Engine – Securing American Jobs, Investment and Energy Security", released in July 2011, analyzed publicly available data from BOEM/BSEE (formerly BOEMRE) for GOM drilling permit approvals from January 1st, 2005 to April 10th, 2011.**
- **This update is based on a download of deepwater drilling permit approval data from the BOEM/BSEE website between April 10th, 2011 and October 12th, 2011 (months 6 – 12 since the lifting of the deepwater moratorium).**



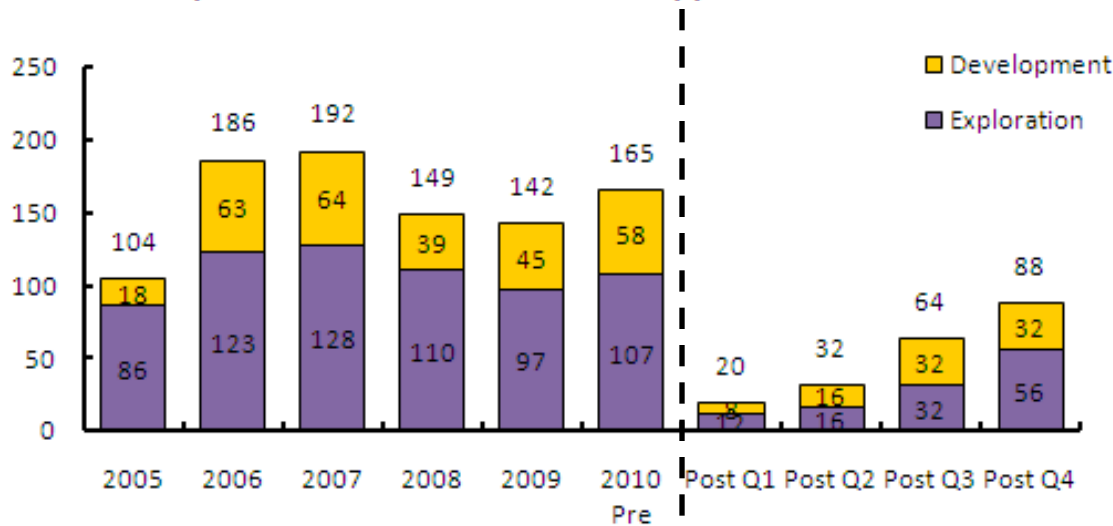
Deepwater Drilling Permit Approvals Analysis

- **Deepwater approvals are a more appropriate measure of the functioning of the regulatory system (the combined interaction of both operators and regulators) since shallow water activity appears constrained by low natural gas prices.**
- **This analysis:**
 - **determines changes in the pace of approvals for new permits in the 12-month period following the lifting of the deepwater moratorium**
 - **compares the pace against the pre-moratorium levels**
 - **examines the temporary impact of classifying some, but not all, applications for permits that had previously been submitted prior to the moratorium as “revisions” rather than “new applications”**



Deepwater drilling permitting has increased since April 10th, 2011 but is still below the pre-moratorium level

Deepwater Gulf of Mexico Permits Approved



Note:

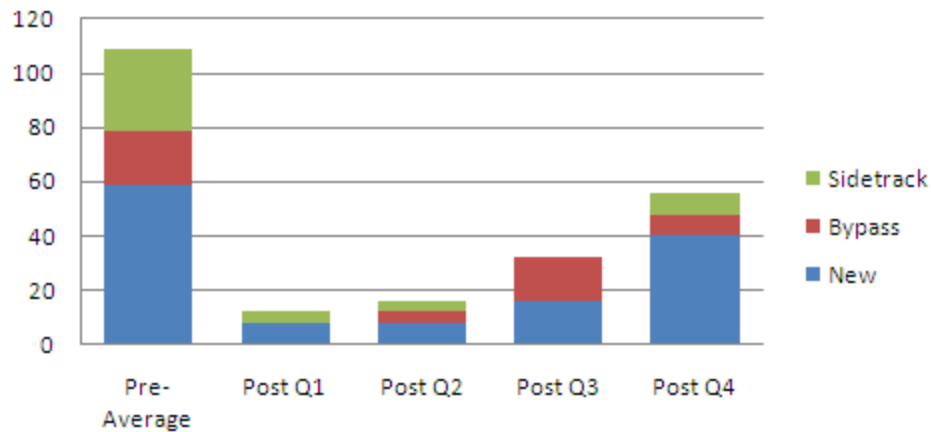
1. Permit types included are New Well, Bypass, Sidetrack permits.
2. Post moratorium figures have been annualized.
3. “2010 Pre” refers to the period in 2010 before the moratorium.
4. Post-Moratorium Period
Q1: 10/12/10 – 1/11/11
Q2: 1/12/11 – 4/11/11
Q3: 4/12/11 – 7/11/11
Q4: 7/12/11 – 10/11/11
5. Pre-Avg refers to average annual permitting level before the moratorium.

	Pre-Avg.	Post-Moratorium (Annualized)			
		Q1	Q2	Q3	Q4
Exploration	109	12	16	32	56
Development	48	8	16	32	32
% of Pre- Avg.	N/A	13%	20%	41%	56%

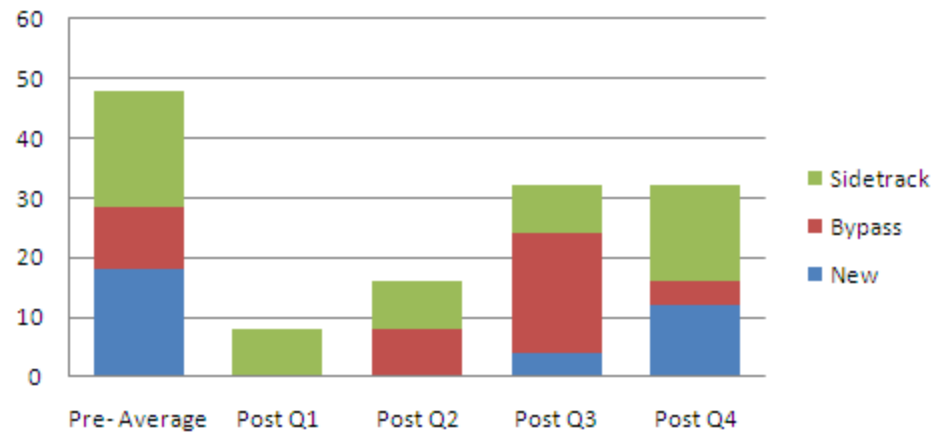


New well drilling permit approvals significantly increased in the last two quarters

Exploration Drilling Permits Composition Post-Moratorium (Annualized)



Development Drilling Permits Composition Post-Moratorium (Annualized)

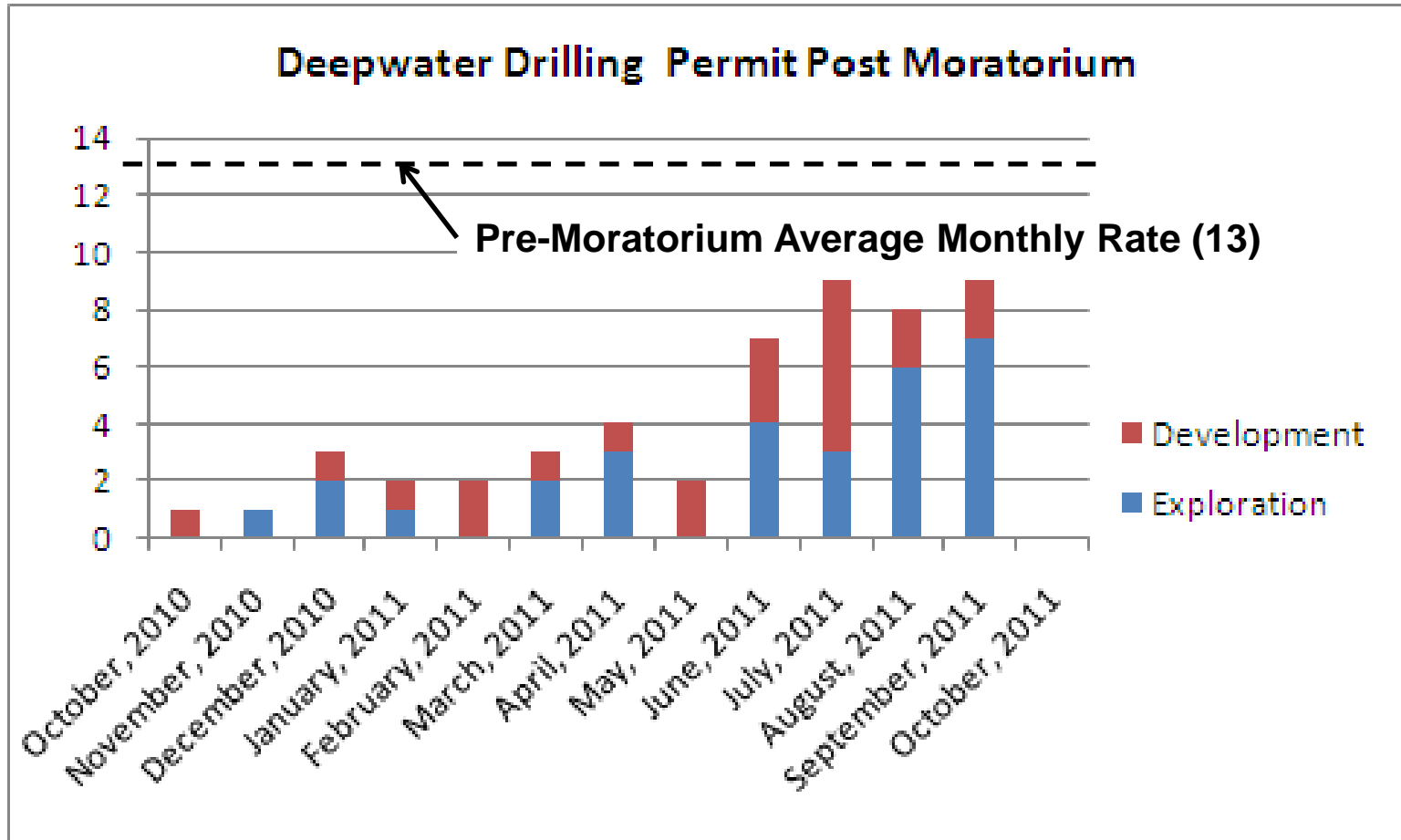


Note:

1. Pre-Average refers to average annual permitting level before the moratorium.
2. Post moratorium figures have been annualized.
3. Post-Moratorium Period
 - Q1: 10/12/10 – 1/11/11
 - Q2: 1/12/11 – 4/11/11
 - Q3: 4/12/11 – 7/11/11
 - Q4: 7/12/11 – 10/11/11

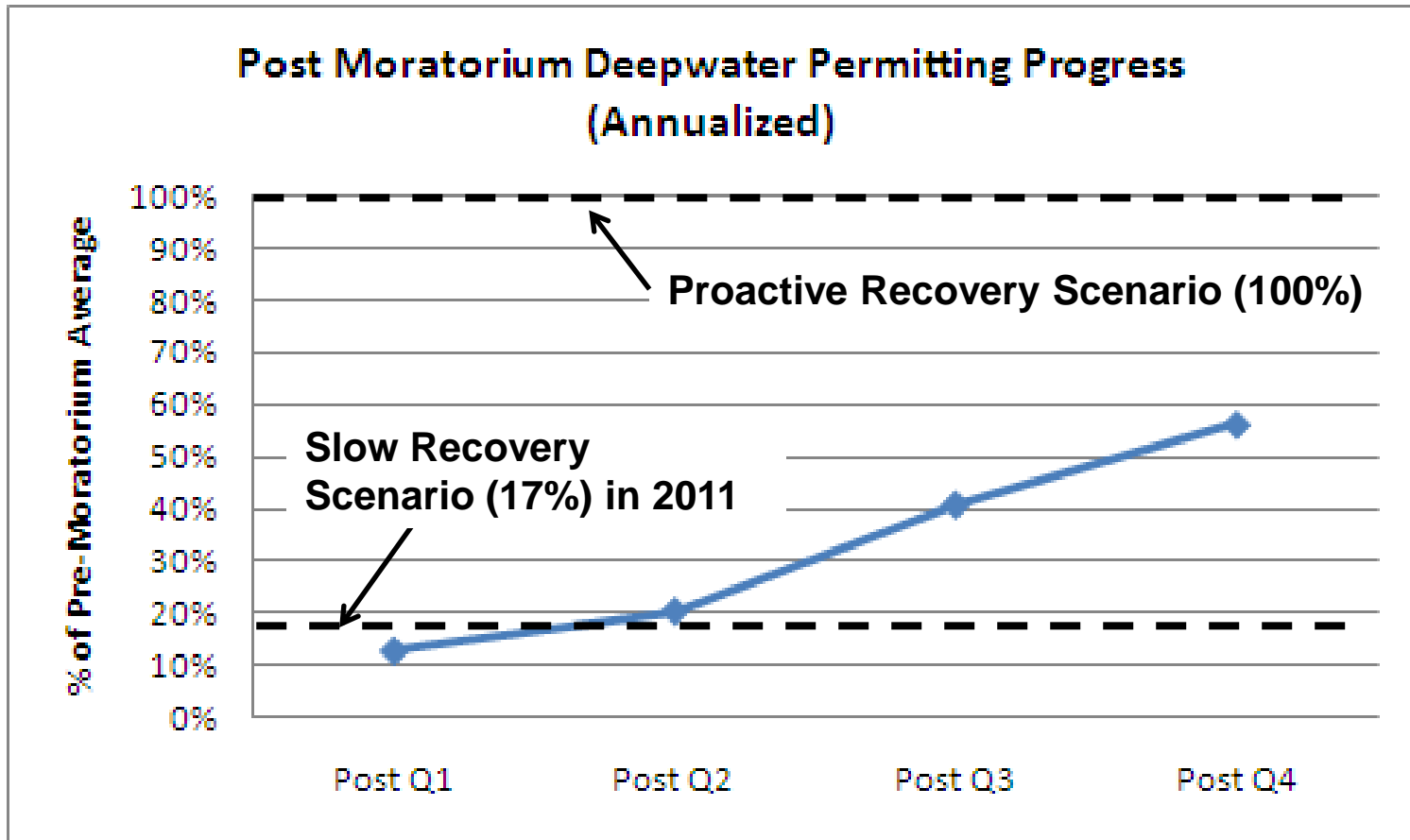


Monthly permit approvals increased significantly from June but is still below the pre-moratorium level



Note: October, 2010 starts from October 12, 2010. October, 2011 is through October 11, 2011 only. Figures have NOT been annualized.

Progress has been made towards the Proactive Recovery scenario in the last two quarters



Note: Post moratorium figures have been annualized

Conclusions

- **The volume of deepwater drilling permit approvals increased in each of the two quarters following April 10th, 2011.**
- **During the recovery after the moratorium, generally wells that had already received permit approvals before the moratorium were only able to proceed after receiving revised permit applications.**
 - Including this “backlog” of revised permit applications in the analysis would result in an adjusted permit count resulting in a 29 percent increase in unique number of wells permitted in the one-year period post-moratorium.
- **However, inclusion of these “backlogs” of revised permits stemming from the administrative approach to managing permits that were previously approved is problematic.**
 - On average, these permits require only 45 days to approve compared with the overall average of 80 days, and therefore once the backlog of these revised permits has been exhausted duration to approval for all permits will increase.



Conclusions

- **The full year of data since the lifting of the moratorium indicates a volume of permit activity remains significantly below the historical annual average.**
 - Pre Moratorium Annual Average of 157 permits per year compared with the 12 month post moratorium observed 51 permits yields 32 percent of the historical annual average
- **Assuming that the approval volumes observed in Q4 were sustainable for a full year, the annualized volume has increased from 13 percent in Q1 to nearly 56 percent of historical averages for permits.**
- **However, the average duration to approval for permits has undergone significant increases and it is yet to be determined if the Q3 and Q4 levels of activity are sustainable given this observed increase in the duration to approval.**
 - Exploration approval duration pre-moratorium averaged 16 days, but post-moratorium average is now 80 days
 - Development approval duration pre-moratorium averaged 24 days, but post-moratorium average is now 35 days

