

Department of Planning and Budget 2011 Fiscal Impact Statement

1. Bill Number: SB814

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: McEachin

3. Committee: Commerce and Labor

4. Title: Offshore energy resources; State to support oil and natural gas exploration, etc., exception.

5. Summary: This bill states that it shall be the policy of the Commonwealth to support oil and natural gas exploration, development, and production 75 miles or more off Virginia's coast, subject to the condition that such activities not be permitted if they would adversely affect the natural resources of the Chesapeake Bay, including its fish, wildlife, and aquatic resources and the habitat and ecological functions upon which they depend. The bill states that these policies should reflect Virginia's cognizance of the risks evidenced by the Deepwater Horizon explosion. Currently, the Commonwealth's policy is to support these activities 50 miles or more off Virginia's coast. The measure also provides that it is the Commonwealth's policy to permit the siting and development of commercial-scale offshore wind installations. Finally, the measure deletes the statement that the policy of the Commonwealth shall support the inclusion of the Atlantic Planning Areas in the Mineral Management Service's (now the Bureau of Ocean Energy Management, Regulation and Enforcement) draft environmental impact statement with respect to offshore oil and natural gas exploration.

6. Budget Amendment Necessary: Yes, see Item 8.

7. Fiscal Impact Estimates: Indeterminate.

8. Fiscal Implications: This bill: (1) extends the Commonwealth's support of the production and development of oil and natural gas when it occurs 75 miles or more off the Atlantic shoreline and only in manners that would not adversely impact the natural resources of the Chesapeake Bay; and (2) makes it a policy of the Commonwealth to support efforts to permit the siting and development of commercial-scale offshore wind installations.

(1) Development of Offshore Oil and Natural Gas Resources:

While this bill does not result in any direct or immediate fiscal impact to the Commonwealth, inasmuch as future production of oil and natural gas should occur, it may result in the future generation and expenditure of state resources. Note that uncertainties exist as to the location and amount of resources available for drilling and that several factors on the federal level would need to align to permit offshore drilling in Virginia and to permit any revenues from

this drilling to be allocated to the state. However, should offshore drilling be permitted, should production ensue, and should the Commonwealth be granted a portion of the royalties from this production, a future revenue impact to the state may result. More detail on this is as follows:

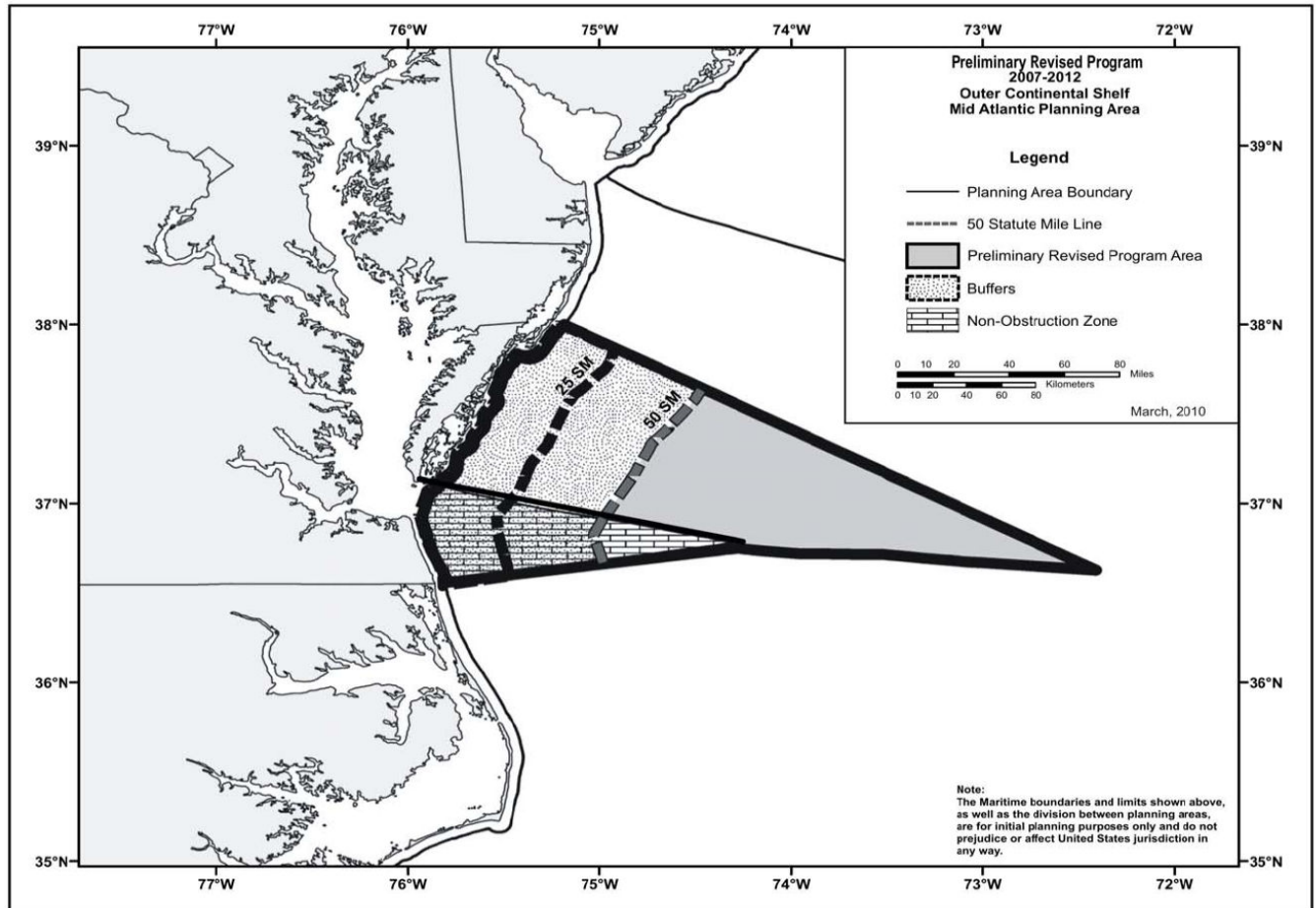
The following actions on a federal level would need to align for Virginia to engage in, and receive royalties from, offshore drilling:

- (i) The Secretary of the federal Department of the Interior would need to reverse the decision to cease the proposed sale of offshore oil and gas leases in Atlantic waters. As a result of the aftermath resulting from the April 20, 2010 explosion of the semisubmersible drilling rig Deepwater Horizon, the Secretary cancelled the proposed Lease Sale 220 in Virginia waters.
- (ii) Companies would have to respond with interest to any offering of a lease. Companies did respond with interest to the November 13, 2008, Call for Information and Interest/Nominations and Notice of Intent to Prepare an Environmental Impact Statement issued by the federal Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). Companies would have to bid on blocks (geographic divisions of offshore area) under any BOEMRE lease offering and develop the lease through to production.
- (iii) Federal authority under the Outer Continental Shelf Land Act would have to be granted to allow states to share revenue from offshore drilling (other than for the Gulf of Mexico and Alaska, there has not been any federal authority granted for revenue sharing for offshore drilling); it is unclear whether revenue-sharing for states on the Atlantic coast will be allowed by Congress.

BOEMRE has assigned Undiscovered Technically Recoverable Resources in the amount of 0.13 billion barrels of oil and 1.14 trillion cubic feet of natural gas in the area of Virginia's coast that had been proposed for the lease sale 220. BOEMRE acknowledges that estimates for available resources off of Virginia's coast were generated based on old data, as the last oil and gas drilling activity offshore of the Atlantic coast took place in the late 1970s and early 1980s. Therefore, while these are the best estimates that exist, the Virginia Department of Mines, Minerals and Energy (DMME) and BOEMRE both emphasize a high degree of uncertainty.

Based on this data, however, it is projected that these resources exist in the drillable 2.9 million acre zone that begin at the 50 mile buffer and extend to approximately 150 miles offshore, including water depths ranging from 100 feet to over 10,000 feet. Because the program area is somewhat triangular, narrowing with distance from shore, more resources are assigned to the nearer shore parts of the area than farther offshore (see embedded image, below). Therefore, as this bill shifts the drillable offshore area from 50, to 75 miles offshore, it would eliminate approximately 30 percent of the area in which these resources are

estimated to be located. Additionally, the 25 mile area between 50 miles offshore and 75 miles offshore contains the edge of the continental shelf. The continental shelf edge is known to be an area of high interest for drilling due to the buried limestone reefs. Additionally, past the 75 mile offshore buffer that this bill would create, the only option for drilling would be with floating rigs similar to those used in very deep water.



Map 7: Shows the Mid-Atlantic Program Area

Map reflects Virginia program area from the 2007-2012 BOEMRE leasing plan

Should drilling offshore commence, DMME would be responsible for developing and administering regulatory programs to ensure compliance of all offshore drilling activities. This would include compliance to ensure that all activities are not having an adverse affect on Virginia's coastal environment, including the Chesapeake Bay. It is likely that costs to the agency would result from these new responsibilities and would require additional resources and staff.

It is unknown what the market values will be for these commodities if there are any recoveries from the Atlantic in future years. Of any recoveries that this bill would support the development of, it is not possible to estimate the level of revenues coming to Virginia as a

result. Currently, there is no revenue sharing for the Atlantic coast, but in the Gulf of Mexico, 37.5 percent of revenue generated from new leases since 2006 is shared with all coastal states, based on a formula taking into account the distance of individual revenue-generating leases from each eligible state.

(2) Development of Offshore Wind Installations:

This bill also makes it a policy of Virginia to support efforts to permit the siting and development of commercial-scale offshore wind installations. In accordance with this policy, the Virginia Offshore Wind Development Authority (the Authority), established by the 2010 General Assembly Session, is actively pursuing the installation and development of offshore wind capabilities. The Authority, as provided for in the Code of Virginia founding language, is supported by DMME. According to the 2010 fiscal impact statement issued in conjunction with the legislation that created the Authority, there is an estimated fiscal impact of \$265,240 and 2.5 FTEs were associated with the creation of the Authority. These increases were for DMME (\$100,000 and one position per year), the Office of the Attorney General (\$162,000 per year), and \$3,240 for reimbursement costs for nonlegislative members of the Authority. Revenues generated from the work of the Authority are to support the operating costs, although no specification is given about where support for the agency support costs (DMME) is to come from. Since responsibilities assumed by DMME for the Authority are material and since no additional resources were provided to the agency along with the creation of the Authority, any additional work created by this bill may require supplemental resources and possibly staff for DMME.

9. Specific Agency or Political Subdivisions Affected: Department of Mines, Minerals and Energy.

10. Technical Amendment Necessary: No.

11. Other Comments: An executive amendment submitted by the Governor (Item 111 1g) provides an additional \$500,000 in general fund appropriation to DMME to serve as pass-through funding to the Virginia Offshore Wind Development Authority. This funding will be used to secure professional staff and other contractual resources necessary to assist the Authority in competing for the location of the proposed National Offshore Wind Technology Center to Virginia.

Date: January 24, 2011

c: Secretary of Commerce and Trade