

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF LOUISIANA

HORNBECK OFFSHORE SERVICES,  
L.L.C.,

Plaintiff

\*

CIVIL ACTION NO. 10-1663(F)(2)

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VERSUS

\*

SECTION F

\*

KENNETH LEE "KEN" SALAZAR, IN HIS  
OFFICIAL CAPACITY AS SECRETARY,  
UNITED STATES DEPARTMENT OF THE  
INTERIOR; UNITED STATES

\*

JUDGE FELDMAN

\*

DEPARTMENT OF THE INTERIOR;  
ROBERT "BOB" ABBEY, IN HIS OFFICIAL  
CAPACITY AS ACTING DIRECTOR,  
MINERALS MANAGEMENT SERVICE;  
AND MINERALS MANAGEMENT SERVICE,

\*

MAGISTRATE 2  
MAGISTRATE WILKINSON

\*

Defendants

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\* \* \* \* \*

AFFIDAVIT OF ERIC N. SMITH

DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA

Personally came and appeared before me, Eric N. Smith, who being first duly sworn,  
deposed and said:

1.

I am a person of full age and majority residing in New Orleans, Louisiana. I am currently  
a Clinical Professor of Finance at the A.B. Freeman School of Business at Tulane University. I  
also serve as the Associate Director of the Tulane Energy Institute. I graduated in 1965 from

Georgia Institute of Technology with a degree in Chemical Engineering and earned my Masters of Business Administration degree in 1967 from the A.B. Freeman School of Business at Tulane University. I have 42 years of experience, first in the petrochemical industry, and, since 1984, in the international offshore drilling and construction sectors. A copy of my *Curriculum Vita* is attached.

2.

The information provided herein is based upon my personal knowledge.

3.

The United States Gulf of Mexico is one of the world's largest offshore oil and gas basins and the world's largest deepwater basin. A wide array of companies and workers support exploration and production operations on the Gulf of Mexico's Outer Continental Shelf ("OCS"). Gulf of Mexico OCS exploration and production activities, particularly in deepwater, rely upon an intricate network of technology, assets and human capital, all gathered in the Gulf region to make deepwater drilling possible. Port Fourchon, located in Lafourche Parish, Louisiana, is a state-of-the-art shore-based complex and the largest deepwater oil port in the nation. It plays a key role in deepwater drilling and production in Gulf of Mexico's OCS as a shore-based a home to various exploration and production companies and service companies required to successfully engage in deepwater drilling and production.

4.

In terms of the complexity of drilling techniques, equipment, human capital requirements and costs, deepwater drilling differs significantly from shallow water drilling. Today, deepwater exploration and production activities occur worldwide, and several regions have emerged as significant competitors to the United States Gulf of Mexico. Brazil provides a good example

because a significant focus of its economic future is the exploitation of its deepwater basin. Petrobras, Brazil's state-owned oil company, has announced a multi-billion dollar capital expenditure program over the next several years to continue its development of the national infrastructure required to successfully develop its deepwater basin.

5.

By far, the most critical asset necessary for deepwater drilling is the deepwater drilling rig. In addition to the drilling rig, specialized supply vessels, such as those owned and operated by the plaintiffs, are essential to support the drilling effort. They are the vital link between the offshore drilling rig and all of the shore-based infrastructure that supports the deepwater drilling effort.

6.

Before the Moratorium, there were 34 deepwater drilling rigs actively working in the Gulf of Mexico, and there were another 8 rigs due to go into operation in the near future. Each rig employs 240 workers, and I estimate that four jobs are affected for each job on a rig. Right now, conservatively, I estimate that 10,000 people will be out of work because of the Moratorium, and that number only stands to increase sharply if the Moratorium continues.

7.

Besides the 240 workers per rig that the Moratorium affects, one of the principal groups of workers that it affects are the thousands of workers necessary to operate the deepwater supply vessels that support the rigs. If the Moratorium continues, it is likely that the deepwater drilling rigs will leave for work elsewhere. Typically, once a deepwater rig or vessel leaves a drilling region, like the Gulf of Mexico, to drill in another deepwater region, like Brazil or West Africa, the asset will not return for several years, if ever. With the departure of a deepwater rig, the

demand for local vessel services and the services that comprise the shore-based complex supporting deepwater drilling necessarily decreases. Because the Moratorium effectively shuts down all deepwater drilling, including the drilling at the currently permitted wells in the Gulf of Mexico's deepwater, it has already had an immediate impact on the shore-based support complex. I liken the Moratorium's effective industry-wide shut down in Louisiana to shutting down the aeronautical industry in California.

8.

If deepwater drilling rigs leave the Gulf due to the Moratorium, a major reason that they cannot be lured back after six months is that the rigs operate under multi-year contracts. If a rig departs to Brazil, for example, it will not come back. The circumstances differ in shallow water. At the end of the Moratorium, if it stays in place of six months or longer, I anticipate there will be no deepwater drilling rigs left in the Gulf.

9.

There is a well documented shortage of qualified mariners, engineers and scientists, skilled craftspeople and other personnel necessary to the future success of deepwater exploration and production on the United States OCS. Within the exploration and production industry, the impending retirement and handoff to the next generation of employees has been referred to as the "big crew change," which the United States Department of Labor terms the "demographic cliff." The majority of industry professionals are less than ten years from retirement eligibility. The ability to successfully complete the "big crew change" in the Gulf of Mexico depends, in part, upon the continued employment prospects for both experienced personnel and next generation personnel. The Moratorium will in all likelihood imperil the ability to successfully complete the "big crew change." The result will be fewer, less experienced and less trained personnel

confronting a more complex future deepwater industry. This dynamic will create additional safety concerns as well as concerns about the ability to execute plans to develop further deepwater regions in the OCS.

10.

The oil industry makes up about 16% of Louisiana's economy. By comparison, tourism accounts for 4% and fishing for 1%. If the Moratorium stays in place and rigs depart for other international basins, then, even after the Moratorium is lifted, the jobs situation and the economy, for Louisiana, the region and the rest of the country will worsen.

I declare that the foregoing is true and correct.

 6-16-10  
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SWORN TO AND SUBSCRIBED BEFORE  
ME THIS 16 DAY OF JUNE, 2010.

  
\_\_\_\_\_

**NANCY LOUISE PEELE**  
**NOTARY PUBLIC DISTRICT OF COLUMBIA**  
**MY COMMISSION EXPIRES: FEB. 28, 2014**

## ERIC N. SMITH-Curriculum Vita

**A.B.FREEMAN SCHOOL OF BUSINESS** Clinical Finance Professor and Associate Director of the Tulane Energy Institute, March 2005 – Present. I initially served as Consultant to the Dean Dec.2003-March 2005. I also serve as the Associate Director of the Entergy-Tulane Energy Institute.

I worked for **GLOBAL INDUSTRIES, LTD.** as VP-Strategic Planning, Houston, Texas, Jan. 2003-Dec. 2003.

I was with **THE CRP GROUP LTD.** as VP-Business Development, Houston, Texas from July, 2002 until Dec. 2002. I also served on their Board of Directors, Manchester, England, from July 2001 until Dec. 2002

Earlier, I was with **TORCH OFFSHORE, INC.** as Executive Vice President, in New Orleans, Aug., 2000 to Dec., 2001.

Earlier still, I spent five years with **SAIPEM, SpA**, as President and Chairman of their US subsidiary, based in Houston, Texas, 1998-2000. Prior to that, I served as Manager-Market Analysis and Strategic Planning at their headquarters in Milan, Italy, 1995-1998.

Other experience includes time spent with **INTERNATIONAL MARITIME ASSOCIATES**, as a Director, 1996-Present; IMA is a maritime consultancy best known for their tracking of floating production systems, world wide. I also spent time with **DELTA ENERGY MANAGEMENT, INC.**, as Executive Vice President, New Orleans, 1994 -1995. Delta was focused on offshore platform removal.

Prior to that, I spent eleven years with **MCDERMOTT INTERNATIONAL, INC.**, in New Orleans, from 1984-1994. Titles included Manager, Market Analysis & Development, from 1992-1994. Senior Planner, 1989-1992, and Senior Treasury Analyst, 1984-1989.

Prior to my upstream oil and gas experience, I spent seventeen years in the petrochemical business including five years with **ETHYL CORPORATION**, Baton Rouge, Louisiana 1979-1984 where I was Director of Business Development, from 1982-1984, and Director of Finance, 1979-1982.

My initial position was with **ALLIED CHEMICAL CORPORATION** (now Honeywell), with progressive assignments in Finance and Marketing Administration, for the Synthetic Fibers Division in New York City. Later, I joined their Corporate Headquarters, in Morristown, New Jersey, where I served in the planning department and also ran their captive venture capital operation, 1967-1979

## **Accomplishments:**

- I teach undergraduate and graduate level courses in Private Equity and Venture Capital.
- I also created and teach graduate and undergraduate courses on Energy Markets, Economics and Policy. These courses are team taught with inputs from invited business practitioners. This is the required course for students seeking an Energy Specialist certification from the school upon graduation.
- I am also co-teaching, on a provisional basis, a course entitled History of Finance. Michael Bernstein is the lead and the course has 40 students, of which one third are from the school of economics.
- Leading up to the presidential election, we hosted the “Energy” session of Congress Debates, a formal ninety minute debate involving eight congressmen.
- I am assisting the Provost in his efforts at a rapprochement with Exxon. We have placed an MBA student with the Baton Rouge petrochemical plant as an intern and we have hosted Exxon’s Sr. VP at the Energy Center.
- I was also principal investigator and editor of a report on LNG terminals and their impact on Gulf Coast Economies. I was sole author of a seminal report on certain offshore construction activity and its lack of correlation with offshore drilling activity. I also authored a report on the relative importance of the petrochemical industry to the electrical power market in Louisiana.
- I am an Advisory Committee Member of CPERC, a consortium of seven Louisiana schools pursuing coordinated research in Energy matters. I am a paid advisor to the Louisiana Department of Economic Development on Energy matters. I was also a member of a joint faculty/alumni committee which has attempted to repair frayed relations between the petrochemical industry and Tulane University.
- I completed the market analysis, business plan, budget, regulatory approval and implementation steps for a new “sale and lease back” platform removal business for Global Industries.
- I co-developed, with International Maritime Associates, a widely read, continuing, market report covering deep water floating production systems. Reports have been distributed every four months since 1996. I also contribute to a comparable report, published by PanEurasian, that deals with LNG development world wide.
- I served two terms on the Board of Directors of the National Offshore Industries Association, the major US trade organization for the offshore services industry. I am also, a former board member of CRP Group Ltd., a British subsea equipment provider, of DynMcDermott, the operator of the U.S. National Petroleum Reserve. And of Superior Offshore, a subsea contracting firm.
- I organized the 2001 IPO for Torch Offshore, another offshore construction company. This effort involved assembling an underwriting syndicate, providing market analysis and strategic planning, identifying regulatory requirements, writing the S-1, and designing the road show. We raised \$80 million.

- I've served on the boards of two companies that went public.
- I was a principal in Saipem's \$1 billion primary/secondary multi-national offering, in March of 1998. I provided market and financial analysis, strategic planning, editorial support for the S-1 and participated in all road show presentations to English speaking investors. The offering raised new money of \$500 mm to support Saipem's \$1 billion capital expenditure program focused on deep water exploration and development. The secondary portion diluted Italian government equity participation in Saipem in order to meet European Union requirements. I also organized Saipem's US subsidiary and served as its first President and Chairman in order to execute the Diana Hoover project, for Exxon. This pioneering \$1.5 billion facility was installed in 1999-2000, in 5,000 feet of water, 200 miles south of Galveston.

#### **Education:**

**TULANE UNIVERSITY**, New Orleans, La., MBA in Finance and Marketing, 1965-67

**GEORGIA INSTITUTE OF TECHNOLOGY**, Atlanta, Ga., BS in Chemical Engineering, 1961-1965

**Professional Memberships:** USAEE (Louisiana branch of the International Association of Energy Economists) and Society of Petroleum Engineers, I also have served on two advisory committees for the Offshore Technology Conference (sponsored by the SPE).

#### **Publications and Presentations:**

Since joining the Institute, I have participated in numerous conferences, both as a presenter and as a panel member, on subjects ranging from the impact of Hurricanes on oil and gas infrastructure to the shortcomings of the Sarbanes-Oxley Act. I have also written numerous trade articles and been quoted, both in trade journals as well as in the popular press, on various energy matters. There have been over 50 of these occasions over the last four years.

#### **2009 – PRESENTATIONS TO THIRD PARTIES (15)**

Presentation to The American Institute of Chemical Engineers, Baton Rouge Chapter "*Global Warming and the Great Climate Debate, The possible impact on the US and Louisiana*" December 15, 2009.

Participated in a panel discussion at the original public screening of the documentary "*Haynesville*". The screening took place at the CAC, was moderated by John Howard, and was sponsored by the Tulane Energy Institute October 25, 2009.

Presentation to Councilors in Real Estate Convention, New Orleans "*Global Warming and the Great Climate Debate, The possible impact on the US and Louisiana*" October 14, 2009.

Presentation to ERTAN- Hydropower Development Corporation, Houston "*Chinese Power Infrastructure Development*" September 21, 2009.

Tulane University Energy Week, New Orleans "*Geopolitics and Price Volatility in Commodity Markets*", July 6, 2009.



Tulane University Energy Week, New Orleans *"The History of Petroleum"*, July 6, 2009.

Muskingam College Visit, New Orleans *"The History of Petroleum"* June 23, 2009

TORP Talking Points, New Orleans *"Alabama's Economic Profile"* May 26, 2009

The Louisiana Energy Conference Workshop, Baton Rouge *"What Causes Volatility in Energy Markets?"* May 15, 2009

Louisiana Department of Economic Development, Houston *"The Impact of Federal Tax and Environmental Legislation on the US and Louisiana"*, May 5, 2009

Association of International Petroleum Negotiators, New Orleans *"The Impact of Federal Tax and Environmental Legislation on the US and Louisiana"*, April 30, 2009

Critical Commodities Conference, New Orleans *"The Impact of Federal Tax and Environmental Legislation on the US and Louisiana"*, April 29, 2009.

Tulane Engineering Forum, New Orleans *"The Impact of Federal Fiscal and Environmental Legislation on the US and Louisiana"*, April 3, 2009.

Tulane Engineering Forum, New Orleans *"The Impact of Federal Fiscal and Environmental Legislation on the US and Louisiana"*, April 3, 2009.

Tulane Law Forum, New Orleans *"Hope is an Aspiration, Hope is not a Strategy"*, April 3, 2009.

The Society of Independent Professional Earth Scientists, New Orleans *"A Review of the EIA's Annual Energy Outlook, 2009-Early Release"* January 20, 2009.

### **2009 – PRINT AND BROADCAST MEDIA (34)**

Eric Smith interviewed by Garland Robinette on WWL radio about the future of International oil January 7, 2009.

Eric Smith quoted in Energy Intelligence Group Blog *"US Eying Gas as Auto Fuel - Cautiously"*, Leslie Palti January 7, 2009.

Eric Smith quoted in Baton Rouge Advocate story on GNO Inc. report release concerning Energy economic Development January 20, 2009.

Eric Smith interviewed by Sabrina Wilson for Fox 8 TV News about the future of gasoline prices February 13, 2009.

Eric Smith quoted in Texas daily *"The Monitor"*, *"Prepare to pay: Despite low oil prices, the cost of fuel will keep rising."* Jared Taylor, February, 19, 2009.

Eric Smith interviewed by Garland Robinette on WWL radio about the future of International oil, both OPEC cuts and international consumption, particularly China and India, March 11, 2009.

Eric Smith quoted in *Continental Airlines Magazine* in story about innovations and trends in offshore oil and gas production, Robert McGarvey, May 2009.

Eric Smith interviewed by Garland Robinette on WWL radio concerning the Obama administration's efforts to draw up a comprehensive energy plan, April 2, 2009.

Eric Smith -Provided assistance to Jen DeGregorio of *The Times Picayune*, with a story on LOOP, The Louisiana Offshore Oil Port, May 5, 2009.

Eric Smith - Provided assistance to Emilie Bahr, of New Orleans City Business, on a story about Renewable Portfolio Standards, May 13 2009.

Eric Smith interviewed by Garland Robinette on WWL radio concerning the Obama administration's efforts to implement Cap and Trade program and its effect on Louisiana, May 20, 2009.

Eric Smith -Provided assistance to Jen DeGregorio of *The Times Picayune*, with a story on proposed state tax changes to encourage coastal drilling, June 1, 2009.

Eric Smith quoted in AP article concerning political developments with Petrobras in Brazil, June 11, 2009.

Eric Smith -Provided assistance to Rebecca Mowbray of *The Times Picayune*, with a story concerning the capture of refinery sourced CO2 and moving it via pipeline across Louisiana, June 17, 2009.

Eric Smith -Provided comments to Deon Roberts of *The Times Picayune*, with a story concerning the addition of 29,000 new green jobs in Louisiana as a result of the Climate Bill, June 18, 2009.

Eric Smith interviewed by Tulane New Wave "Is Renewable Energy Ready for Prime Time" June 26, 2009.

Eric Smith -Provided assistance to Emily Bahr of *New Orleans CityBusiness*, with a story concerning changes in oil prices, July 7, 2009.

Eric Smith interviewed by Garland Robinette on WWL radio concerning the Obama administration's proposals to institute curbs on Speculative Trading in Oil July 8, 2009.

Eric Smith -Interviewed by Emily Bahr of *New Orleans CityBusiness*, "Tulane taps zoo poo for fuel source" about Bio Butanol production from animal feces, July 27, 2009.

Eric Smith - featured in Morning Report live broadcast from the trading room for Channel 4, substituting for Mark Rosa July 27, 2009.

Eric Smith -Provided comments to *The Washington Post Blog*, responding to a story by Kathleen Parker concerning the Cap and Trade bill before Congress, August 1, 2009.

Eric Smith -*Newsday* runs AP story based on original story by Emily Bahr of *New Orleans CityBusiness*, "Zoo poop may hold renewable fuel secret" about Bio Butanol production from animal feces, August 1, 2009.

Eric Smith -Interviewed by Anna Matherne of *BIC Magazine* for Butanol article about Bio Butanol production from animal feces, August, 2009.

Eric Smith -Interviewed by Bruce McCulley of British magazine *Offshore Engineer* for article providing an overview of Louisiana's Oil and Gas industry, October, 2009.

Eric Smith -*Tulane News Release* related to the initial screening of the documentary "Haynesville" that chronicles the initial leasing and drilling activity for shale gas in Northwest Louisiana, October 16, 2009.

Eric Smith -Interviewed by Susan Caminetti of *NYSE Magazine* for article covering developments at Petrobras, the state oil company of Brazil, 4<sup>th</sup> Quarter, 2009.

Eric Smith –Quoted by Jen DeGregorio of *The Times Picayune*, for “Energy Company leaves N.O.” a story covering the liquidation of Bayou Bend Petroleum Ltd., Sept. 1, 2009.

Eric Smith interviewed by Garland Robinette on *WWL radio* concerning common myths about alternative energy and the unlikely support of Rahm Emmanuel for increased natural gas production. September 3, 2009.

Eric Smith –Interviewed by Jen DeGregorio of *The Times Picayune*, for story on BP’s Tiber deep water discovery in US Gulf Sept. 2, 2009.

Eric Smith –Interviewed by Paul Maassen of *NPR* affiliate station *WWNO* for story on BP’s Tiber discovery, September 10, 2009.

Eric Smith –Interviewed by Ben Myers *New Orleans CityBusiness*, for story on shortcomings in the Mineral Management Services royalty collection process September 15, 2009.

Eric Smith interviewed by Garland Robinette on *WWL radio* concerning support of Rahm Emmanuel for increased natural gas production as well as CCS progress September 25, 2009.

Eric Smith interviewed by Garland Robinette on *WWL radio* about additional government regulation of Oil and gas and impact of bank pay limits. October 26, 2009.

Eric Smith interviewed for “Price of Oil to Improve with Economy,” Buchanan, Susan, *New Orleans City Business*, November 6, 2009.

## **2008**

*WORLD GAS INTELLIGENCE, US Eying Gas As Auto\_Fuel -- Cautiously*, Copyright © 2009 Energy Intelligence Group, Inc. Wednesday, January 7, 2009

"Evaluating System Dynamics Models of Risky Projects Using Decision Analysis Trees and Real Options Theory: Alternative Energy Projects as an Illustrative Example," working paper, Burcu Tan, Edward Anderson, Jim Dyer, and Geoffrey Parker.

"Foresight: Prevent Design Outsourcing Disasters." *Harvard Business Review*, Vol. 86, No. 9, (September 2008), Jason Amaral and Geoffrey Parker

Erin Baker and Ekundayo Shittu. (2008). "Uncertainty and endogenous technical change in climate policy models." *Energy Economics* Vol. 30, No. 6, Pg. 2817-2828.

Erin Baker, Leon Clarke, and Ekundayo Shittu. (2008). "Technical change and the marginal cost of abatement." *Energy Economics*. Vol 30, No. 6, Pg. 2799-2816.

Jiang, X. (2008). New Perspectives in Network Calculus. *ACM SIGMETRICS Performance Evaluation Review* **36** (2), pp 95-97.

## **2007**

"*Managing Risk in Alternative Energy Projects*," 2007 working paper, Burcu Tan, Edward Anderson, and Geoffrey Parker.

- "Outsourcing's disassembly of product platforms," 2007 working paper, Jason Amaral and Geoffrey Parker.*
- "Partial Outsourcing and Linked Learning Processes," 2007 working paper, Edward Anderson and Geoffrey Parker.*
- "Platform Envelopment," 2007 working paper, Thomas Eisenmann, Geoffrey Parker, and Marshall Van Alstyne.*
- "Innovation, Openness, and Platform Control," 2007 working paper, Geoffrey Parker and Marshall Van Alstyne.*
- "Organizational Mechanisms for Supply Chain Integration during Product and Process Development," 2007 working paper, Edward Anderson, Alison Davis-Blake, and Geoffrey Parker.*
- "Managing Outsourced Product Design: The Effectiveness of Alternative Integration Mechanisms," 2007 working paper, E. Anderson, A. Davis-Blake, and G. Parker.*
- "Interdependent Infrastructure Systems and Disaster Management: Lessons Learned From Hurricane Katrina", 2007 working paper, Kulwinder Banipal and Geoffrey Parker.*
- "The Effects of Outsourcing, Offshoring, and Distributed Product Development Organization on Coordinating the NPD Process," 2007 Book Chapter in Handbook on New Product Development (Eds. C. Loch, S. Kavadias), E. Anderson, A. Davis-Blake, S. Erzurumlu, N. Joglekar, G. Parker.*

## **2006**

- "Strategies for Two-Sided Markets," Thomas Eisenmann, Geoffrey Parker, and Marshall Van Alstyne, Harvard Business Review, October 2006.*

## **Current Research Interests:**

I have prepared multiple research reports for government entities and private clients dealing with emerging market trends in the oil and gas industry. The most recent being a white paper on the options available for using new oil infrastructure to promote the reconstruction of Sudan.

We also published a widely read report on Pet Coke options for power generation in Louisiana and Texas.

We continue to monitor developments in the expansion of world wide LNG markets. We are particularly interested in the economic impacts of LNG imports on domestic shale gas production.

We are continuing to study the long term effects of the hurricanes of 2005 on employment in Louisiana. We hope to compare those effects to those observed after hurricane Hugo impacted South Carolina in 1989. Along with ULL we hope to receive Federal funding for the development of a new planning tool.

With the Tulane chemical engineering faculty, and others, we are in the early stages of a government funded feasibility study focused on a new approach to renewable fuel which eliminates the transportation disadvantages endemic to ethanol. This ongoing program is in its third year of funding.

Finally, I have a long term interest in the effects of US gas shortages on the toll fee for transporting and storing natural in East Texas, West Louisiana and Mississippi.