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Oil and gas activity in full rebound 4 years after Macondo well blowout

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Oil had been gushing from BP's ill-fated Macondo well for only a few days in late April 2010 when managers at Covington-based **LLOG Exploration** faced some of the toughest and most expensive decisions in the company's 30-year history.

The Obama administration had imposed a temporary ban on new deepwater drilling in the Gulf of Mexico in response to the Deepwater Horizon explosion April 20, 2010, which killed 11 workers and unleashed the nation's largest oil spill. It wasn't clear when the ban would be lifted. Much of the industry was talking about ending rig contracts and exiting the Gulf, raising worries about an economic wallop to the region that could last for years or decades after the spill.

Rick Fowler, vice president of deepwater projects for LLOG Exploration, said he and others at the company knew they could expect to face tighter safety regulations in a post-Macondo world. But they couldn't see the government stopping all offshore oil production without legal backlash, he said.

So even as the administration extended the moratorium for six months, LLOG chose to keep its rig under contract and to move forward with development of one its major deepwater Gulf projects, named Who Dat. LLOG also invested $100 million to complete a floating production facility it aimed to purchase and install in the Who Dat field.

"It was a difficult decision at the time but I think it was, on balance, a prudent risk for us to take and it paid off," Fowler said.

LLOG's decision is indicative of how much of the industry reacted to the moratorium. Even as producers and the firms that service them took a hit, oil companies remained in the region anchored by the Gulf's vast reserves and its political and business stability compared to other parts of the world, experts said.

New environmental regulations have slowed the pace of drilling permits and overall Gulf oil production remain below 2010 levels. But as the fourth anniversary of the BP spill approaches Sunday, LLOG Exploration is among dozens of companies planning major investments, and oil and gas activity in the region is projected to return -- and in come cases exceed -- levels seen before the spill.

"Regulations have gotten tighter but the Gulf is still a good place for companies to be," said Nimmi Henderson, an analyst with research firm **Wood Mackenzie**. She said companies are adjusting to the "new normal" of working in the Gulf, not leaving as some had predicted during the 2010 moratorium.

LLOG Exploration is among dozens of companies now planning major investments as oil and gas activity in the Gulf returns to -- and in come cases exceeds -- levels seen before the BP oil spill.

According to **Baker Hughes** rig count data, the number of rigs working in the Gulf dipped to a low of 12 in July 2010, three months before the federal moratorium on drilling was lifted. By September 2013, there were 63 rigs working in the Gulf of Mexico, the majority targeting oil in the deep waters of the Outer Continental Shelf. The count has since backed off that high, though it matches levels seen before the April 2010 rig explosion.

The **latest sale of federal oil and gas leases** in March drew more than $870 million in high bids, including $41.6 million from BP. The British oil giant was permitted to bid on leases for the first time since the spill, after reaching an agreement with the Environmental Protection Agency this year.

Still, the Macondo blowout also marked a decided shift for the industry on a number of fronts.

The pace of permitting for new drilling projects slowed significantly in the years following the disaster, even for projects in shallower waters that were excluded from the federal drilling ban.

Average daily oil production in federal waters in the Gulf has **declined each year since 2010**, down 19 percent to 1.25 million barrels per day in 2013, according to the U.S. Energy Information Administration.

The Bureau of Safety and Environmental Enforcement, one of two new federal agencies created to oversee the offshore industry after the spill, has also started to implement dozens of new safety rules aimed at preventing another disaster.

One of the larger initiatives requires all companies working offshore to have detailed safety plans documenting everything from safe work practices and emergency procedures to facility design data.

Henderson said the Gulf remains a far more stable place to invest and develop new technology when compared with many parts of the world.

"Everyone knows the royalties and the operating environment here," Henderson said.

Wood Mackenzie predicts total spending in the deepwater Gulf will hit $17 billion in 2014, up 20 percent from last year and 27 percent from 2012.

Henderson pointed to ongoing work such as **Chevron Corp.**'s Jack/St. Malo project as an example of the the long-term position companies are taking in the area. Chevron and its partners are spending more than $7.5 billion to develop the two fields, which are expected to start producing later this year.

Eric Smith, a Tulane University professor and associated director of the **Tulane Energy Institute**, said the legacy of the Macondo disaster may have very little to do with deepwater drilling.

Smith said the small companies that drill for natural gas in the shallow waters on the Outer Continental Shelf were hit hardest by the moratorium.

Many were starting to feel the pinch of low natural gas prices driven down by booming shale production onshore, he said. The moratorium accelerated the decline in activity, he said.

Only 11 rigs were drilling for natural gas in federal Gulf waters as of April 11, down from 25 before the disaster, according to Baker Hughes data.

"These guys are not known for having extra capital around to wait out government inaction," Smith said. "They could have eeked out another year or two or three of fairly decent returns if they had been left alone but they were collateral damage."

The issue is likely to play out in court in coming years, as companies hit hard by the spill and the moratorium continue to sue BP for the business losses in the wake of the disaster. Just this past Monday, Crescent Drilling & Production Inc., a Kenner-based firm that provides engineering services for companies onshore and offshore, joined that growing list of firms suing.

For companies that survived the spill and that invested through the moratorium, the payoffs appear promising. After deciding to press ahead with its plans in 2010, LLOG kept the rig it had on contract busy doing work on completion of existing wells for the duration of the moratorium.

By December 2011, the company had its newly built floating production system up and running at the Who Dat field, the first such facility installed in the Gulf after the Macondo blowout.

This year, LLOG is completing its eighth Who Dat well in addition to activity at eight other deepwater fields.

"Now we're more active than ever and growing larger than ever, quicker than ever," Fowler said.