

FISCAL AND ECONOMIC IMPACT STATEMENT
FOR ADMINISTRATIVE RULES

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Return Address:	<u>Engineering Division</u> <u>P.O. Box 94275</u> <u>Baton Rouge, LA 70804</u>	Rule Title:	<u>General Operations</u> <u>Statewide Order No. 29-B</u> <u>(LAC 43:XIX.111) Diverter Systems &</u> <u>Blowout Preventers</u>
		Date Rule Takes Effect:	<u>MMMM 20, 2008</u>

SUMMARY
(Use complete sentences)

In accordance with Section 953 of Title 49 of the Louisiana Revised Statutes, there is hereby submitted a fiscal and economic impact statement on the rule proposed for adoption, repeal or amendment. THE FOLLOWING STATEMENTS SUMMARIZE ATTACHED WORKSHEETS, I THROUGH IV AND WILL BE PUBLISHED IN THE LOUISIANA REGISTER WITH THE PROPOSED AGENCY RULE.

I. ESTIMATED IMPLEMENTATION COSTS (SAVINGS) TO STATE OR LOCAL GOVERNMENTAL UNITS
(Summary)

There are no implementation costs or savings to State or Local government units anticipated due to the proposed rule amendments.

II. ESTIMATED EFFECT ON REVENUE COLLECTIONS OF STATE OR LOCAL GOVERNMENTAL UNITS
(Summary)

There is no effect on revenue collections of state or local government units anticipated due to the proposed rule amendments.

III. ESTIMATED COSTS AND/OR ECONOMIC BENEFITS TO DIRECTLY AFFECTED PERSONS OR NON-GOVERNMENTAL GROUPS (Summary)

The primary groups affected by these rules changes will be Exploration and Production companies and Drilling and Workover contractors. Many Exploration and Production companies have already implemented internal policies which incorporate similar safety equipment and design specifications and, as a result, the majority of contractors already include the required equipment, training and testing in their bids and rates.

Minor cost increases are estimated in some cases due to the blowout preventer requirements and testing requirements. Cost increases due to the diverter system requirements and the training requirements are estimated to be negligible. The additional documentation requirements do not result in any additional paperwork or forms.

Any cost increases resulting from the proposed rules will be partially offset by reductions in insurance premiums due to the additional safety equipment and are negligible when compared to the potential costs of a blowout.

IV. ESTIMATED EFFECT ON COMPETITION AND EMPLOYMENT (Summary)

There is no anticipated effect on competition and employment.

<u>Signature of Agency Head or Designee</u> James H. Welsh, Commissioner of Conservation <u>Typed Name & Title of Agency Head or Designee</u>	<u>Legislative Fiscal Officer or Designee</u> <u>Date of Signature</u>
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**FISCAL AND ECONOMIC IMPACT STATEMENT
FOR ADMINISTRATIVE RULES**

The following information is required in order to assist the Legislative Fiscal Office in its review of the fiscal and economic impact statement and to assist the appropriate legislative oversight subcommittee in its deliberation on the proposed rule.

- A. Provide a brief summary of the content of the rule (if proposed for adoption, or repeal) or a brief summary of the change in the rule (if proposed for amendment). Attach a copy of the notice of intent and a copy of the rule proposed for initial adoption or repeal (or, in the case of a rule change, copies of both the current and proposed rules with amended portions indicated).**

Existing Office of Conservation rules (Statewide Order No. 29-B) regarding well control, promulgated in August 1943, contain only basic requirements for the use of blowout preventers during specific well operations. Enhancement of these limited requirements was identified as the most effective method for reducing the frequency of well control failures and subsequent impacts. The proposed changes include requirements and specifications for the use of diverter systems and blowout preventers during all appropriate well operations.

Blowout preventers are frequently ineffective during the drilling of shallow and/or uncased portions of a wellbore. As a result, diverter systems are required in areas where drilling hazards are known to exist or anticipated to divert fluids safely away from the facilities and personnel during a blowout event. The District Manager may, at his discretion require the use of a diverter system on any well.

The required minimum characteristics for diverter systems are specified, including the design, type and number of diverter lines, the number and location of control stations, valve types, and anchor and support systems. To ensure diverter systems are maintained and work properly when needed, inspections, function tests and pressure tests are required at specified intervals. Inspection and test records are required to be maintained at the well site for review by the Office of Conservation.

The rule also requires the proper design, installation, use, maintenance, and testing of blowout preventers for all wells during drilling, workover, or other appropriate well operations. The required minimum characteristics for blowout preventer systems and associated auxiliary equipment are specified, including preventer types, the number and location of control stations, valve types and pressure ratings.

To ensure blowout preventer systems are maintained and work properly when needed, inspections, drills, function tests and pressure tests are required at specified intervals. Well control safety training is also required for employees to ensure that all required equipment is used correctly. Records of inspections, drills, tests are required to be maintained at the well site for review by the Office of Conservation.

- B. Summarize the circumstances, which require this action. If the Action is required by federal regulation, attach a copy of the applicable regulation.**

Following the blowout of the A Wilberts Sons LLC 72 No. 1 well on November 15, 2007, Interstate Highway 10 was closed to traffic for an extended period resulting in inconvenience to the public, and reported detrimental impact to the public and commerce in the area. As a result, Governor Blanco, requested that the Commissioner of Conservation review all current regulations and make any changes necessary to reduce the likelihood of a similar incident.

In response to Governor Blanco's request, a temporary moratorium on the drilling of wells within one quarter mile of any Interstate highway was enacted by the Commissioner of Conservation on December 1, 2007 to allow time for a comprehensive review of the A Wilberts Sons LLC 72 No. 1 well control incident and all current state and federal regulations regarding drilling safety and well location requirements..

An Ad Hoc Committee on Drilling Safety, formed to complete the requested review, found that existing Office of Conservation rules (Statewide Order No. 29-B) regarding well control, promulgated in August 1943, contained only basic requirements for the use of blowout preventers during specific well operations. Enhancement of these limited requirements was identified by the committee as the most effective method for reducing the frequency of well control failures and subsequent impacts.

As a result, amendments to the current rules were drafted by staff of the Office of Conservation, with technical input from the Ad Hoc Committee. The drilling moratorium is currently set to expire on June 28, 2008 and the proposed rule amendments are being implemented as an Emergency Rule to preclude further extension of the moratorium while pursuing formal amendment of the rules.

- C. Compliance with Act 11 of the 1986 First Extraordinary Session**

- (1) Will the proposed rule change result in any increase in the expenditure of funds? If so, specify amount and source of funding.**

No. The proposed rule change will not result in any increase in the expenditure of funds.

- (2) If the answer to (1) above is yes, has the Legislature specifically appropriated the funds necessary for the associated expenditure increase?**

(a) _____ Yes. If yes, attach documentation.

(b) _____ NO. If no, provide justification as to why this rule change should be published at this time

FISCAL AND ECONOMIC IMPACT STATEMENT
WORKSHEET

I. A. COSTS OR SAVINGS TO STATE AGENCIES RESULTING FROM THE ACTION PROPOSED

1. What is the anticipated increase (decrease) in costs to implement the proposed action?

COSTS	FY 07-08	FY 08-09	FY 09-10
Personal Services	\$ 0.00	\$ 0.00	\$ 0.00
Operating Expenses	\$ 0.00	\$ 0.00	\$ 0.00
Professional Services	\$ 0.00	\$ 0.00	\$ 0.00
Other Charges	\$ 0.00	\$ 0.00	\$ 0.00
Equipment	\$ 0.00	\$ 0.00	\$ 0.00
Major Repairs & Constr.	\$ 0.00	\$ 0.00	\$ 0.00
TOTAL	\$ 0.00	\$ 0.00	\$ 0.00
POSITIONS (#)	0	0	0

2. Provide a narrative explanation of the costs or savings shown in "A. 1.", including the increase or reduction in workload or additional paperwork (number of new forms, additional documentation, etc.) anticipated as a result of the implementation of the proposed action. Describe all data, assumptions, and methods used in calculating these costs.

Not applicable. There are no costs or savings to State Agencies resulting from the proposed actions.

3. Sources of funding for implementing the proposed rule or rule change.

SOURCE	FY 07-08	FY 08-09	FY 09-10
State General Fund	\$ 0.00	\$ 0.00	\$ 0.00
Agency Self-Generated	\$ 0.00	\$ 0.00	\$ 0.00
Dedicated	\$ 0.00	\$ 0.00	\$ 0.00
Federal Funds	\$ 0.00	\$ 0.00	\$ 0.00
Other (Specify)	\$ 0.00	\$ 0.00	\$ 0.00
TOTAL	\$ 0.00	\$ 0.00	\$ 0.00

4. Does your agency currently have sufficient funds to implement the proposed action? If not, how and when do you anticipate obtaining such funds?

Not applicable.

B. COST OR SAVINGS TO LOCAL GOVERNMENTAL UNITS RESULTING FROM THE ACTION PROPOSED.

1. Provide an estimate of the anticipated impact of the proposed action on local governmental units, including adjustments in workload and paperwork requirements. Describe all data, assumptions and methods used in calculating this impact.

The proposed rule amendment is not anticipated to result in costs or savings to local government units.

2. Indicate the sources of funding of the local governmental unit, which will be affected by these costs or savings.

Not applicable.

II. EFFECT ON REVENUE COLLECTIONS OF STATE AND LOCAL GOVERNMENTAL UNITS

A. What increase (decrease) in revenues can be anticipated from the proposed action?

REVENUE INCREASE/DECREASE	FY 07-08	FY 08-09	FY 09-10
State General Fund	\$ 0.00	\$ 0.00	\$ 0.00
Agency Self-Generated	\$ 0.00	\$ 0.00	\$ 0.00
Dedicated Funds*	\$ 0.00	\$ 0.00	\$ 0.00
Federal Funds	\$ 0.00	\$ 0.00	\$ 0.00
Local Funds	\$ 0.00	\$ 0.00	\$ 0.00
TOTAL	\$ 0.00	\$ 0.00	\$ 0.00

*Specify the particular fund being impacted.

FISCAL AND ECONOMIC IMPACT STATEMENT WORKSHEET

- B. Provide a narrative explanation of each increase or decrease in revenues shown in "A." Describe all data, assumptions, and methods used in calculating these increases or decreases.**

There is no anticipated effect on revenue collections of state and local government units.

III. COSTS AND/OR ECONOMIC BENEFITS TO DIRECTLY AFFECTED PERSONS OR NONGOVERNMENTAL GROUPS

- A. What persons or non-governmental groups would be directly affected by the proposed action? For each, provide an estimate and a narrative description of any effect on costs, including workload adjustments and additional paperwork (number of new forms, additional documentation, etc.), they may have to incur as a result of the proposed action.**

The primary groups affected by these rules changes will be Exploration and Production companies, Drilling and Workover contractors, and Drilling Services Equipment Rental companies. Many Exploration and Production companies have already implemented internal policies which incorporate similar safety equipment and design specifications and, as a result, the majority of contractors already include the required equipment, training and testing in their bids and rates. Drilling Services Equipment Rental companies may benefit from some increased sales in cases where contractors are required to obtain additional equipment.

Diverter system equipment is already included in most drilling rig packages. For this reason, the incremental costs of a diverter system are estimated to be negligible.

Blowout preventer equipment is already included with most drilling rigs. For deficient rigs, blowout preventer rental prices are estimated to be in the range of \$250 to \$350 per day. Estimated day rates for small size land-based drilling rigs and workover rigs range in price from \$8500 to \$10,000 per 24 hour day and \$3,900 to \$6,000 per 12 hour day, respectively. Based on these prices, the blowout preventer equipment contributes to a maximum cost increase of 4.1% per day for a drilling rig and 8.9% per day for a workover rig. Larger rigs and water-based rigs have higher day rates which serve to further reduce the effect on prices when viewed as a percentage of the day rate.

Blowout preventer and diverter system function/pressure testing schedules and well control drills have already been implemented by most drilling contractors. In cases where testing and drills have not previously been implemented, the equipment testing and drill requirements are estimated to result in minor cost increases due to the time required. It is estimated that testing/drill time will average ten (10) minutes per day which equates to a cost range of \$60 to \$70 per day for drilling rigs and \$54 to \$83 for workover rigs. These numbers translate to a maximum cost increase of 0.8% per day for a drilling rig and 2.1% per day for a workover rig using the day rates provided above.

The training requirements for drilling and workover crews have already been implemented by the industry in most cases. Rig personnel are already required to undergo comprehensive safety training at the time of hire and periodically during their careers. Training requirements are flexible and can be easily achieved using numerous existing local, national, and international accredited providers. As a result, the incremental costs of training are estimated to be negligible.

All documentation requirements of the proposed rules are met through drilling notes and/or logs that are already in use. No additional paperwork or forms are required.

Any cost increases resulting from the proposed rules will be partially offset by reductions in insurance premiums due to the additional safety equipment and are negligible when compared to the potential costs of a blowout. Although the costs of a blowout are difficult to quantify (loss of life, loss of marketable hydrocarbons, environmental damage, lawsuits, etc.), the loss of the drilling rig or workover rig is more easily estimated. Currently, small size land-based drilling rigs and workover rigs range in price from \$1.5 MM to \$5 MM and \$0.5 MM to \$1.5 MM, respectively.

- B. Also provide an estimate and a narrative description of any impact on receipts and/or income resulting from this rule or rule change to these groups.**

The use of the equipment required by the proposed rules should have a negligible impact on receipts and/or income to Exploration and Production companies, Drilling and Workover contractors and Drilling Services Equipment Rental companies. Although the proposed rules may in some cases result in minor increases to the costs of drilling and workovers, the cost benefits (savings) realized in avoiding a blowout far exceed these increases.

IV. EFFECTS ON COMPETITION AND EMPLOYMENT

Identify and provide estimates of the impact of the proposed action on competition and employment in the public and private sectors. Include a summary of any data, assumptions and methods used in making these estimates.

There are no anticipated effects on competition and employment.