

Double Or Nothing

How regulators are gambling on the future self-interest of large oil and gas companies to decommission the Gulf of Mexico's aging infrastructure



Production on

the Outer Continental Shelf (OCS) of the Gulf of Mexico (GOM) is moving into deeper water, where development and decommissioning costs are much higher. As the energy transition progresses, the risk that companies will be unable to pay their decommissioning costs will grow.



At best, only 10%

of estimated decommissioning costs for the OCS are secured by bonds (Figure 2.1).



Bond coverage

for the largest publicly traded exploration and production (E&P) companies in the GOM is only 1%, on average.



The problem is,

parent corporations are not, as a matter of law, liable for their subsidiaries and the major operators in the GOM are all subsidiaries.



Federal regulators

are heavily reliant on the future financial strength of large publicly traded corporations to ensure decommissioning obligations are not abandoned to the public.



The 10 largest publicly

traded companies operating in the OCS, as a group, are jointly and severally liable for 78% of total OCS decommissioning costs, amounting to at least \$26.7 billion (Figure 2.2).



Due to joint

and several liability, the energy transition can be expected to consolidate decommissioning obligations of weaker firms in a few "last ones standing."



Whether parent

corporations assume the decommissioning obligations of their subsidiaries, if and when called upon to do so, will be a matter of self-interest rather than law.



Worsening economics

combined with rising decommissioning costs will tilt the self-interest of large legacy operating groups towards avoiding decommissioning costs.



If the last ones

standing choose to back their subsidiaries, they could incur costs that are 2.3 to 6.8 times the amount of their direct liability on current leases, equivalent to billions in additional decommissioning costs for a given company. These costs are not generally reflected on balance sheets today.



The U.S. Department

of Interior should increase financial assurance requirements now to ensure that future decommissioning occurs on a timely basis at the expense of industry rather than taxpayers.