

Q'S AND A'S
NEW DEEPWATER DRILLING SUSPENSIONS
JULY 12, 2010

Q1. Why is Secretary Salazar issuing new deepwater drilling suspensions?

A1. Secretary Salazar has issued a new decision to suspend deepwater drilling activities based on an extensive record of existing and new information. The Secretary has concluded new suspensions are necessary because he has determined that new deepwater drilling would pose a threat of serious, irreparable, or immediate harm or damage to the marine, coastal, and human environment. The temporary pause on deepwater drilling will provide time for the implementation of safety reforms and for:

1. The submission of evidence by operators demonstrating that they have the ability to respond effectively to a potential oil spill in the Gulf, given the unprecedented commitment of available oil spill response resources that are now being dedicated to the BP oil spill;
2. The assessment of wild well intervention and blowout containment resources to determine the strategies and methods by which they can be made more readily available should another blowout occur; and
3. The collection and analysis of key evidence regarding the potential causes of the April 20, 2010 explosion and sinking of the *Deepwater Horizon* offshore drilling rig, including information collected by the Presidential Commission and other investigations.

In addition, suspending these particular operations until November 30 will allow BOEM and the Department to develop the interim rules required to address the safety issues that have recently come to light. Some of these interim rules are expected to be issued within 120 days of the issuance of the May 27, 2010, Departmental report entitled "Increased Safety Measures for Energy Development on the Outer Continental Shelf" (the "Safety Report"), and additional time will be required after these rulemaking actions are completed for operators to implement the new requirements established by those rules. Other rules will have a longer development or implementation timeline, and Secretary Salazar will determine whether their implementation is essential before suspended operations may resume.

Q2. What are the differences between the May 28 deepwater drilling moratorium and the new deepwater drilling suspension?

A2. Like the deepwater drilling moratorium lifted by the District Court on June 22, the deepwater drilling suspensions ordered today apply to most deepwater drilling activities and could last through November 30. The suspensions ordered today, however, are the product of a new decision by the Secretary and new evidence regarding safety concerns,

blowout containment shortcomings within the industry, and spill response capabilities that are strained by the BP oil spill. Moreover, the new decision by the Secretary establishes a process through which BOEM will gather and analyze new information from the public, experts, stakeholders, and the industry on safety and response issues, which could potentially provide the basis for identifying conditions for resuming certain deepwater drilling activities. In addition, the May 28 moratorium proscribed drilling based on specific water depths; the new decision does not suspend activities based on water depth, but on the basis of the drilling configurations and technologies.

Q3. What is the purpose of the meetings that Secretary Salazar is directing BOEM to hold?

A3. During the suspension, BOEM should continue to develop information about the relative risks posed by the various types of drilling activity, compliance with workplace and drilling safety requirements, status of blowout containment capabilities, and compliance with oil spill response requirements. Specifically, Secretary Salazar has directed Michael R. Bromwich, Director of BOEM, to conduct public meetings and outreach to gather additional information, on an expedited basis, on the primary issues that the Secretary identified as raising the most significant risks regarding the resumption of deepwater drilling:

1. Drilling and workplace safety requirements as outlined in the Safety Report and a timeline for the implementation of such safety requirements and others that may be necessary to ensure safe drilling practices;
2. Well intervention and blowout containment technology and methodology designed to effectively address and expeditiously contain any blowouts that could occur;
3. A review of additional and necessary oil spill response plans for offshore drilling and production facilities, and an evaluation of industry capacity to address a worst case discharge scenario under 30 CFR part 254.

This information gathering will be critical to addressing the serious risks presented by oil and gas drilling activities in deepwater environments. This additional information potentially could provide the basis for identifying conditions for resumption of drilling activities if certain conditions are met, and/or the identification of any oil and gas drilling activities that might be allowed prior to the expiration of the suspensions based on the relative level of risk associated with those activities.

Q4. The Secretary's decision memo said that inspections of the BOPs on the new relief wells has identified unexpected performance problems with those BOPs. What were those performance problems and does that mean that the drilling of the relief wells is being conducted in an unsafe manner?

A4. The BOPs used in BP's relief wells were subject to augmented testing procedures. These tests identified and allowed the repair of several problems, including:

- During ROV hot stab testing, the Lower Marine Riser Package disconnect function was unsuccessful because of a leaking shuttle valve.
- A failed shuttle valve caused an unsuccessful test of the All Stabs Retract function.
- A failure of the deadman test because a shuttle valve was installed that should not have been.
- A broken solenoid connection on the blue pod that prevented that pod from closing the casing shear rams.

Because these problems were identified by the new testing procedures, they were repaired, and the tests were successfully re-run. Interior is closely monitoring the drilling of the relief wells to ensure safety.

Q5. The Secretary's decision allows certain low risk operations to occur in deepwater in spite of the suspensions. What are these activities and what's the rationale for allowing them?

A5. Secretary Salazar has directed BOEM to direct the suspension of any authorized drilling of wells using subsea or surface BOPs on a floating facility. Secretary Salazar has further directed BOEM to cease the approval of pending and future applications for permits to drill wells using subsea or surface BOPs on a floating facility. These suspensions shall apply in the Gulf of Mexico and the Pacific regions through November 30, 2010, subject to modification if the Secretary determines that the significant threats to life, property, and the environment set forth in this memorandum have been sufficiently addressed.

These suspensions do not apply to production activities, drilling operations that are necessary to conduct emergency activities, such as the drilling operations related to the ongoing BP Oil Spill, nor do they apply to drilling operations necessary for completions or workovers (where surface BOP stacks are installed, they must be utilized during these operations), abandonment or intervention operations, waterflood, gas injection, or disposal wells. The exceptions to the drilling suspensions have been carefully considered based on their relative risk and their necessity to maintain ongoing production. Waterflood, injection and disposal wells are drilled into production reservoirs for which all the relevant geologic information is known to the operator. The drilling equipment and procedures, including the casing and cementing programs, are similar to those already used for the project. Such wells are typically considered routine and low risk. Completion and abandonment operations are conducted when the drilling of the well has been finished, and are necessary to, respectively, allow the well to produce or to secure and close the well. Workover operations are performed on wells drilled into a production reservoir with known geologic information and these operations are necessary to maintain production from these wells. All of these drilling operations must comply with NTL-N05.

Q6. How many drilling operations are affected by the suspensions ordered today?

A6. Any count of deepwater offshore drilling rigs in a particular region represents a snapshot in time. When the BP Oil Spill occurred, there were 36 floating drilling rigs that were either operating in the Gulf of Mexico, were between wells in the Gulf of Mexico, or were scheduled to come to the Gulf of Mexico to begin operations before the end of 2010. In addition, there were 19 platform rigs on floating production facilities in the Gulf of Mexico at that time. When the May 28 suspensions were put into effect, there were a total of 33 drilling rigs conducting operations in water depths of at least 500 feet – 26 floating rigs and 7 platform rigs. A total of 21 rigs of these rigs were required to reach a safe stopping point and to suspend drilling operations, and all have done so. The remaining 12 rigs have been conducting operations allowed under the moratorium.

Q8. What is the status of shallow water drilling permits?

A8. BOEM has been tracking drilling permit requests and well modification permit requests that are required to include the information outlined in NTL-N05 (Safety NTL) and/or NTL-N06 (Environmental NTL).

As of Monday, July 12, 9:00 a.m. EDT:

- For those applications required to comply only with NTL-N05, 16 applications have been approved and 16 are pending.
- For those applications required to comply with NTL –N05 and NTL-N06, 12 requests are pending.
- This information is updated every business day, and can be found at: http://www.gomr.mms.gov/homepg/offshore/safety/well_permits.html
- In addition, since June 8, BOEM has approved 18 other shallow water permits, and 4 others are pending, to which there were no permit-specific requirements in either NTL. However, the applicants had to comply with NTL-N05’s general (company-wide) certification requirements before these applications could be processed.

The requirements of the NTLs affect the timing of the approvals.

- One of the requirements of NTL-N05 was that the companies needed to submit certifications that they were complying with BOEM regulations and the joint BOEM-Coast Guard safety alert, and that they had conducted 4 specific reviews of their operations. These certifications were due on June 28. All but one operator has complied (the lone exception being in bankruptcy proceedings).

NTL-N06 requires companies to submit additional information on blowout and worst-case discharge scenarios, as well as measures to prevent a blowout, reduce the likelihood

of a blowout and to conduct early and effective intervention in case of a blowout. This NTL was issued June 18. Currently, there are 33 submitted exploration or development plans to which NTL-N06 applies. Companies have submitted information for 11 of these plans, 5 of which have been returned for additional information and the other 6 of which are currently being reviewed