



NBEIC

**Bethlehem, PA
November 2-3, 2010**

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The oil spill

Things to consider

Impact on Fisheries

- Hammering fisheries
 - But fisheries small in the impacted economies
 - LA #2 in fish catch; total landed value in 2008: \$278 mm
(**0.1% of Louisiana gross state product**)
 - Total value along northern GOM coast: \$661.4 mm
 - Ditto for recreational fishing: \$108.1 mm in LA
 - Many will make more \$s from cleanup than from fishing
 - BP hired 1,300 boats @ \$1,200-\$3,000 per boat + \$200 per deck hand (\$560 mm over 180 days)

Spill Impacts

- **Tourism: Bad from East of Mobile Bay to tip of FL**
 - **Little impact to the west – LA & MS & Texas**
 - **About 50,000 condos from Pensacola to Panama City**
 - **Economies here are tourism and military**
 - **Should be short run**

Oil & Gas industry: The Moratorium

- **April 20th: Deepwater Horizon explosion & spill start**
- **May 11th: President asks NAE to investigate. Report given to President**
- **May 22nd: President issues Executive Order # 13543 establishing moratorium commission**
- **May 27th: President instructs DOI Secretary Salazar to issue 6-month moratorium on drilling in waters 500+ feet**
 - Said decision based on NAE report
 - Strongly denied by several members of that group.

Oil & Gas industry: 17% of LA GSP

- **Moratorium on deepwater drilling (now any wells using sub-sea BOPs or surface BOPs on a floating facility)**
 - **Drill ships (@\$250k-\$500k per day) will declare force majeure & leave for Brazil, West Africa, Australia---sign 3-4 year contracts in new location (Diamond Drilling & Transocean have already moved 4 ships)**
 - **33 rigs impacted (?); about 8,000 direct jobs**
 - **Multiplier effect: about 30,000 – 35,000 jobs**
 - **Direct wages @\$1,800 per week: about \$748 mm a year**

Oil & Gas industry: The Moratorium

- **Moratorium Study Commission**
 - **Not a single member with the skill set to analyze the problem**
 - **Loaded with anti-fossil fuels people**
 - **Frances Beinecke – President of Natural Resources Defense Council**
 - **Don Boesch – President of U. of Maryland Center for Environmental Science**
 - **Terry Garcia – Ex. VP for Missions Program for National Geographic**
 - **Frances Ulmer – Chancellor of U. of Alaska Anchorage & member of Aspen Institute’s Commission on Arctic Climate Change & Member of Alaska Nature Conservancy**
 - **Bob Graham, retired congressman from FL**
 - **Co-Chair William Reilly (former EPA administrator): First meeting in mid-July and report “next year”**
 - **No sense of urgency (surprised me here---released report late 8/10)**

Oil & Gas industry: The Moratorium

- **Moratorium Study Commission: side note**
 - **The President did not meet with coastal state members of Congress before appointing the commission, which really teed them off. Result:**
 - **No subpoena power**
 - **No funding**

Oil & Gas industry: The Moratorium

- **Morgan Stanley**
 - **5% chance lasting 6 months**
 - **60% chance lasting 12-18 months**
 - **35% chance lasting up to 4 years**
 - **“Legal” v “Effective” moratorium**
 - **The permitting issue**

Oil & Gas industry

- **New Bureau of Ocean Energy, Regulations and Enforcement (old MMS) rule:**
 - **Third party certifications of key equipment such as BOPs, will work, and all well designs are safe must be submitted**
 - **Notice to Lessees N05: CEO must sign sworn statement certifying key safety equipment are okay, **subject to criminal penalties**.**
 - **Applies to shallow-water as well as deep.**

Oil & Gas industry

- **New Bureau of Ocean Energy, Regulations and Enforcement (old MMS) rule:**
 - **2nd directive to deep water drillers: Must submit detailed spill control and cleanup plans, including descriptions of worst case scenarios.**

Oil & Gas industry

- **New Bureau of Ocean Energy, Regulations and Enforcement (old MMS) rule: **The real killer****
 - **Instead of 30 days to approve new or revised permits, now BOERE has 90 days. Administration wants 270 days or possibly even open days.**
 - **BOE approved 7 permits to drill new wells May - September, v 13 per week pre-spill**
 - **All MMS employees got back of President's hand: "For too long have had a cozy relationship with the industry." I.e., you have no integrity. Why approve any permits?**
 - **Last 15 years 11,070 wells drilled in shallow water; 15 barrels of oil spilled**

Oil & Gas industry

- **Will require political will to get new permits issued. Where will that come from?**
- **2010-2012 virtually no drilling in GOM**
- **Boards of directors must make decision about where to commit resources: GOM or somewhere where you are wanted?**
- **Where will political will come from?**
 - **2011-12 production will start to decline in GOM**
 - **Oil prices will rise**
 - **Law of Demand will save the day**

Oil & Gas industry: The Insurance Issue

- **Impacts of the spill on insurance costs in general**
 - **Actuaries in insurance companies have seen the spill: “Oh shoot!”**
 - **Willis insurance exec:**
 - **Rates will go up 10-35% depending on company history**
- **Raising liability cap from \$75 mm to \$10 billion**
- **Result: Independents driven out of the Gulf**
 - **4 of last 7 years have drilled over 1/2 wells in GOM**
 - **Own 81% of GOM producing leases**
 - **Own 46% of GOM deep water producing leases**

Key facts

- Measurement of spill non-trivial to BP
 - Under Clean Water Act civil liability
 - Fines based on volume of spill: \$1,100 or \$4,300 per barrel if gross negligence
 - Through capping 7/15/10: **\$21 billion**

Key facts

- **Measurement of spill non-trivial to BP**
 - **Natural Resource Damages under Oil Pollution Act of 1990:**
(Valdez - \$950 mm)
 - **Some estimates could be \$10 billion just in LA**
 - **FBR Capital estimates total liability in \$30-\$60 billion range**
 - **Everyone whose life work is studying any organism in the Gulf may see a change and any is assumed to be bad.**
 - **Remember: Oil companies are “bad”**
 - **Trial lawyers full employment act of 2010....**
 - **Oil spill is litigation fire zone. Example: Moratorium lifted w/
environmental impact study**

Where Is the Oil?

- **4.9 million barrels spilt**
 - **Reported captured: 1,345,859**
 - **Leaves 3,556,141**
 - **Some evaporated (Louisiana Sweet)**
 - **Some burned**
 - **Some cleaned with dispersants**
 - **“Solution to pollution is dilution”**
 - **Gulf contains 15 quadrillion barrels of water**



Key facts: One Industry Response

- **Exxon, Shell, ConocoPhillips, Chevron, BP**
 - **\$1 billion into new non-profit, rapid-response company: Marine Well Containment Company**
 - **Would respond to oil leaks up to 10,000 feet of water.**
 - **Begin mobilization w/I 24 hours of blowout**
 - **Arrive at leak in days; fully operational w/I weeks**
 - **Their hope: Be the “Maytag Repairman” for the extraction industry**



Key facts: Political Response?

- **Shut down the GOM: Silly**
 - 33% of US oil production from the GOM
 - 18.7% of US oil production from deep waters
 - 10% of US natural gas production from GOM
 - 5% of US natural gas production from deep waters
- **Just switch to alternative energy like wind and solar: Equally silly**

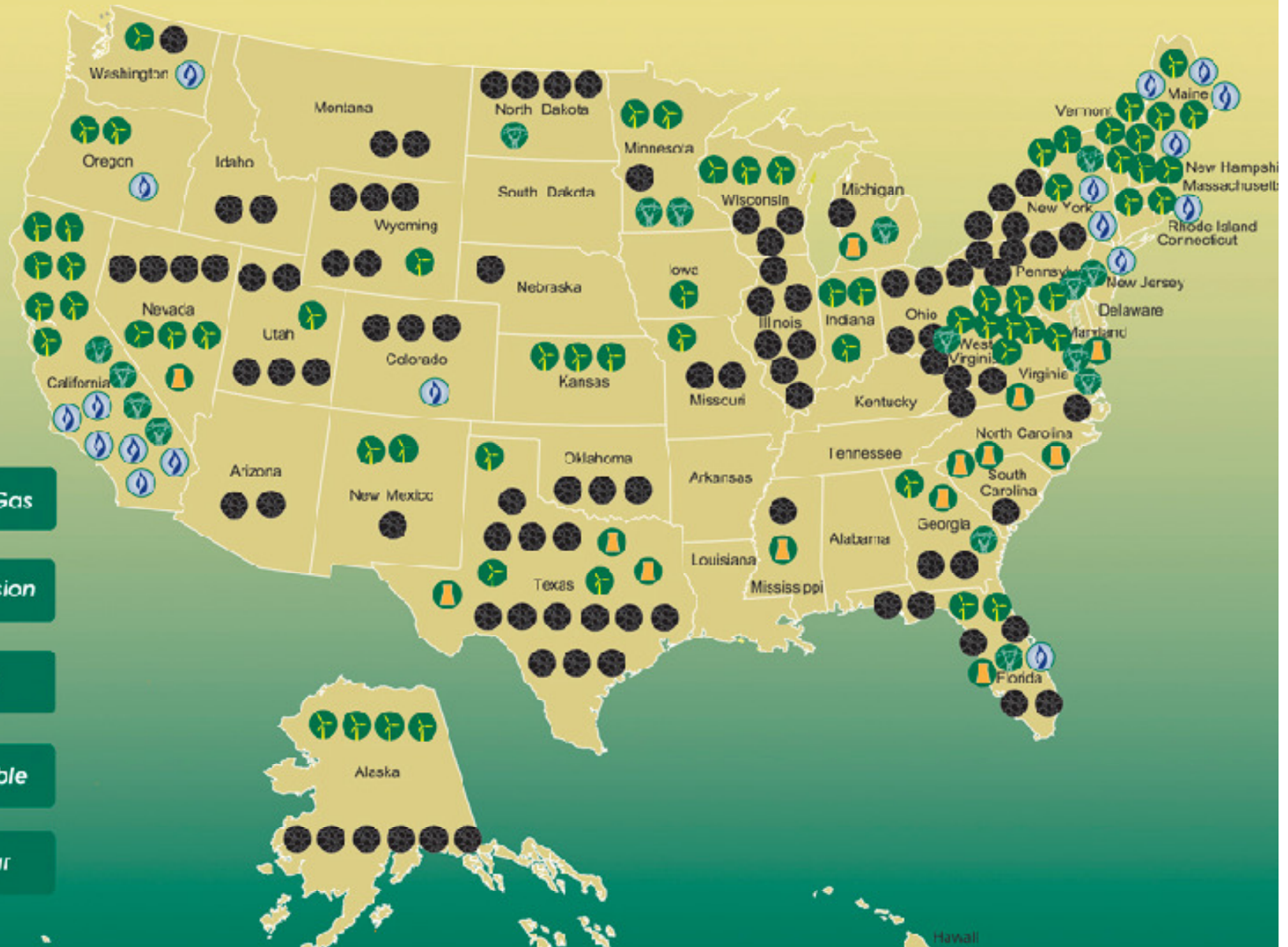
Wind Power

- **Four pivotal limitations;**
 - **Intermittency:**
 - **When will the wind blow?**
 - **Texas has 9,700 megawatts of wind power capacity. In August 2010 only 570 megawatts (6%) generated.**
 - **When it is not, need base load electrical generating capacity from traditional sources**
 - **Cost**
 - **People do not want to live near them**
 - **Billboards no; windmills yes???**



Project ~~No Project~~

www.projectnoproject.com



Natural Gas



Transmission



Coal



Renewable



Nuclear

Windmills – Bird Kills

- **Altamont Pass - 50-square mile site between San Francisco and the Central Valley in Diablo Mountains: 4,000 windmills**
 - July 2008 study: annual bird count: 10,000 birds
 - 1,300 raptors: Golden eagles (80 annually), red-tailed hawks, burrowing owls & others
- **Windmills in Blackbone Mountains in VA:**
 - 2004 research – killed 4,000 bats



**Robert Bryce in “Power
Hungry”**

**“If you are anti-carbon and
anti-nuclear, you are pro
brownout.”**



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