

Regulatory Flexibility (RF) Act

The Department of the Interior (DOI) certifies that this rule will not have a significant economic effect on a substantial number of small entities under the RF Act (5 U.S.C. 601 *et seq.*). This rule applies to all lessees and drilling contractors that operate on the OCS. Small lessees and drilling contractors that operate under this final rule would fall under the Small Business Administration's (SBA) North American Industry Classification System codes 211111, Crude Petroleum and Natural Gas Extraction, and 213111

Drilling Oil and Gas Wells. Under these codes, SBA considers all companies with fewer than 500 employees to be a small business. Given the variability in the industry due to changes in the relative prices of oil and natural gas, the numbers of small entities affected by the rule may change over time. Based on data from 1998, we estimate that of the 130 lessees that explore for and produce oil and gas on the OCS, approximately 90 are small businesses (70 percent). We also estimate that 10 drilling contractors operate on the OCS, and none of those drilling contractors are classified as a small business. The number of drilling

contractors is based on current drilling activity on the OCS, and the size of each drilling contractor is based on research into company statistics.

Drilling requirement costs will be borne by the OCS lessees who explore for and produce oil and are dependent on the number of wells drilled. We estimate that the total annual cost of the new drilling requirements in this rule to be approximately \$670,000, as shown in the following table. The table also shows the estimated cost per well for the approximately 700 wells drilled annually on the OCS using a surface BOP stack.

ESTIMATED COSTS OF ADDITIONAL DRILLING REQUIREMENTS

Cost	Cost per well	Total cost for 700 wells drilled annually
One hour per well additional evaluation time on cementing operations @ \$100	\$100	\$70,000
One hour per well additional drilling rig rental @ \$850	850	\$595,000
Annual reporting and paperwork burden—140 hours @ \$50	10	\$7,000
Total	960	\$672,000

*The annual reporting and paperwork burden for the entire subpart D, "Oil and Gas Drilling Operations" is 111,209 hours as indicated in the Paperwork Reduction Act of 1995 section of this preamble. However, the new burden added when the this rule was proposed is only 140 hours (§ 250.403–100 hours; § 250.460(b)–30 hours; and § 250.461(e)—10 hours).

As indicated in the table, the estimated cost per well is about \$1,000. Based on drilling data from 1999, we estimate that the 90 small businesses that explore for and produce oil and gas on the OCS drill about 300 of the 700 wells drilled annually on the OCS using a surface BOP stack. Thus, with the small businesses drilling an average of 3½ wells per year, the annual economic effect for each small business is about \$3,300, or about \$300,000 in total. The estimated additional cost of \$1,000 per well is quite small (about .02 percent) when compared to the \$5 million average cost of drilling a well. Based on this very low percentage of well cost, we believe that these revisions to the regulations will not have a significant economic effect on any small lessee.

The estimated economic effect of the requirement to use blind-shear rams on surface BOP stacks is the cost to purchase the rams. This requirement imposes no reporting or recordkeeping burden. This requirement primarily will affect drilling contractors operating

jackup and platform rigs on the OCS who will be required to purchase the rams. Using information from 2003, the cost for a set of 10,000 pounds per-square-inch rams and associated equipment is about \$105,000. Some sets of rams for lower-rated BOP stacks will cost less, while a few sets of rams will cost more for higher-rated BOP stacks, but the average cost will remain at about \$105,000.

In the proposed rule we estimated that drilling contractors would need to purchase a total of 80 blind-shear rams to meet the proposed requirements. We have revised that estimate to 135 sets of rams for reasons as discussed in our response to comments. At an average cost of about \$105,000, the economic impact will be \$14,175,000. The largest drilling contractor may need to purchase up to 40 sets of blind-shear rams, while one drilling contractor will not have to purchase any blind-shear rams because it has already installed blind-shear rams in all of its surface BOP stacks. When asked why, a

company executive responded that it was a prudent safety measure. A large contractor may get a minor reduction in the cost with a bulk purchase, but this reduction should not significantly affect the competition between large and small contractors because the unit costs will not vary much. Purchase of the rams to meet the proposed requirements will be an initial one-time cost. A blind-shear ram should last for 20 years if properly maintained.

The blind-shear ram requirement should not hinder the ability of lessees or contractors, including small businesses, to conduct business on the OCS. The final rule provides for a 3-year period after the effective date for drilling contractors to plan and purchase the rams and associated equipment. This will allow contractors sufficient time to obtain the equipment.

The following table summarizes the estimated economic effects associated with this final rule.

Requirement	Frequency	Total cost	Cost to small businesses
New drilling rules	Annual	\$672,000	\$300,000
Use of blind-shear rams	One-time	14,175,000	0
Total	14,847,000	300,000