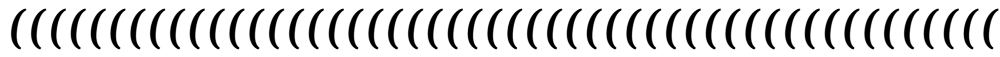
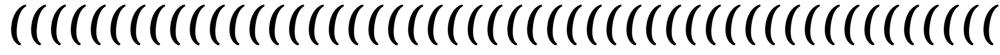


**CENTER FOR ENERGY STUDIES  
LOUISIANA STATE UNIVERSITY**



**NEWSLETTER**



**August 1994**

**PASSAGE OF OIL AND GAS INCENTIVES  
STIRS NATIONAL INTEREST**

The passage of SB31 (Act 2, 1994 Regular) authored by Louisiana Senator Nunez, on behalf of the governor, has resulted in numerous inquiries to CES. The inquiries are largely referrals owing to the fact that CES had conducted the fiscal and economic projections for the bill. The inquiries can be broken down into four groups: 1) operators who are seeking more information about the wells that qualify for the tax breaks (these are referred to the Commissioner of Conservation, Herb Thompson; 2) Louisiana legislators, some of whom appear somewhat surprised by the level of positive interest and are seeking a more detailed explanation of the projected fiscal and economic impacts than were contained in the "official" fiscal note; 3) state legislators and oil commissioners and their staff from other states (primarily western states) who may be considering proposing incentives legislation and; 4) several members of Congress and congressional candidates and high-ranking members of the U. S. Departments of Energy and Interior. This latter group is primarily interested in tracking the results of Louisiana's legislation as well as similar legislation that has passed in Mississippi, Oklahoma and Texas. The aspect of the Louisiana legislation that has drawn their attention is that despite the lowering of severance taxes for specified periods on certain types of wells, the revenue flow to the state and local governments is projected to be revenue neutral or revenue positive. At the federal level, various incentive bills for oil and gas exploration and production have been filed and President Clinton has indicated some support--provided the bills are revenue neutral. Passage of any bill is not expected this year which provides an opportunity to analyze the results of the legislation passed by

the individual states. If, in fact, legislation the states have passed is revenue neutral or revenue positive, it is believed that this will provide important support for federal legislation.

**NATURAL GAS DEMAND EXCEEDS  
PREDICTIONS**

Natural gas demand during the first quarter of 1994 rose four percent in comparison to the previous year based on NGA and DOE estimates. This exceeded most industry and government predictions of a three percent increase. The increase was not due to weather conditions as the first quarter heating demand was normal. More importantly, the earlier predictions were based on an increase in natural gas usage for power generation--a use of natural gas which actually declined by three percent in the first quarter because of low prices for crude resulting in low fuel oil prices. Utilities with fuel switching capabilities thus substituted fuel oil for natural gas during the period.

Hence, higher than predicted demand for natural gas (despite the drop in the utility consumption) stemmed from a stronger than predicted industrial demand and a larger number of residential and commercial conversions to natural gas than expected. Oil prices have risen by one-third from their first quarter prices and have resulted in fuel oil vs. natural gas prices that are closer to their historic ratios. This should serve to slow down the use of fuel oil in the utility sector at the expense of natural gas. Coupled with the larger than expected residential and commercial conversions and a three percent growth in the economy, U. S. natural gas demand could reach an all-time record level in 1995.

## **PUBLICATIONS AND PRESENTATIONS**

Allan Pulsipher gave an invited paper titled "Watershed, Aberration and Hallucination: The Last Twenty Years," at a Symposium on Twenty Years After the Energy Shock--How Far Have We Come? Where Are We Headed? organized by the Joint Institute for Energy and Environment, University of Tennessee in April that will be published with the other papers presented at symposium. He also gave presentations dealing with the Tennessee Valley Authority at the Tennessee Public Power Association Convention and at the Institute of Public Policy Studies at Vanderbilt University in May. Bob Baumann, Wumi Iledare and Allan Pulsipher have given or agreed to give four papers related to CES's studies of majors and independents--at the 1993 and 1994 meetings of the International Association for Energy Economics, at the 1995 Offshore and Arctic Operations Symposium of the American Society of Mechanical Engineers and the 1994 joint meeting of the American Economic Association and the International Association for Energy Economics.

## **CES PROPOSES TO EXTEND STUDY OF THE ECONOMIC ROLES OF INDEPENDENTS AND MAJORS ON THE OCS TO SAFETY AND ENVIRONMENTAL RISKS**

With financial support from LSU's Sea Grant Program, the Minerals Management Service and "matching" funds from participants in CES's industry associates program; CES has been studying the possible economic consequences of the "majors" and large independents shifting their E&P investment focus abroad, and, consequently, the smaller independents increasing their share of OCS and domestic production. Although this research is still underway, CES was invited by MMS to submit a "second-year" proposal to extend this study to safety and environmental consequences, and has done so.

The objective of the proposed project will be to characterize and compare the safety and environmental records of oil and gas companies operating on the OCS in the Gulf of Mexico over the past decade. This should help inform policy-makers within the public sector as well as decision-makers in the private sector about the nature and magnitude of safety and environmental risks associated with an

expected increased presence of smaller independents in the domestic oil and gas industry in general and on the federal OCS in particular.

## **DEMONSTRATION OF A SAFETY AND ENVIRONMENTAL MANAGEMENT PROGRAM FOR OFFSHORE OIL AND GAS PRODUCING OPERATIONS ON THE OUTER CONTINENTAL SHELF**

### Objective:

BDM-Oklahoma is soliciting potential offerors interested in participating in a request for proposal for a demonstration project to:

- 1) demonstrate the development and implementation of a Safety and Environmental Management Program (SEMP) in accordance with the American Petroleum Institute (API) RP 75, "Recommended Practice for Development of a Safety and Environmental Management Program for Outer Continental Shelf (OCS) Operations and Facilities," published in May 1993; 2) determine the cost and effort required by a small to medium sized owner and operator of Outer Continental shelf (OCS) oil and gas facilities on federal leases to successfully implement a SEMP; and 3) develop measures of effectiveness to determine tangible and intangible improvement or regression related to resource recovery, profitability, facility and personnel safety, environmental protection, etc., as a result of implementing API RP 75. The results of this project will be used by the Minerals Management Service (MMS) to determine future strategies for inspection and regulation of OCS facilities.

Small and medium sized American-owned OCS owners/operators of facilities on federal lease interested in obtaining a copy of the request for proposal should contact Todd Martinez, Senior Subcontracts Administrator, BDM-Oklahoma, Inc., P.O. Box 2565, Bartlesville, OK 74005, phone number (918)337-4385, fax number (918)337-4504. Requests for participation should be made in writing immediately.

## **NEW PERSONNEL**

Keith Long, an independent oil and gas operator of Metairie, has been hired as a Coordinator effective August 1, 1994. Keith, who is an LSU graduate, will assist in the development of the Petroleum Technology Transfer Council and will be working on some special oil and gas research projects, including tracking the impacts of Senate Bill 31 (oil and gas incentives) and examining the economics of some marginal wells.

Michael Surman, of Baton Rouge, has been hired as a Computer Analyst effective August 15, 1994. Mike will be responsible for maintaining our computer system and all software. In addition, Mike has considerable experience with oil and gas research projects and is familiar with and can access databases maintained by the Louisiana Department of Natural Resources. Mike will also be responsible for setting up the data services to be provided through the PTTC which must conform to a national standard which has not yet been established.

Secretary John Ales has requested that CES provide assistance for two DNR initiatives. DNR has issued a major RFP for revamping its computer software in order to provide more user friendly programs to DNR personnel and for public access. DNR has requested that CES act as a liaison between the oil and gas industry and its contractor. CES will help identify the types of data, housed in DNR, to which industry routinely needs better access. In addition, CES will help design reporting forms that will make it easier for the oil and gas industry to submit information required by DNR. A goal is to establish the capability for electronic filing of forms. As the three-year effort is within the scope of the Petroleum Technology Transfer Council, the assistance will be provided as a public service.

The second area of cooperation is in response to President Clinton's Climate Change Action Plan which, among many items, requires states to implement an Energy Efficient Mortgage Program (EEM's). CES will conduct an economic impact analysis for the State of the proposed program under a sub-contractual agreement with Applied Technology Inc. as the prime contractor. The work is expected to be completed in December 1994.

## **CES AND DNR TO ENTER AGREEMENTS**



