Sean Shafer

Manager of Consulting

Quest Offshore Resources, Inc.

Testimony on "One year after President Obama's Gulf of Mexico 6-Month Moratorium Officially Lifted: Examining the Lingering Impact on Jobs, Energy Production, and Local Economies"

Despite the official end of the drilling moratorium in October, 2010 the offshore Gulf of Mexico oil and natural gas industry is still feeling the lingering effects of the official moratorium. These effects combined with the impact of the subsequent regulatory slow down are being felt throughout the Gulf coast region as well as nationwide.

While the offshore Gulf of Mexico oil and gas industry has seen some signs of recovery from the low state it was in during the drilling moratorium, activity levels are still well below the levels seen before the Macondo incident and well below the levels of the Quest baseline forecast before the incident. From a permitting, rig, and drilling activity perspective the industry is at best flat compared to where it was before the drilling moratorium, with the growth that had been previously expected both delayed and diminished. The only industry sector seeing healthy growth is in the development of projects not dependent on further near term drilling. While this is a positive, the majority of these projects were already well in the works before the incident and are thus seeing these major equipment orders despite the moratorium.

As of the end of September 2011, 21 floating rigs (those with subsea blow out preventers) are operating in the Gulf of Mexico, of which only 18 are currently drilling wells. Pre-moratorium 33 floating rigs were operating the Gulf of Mexico with 29 drilling wells at that time. This indicates a roughly 37 percent drop in both the number of rigs operating and drilling. Since the moratorium began, 11 rigs have left the Gulf of Mexico. Only one of these has returned, 3 rigs are currently sitting idle.

Seven of these rigs have left to African countries including Egypt, Nigeria, Liberia, and The Republic of Congo. Three of these rigs have left to South America, including Brazil and French Guiana. The remaining rig recently mobilized to Vietnam.

As of today, none of the operators of these rigs have announced plans to return these rigs to the Gulf of Mexico. Two rigs are planned for return in early 2012 but neither operator has a permit to drill with these rigs yet, casting doubt on the likelihood of this happening

This translates to approximately 60 wells lost based on the original contract terms of these rigs. The loss of these rigs amounts to lost spending of $6.3 billion and annual lost direct employment of 11,500 jobs over two years.

While the number of rigs operating in the Gulf of Mexico is expected to recover to pre-moratorium levels by the middle of 2012, this fails to take into account the number of rigs which were expected to be operating in the region (based on stated operator schedules) in 2012.

While rig counts are forecast to return to pre-moratorium levels of 35 floating rigs operating by mid 2012, prior to the incident and regulatory slow-down, operating numbers were expected to have reached 44 rigs by this point. In Addition, drilling activity is not expected to return to pre-moratorium levels before 2014 due to low permitting rates and operators not relocating rigs back to the Gulf of Mexico.

While the Gulf of Mexico is currently seeing an uptick in certain types of development activity due to projects that were delayed by the credit crunch and economic slowdown, overall capital expenditures are around 10% lower than in 2009 which was considered a down year for the industry owing to macroeconomic conditions. Compared with 2008, which would be better indicator, capital spending levels are down by roughly 25%.

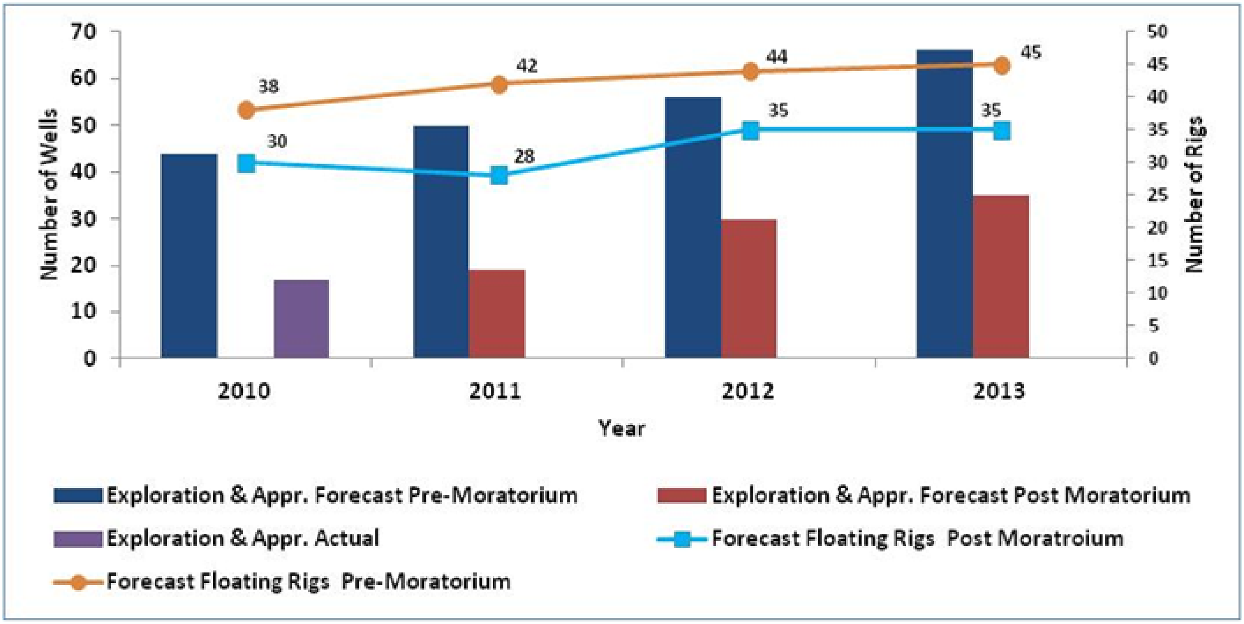
Continued regulatory uncertainty will only exacerbate this trend as operators reallocate resources to other major offshore provinces. The long term the effects of the moratorium and subsequent regulatory slow down will lead to lower development levels in the Gulf of Mexico which will lower oil and gas production levels and associated employment and economic activity levels in the economy.

In fact the most pronounced effects of the moratorium and continued regulatory issues may not be seen until later years, due to the long time frame associated with developing offshore oil and gas projects. With the length of time from first drill date to project sanctioning averaging over 4 years, and the length of time from project sanctioning to first production averaging over 4 years for major projects, the most pronounced effects of the moratorium and subsequent regulatory slow down will begin to be seen in the middle of the decade. Due to low levels of drilling beginning with the moratorium, the number of actionable projects in the Gulf of Mexico will begin to decline which will lead to lower levels of development activity. Since the vast majority of the spending associated with these large capital projects occur within the United States, a wide array on industry sectors will be negatively impacted including oil and gas machinery, air transport services and financial services to name a few.

The offshore oil and natural gas industry is a key contributor to the energy supply of the United States; additionally the industry contributes both to the gross national product and overall employment of the country. The offshore GoM industry contributed 14 percent of the oil and natural gas produced in the United States in 2010. Additionally, capital investment and operational spending by the Gulf of Mexico oil and natural gas industry supports hundreds of thousands of jobs across multiple sectors and regions, spurs economic growth, and generates significant tax revenue at all levels of government.

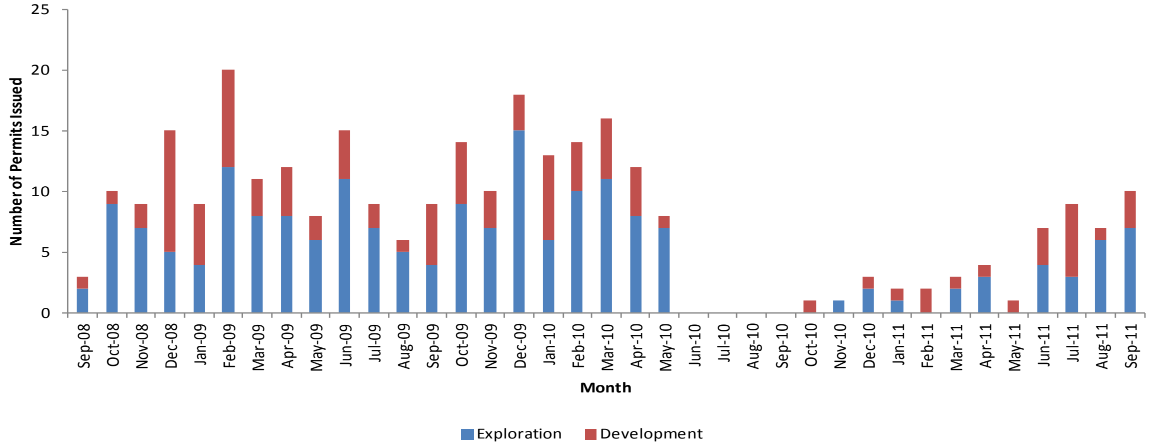
It is therefore critical that permitting return to historical rates, and that development and production are allowed to reach their potential in an environmentally responsible manner under a balanced regulatory regime.

Figure 1: Exploration and Appraisal Drilling Forecasts (Pre and Post Moratorium) vs. Floating Rig Counts



Source: Quest Offshore Resource, Inc.

Figure 2: New Deepwater Well Permits Issued: September 2008 to September 2011 Exploration vs. Development



Source: Quest Offshore Resource, Inc.