

Statement of
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to the
U.S. House Committee on Natural Resources
Tuesday, September 15, 2015

Oversight Field Hearing: The Impacts of Federal Policies on Energy Production and Economic Growth in the Gulf of Mexico

Introduction

Chairman Bishop and members of the Committee, thank you for inviting me to testify today on behalf LLOG Exploration Company. LLOG welcomes this opportunity to provide what we see as improvements to federal policies on oil and gas activity to further America's energy, economic and national security by strengthening the development of America's resources in the Outer Continental Shelf (OCS). My goal is to provide you a snapshot of LLOG's current operations, how those operations are conducted within the regulatory processes of the Gulf of Mexico, and what we see as improvement opportunities.

A snapshot of LLOG

LLOG is one of the largest privately owned oil & gas firms in the country and is the largest private oil producer in the US. Our focus is the US Gulf of Mexico where we apply a targeted approach using floating production systems and subsea wells to safely and efficiently develop the nation's deepwater oil and gas resources.

Unlike the major, integrated oil and gas companies, our areas of focus are limited; however, the level of expertise and capability we bring to those areas is state of the art. There is additional information about LLOG in the addendum to my testimony, but I'd like to highlight two main points:

- Safety – At LLOG we hold safety as a core value – priorities may change but values do not. Recognition of that value is LLOG being awarded the SOAR award in 2008, which was the last year this award was given for Safe Operations and Accurate Reporting.
- Scope – We have 16 deepwater developments to date with 8 fields in the OCS currently under development.

Offshore permitting process & opportunities for improvements

To portray the various and numerous regulatory processes and permits a company must execute and achieve during the offshore exploration and production process, I have attached a diagram (slide four in the attached slide deck) called the Simplified Permit Process Overview for a Subsea Well Tie In. This flow chart shows how the process of lease acquisition to first production plays out within the regulatory framework for a Subsea Well Tie in. While this particular diagram is specific to the subsea

well tie in permit process, it is indicative of the types of approval processes that companies are required to go through before projects can begin or be altered in the federal waters of the Gulf of Mexico (GOM).

Subsea wells, tied back to a floating production platform, are LLOG's basic focus area for our offshore operations. Depending on where a subsea well is drilled in the Gulf of Mexico, anywhere from nine to eleven permits or plan approvals are needed to move a prospect from leasing to production. For most of the Gulf of Mexico, those permits and plan approvals are split between the Bureau of Ocean Energy Management (BOEM) (red text on Slide 4 in the attached slide deck) and the Bureau of Safety and Environmental Enforcement (BSEE) (blue text), both within the Department of the Interior. However, for the eastern portion of the central gulf planning area, the Environmental Protection Agency (EPA) (bold black text) has that authority. Among all of these approval processes, I wish to highlight three where LLOG feels there are improvement opportunities and address other issues not indicated on this process diagram.

Application of Regulations – Prescriptive Vs Performance

The first improvement area is achieving the appropriate balance of prescriptive versus performance based regulations and application of the regulations. In the past, the professional technical staff within BSEE (and before BSEE's creation, its predecessor agency the Minerals Management Service) had a greater degree of professional judgement that they could apply to approve permitted operations. Permits were approved when the operator's plans met the regulatory requirements, and for any gray areas, operators provided a justification for why the submitted plan met the intent of the regulations and provided the necessary safeguards to manage and mitigate hazards.

Over time, that mixture of prescriptive and performance based regulatory approval protocol has moved to a more prescriptive based regulatory approach. Of particular note, based on our analysis and review, the proposed well control safety rule has become so prescriptive the actual application of that proposed rule to well design and real time monitoring is likely to be counterproductive to safe operations. LLOG strongly encourages BSEE and BOEM to take a balanced approach to regulatory enforcement using a balance of prescriptive as well as performance based regulations, especially in these two areas. I will be more than happy to follow up with examples in the follow-up Q&A.

Drilling permit approval process

Second is the Application for Permit to Drill (APD), or generally, the drilling permit approval process. I have worked my entire offshore career since 1987 in the Deepwater Gulf of Mexico and the technical professionals and Regional Management at the MMS, BOEM and BSEE that I have worked with over that time were and are consistently professional, capable and dedicated....in my opinion BSEE just needs more of them.

We are now one month away from the 5 year anniversary of the end of the moratorium, yet we continue to receive our well related permits (drilling and well as completion and workover) just in time. This is not due to a lack of effort by the BSEE and BOEM staff, but in my opinion an understaffed situation at BOEM and BSEE, despite the best efforts of BSEE and BOEM district and regional management to retain and recruit talent. The overall approval cycle could be improved with an increase in agency technical capacity.

We are finding that the more knowledgeable staff are retiring which leaves the current staff short-handed, and overworked, not to mention the lack of experience among the younger staff. This is part of the larger “Big Crew Change” and is a challenge not only for industry but also for BSEE’s District Managers and BOEM’s Regional Supervisors. Because of this situation, permits are being approved with a short window prior to commencement of operations, which makes it difficult for operators to conduct operations that require a long lead time for planning and sequential approvals.

Additional capable agency staff = additional permit approvals, additional production revenue & additional economic development. AN innovative compensation /recruitment plan as well as the current industry downturn is likely to provide an opportunity for BSEE and BOEM to recruit experienced staff and should be leveraged to increase the permit approval capacity of the bureaus.

Comingling approval process

Third is the comingling approval process. LLOG strives to make all the wells we drill commercial by utilizing smart well technology to open up multiple zones in adjacent subsurface reservoirs within the same well. To make such projects economically viable we normally request to comingling downhole the production from those zones. Our deepwater rigs often drill development wells in subsea fields where the completion and subsequent production from the wells immediately follows the drilling and casing of the well in a continuous operation. As long as Mother Nature cooperates and we find the reservoirs in the expected location and depth, we can file for our comingling permit with plenty of time for approval. However, we often find zones that do not come in as expected and we need to either file for an initial comingling permit or modify an existing permit. With a rig on location consuming over \$1 million a day in capital, we need to evaluate the ability and likelihood to obtain comingling permit approval versus the impact of costly delays to the project profitability. Under such conditions the added regulatory burden adds cost and actually makes some zones uneconomic to produce. This hinders industry’s ability to bring American energy to U.S. consumers and provide a robust supply of affordable, reliable energy.

Additional regulatory improvement opportunities

Additional improvement opportunities related to operations are in the areas of Containment Response, the impact of rigid application of the Jones Act to offshore facility installation, the impact of revisions to supplemental bonding requirements, and the impact of Clean Air Act permits.

In containment response, those needs are met by two providers: the Marine Well Containment Corporation (MWCC) and HWCG. Both are very capable organizations that together provide a diversity of suppliers, operator expertise, and response capabilities. This diversity of response should be encouraged and continued. However, in LLOG’s view, this response capability is at risk of being compromised if Responder Immunity is not improved. We urge the passage of the Senate Coast Guard Authorization Bill (S 1611) covering improved Responder Immunity.

With respect to heavy lifts associated with offshore facilities installations and the Jones Act, LLOG encourages the U.S. Customs and Boarder Protection s to adhere to the historical application of the law with respect to transport and heavy lift vessels. Current rigid application of the Jones Act to heavy lift vessels for the minimal distances that these vessels move the suspended load (in most cases hundreds of feet or less) is resulting in increased lift complexity and scope and adding risk. In addition

LLOG feels continued application of the Jones Act to heavy lift vessels has the potential to transfer work and jobs away from Gulf Coast Fabrication yards. On this issue LLOG commends the letter sent by BSEE Director Salerno to the US Customs and Boarder Protection supporting the industry position to return to the historical application of the Jones act to heavy lift vessel use in offshore construction.

With regard to the management of Plug and Abandonment liabilities, it is LLOG's understanding that revisions to the supplemental bonding requirements are to be released in an upcoming Notice to Lessee (NTL). LLOG requests that serious consideration be given to the scope of the proposed changes. If the changes are more than a refinement or clarification of the existing regulations, then the rule making process should be followed.

Regarding the issuance of air permits required to be compliant with the Clean Air Act (CAA). For wells drilled in the OCS in the Western Planning area, the CAA compliance is incorporated into the Exploration Plan approval process required by BOEM. This also applies to the majority of wells drilled in the Central Gulf Planning Area with the exception of the Eastern portion of the Central Planning Area where EPA jurisdiction applies. The EPA air permit approval process and protocol is quite different from the BOEM protocol and takes from 12-18 months to secure. This EPA permit is actually individual rig specific versus rig type specific in the BOEM protocol, and in our view adds operational complexity and delays with no actual benefit relative to CAA compliance. LLOG urges you to allow BOEM to assume CAA compliance across the GOM and at a minimum allow BOEM to administer CAA compliance for the full western and central Gulf planning areas.

Finally with regard to the interface between Regulators and Operators LLOG would like the Dept. of Interior to perform an After Action Review – of the allocation of work scope between BOEM and BSEE. LLOG understands and supports the split of the revenue function to BOEM and the operational enforcement role to BSEE. However, in LLOG's view the full permitting and plan approval function after the lease sale through the full operational cycle should fall to BSEE.

Thank you for the opportunity to present the views of LLOG and myself on these issues. Safe, efficient production and use of our nation's resources from the OCS continues to be critical for our nation's energy, economic, and national security. I am happy to answer any questions the committee may have.