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

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Introduction

My name is Albert L. Reese, Jr. and I am the Chief Financial Officer of ATP Oil & Gas Corporation. I have been with ATP since its inception in 1991, having served as its Chief Financial Officer for eleven years and prior to that, in a consulting capacity as Director of Finance. I have worked in the field of finance and management for over 40 years.

Background

ATP Oil & Gas Corporation is an international offshore oil and gas company focused in the Gulf of Mexico and North Sea. In August 2010, we expanded our interest to offshore Israel in the Mediterranean Sea. ATP acquires and develops properties, many of which have proved undeveloped reserves at the time of acquisition that are economically attractive to ATP, but not strategic to exploration-oriented oil and gas companies. Since its inception in 1991, the company has had an exceptionally strong development success record of 98% of converting non-producing properties to commercial production. Recently ATP became the 4th most productive offshore deepwater operator in the Gulf of Mexico, as a company that emphasizes critical elements of technology, safety, and infrastructure assets. ATP's business model is particularly efficient in accelerating production from leases which are nearing their expiration date and which, in the absence of ATP's involvement, would go back into the lease pool and be developed, if ever, near the end of the next ten year lease period. While particularly effective in meeting the objectives of promoting jobs and enhancing energy independence, our model is also particularly dependent on an efficient and reliable permitting and plan approval process, and particularly vulnerable to harm from unpredictability and delays.

ATP's Investment in the Gulf of Mexico

Currently ATP has 55 full-time employees in its Houston office, 7 full-time employees in its U.K. office, and 2 full-time employees in its Netherlands office. ATP regularly uses the services of independent consultants and contractors to perform various professional services, particularly in the areas of construction, design, well-site supervision, permitting and environmental assessment. Independent contractors usually perform field and on-site production operation services, including gauging, maintenance, dispatching, inspection and well testing. All of these contractors and consultants are substantial sources of jobs and economic benefits to the industry in which ATP operates. In fact, through its normal course of business in any given year, ATP makes payments to vendors and other contractors in 42 states throughout the country. Thus, though ATP is a "small' company by oil industry standards, it serves a critical role in energy production in the Gulf, and provides substantial jobs and economic activity on the Gulf Coast and throughout the country.

At December 31, 2010, ATP had estimated net proved reserves of 126.4 MMBoe, of which approximately 83.9 MMboe (66%) were in the Gulf of Mexico and 42.5 MMBoe (34%) were in the North Sea. ATP's proved reserves in the deepwater area of the Gulf of Mexico account for 62% of its total proved reserves, and proved reserves on the Outer Continental Shelf account for 4% of its total proved reserves. The estimated PV-10 of its proved reserves at December 31, 2010 was $2.6 billion. At December 31, 2010, ATP owned leasehold and other interests in 51 offshore blocks and 88 wells, including 24 subsea wells, in the Gulf of Mexico. ATP operates 82 (93%) of these wells, including 100% of the subsea wells.

ATP owns an interest in 29 platforms, including two floating production facilities in the Gulf of Mexico, the *ATP Innovator* at its Gomez Hub and the *ATP Titan* at its Telemark Hub. A third floating production facility called an Octabuoy is under construction for initial deployment at its Cheviot Hub in the U.K North Sea, which is expected in 2014. ATP operates the *ATP Innovator* and the *ATP Titan,* and also expects to operate the Octabuoy when it is placed in service. The floating production facilities have longer useful lives than the underlying reserves, and thus are capable of redeployment to new producing locations upon depletion of the reserves. Accordingly, they are expected eventually to be moved several times over their useful lives.

Of particular interest is the U.S. construction of the *ATP Titan* in 2008-2009. The *ATP Titan* was the first multi-column, deep-draft, floating drilling and production platform structure built in the U.S. More than 268 U.S. service and supply companies were involved in the construction and installation. Of those companies, 147 were Texas companies and 68 were located in Louisiana. Construction involved the efforts of 31 countries and 30 U.S. states. More than 1,100 U.S. suppliers received payment from ATP. During construction of the hull, 3.3 million man-hours were expended and there were 600+ jobs created onsite at peak manning levels. The topside platform decks required 600,000+ man hours. Total investment in the *ATP Titan* is to date close to $1 billion.

During 2010, ATP's cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $534.3 million. During 2009, cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $551.4 million. During 2008, cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $751 million.

Implications and ramifications

The Macondo event that occurred in 2010 and subsequent government response that has been taken in 2010 and 2011 have had a major impact on ATP's operations and ability to move forward with development plans. ATP has been severely affected since May 6, 2010, when the Department of Interior instructed the predecessor of BOEM to stop issuing drilling permits for OCS wells, and to suspend existing OCS drilling permits issued after April 20, 2010, and subsequently by the July 12, 2010, issuance of a second moratorium, originally scheduled to end on November 30, 2010. This second moratorium suspended all existing operations in the Gulf of Mexico and other regions of the OCS utilizing a subsea blowout preventer ("BOP") or a surface BOP on a floating facility, and suspended pending and future permits to drill wells involving the use of a subsurface BOP or a surface BOP on a floating facility. Although the second moratorium was lifted on October 12, 2010, ATP has been and continues to be negatively impacted by the drilling moratorium and subsequent related regulatory delays and uncertainties.

Industry Implications

An Energy Information Administration Annual Energy Outlook 2009 report stated that the Gulf of Mexico, especially the deepwater, is the single largest contributor to U.S. production growth for the foreseeable future. In 2009, the Gulf of Mexico provided 29% of the U.S. daily crude oil production, a 347% increase since 1981. According to a recent Quest Offshore Resources study, since the moratorium began, 11 rigs have left the Gulf of Mexico. Only one of these has returned, and 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. That 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. Even as rig counts begin to recover, the rate of permitting for wells in the Gulf of Mexico, unless it recovers to historical levels, will continue to hinder the pace of drilling in the Gulf of Mexico. From September 2009 to September 2010, 59% more permits (114) were issued than the period of September 2010 to September 2011 (50).

Role of the Independents

There are currently 114 operators of producing leases in the Gulf of Mexico. A July 2010 IHS Global Insight report noted that Independents hold a majority interest in 81% of producing leases, 66% of all Gulf of Mexico leases and 52% of deepwater leases. The study also noted that Independents have drilled 50%+ of the exploration wells in the deepwater. In 2009, Independents were responsible for 200,000+ jobs, which were expected to grow to 300,000+ by 2020, and $38 billion in economic benefit, anticipated to grow each year thereafter. Additionally, Independents would create $10 billion in Federal and state tax revenues, also expected to grow each year thereafter.

Current ATP Activities

ATP was the only company to receive two of the first eleven deepwater permits since the moratorium was lifted, due to its reputation for safety, environmental responsibility, skillful use of advanced technology and a steadfast drive for quality. The *ATP Titan* in 2007, built three years prior to the Macondo disaster, was designed and built with tens of millions of dollars of redundant safety equipment. It surpassed all regulatory requirements, and is the only platform in the Gulf of Mexico with a surface blowout preventer (BOP) on the platform deck and a subsea shut in isolation device (SID) with blind shear rams, which is controlled independently of the rig's surface BOP.

ATP's near-term operating and development plans in the Gulf of Mexico, as well as its longer-term business plan, are dependent on receiving additional approvals for deepwater drilling and other permits under applications, which have been and will continue to be submitted to the Bureau of Ocean Energy Management (BOEM). In the first quarter of 2011, ATP received permits to complete the drilling of the third well at Mississippi Canyon Block 941 at its Telemark Hub, and to complete a well at Green Canyon Block 300. While ATP can satisfy the permitting requirements for the additional planned 2011 development wells, there is still uncertainty that the permits will be issued or, if issued, that they will be received in a timely manner.

ATP incurred additional costs in 2010 caused by the deepwater drilling moratoriums and subsequent drilling permit delays. Some of these additional costs are continuing into 2011, and are expected to continue. During the second quarter of 2011 throughout 2010, ATP recognized impairment of proved Gulf of Mexico oil and gas properties of $45.7 million and $3.9 million of unproved Gulf of Mexico properties, respectively. The majority of the expense was associated with leases which were approaching their expiration dates, and became unlikely to be drilled primarily due to the moratorium on drilling in the Gulf of Mexico. Drilling interruption costs were $1.2 million and $8.7 million in the second quarter of 2011 and 2010, respectively. They consist of stand-by costs for drilling operations at ATP's Telemark and Gomez Hubs, resulting from the deepwater drilling moratoriums and subsequent drilling permit delays.

We at ATP realize that the Department of Interior and its agencies required time to review their programs to make certain that they were doing an adequate job of assuring that the operations on its leases were safe and adequately protective of the environment. At the same time, however, it is difficult for us to understand why some priority is not being given to actions that BOEM might do to help our industry and the Gulf economy recover from the grave injuries which it suffered as a result of the Macondo event and the regulatory response to it. Although President Obama has said that jobs and the economy are his Administration's number one priority, our experience suggests that the priorities at the Department of Interior are solely limited to safety, environmental protection and enhancement of government royalty revenues. We agree that those are important and serve as the foundation of BOEM's mission. However, there is a critical need to correct the harm which has been done by the spill and subsequent regulatory backlog, and put the Gulf back to work. Jobs created in the offshore oil and gas industry cross the gamut of blue-collar jobs requiring a high school education coupled with in-house training, to those requiring post-graduate degrees. With an efficient, predictable and properly motivated regulatory structure, ATP and companies like it can continue to make a significant contribution to job creation, revenue generation for the federal, state and local governments, and our nation's oil independence.