Cobalt
International Energy

Lynne L. Hackedorn
Vice President, Government/Public Affairs
and Land

December 13, 2010

Department of the Interior
Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE)
381 Elden Street, MS–4024
Herndon, Virginia 20170–4817

Attn: Regulations and Standards Branch (RSB)

Re: Increased Safety Measures for Energy Development on the Outer Continental Shelf, 1010–AD68

Dear Sir or Madam:

Cobalt International Energy, Inc. (Cobalt) appreciates the opportunity to provide written comments on the subject interim final rule to increase safety for energy development on the Outer Continental Shelf (OCS) published on October 14, 2010 in the Federal Register.

Cobalt is a company focused solely on deepwater exploration and development in the Gulf of Mexico and offshore West Africa. Cobalt was founded by experienced industry executives who created a unique business model. Although small in size, our great talent and cutting-edge technology and capital, allow us to compete and succeed in some of the most technically challenging and prospective areas in the world--against some of the world's largest companies.

BOEMRE chose to immediately implement the rule, "Increased Safety Measures for Energy Development on the Outer Continental Shelf," before providing notice and taking public comment, because it concluded "immediate regulations are needed to better ensure the reliability of these systems, [well intervention and blowout containment systems] and to protect the lives of workers, human health and the environment." Oil and Gas and Sulphur Operations in the Outer Continental Shelf, 75 Fed. Reg. 63345, 63355 (October 14, 2010) (to be codified at 30 C.F.R. pt. 250). We believe that industry expertise, coupled with rigorous environmental and safety standards set by the federal government, can assure that the nation's domestic resources in deepwater are safely and appropriately developed. Indeed, we have promptly moved forward to ensure we are meeting the requirements in the recent NTLs. We are prepared to do our part to continue to invest in new technology to safely, environmentally and efficiently explore, develop and produce additional domestic energy in the deepwater.

Cobalt International Energy, Inc.
Two Post Oak Central, 1980 Post Oak Blvd., Suite 1200, Houston, Texas 77056
Tel: 713.579.9115 Fax: 713.579.9196

We also believe that the fundamental purpose of the Administrative Procedure Act, the National Environmental Policy Act, (NEPA) and the Regulatory Flexibility Act is to ensure that the public is informed of Federal agency activity and has an opportunity to provide information to the Federal decision maker before agency decisions are finalized. One reason for these procedural processes is to help insure that the Federal decision maker is better informed, prior to making his decision. For example, a court has noted, "NEPA emphasizes the importance of coherent and comprehensive up-front environmental analysis to insure informed decision-making to the end that the agency will not act on incomplete information, only to regret its decision after it is too late to correct." *Ctr. For Biological Diversity v. U.S. Forest Serv.*, 349 F.3d 1157, 1166 (9th Cir. 2003).

Because we are concerned that some of the components of these regulations may actually lead to increased well or worker safety risk, we have chosen to submit our own comments, while also embracing the comments submitted by associations, such as the National Ocean Industry Association, and the American Petroleum Institute and the Independent Petroleum Association of America. We are hopeful that these comments, along with those of others, will facilitate a better understanding of the consequences of the proposal and allow the agency to consider whether it would be useful to modify the rule after absorbing a more complete set of information. In addition to the contents of the rule at hand, we have also highlighted a provision within the agency's existing regulations that may well be technically impossible to meet. Our specific comments are described below:

Comment One:

We are particularly concerned about the citation in § 250.198(a) (3) that states:

> The effect of incorporation by reference of a document into the regulations in this part is that the incorporated document is a requirement. When a section in this part incorporates all of a document, you are responsible for complying with the provisions of that entire document, except to the extent that section provides otherwise. When a section in this part incorporates part of a document, you are responsible for complying with that part of the document as provided in that section. If any incorporated document uses the word *should,* it means *must* for purposes of these regulations. 75 Fed. Reg. 63345, 63372 (October 14, 2010).

The effort to convert recommended practices into mandatory requirements during all aspects of deepwater production, may well lead to consequences the agency has not properly anticipated, considered, nor wants. For example:

API RP 65-2, *Recommended Practice for Isolating Potential Flow Zones During Well Construction,* 1st Edition, May 2010

4.8.3.2, Centralizer Program states: The recommended standoff should be determined from computer modeling of mud removal and will vary with well conditions. Centralizers should be run according to an engineering design for optimum cementing results. Specific points: We realize that good centralization is required for a good cement job; however, actual well conditions are not always represented by the inputs to the computer models that determine placement. The

tight annulus tolerances required in deepwater well design can lead to excessive friction when placing casing strings and running centralizers through subsea wellhead sealing areas and subsea BOP stacks. This friction can cause the casing strings to hang up, or the elastomer seals in the BOP could be unintentionally scored by the centralizers while running the casing. In addition, most subsea wellhead manufacturers recommend *against* running centralizers through the wellhead. By mandatorily following a computerized recommendation for optimizing centralization, the safety exposure to a well control situation is increased. Moreover, it is not possible to run centralizers on a string of 18" casing inside an 18 ¾", 15,000 psi wellhead, or the supplemental adapters below the wellhead. The physical tolerances between the centralizer's outside diameter and the inside diameter do not allow free passage, yet deepwater operators have had good success in obtaining quality cement jobs on this casing size.

4.9.3 **Transportation and Storage of Cementing Materials - ... Tanks should be physically swept out after a cement blend is stored in the tank.**

The intention of this recommendation is to avoid contamination between the cement blended chemicals from one batch of cement to the next. This procedure is not required on all occasions, because in certain instances, the cement chemicals may be compatible, or an insufficient remaining volume precludes contamination. With the mandatory task of physically sweeping out the tanks, workers will be required to enter confined spaces in an exposed respiratory environment when it is not necessary. A better practice is to observe the tank from the exterior, when possible, prior to taking on new cement blends, and only entering in instances where the previous cement blend cannot be removed and may present a possible contamination hazard.

Comment Two:

Currently, §250.416(e) states:

> (e) Independent third party verification and supporting documentation that show the blind-shear rams installed in the BOP stack are capable of shearing any drill pipe in the hole under maximum anticipated surface pressure. The documentation must include test results and calculations of shearing capacity of all pipe to be used in the well, including correction for MASP. 75 Fed. Reg. 63345, 63372 (October 14, 2010).

We suggest that a better requirement would be to demonstrate shearing capacity for drill pipe, which includes work-strings and tubing, which is run across the BOP stack. It is also recommended that the requirement for shearing capacity, with maximum allowable surface pressure, be modified to shearing with mud hydrostatic pressure, plus a conservative shut-in pressure limit, determined/set by the Operator & Contractor, (say 1,500 to 2,000 psi) where shut-in well pressure is transferred from the annular BOP to a ram BOP. This is established best practice. With this approach, increased pressure across the blind-shear rams is eliminated.

Comment Three:

§ 250.449(h) requires a function test of annular and ram BOPs every 7 days between pressure tests. 75 Fed. Reg. 63345, 63374 (October 14, 2010). We recommend that the duration for blind

shear rams be adjusted from 7 to 14 days. Such an adjustment would mitigate the risk and exposure due to the additional tripping of pipe out of hole in order to function-test blind/shear rams. We believe that the frequent function testing of blind/shears will exacerbate stack body wear and introduce further exposure to leakage within the BOP.
As an additional comment § 250.449(h) is not a new obligation. It is an obligation where most operators drilling deep wells historically have needed to request a waiver because the required frequency of the testing, for all the points mentioned, is at a level very few operators can comply with. Note waivers to § 250.449(h) were, to our knowledge, previously always granted. If no waivers are granted under the new Interim Final Ruling the obligation to function test the shear rams every 7 days could potentially place the operator in a safety critical stage in the drilling process, i.e. running and cementing casing, running a "smart" completion string, fighting a well control issue, and the operator will not be able to comply for both safety and practical reasons.

By mandating that an operator trip out of the hole every 7 days in order to function test the blind shear rams, in an environment where no exceptions are the rule, the potential to introduce unintended safety issues such as insufficient planning, faster trip speeds, and spur unnecessary operational haste in addition to the stack body wear comment above becomes a real issue. Hence when drilling very deep wells the timeframe to accomplish all activities safely must be allowed for. In order to still be able to satisfy the intent of this requirement, it is safer to modify the regulations to require that the operator must function test this equipment no less frequent than every 14 days rather than every 7 days.

Comment Four:

§ 250.449(k) explains: "[f]unction test autoshear and deadman systems on your subsea BOP stack during the stump test. You must also test the deadman system during the initial test on the seafloor." 75 Fed. Reg. 63345, 63374 (October 14, 2010). We do not recommend testing the deadman system when the stack is attached to a subsea wellhead. If the rig experiences a Dynamic Positioning incident, i.e., a drive-off or drift-off during the test, the only alternative system available to disconnect from the wellhead is the ROV intervention system. Failure to disconnect in time could result in serious damage to the rig equipment, the well head, or the well casing. As an alternative, we believe it would be more appropriate to test the Autoshear system subsea. Such a requirement will test the same hydraulic system as the deadman, however the Autoshear function does not disable the control system and create the same well and equipment hazards as testing the deadman system.

Comment Five:

We believe 30 C.F.R. § 250.451(i) is best read to only require a subsea BOP stack to surface when pipe is sheared, rather than actuated on an empty cavity. We request that the agency clarify that the requirement to pull a subsea BOP stack to surface after actuating the blind shear rams does not apply when the blind shear rams are actuated on an empty cavity, but applies when pipe is sheared.

Comment Six:

The agency's estimation of costs is not consistent with our own estimates and we strongly encourage the agency to carefully review the assumptions that went into your analysis. Moreover, to potentially assist you with your examination of the socio-economic costs and consequences of the regulation, we have enclosed a report we commissioned by IHS-Global Insight entitled, "The Economic Impact of the Gulf of Mexico Offshore Oil and Natural Gas Industry and the Role of the Independents" attached for your review, which determined that more than $106 billion in Federal, state and local revenues would be lost over a 10-year period if independents were excluded from deepwater. Obviously, this report examined broader policy impacts than were encompassed in the particular regulation, but we believe it provides a useful data set to examine these regulations within a broader context of impacts.

Comment Seven:

As you continue to examine this regulation and potentially other issues in the future, we recommend that you consider whether changes to 30 C.F.R. § 250.430 may be warranted. It is our understanding that the agency has regularly issued waivers for the requirement that:

> "you must install a diverter system before you drill a conductor or surface hole. The diverter system consists of a diverter sealing element, diverter lines, and control systems. You must design, install, use, maintain, and test the diverter system to ensure proper diversion of gases, water, drilling fluid, and other materials, away from facilities and personnel..." 30 C.F.R. § 250.430 (2010).

We believe that such waivers have been regularly issued because actual compliance is not possible for deepwater operators--running a riser/pin connector is not possible for surface holes or conductor sections. Indeed, for large hole sections immediately below the conductor, rigging up a riser/diverter system would cause drilling fluid losses, along with a possible riser collapse and loss of the well. Attempting compliance to the current Title 30 CFR 250.430 wording would increase exposure of the rig and crew to safety hazards. Given the potential new paradigm shift in the Gulf of Mexico, we believe it would be far better for the agency to modify its regulatory requirement, rather than utilizing a waiver process, to ensure the application of the regulation is the exception, rather than the rule.

Conclusion

The deepwater of the Gulf of Mexico plays a key role in the nation's economic and energy security, and it plays a key role in our business model. We appreciate the opportunity to provide comments on the interim final rule.

Sincerely,

Lynne L. Hackedorn