

Center for Energy Studies

Louisiana State University

NEWSLETTER

August 1996

This issue of the Center's Newsletter is devoted to an Annual Report on the 1995-96 year. Clearly it was a year of growth as well as major change for the Center. Our intent in making our Annual Report available to our regular Newsletter readership, is not only to let them know what we are doing but, also, to solicit their reaction, ideas, and suggestions about what we ought to be doing.

MISSION

The Center for Energy Studies (CES) was created by the Louisiana Legislature in 1982 as the embodiment of recommendations made by a group of experts from outside the state and at the urging of Louisiana business and public interest groups, as well as the University. As directed by resolutions of the LSU Board of Supervisors and the Louisiana Board of Regents, historically CES' strategy has been to marshal, focus, and support expertise available elsewhere in the University rather than to build a large internal staff.

Although the organization and staff have changed since its creation, CES' mission has not. CES conducts, encourages and facilitates research and analysis to address energy-related problems or issues affecting Louisiana's economy, environment, and citizenry. CES is the state's only officially recognized "energy center" in higher education. Whether conducted by its own staff or by others CES supports, CES' goal is to provide a balanced, objective, and timely treatment of issues with potentially important consequences for Louisiana.

ACTIVITIES

OCS Initiative--During the past year the Center

continued its initiative focused on trends and issues associated with oil and gas exploration and development on the outer continental shelf (OCS). A major project to ascertain if smaller "independent" companies were less aggressive or successful than the "major" oil and gas companies that historically have dominated the industry was completed (1996-9, as cited in the publications list) and a second project designed to detect differences in the environmental and safety records of the same two groups is nearing completion (1996-11).

In both areas little difference was found between the two groups. In fact, if anything, our studies suggest that the independents have been doing a better job in both areas. These studies were funded through the Coastal Marine Institute, jointly funded by the Minerals Management Service (MMS) and LSU, with matching support from the Center's Industry Associates Advisory Council.

These conclusions are significant because, both in the relevant regulatory agencies and the major companies, the conventional wisdom is that the majors are more efficient, have better records, and pose less risk. Thus, the fear is that if the independents do relatively more of the work on the OCS, efficiency will fall and safety and environmental risk will increase. Such beliefs are reflected in the Oil Pollution Control Act (OPA 90) and other proposals for more stringent and expensive regulations. In addition to reports and presentations to MMS, an article dealing with the economic aspect of this work was presented at the annual meeting of the American Economic

Association and published in the *Energ Journal*, the leading academic journal devoted to energy economics (1995-6). CES also completed an MMS-funded study describing the regulations and programs dealing with accidents and oil spills on platforms located in waters subject to Louisiana's jurisdiction (1995-12). Ric Pincomb of CES' information division was the principal researcher.

MMS has recently funded a third study to be conducted during the coming year that will update and improve forecasts of how many offshore platforms will be removed and installed on the Gulf of Mexico OCS over the next 20 years.

Offshore Platform Removal and Disposal-Another aspect of CES' OCS initiative was the organization for the Minerals Management Service of an international workshop on the technology, regulation, and environmental effects associated with the retirement, removal, and disposal of offshore oil and gas platforms. Nearly 500 participants from around the world met for three days in New Orleans in April to discuss these topics. They heard presentations by MMS' Director and other top managers as well as industry and environmental experts and opinion makers.

A report released by the National Research Council in March of 1996 on platform removal techniques and six issue papers--prepared and distributed before the workshop convened--provided a focus and agenda for six individual working groups that met for four, two-hour sessions during the workshop. The papers and presentations from the workshop along with an overview and summary of each group's discussions and recommendations are currently being compiled in a proceedings volume that CES will distribute this fall. Allan Pulsipher of the Center's staff organized and chaired the workshop as well as served as a committee member on the NRC study.

The consensus among both MMS' leadership (approximately 100 MMS managers and scientists **attended**) and the industry and public interest experts was that the workshop would lead to improvements in

practices and policies on the OCS. As a direct result of the workshop the industry supported Offshore Operators Committee has organized a group to work with Louisiana and MMS on site clearance and management issues.

Global Settlement and Incentives Legislation-In non-OCS oil and gas activities, under an agreement with the Louisiana Department of Natural Resources, Robert Baumann continued to monitor and report on the global settlement between Texaco and the state of Louisiana whereby investments by Texaco of \$152.25 million are to be made on leases of state-owned lands.

Baumann, as a member of Governor Foster's Energy Committee, also was asked to monitor and report on the effects of the incentive legislation that the Louisiana Legislature enacted in 1994 (Act 2) to encourage more production in the state. Both these projects have been closely scrutinized by interested parties with differing viewpoints. Baumann testified before the Louisiana Legislature during the 1996 Regular Session on the renewal of incentive legislation, which passed both chambers and was signed by the Governor(Act 16).

Electricity Restructuring-The implications for Louisiana of the restructuring that is expected to take place in the electric utility industry provided the focus for the Center's newest initiative. It is expected that the same sort of forces that transformed the natural gas and telephone industries from closely regulated to market driven will soon begin to "restructure" the electric utility industry. However, there are significant differences among states and regions with respect to the consequences of a restructured and more competitive electricity industry.

Louisiana is different in that rates and generation mixes vary widely among its utilities, and the state has relatively more large energy-consuming industries whose competitive positions are affected by energy costs and who also can produce electricity in conjunction with their operations for either their own consumption or to sell to others. Thus far, the Center's efforts have taken two forms.

First, an electricity restructuring seminar series was organized where nationally recognized experts discussed aspects of restructuring with representatives of Louisiana's utilities, its Public Service Commission, the large energy-using (and producing) industries, and concerned citizenry. For both seminars the demand for seats exceeded the capacity of the rooms. Papers prepared by the experts will be compiled in a volume that the Center will publish next year. The Center hopes to organize at least two more seminars in the fall.

Concurrently, the Center is conducting its own study of the implications of restructuring for Louisiana. A seventy-page draft overview and background paper (1996-5) was prepared and distributed to all seminar attendees as well as to other interested parties. Our plan is to combine the background paper with an empirical analysis designed to ascertain how Louisiana's industry, utilities, citizenry, and economy would be affected under alternative restructuring scenarios. This work is supported by internal CES funding and by the Center's Industry Associates. David Dismukes, who joined the Center's staff in the Fall of 1995, is the principal staffer on this initiative.

As another facet of our restructuring initiative, the Center is conducting an analysis of electrical cogeneration in Louisiana. The purpose of the study is to identify all Louisiana cogenerators and to estimate the potential impacts that electric restructuring may have on these (non-utility) electricity generators. Dismukes is conducting this research with Andrew Kleit, Associate Professor of Economics at LSU.

Central Gulf Region Petroleum Technology Transfer Council The Center's principal oil and gas operator outreach program is the Department of Energy funded Petroleum Technology Transfer Council (PTTC) for which the Center is designated as the regional lead organization for the Central Gulf Region (CGR).

The goals and programs of the PTTC are determined by a Producer's Advisory Group (PAG). The chair of the PAG for the Central Gulf Region is Robert Chebul of Louisiana Land and Exploration

Company. With direction and concurrence by the PAG,

Robert Baumann serves as the Managing Director and Zaki Bassiouni, Chair of LSU's Petroleum Engineering Department, serves as the Technical Director. Keith A. Long is the Coordinator for the program.

During its initial year of operation, PTTC held several problem identification seminars in different parts of the state to establish priorities for its activities. The most frequently identified needs were helping independent operators to keep abreast of the changing rules and regulations and to identify case studies of how new technologies performed in the field.

To help operators deal with regulations, the PTTC program produced *Louisiana Oil & Gas Exploration and Production Environmental Legislation, Rules, and Regulations* (usually referred to as the Environmental Handbook). This electronic handbook contains all state regulations pertaining to oil and gas exploration and production. It is made available to the industry as a set of six diskettes for PC and requires only Microsoft Windows to operate. PTTC also makes Louisiana's Office of Conservation Monthly Production Audit and Severance forms available for PC users. These electronic services have been very well received by operators.

Because the regulations continue to expand quite rapidly, the Handbook was just switched to a CD Rom format. In conjunction with the Center, PTTC also maintains a popular site on the World Wide Web. Workshops on 3D Seismic and technologies to deal with produced water were also supported by PTTC and were very well attended.

Other projects that Center and PTTC staff participated in included research support to The Energy Council, an analysis of proposed tax changes in the treatment of enhanced oil recovery for the State of Utah, consulting with legislators from Oklahoma and Texas on oil and gas incentives, chairing an advisory committee to the Secretary of the Louisiana Department of Natural Resources, and liaison for a million dollar institutional grant to the University for energy conservation projects.

Information and Data-- In addition to these projects, each staff member also has personal research interests and responds to shorter term requests for information and analysis as is appropriate. Barbara Kavanaugh, who is the head of the Center's Data and Information Services Division, and librarian Ric Pincomb regularly respond to numerous requests for information, data and analysis from industry, the general public, legislators and other elected officials and the press. This past year information requests ranged from the U.S. Supreme Court and the Internal Revenue Service to students writing term papers on the oil and gas industry to the Government of Venezuela to the Vernon Parish Police Jury.

An important dimension was added to the Center's information dissemination role this year when its home page found a place on the Internet (<http://www.enrg.isu.edu>) and went online on July, 1995. Inquiries or "hits" have increased steadily from 378 in July, 1995, to a record 4,902 "hits" recorded in July, 1996. The most popular data are actual Louisiana oil and gas prices which are made available on a daily basis. State agencies such as the Department of Revenue increasingly use the Center's price data for their own analysis and regulatory needs.

Finances-- The Center is financed by appropriations from the Louisiana Legislature, grants and contracts from the federal and state governments, and general support by its Industry Associates Advisory Council. The Center has had enough financial stability and certainty during the past year to enable it to partially replenish both its professional and support staff. During the coming year we plan to continue to fill vacancies by recruiting an analyst knowledgeable about and interested in, the "downstream" (refining, marketing and chemical) aspects of the oil and gas industry.

STAFFING

David Dismukes joined the CES staff as an Assistant Professor in August of 1995. Dismukes received his PhD. in Economics from Florida State University during July of the same year. He financed his graduate education by working for the Florida Public Service Commission.

In November of 1995, Robert Baumann, who had served as the Center's Executive Director since 1986, was reassigned by the University to serve as a Special Assistant to the Provost and Vice Chancellor of Academic Affairs, William Jenkins. With the Provost's concurrence, Baumann continues to serve as the Managing Director of the CGRPTTC and a Senior Fellow of the Center. Allan Pulsipher, who is the Director of the Center's Policy Analysis program, was designated as Acting Executive Director.

Debbie Pitcher, who had served as the Assistant to the Executive Director as well as in other capacities at the Center, retired. Her position has not been filled. Her business and accounting duties have been reassigned on a temporary basis to Rama Ramachandran, who previously administered CES grants while working with another LSU unit. Ric Pincomb, a librarian with a petroleum engineering background, joined CES on a half-time basis. Dmitry Mesyanzhinov, who has worked as a graduate research assistant at the Center for four years while completing work for a PhD. in Geography, has accepted a position as a Research Associate with the Center for the coming year.

STAFF

The Center's staff list follows. It is frequently supplemented with faculty, graduate students, or non-University analysts as CES' projects and agenda require.

Full Time Staff:

Robert H. Baumann, Senior Fellow and Managing Director, CGRPTTC

David E. Dismukes, Assistant Professor, Research

Omowumi O. Iledare, Assistant Professor, Research

Barbara Kavanau, General Librarian

Keith Long, Coordinator PTTC

Dmitry Mesyanzhinov, Research Associate

Allan G. Pulsipher Acting Executive Director and Director of Policy Analysis

Michael Surman, Computer Analyst

Part-Time Staff:

Zaki Bassiouni, Chair, Department of Petroleum

Engineering

William Daniel IV, Research Associate, Center for Energy Studies

Brian Harder, Coordinator, Basin Research Institute

Andrew Kleit, Associate Professor, Economics

Ralph Pike, Professor of Chemical Engineering and Director of Louisiana Mining & Mineral Resources Research Institute

Ric Pincomb General Librarian

Rama Ramachandran, Acting Assistant to the Executive Director

Andrew Wojtanowicz, Professor, Petroleum Engineering

