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Cobalt International Energy invokes force majeure

By OGJ editors

HOUSTON, June 2 -- Cobalt International Energy Inc. invoked a force majeure provision under its drilling contract with Diamond Offshore Co. for the Ocean Monarch drilling rig, which was moored and ready to drill on an exploratory well on Garden Banks Block 959 in the Gulf of Mexico.

Cobalt said it invoked the force majeure because of a May 27 announcement by the US government to temporarily suspend deepwater drilling in the gulf.

Already Cobalt had all necessary permits and insurance as required for drilling. The Houston independent also believes the direct financial impact of triggering force majeure on the Ocean Monarch will cost $15 million.

"Looking to the future, Cobalt believes that the action taken by the US government...will likely result in the delay of our Gulf of Mexico drilling program by approximately 6 months," the company said in a news release.

Other than this initial delay, Cobalt reaffirmed its intentions to execute all aspects of its entire gulf exploration and appraisal program as previously announced. Cobalt also focuses on offshore Angola and Gabon.

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UPDATE 2-Anadarko declares force majeure on U.S. Gulf rigs

Thu, Jun 3 2010

* Anadarko declares force majeure due to drilling halt
* Rigs owned by Transocean, Diamond, Noble Corp-analyst
* Still using one rig for non-drilling activities (Adds names of rig owners, analyst's comment, background)

NEW YORK/SAN FRANCISCO, June 3 (Reuters) - Anadarko Petroleum Corp (APC.N: Quote, Profile, Research, Stock Buzz), part owner of the crippled well that has been gushing oil into the Gulf of Mexico since April, said on Thursday it had declared force majeure on three rigs in the region.

Anadarko did not say which rigs were affected, but UBS analyst Angie Sedita said they were owned by Transocean Ltd (RIGN.S: Quote, Profile, Research, Stock Buzz)(RIG.N: Quote, Profile, Research, Stock Buzz), Diamond Offshore Drilling Inc (DO.N: Quote, Profile, Research, Stock Buzz) and Noble Corp (NE.N: Quote, Profile, Research, Stock Buzz).

BP (BP.L: Quote, Profile, Research, Stock Buzz) (BP.N: Quote, Profile, Research, Stock Buzz) owns 65 percent of the Gulf of Mexico oil well that ruptured on April 20 and Anadarko owns 25 percent. Transocean is owner of the rig.

"We believe operators have invoked the force majeure clause on a total of four rigs so far, with more expected to come," Sedita wrote in a note to investors on Thursday.

Force majeure relieves a company from liability when it cannot fulfill contractual obligations because of natural and unavoidable catastrophes.

Anadarko said it still had one rig under contract in the Gulf, which it planned to use to continue completion, workover and other non-drilling activities on existing wells during the drilling moratorium issued by the federal government.

The rig kept at work is owned by Ensco Plc (ESV.N: Quote, Profile, Research, Stock Buzz), Sedita said.

On June 1, Cobalt International Energy Inc (CIE.N: Quote, Profile, Research, Stock Buzz) declared force majeure on another Diamond-owned rig in the Gulf of Mexico. [ID:nSGE6500HH]

Anadarko said it would stick to its full-year and second-quarter sales forecasts and said its spending plans for the year were unchanged.

Anadarko's shares have fallen to $46.06, where they closed on Thursday, from a year high of $75.07 on April 15. (Reporting by Matt Daily in New York and Braden Reddall in San Francisco; Editing by Derek Caney, Toni Reinhold)

latimes.com

Noble says deepwater drilling moratorium isn't enough for Anadarko to end contract in Gulf

By Associated Press

1:58 PM PDT, June 4, 2010

NEW YORK (AP) — Noble Corp. said Friday it doesn't believe the moratorium on deepwater drilling in the Gulf of Mexico, or the oil spill itself, should excuse Anadarko Petroleum from contracts to lease rigs in the region.

Noble said it will enforce the contract agreement with Anadarko and noted the oil producer can use the rig in other areas of the world if necessary.

The statement came after Anadarko notified three contractors it will declare a "force majeure" on drilling rigs in the Gulf as a result of the moratorium.

Force majeure is a contract provision that frees parties from liability when an extraordinary event, such as a natural disaster or a war, occurs that could significantly disrupt business.

Anadarko spokesman John Christiansen said Friday the company's position remains unchanged. "We disagree with Noble's interpretation of the drilling contract and will continue to pursue our remedies under the contract during this force majeure event," he said in an e-mail.

Anadarko is one of at least two oil and gas companies that have issued force majeure declarations as they deal with the oil spill and six-month drilling moratorium in the Gulf.

In addition to Noble, Anadarko said it notified Transocean Ltd. and Cobalt International Energy that it was invoking the same provision.

Noble's agreements with customers in the Gulf allow for contracts to be broken if a disruptive event continues for a prolonged period. The company said it has not received force majeure notices from other customers.

If force majeure is declared, Noble said its contracts generally allow for it to collect between 80 and 100 percent of its set day rate for a period of about 15 to 30 days. Following that notice period, Noble or its customer is allowed to end the contract.

Earlier in the week, Cobalt said it invoked a force majeure provision in a Gulf rig contract with Diamond Offshore Co. It estimated the financial impact of the force majeure at net $15 million.

Anadarko, which is based in The Woodlands, Texas, is one of the nation's largest independent exploration and production companies. It has a 25 percent non-operating interest in the well where a rig exploded April 20, killing 11 workers and triggering the massive oil spill.

The Deepwater Horizon rig was owned by Transocean and leased by BP PLC, which is in charge of cleanup and containment.

The New York Times

June 3, 2010

Deepwater Companies Pull Up Stakes, and Some May Never Return

By KATIE HOWELL AND MIKE SORAGHAN of Greenwire

Walter Oil & Gas Corp. executives were within 9,000 feet of finding out if they would hit oil under the Gulf of Mexico. Now, they don't know if they will ever find out.

The company and its contractors had drilled about 12,000 feet down from a seabed located about 1,200 feet from the surface of the Gulf of Mexico, in Ewing Bank Block 834. The oil they were looking for was supposed to be at 21,000 feet.

But now the company is pulling up stakes, under Obama administration orders to put a halt to most deepwater drilling in the Gulf, where a BP PLC well has been stubbornly billowing crude since late April despite repeated attempts to plug or divert it.

"We'd spent millions and millions of dollars, and we don't know if we will ever have the opportunity to get a return on our investment," said Ron Wilson, a Walter manager.

Walter got official notice last Friday from the Minerals Management Service to start shutting down its operation, which is about 64 miles offshore. Wilson said Monday that operations on the rig would be shut down in "a handful of days."

Walter's is one of the rigs being shut down as part of a federal moratorium on deepwater drilling, part of the administration's response to BP's Deepwater Horizon spill. Interior Secretary Ken Salazar has blocked new permits for six months and suspended 33 deepwater operations, including Walter's. Drilling in waters less than 500 feet deep will be allowed to continue, as will production activity in deep waters (*E&ENews PM*, May 27).

Walter executives aren't sure whether the well will get drilled when, and if, deepwater exploration is allowed to resume.

They aren't alone. Chevron Corp., Royal Dutch Shell PLC and BHP Billiton have all announced shutdowns in the Gulf. When the Deepwater Horizon incident occurred, Melbourne, Australia-based BHP was running five drilling rigs in the Gulf at a cost of about $1 million a day. Now, those five are sitting idle.

Rigs are typically owned and operated by a drilling company like Transocean Ltd., the company involved in the Deepwater Horizon incident, and rented out to exploration companies all over the world. Rig lease rates in the Gulf run at $250,000 to $500,000 a day, according to the Louisiana Mid-Continent Oil and Gas Association. That means rig operators could be losing between $8.3 million and $16.5 million a day.

And that figure doesn't include the $1 million or so a day in lost revenue for supply-boat operators, welders, divers, transportation companies and other support services.

"There are a lot of nervous people out here," one offshore drilling engineer said.

Pleas from industry, Jindal

The Louisiana Mid-Continent Oil and Gas Association estimates that the six-month halt would have a significant impact on energy security and federal revenue, as well.

The moratorium would defer 4 percent, or 80,000 barrels a day, of expected deepwater production in the Gulf in 2011 and would likely make seven current discoveries not economical to produce, putting $7.6 billion in future government revenues at risk.

"Considering that the deepwater regions generate 80 percent of the Gulf's oil production and 45 percent of its natural gas production, a six-month work stoppage will have severe and perhaps long-lasting impacts on our domestic energy supply and economic security," said Burt Adams, chairman of the National Ocean Industries Association.

"When you couple this no-less-than-six-month moratorium with the canceled Western Gulf lease sale, the potential for long-term job loss and economic hardship for the Gulf of Mexico looms even greater."

Twenty-two of those idled rigs sit offshore from Louisiana, and Louisiana's economic development department estimates that the current six-month drilling suspension could slash 10,000 jobs in the state. Gov. Bobby Jindal (R) says that's unacceptable.

"Already, Louisiana has suffered severe negative economic and ecological impacts from the BP oil spill," he said in a letter sent yesterday to President Obama and Salazar. "During one of the most challenging economic periods in decades, the last thing we need is to enact public policies that will certainly destroy thousands of existing jobs while preventing the creation of thousands more."

And while he said strict oversight of deepwater drilling is necessary, Jindal went on to ask that the federal government "move quickly to ensure that all deep-water drilling is in proper compliance with federal regulation and is conducted safely so that energy production and more importantly, thousands of jobs, are not in limbo."

As lost rig revenues mount for drilling companies like Transocean, Baker Hughes Inc., Halliburton Co. and Schlumberger Ltd., Jindal and industry insiders are worried the companies will move their equipment to other parts of the world.

"The announced moratorium of deep-water drilling activity creates a significant risk that many of these drilling platforms would be relocated to other countries," Jindal said in his letter.

The Offshore Marine Service Association says that if the rigs are moved to other parts of the world -- towing a rig to Brazil or western Africa takes only about a month -- it could be two to three years before they finish overseas commitments and come back.

The drilling companies are currently tied up in contracts with the exploration companies that have been forced to stop drilling operations, but *force majeure* provisions could allow them to be canceled if unforeseeable forces bear down on a business plan.

Cobalt International Energy Inc. invoked the *force majeure* provision in its contract with Diamond Offshore Co. for the Ocean Monarch drilling rig, which was ready to begin drilling at Cobalt's exploratory well in Garden Banks Block 959. The Houston-based company said it had already gathered all the necessary permits and insurance to start drilling when the administration announced the moratorium. It expects to spend about $15 million as a result of triggering *force majeure*.

But the company hasn't given up on working in the Gulf -- yet. The company says it's planning to hire another drilling rig at the end of this year and to start drilling in early 2011.

Analysts at Jefferies & Co. say that more operators are likely to follow Cobalt's lead and declare *force majeure* on their current contracts.

Liability

Even if the moratorium is lifted and companies are allowed back to work, some worry new policies could be on their way that could devastate offshore drilling in the Gulf.

Some in Congress want to raise the spill-liability limit for offshore drillers to $10 billion in economic damages. And some, as high up as Senate Majority Leader Harry Reid (D-Nev.), have said drillers should have unlimited liability (*E&E Daily*, May 19).

"That can't be covered," Walter's Wilson said. "There is not an insurance that will cover what we're reading about in the paper. Will there be one? I don't know. But it will be at such a cost, I don't know that companies like ours can afford to pay it."

Oil companies such as BP are legally on the hook for the full cost of containing and cleaning up a spill. But Congress capped companies' liability for economic damages -- people put out of work by the spill, fishermen who cannot fish, empty hotel rooms on the beach at high season -- at $75 million.

And if Walter doesn't drill it, Wilson suspects larger companies won't be interested in buying out Walter's lease. It's smaller companies like his, he said, not the "super-majors" like Exxon Mobil Corp. or Shell, that take those kinds of risks.

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CBSNEWS

Jun. 04, 2010

Noble: Drilling Ban Shouldn't Break Anadarko Deal

Noble Says Deepwater Drilling Moratorium Isn't Enough For Anadarko To End Contract In Gulf

(AP) NEW YORK (AP) - Noble Corp. said Friday it doesn't believe the moratorium on deepwater drilling in the Gulf of Mexico, or the oil spill itself, should excuse Anadarko Petroleum from contracts to lease rigs in the region.

Noble said it will enforce the contract agreement with Anadarko and noted the oil producer can use the rig in other areas of the world if necessary.

The statement came after Anadarko notified three contractors it will declare a "force majeure" on drilling rigs in the Gulf as a result of the moratorium.

Force majeure is a contract provision that frees parties from liability when an extraordinary event, such as a natural disaster or a war, occurs that could significantly disrupt business.

Anadarko spokesman John Christiansen said Friday the company's position remains unchanged. "We disagree with Noble's interpretation of the drilling contract and will continue to pursue our remedies under the contract during this force majeure event," he said in an e-mail.

Anadarko is one of at least two oil and gas companies that have issued force majeure declarations as they deal with the oil spill and six-month drilling moratorium in the Gulf.

In addition to Noble, Anadarko said it notified Transocean Ltd. and Cobalt International Energy that it was invoking the same provision.

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Interior prepares to list oil drilling operations stymied by Gulf of Mexico shutdown

Published: Wednesday, June 02, 2010, 9:23 PM Updated: Wednesday, June 02, 2010, 10:37 PM

Rebecca Mowbray, The Times-Picayune

Gerald Herbert/The Associated Press

Oil floats on the surface of the Gulf of Mexico on Wednesday around the Transocean Development Driller II, which is drilling a relief well at the site of the Deepwater Horizon oil spill.

The U.S. Department of Interior is preparing a more detailed list of the **drilling operations in the Gulf of Mexico that are being shut down** under a moratorium announced last week in response to **the Gulf of Mexico oil spill.**

The shutdown of the drilling operations is expected to have **a substantial impact on the Louisiana economy,** as the 33 rigs contemplated in last week's shutdown order probably employ 7,590 people, and each of those is believed to support four other jobs on land.

The Interior Department has released a list of 17 companies with deepwater drilling operations in the Gulf of

Mexico that are affected, but it has not disclosed the names of the prospects, rigs or locations, saying the information is proprietary.

- **Q&A: Explaining, exploring the Gulf drilling moratorium**

It is likely that more than 33 rigs are affected, because the initial list included only rigs drilling in more than 1,000 feet of water, while the moratorium freezes exploratory wells in more than 500 feet of water. Moreover, many companies had planned to start new wells during the six-month period of the moratorium, meaning that many operations that had been set to go won't start.

Meanwhile, several companies on Wednesday disclosed operations that will be affected by the policy.

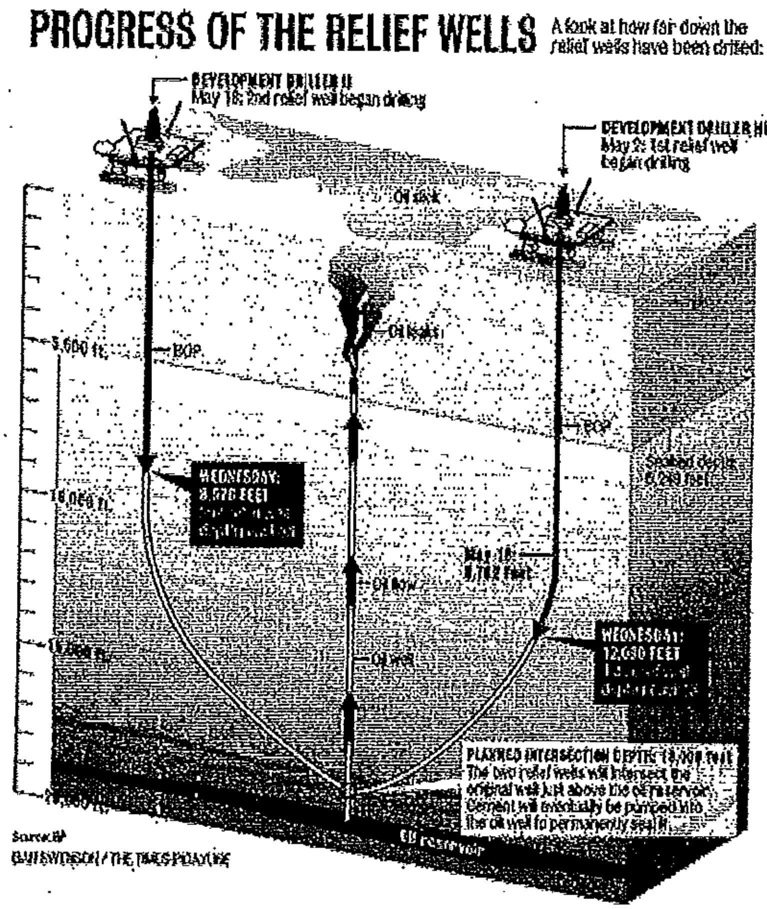
Calgary-based **Nexen Inc.** said it completed drilling its **Knotty Head appraisal well** this year before the April 20 Deepwater Horizon disaster, but it has deferred drilling on its **Kakuna exploratory well** because of the moratorium. That project was supposed to start in the next six months, Pierre Alvarez, Nexen's vice president of corporate relations said.

Alvarez said the delay has not affected any Nexen employees because the company has other projects around the world.

Exxon-Mobil says it has two projects that had been scheduled to start May 10.

"We are delayed in our plans to drill an exploration well at the **Hadrian prospect at Keathley Canyon** and **a production well from the Hoover Diana platform,**" said spokeswoman Karen Matusic.

Meanwhile, an analyst report Tuesday from JP Morgan Chase says that ATP Oil & Gas Corp. in Houston will have to plug **the Aconcagua well at Canyon Express** and the **Mirage well at Telemark hub.**



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Another Houston company, Cobalt International Energy Inc. has said its **North Platte exploratory well** will not be able to move forward because of the moratorium. Cobalt has invoked "force majeure" provisions in its contract with Diamond Offshore Inc., the company that owned the drilling rig it planned to use at North Platte.

Big contracts typically have provisions, known as **force majeure provisions**, that allow them to be canceled if unforeseeable forces bear down on a business plan. Cobalt invoking force majeure has raised concerns that other companies will do the same, opening the possibility that companies might move rigs out of the Gulf of Mexico to take jobs elsewhere in the world.

Industry groups such as the Offshore Marine Service Association say that if rigs move, it will be two to three years before they finish commitments overseas and come back, so the real impact of the Gulf of Mexico deepwater drilling moratorium could last much longer.

Laney Chouest, a deepwater industry veteran who retired from Edison Chouest Offshore after Hurricane Katrina, said more force majeure declarations are expected, and Chouest Offshore has already gotten two requests to tow rigs to western Africa.

Chouest also said that breaking contracts through force majeure also opens the possibility that oil companies will renegotiate rates with companies that service their operations. Although that may not matter to rig workers who could lose their jobs in the moratorium anyway, it could mean less money flowing to Louisiana-based companies.

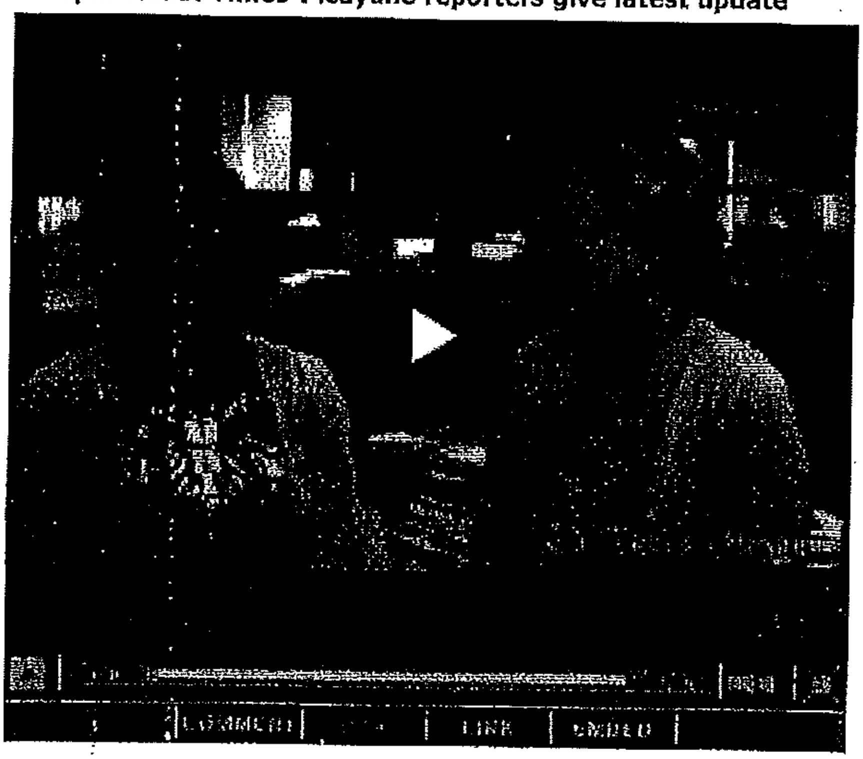
"There's been a lot of discussion about it," Chouest said of force majeure declarations and possible service rate renegotiations. "It's an obvious opportunity for some to take advantage of that situation."

Chouest said it only takes about four weeks to move a rig to Brazil or western Africa, and because many petroleum companies have worldwide operations, it wouldn't be hard for them to add another rig to an overseas prospect.

The analysis firm Jefferies & Co. concurred in a May 28 report. "We believe that several operators are likely to declare force majeure on their current contracts, while the majors are likely to reposition some rigs overseas. We also believe that several contracts are likely to be renegotiated."

*Rebecca Mowbray can be reached at **rmowbray@timespicayune.com** or 504.826.3417. David Hammer contributed to this report.*

Oil spill video: Times-Picayune reporters give latest update



Noble fights force majeure in US Gulf

Upstream staff

Swiss driller Noble said it will fight an effort by US independent Anadarko to declare force majeure and end a contact for a rig in the deep-water US Gulf due to a 6-month drilling moratorium there.

"The company's drilling units, including the Noble Amos Runner, are ready and able to drill and Anadarko is not prevented from using the unit on a variety of activities permissible under the contract, the moratorium or otherwise in their deep and diverse portfolio of international properties," Noble said in a release.

Anadarko announced plans to try to ditch the drilling contract for the Noble Amos Runner, which it was using to drill the Lucius prospect on Keathley Canyon Block 875.

The rig was supposed to be under contract until March of next year at a day rate of $439,000 to $441,000, according to Noble's current fleet status report.

Under force majeure, Noble would still receive 80% to 100% of its dayrate for about 15 to 30 days, depending on the specific contract, the Swiss driller said.

But after that period, an operator could terminate the deal.

Noble said Anadarko's notice was the first declaration of force majeure it has received since the Obama administration announced the moratorium on leasing, permitting and drilling in the deep-water Gulf.

Noble's other deep-water Gulf of Mexico rigs are Noble Danny Adkins, Noble Clyde Boudreaux, Noble Jim Thompson, Noble Lorris Bouzigard and Noble Paul Romano.

"Noble continues to work closely with customers to identify opportunities to continue operations that are allowable under the current deepwater drilling moratorium or relocate the units outside of the US, as is customarily done with deep-water units," Noble boss David Williams said in a release.

"Our goal is to minimise the impact of the moratorium on our shareholders and our team members – who are among the best trained, safest and most experienced in the industry."

18:42 GMT 04. June 2010 | last updated: 18:42 GMT 04. June 2010

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State of Louisiana

BOBBY JINDAL
GOVERNOR

Post Office Box 94004
Baton Rouge, LA 70804-9004

OFFICE OF THE GOVERNOR

June 2, 2010

The Honorable Barack Obama
The White House
1600 Pennsylvania Ave
NW
Washington, DC 20050

Secretary Ken Salazar
U.S. Department of the Interior
1849 C Street
NW
Washington, DC 20240

Dear President Obama and Secretary Salazar:

I am writing to express my grave concerns regarding the severe economic impact of a six-month (or longer) suspension of activity at 33 previously permitted deepwater drilling rigs in the Gulf of Mexico, including and in particular the 22 deepwater drilling rigs currently in operation off the Louisiana coast.

Already, Louisiana has suffered severe negative economic and ecological impacts from the BP oil spill. Our seafood industry is experiencing huge economic losses that have only been partially mitigated by a frustratingly slow and inadequate BP claims process. Moreover, our precious wetlands are suffering incalculable, permanent damages, while our tourism industry faces escalating losses.

During one of the most challenging economic periods in decades, the last thing we need is to enact public policies that will certainly destroy thousands of existing jobs while preventing the creation of thousands more.

The Louisiana Department of Economic Development estimates that the active drilling suspension alone will result in a loss of 3,000 to 6,000 Louisiana jobs in the next 2-3 weeks and potentially over 10,000 Louisiana jobs within a few months. If the suspension of active drilling activity continues for an extended period, LED estimates that our state risks losing more than 20,000 existing and potential new Louisiana jobs in the next 12-18 months.

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Obviously these losses would come on top of those already generated by the spill and its related effects. Moreover, the announced moratorium of deepwater drilling activity creates a significant risk that many of these drilling platforms would be relocated to other countries -- along with the hundreds of high paying jobs that they each create.

Additionally, I fully understand the need for strict oversight of deepwater drilling. However, I would ask that the federal government move quickly to ensure that all deepwater drilling is in proper compliance with federal regulation and is conducted safely so that energy production and more importantly, thousands of jobs, are not in limbo.

Thank you in advance for your swift consideration of this request.

Sincerely,

Bobby Jindal
Governor

MARY L. LANDRIEU
LOUISIANA

United States Senate

WASHINGTON, DC 20510-1804

June 11, 2010

The Honorable Barack Obama
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

The tragic explosion of the *Deepwater Horizon* took the lives of 11 men and unleashed an uncontrolled torrent of oil and gas into the Gulf of Mexico that threatens our environment, our economy, and the health of America's wetlands, which underpin the way of life and the viability of the entire Gulf Coast. In an effort to ensure that such a terrible tragedy never occurs again, your Administration imposed a moratorium on new deepwater drilling. Unfortunately, I fear that this action could exacerbate, rather than alleviate, the impacts of this spill upon both our economy and our environment. Therefore, I write to urge your immediate reconsideration of the blanket six-month moratorium on deepwater drilling projects and ask that you consider instead a series of fundamental changes to offshore drilling practices that will serve to demonstrably reduce the risk of deepwater drilling while sparing the Gulf Coast's economic vitality.

Like many thousands of Gulf Coast residents living through this frustrating nightmare, I sympathize with the impulse to halt the activity that resulted in such a disaster. Unfortunately, that impulse is likely to do far more harm than good to Louisiana and the Gulf Coast.

The immediate impacts to the economy are devastating enough: idling the 33 rigs currently permitted to drill in the deepwater Gulf would immediately impact employment for roughly 38,000 crewmen, deck hands, engineers, welders, ROV operators, caterers, helicopter pilots, and others who operate and service these vessels. That's like closing 12 large motor vehicle assembly plants in one state, all at once. Moreover, that figure does not take into account the thousands of jobs generated by producing oil and gas offshore Louisiana – to our service sector, recreation and tourism, etc. The oil and gas sector directly employs some 15 percent of Louisiana's workforce. We cannot simply close down that sector without devastating economic impacts.

It is important to note that the moratorium on deepwater drilling threatens not only our economy but our environment as well. The oil that Americans rely on to fuel their economy must come from somewhere – more than likely it will be transported to the United States from overseas via oil tankers. As we have seen on multiple occasions, oil tankers sometimes run aground, hit snags, capsize, or are otherwise caused to spill their contents. Today's tankers

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carry, on average, about 2 million barrels of oil. Increasing tanker traffic increases the risk that US ports will be the site of a major tanker spill. Indeed, the National Research Council found that oil in the sea was four times more likely to come from an oil tanker than from an offshore drilling facility. By decreasing Gulf oil production, we are therefore likely to increase, not decrease our risk of another catastrophic spill.

I understand and respect your efforts to reduce the risk of a second massive blowout in the Gulf. However, I believe that we can demonstrably improve the safety of deepwater drilling without shutting down the Gulf Coast economy for more than six months. The proposal I outline below will not eliminate all risk. But there are no risk-free ways of producing the energy we rely on today. Given that, I ask that you lift your blanket moratorium on deepwater drilling and instead act on the recommendations below, some of which are drawn from your report and all of which would demonstrably improve the safety of current offshore operations:

1. Operators of the currently permitted 33 deepwater wells should be allowed to immediately resume "top hole section" drilling. This would allow them to drill through non-hydrocarbon zones, thus foregoing the possibility of loss-of-well control incidents or oil spills. Drilling would stop within a reasonable distance of the targeted hydrocarbon zone, to be reviewed for continuation as further regulations are developed.

2. Clearly communicate your unswerving commitment to re-opening the deepwater Gulf of Mexico to energy development, and outline a clear timeline within which the U.S. offshore will be re-opened for business and investment. This timeframe must be far shorter than six months if Louisiana and other Gulf Coast states are to avoid crippling economic damage.

3. Utilizing expertise and input from the National Academy of Engineering and the President's Commission, the Department should identify critical processes associated with the drilling and completion of deepwater wells based on systemic risk analysis, and exposure to safe and reliable operations.

4. The Department should identify a set of clear, coherent, and achievable benchmarks that will assure Americans that the risk of deepwater drilling is reduced.

5. Concurrently with this comprehensive review, the Department of the Interior should deploy a team of inspectors to every deepwater rig to examine all surface and subsea well control equipment and monitor and oversee operations.

6. Inspectors should rigorously inspect each operator's drilling and casing/completion practices to ensure that well control contingencies are not compromised at any point. Operators should be required to submit revised drilling plans that illustrate the lessons learned from the *Deepwater Horizon* and be called upon to verify their compliance frequently through on-site inspections.

7. Operators should be compelled to demonstrate that they have the emergency power equipment to ensure proper operation.

8. Rig floor managers, drillship captains, and other mission-critical staff should be re-tested for competencies relevant to emergency management and undergo Interior Department training and certification in order to minimize the risk of human error.

I commend your leadership in these difficult times and I look forward to helping you continue to serve as a good steward of the environment, the economy, and the safety of the American people.

With kind regards, I am

Sincerely,

Mary Landrieu

Mary L. Landrieu
United States Senator

MLL:tjm

THE WALL STREET JOURNAL.
WSJ.com

REVIEW & OUTLOOK | JUNE 17, 2010

Crude Politics

The drilling experts speak out on the Obama deepwater moratorium.

Before the Obama Administration sweeps under the carpet the controversy over the drilling experts it falsely used to justify its moratorium, the incident bears another look. Not least because it underlines the purely political nature of a drilling ban that now threatens the Gulf Coast economy and drilling safety.

When President Obama last month announced his six-month deepwater moratorium, he pointed to an Interior Department report of new "safety" recommendations. That report prominently noted that the recommendations it contained—including the six-month drilling ban—had been "peer-reviewed" by "experts identified by the National Academy of Engineering." It also boasted that Interior "consulted with a wide range" of other experts. The clear implication was that the nation's drilling brain trust agreed a moratorium was necessary.

As these columns reported last week, the opposite is true. In a scathing document, eight of the "experts" the Administration listed in its report said their names had been "used" to "justify" a "political decision." The draft they reviewed had not included a six-month drilling moratorium. The Administration added that provision only after it had secured sign-off. In their document, the eight forcefully rejected a moratorium, which they argued could prove more economically devastating than the oil spill itself and "counterproductive" to "safety."

The Administration insisted this was much ado about nothing. An Interior spokesman claimed the experts clearly had been called to review the report on a "technical basis," whereas the moratorium was a "comprehensive" question. Obama environment czar Carol Browner declared: "No one's been deceived or misrepresented." Really? We can only imagine the uproar if a group of climate scientists had claimed the Bush Administration misappropriated their views.

We decided to call some of these experts ourselves. Their information, and concerns, are revealing.

The experts were certainly under the impression they were reviewing a comprehensive document, as some of the recommendations would take six months or even a year to implement. And the report they agreed to did address moratoria: It recommended a six-month ban on *new deepwater permits*. Yet Benton Baugh, president of Radoil, said that in at least two separate hour-and-a-half phone calls among Interior and the experts, there was no discussion of a moratorium on *existing drilling*. "Because if anybody had [made that suggestion], we'd have said 'that's craziness.'"

EXHIBIT
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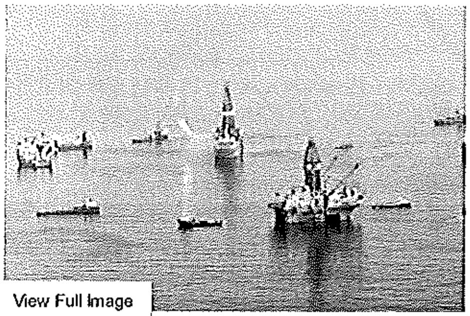

Associated Press

Vessels operate near the Transocean Deepwater Discoverer drilling rig at the site of the Deepwater Horizon oil spill.

Ken Arnold, an engineer and consultant, said the changes went beyond just the drilling moratorium. The Interior draft he looked at included timelines for each safety recommendation. The "bulk" of those recommendations, he explained, were all ones that could be done within 30 days. And most of the longer-term provisions would result in only "marginal increases in safety."

Yet when the final report came out, the timelines he saw had been removed, no doubt because they argued against the necessity of a six-month moratorium. Mr. Arnold adds that the Administration's decision to allow industry to continue drilling "gas injection wells"—which, he says, are no more risky than production wells—only shows the moratorium makes "no sense."

"This was a political call; this was not a technical call," says Mr. Arnold. Interior Secretary Ken Salazar has since testified that the call was his. But Robert Bea, from the University of California at Berkeley, who also reviewed the report, told us Interior had sent him a letter that "stated clearly that [the moratorium] had been inserted at the request of the White House." Mr. Bea pointed out that the Department of Interior is more than equipped to target and shut down specific Gulf operations that might offer safety concerns. There was no call for a moratorium "for industry as a whole."

Ford Brett, managing director of Petroskills and also a reviewer, notes that the experts first went to the Interior Department with their concerns. "All they had to do was put out another press release—one sentence long—clarifying that we hadn't reviewed the drilling moratorium. . . .That didn't happen." Only then did the experts go public.

Matthew Kaminski and Joe Rago of the WSJ Editorial Board discuss the challenges in Afghanistan and Kyrgyzstan, the Left's panning of Obama's BP speech, and the early-retiree fiasco.

As for Ms. Browner's claim that no one was "misrepresented," Mr. Brett disputes that. Several reviewers said they had, in fact, received "apology" notes from the Interior Department acknowledging the misrepresentation. "We did not mean to imply that you also agreed with the decision to impose a moratorium on all new deepwater drilling," read one.

All of this matters because it offers proof the moratorium was driven by politics, not safety. The drilling ban was not reviewed by experts, and was not necessary to satisfy most of the safety recommendations in Mr. Salazar's report. It was authored by political actors so Mr. Obama could look tough. A cynic might argue the ban was only added after review precisely because the Administration knew experts would refuse to endorse it.

A big reason why those experts would have balked is because they recognize that the moratorium is indeed a threat to safety. Mr. Arnold offers at least four reasons why.

The ban requires oil companies to abandon uncompleted wells. The process of discontinuing a well, and then later re-entering it, introduces unnecessary risk. He notes BP was in the process of abandoning its well when the blowout happened.

More

BP Agrees to $20 Billion Fund

U.S. Response to Spill Falters

Obama Address Gets Low Marks

The ban is going to push drilling rigs to take jobs in other countries. "The ones that go first will be the newest, biggest, safest rigs, because they are most in demand. The ones that go last and come back first are the ones that aren't as modern,"

BP Investors Hope Pressure Will Ease
Inspector General Slams 'Backwards' MMS Probe
Congress to Scrutinize Another BP Rig
Fight Erupts Over Oil Trial Venues

says Mr. Arnold.

The indeterminate nature of this ban will encourage experienced crew members to seek other lines of work—perhaps permanently. Restarting after a ban will bring with it a "greater mix of new people who will need to be trained." The BP event is already pointing, in part, to human error, and the risk of that will increase with a less experienced crew base. Finally, a ban will result in more oil being imported on tankers, which are "more likely" to spill oil than local production.

All this is even before raising ban's economic consequences, which already threaten tens of thousands of jobs. This is why Louisiana politicians are now pleading with the Administration to back off a ban that is sending the Gulf's biggest industry to its grave.

"Mr. President, you were looking for someone's butt to kick," said Lafourche Parish President Charlotte Randolph, recently. "You're kicking ours." The sooner the Administration climbs down from this pointless exercise, the better for a Gulf that needs real help.