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Beyond the tragic loss of the workers on the rig, and the still unknown environmental costs to the Gulf, the short term impact of the well-blowout at the Macondo field will be limited. However, there are serious potential long-term consequences for future production in the Gulf of Mexico and additional offshore areas. The environmental disaster also throws the future of climate change negotiations on Capital Hill into even greater uncertainty.

Macondo Fallout Delayed, but Steep

Despite the best efforts of BP and its partners to seal off the leak, an estimated 5,000 b/d of crude oil continues to spill from the Macondo exploration well fifty miles off the coast of Louisiana, the short and long term implications of this disaster are becoming more clear. While efforts are still ongoing to cap the leaking oil quickly, it appears increasingly likely at this point that BP will need to drill a relief well to stop the flow, which could be as long as three months. The worst case scenario could see as much as 500,000 barrels escape to the surface.

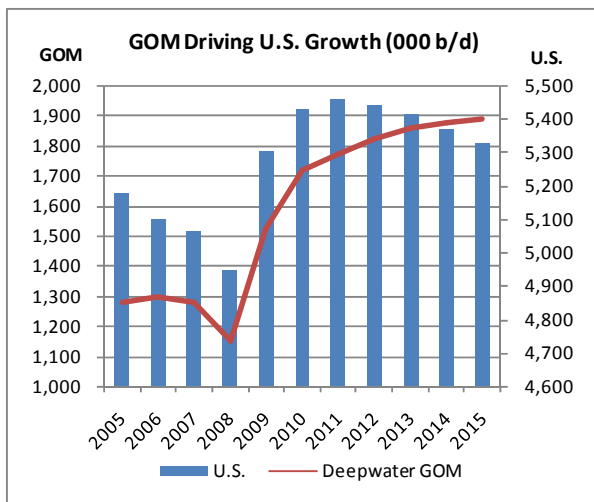
Short-Term Impacts Limited

The impacts of this disaster should prove limited in the short term. The oil spill does not appear to be interfering with shipping at the LOOP import terminal as of now, or with refineries in Texas or Louisiana. Two small platforms near the spill have stopped production, but the volumes affected are extremely limited. As the spill continues to expand, it may threaten crude supplies to Chevron’s Pascagoula refinery in Mississippi, but in that event the refinery could access SPR volumes of crude. It is also possible as the spill continues, winds could shift to drive the crude toward more critical infrastructure to the westward, such as the Houston channel or the LOOP terminal.

Long-Term Impacts More Severe

The potential repercussions grow more severe as the time horizon expands. President Obama has already announced a ban on the sale of any new leases offshore until the cause of the explosion is found. Several senators have introduced bills to ban future drilling in the Atlantic Coast or the Eastern Gulf. The disturbing images of crude oil coming ashore in sensitive marshlands will surely lead to further public pressure against exploratory drilling, particularly in ultra-deep and technologically challenging provinces.

This accident occurs at a critical time for the U.S. upstream. After years of declines, the U.S. registered positive growth of 350,000 b/d last year, largely on the back of greater production from the Gulf. Altogether, potential new production over 500,000 b/d over the coming five years is at risk of some delay. ESAI does not believe existing production facilities are at risk, as too many jobs in the Gulf Coast are dependent on this industry. However, future supply growth will likely be both slower and potentially more expensive.



The political fallout from this accident could also derail progress in the Senate toward a climate change bill. A key sweetener to gain Republican votes was a commitment from the Obama administration to open new areas offshore to exploration. In the wake of the oil spill, a chorus of Democratic voices are calling on the administration to reverse this decision. Although President Obama has remain committed to the policy so far, the pressure on him will only grow once the oil actually begins to hit the beaches in the Gulf. The spill will likely have greater long-term impacts beyond just the delays to future production.