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Interior agrees to delay decommissioning rules

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Federal offshore regulators are delaying new rules for decommissioning insurance, bowing to pressure from industry and Capitol Hill.

It's not a full capitulation, but the Bureau of Ocean Energy Management (BOEM) announced Friday afternoon that they would give offshore rig operators six more months to come up with additional insurance, bonding, set-aside funds or other safeguards to ensure that they can meet the cost of decommissioning offshore oil and gas equipment.

Federal rules dictate that all rigs, subsea manifolds, pipelines and other equipment used to extract hydrocarbons from the ocean floor must be removed once a company is done extracting resources. Around 800 offshore installations have been removed from the Gulf of Mexico since offshore drilling began there. Far more will eventually have to be removed or converted into artificial reef habitat.

The revised timing only applies to offshore leases with multiple parties sharing some liability for offshore well plugging and abandonment (P&A) and offshore rig teardowns. "Naked leases," whereby only one company holds the lease and there are no prior historical liability owners, will still feel pressure to meet BOEM's enhanced assurance requirements.

"Sole liability properties represent the greatest programmatic risk to the American taxpayer," BOEM officials said in their latest announcement.

The initial rule change came about in a notice to lessees (NTL) that BOEM issued in July of last year. The notice was posted in response to criticism by the Government Accountability Office made public in January 2016. GAO warned that the oil price crash could put U.S. taxpayers on the hook for decommissioning expenses should an offshore platform operator go bankrupt (***Energywire***, July 15, 2016).

Offshore companies pushed back hard, complaining that the new rules were overly burdensome, particularly at a time of weak oil prices. Critics also complained that the previous system put in place was working fine, dismissing GAO's contention that some $33 billion worth of estimated offshore decommissioning expenses were not covered (***Energywire***, Jan. 20, 2016).

The industry's complaints and counter-lobbying culminated into two letters signed by dozens of lawmakers urging Interior Secretary Sally Jewell to direct BOEM to stay the rulemaking. Those letters were delivered to Jewell's desk last month (***Energywire***, Dec. 16, 2016).

BOEM says it took another look at the more stringent regulations it was seeking and came to appreciate the complexity of determining the liability and financial agility of multiple parties on leases past and present.

"It has become apparent that navigating the multi-party business relationships that exist between co-lessees and predecessors-in-interest can prove challenging and time-consuming," the agency explained. "Further, because the non-sole liability properties may include several co-lessees and prior interest owners, their existing financial arrangement may require assessing the extent to which these existing financial arrangements can be considered in determining whether BOEM needs additional security."

An offshore energy company advocacy group thanked BOEM for issuing the stay, while suggesting that another delay may be necessary under the incoming administration of President-elect Donald Trump.

Fieldwood Energy CEO Matt McCarroll, speaking for the Gulf Energy Alliance, commended Interior for "responding to industry's grave concerns."

"BOEM's decision to focus on sole liability properties reflects the persistent industry concerns voiced by GEA and partner associations regarding the complexity of the initial, sweeping regulation under the original, unachievable timeline," McCarroll said in a GEA release.

The cost of 'idle iron'

The oil price bust has fundamentally altered the economics of offshore drilling. The Gulf of Mexico has lost dozens of rigs, and two more were pulled from service last week, according to data supplied by oil-field services major Baker Hughes Inc.

The Obama administration added salt to the wound Friday, announcing that companies would be barred from conducting seismic surveys off the Atlantic coast. The oil price crash had already cratered interest in Atlantic and Arctic drilling, but seismic exploration has been undertaken off the East Coast. Canadian authorities followed up by reportedly ruling out any extensions to Arctic drilling rights set to expire over the coming years.

Still, new offshore investment is occurring. BP PLC says it will sanction a new Gulf project. Statoil ASA announced last week they would expand exploratory drilling during 2017, particularly in the Barents Sea.

But moving forward, offshore oil and gas operations will be dominated not by what is put into the oceans, but by what is taken out.

Experts believe nearly 1,000 structures connected to idle wells are either coming up for or overdue for removal from the Gulf of Mexico. That's about half of the estimated 2,000 offshore structures that could be decommissioned globally out to 2040.

New offshore projects will continue to be built, but mostly in deepwater locations, and in far fewer numbers. For the foreseeable future, most activity in the North Sea and Gulf of Mexico should involve rig teardowns rather than new installations.

The lifetime of some offshore projects could be extended only with a higher crude oil price. But a far greater number will be yanked from the ocean and scrapped anyway. Companies can also save some money by reefing some of their installations under the Rigs-to-Reefs program, but not all rigs qualify.