

REMARKS AS PREPARED FOR BSEE DIRECTOR JAMES A. WATSON

OFFSHORE TECHNOLOGY CONFERENCE

MAY 1, 2012

Good morning. Thank you for the opportunity to talk about the Bureau of Safety and Environmental Enforcement's continued efforts to enhance safety offshore.

This is my first time at OTC, and I have been extremely impressed by the scientific and technical know-how on display, and extremely heartened by the commitment to safety that I have heard repeatedly from nearly everyone I talk to. Our ability to ensure the highest level of safety and responsibility in the world depends in large part on the ability of the industry to internalize the need for a robust safety culture; to understand that safety does not simply mean doing things right when the BSEE inspector is on board. It means operating safely at all levels, at all times. It is the responsibility of everyone in this room to help instill that culture into their organizations.

Technology, of course, is a crucial piece of safety. The innovation on display this week highlights the proactive side of this industry – the side that is thinking about all the risks involved in a very risky venture, and looking for effective ways to mitigate those risks. Because it's not just about fighting the last war. It's about

identifying where the next problem might arise, and taking steps to make sure it never does – or that if something does happen, it can be handled quickly, effectively, and without loss of life. Because we have seen all too clearly the consequences of complacency, and the terrible price that can be paid when that happens.

It has been just over two years since that tragic day when the *Deepwater Horizon* exploded, and in that time we have carried out the most aggressive and comprehensive offshore regulatory reforms in the nation's history. Through new regulations and a reorganization to create an agency solely devoted to safety, environmental compliance, and resource conservation, we have built a strong, effective regulatory program that has become a model for developed and emerging regulators around the world.

Two major rules were issued late in 2010 in reaction to the *Deepwater Horizon*. The Drilling Safety Rule, issued as an emergency rule, implemented higher standards for well design, casing and cementing practices, and blowout preventers, among other new safety requirements. The Workplace Safety Rule put in place for the first time performance based standards, requiring companies to implement and maintain Safety and Environmental Management System, or SEMS, programs. We

also took other steps, such as reinvigorating our review of oil spill response plans and looking for the availability of containment equipment while reviewing permit applications. All of these steps are designed to ensure that the industry achieves a higher level of safety, and an enhanced ability to respond in case the worst occurs.

The oil and gas industry has responded – creating from scratch and deploying subsea containment technologies and capabilities, building more robust response capabilities, and meeting the new regulatory requirements as exploration and development activities continue to accelerate in the Gulf of Mexico. Additional actions, such as the creation of the Center of Offshore Safety and the Joint Industry Task Forces, are further indications of the industry’s commitment to improving safety, and I applaud those efforts. At the end of the day, we all agree –no amount of oil or natural gas is worth losing a single life. I have been very pleased to see this renewed focus on safety from the industry, and I am committed to working with you on these efforts, but I am equally committed to pushing you to live up to what you have promised: the creation of an industry with a robust safety culture that truly embodies the concept that safety is the responsibility of everyone at all levels and at all times.

It is in our nation's interest to have a robust offshore oil and gas industry – it is essential to our economic and energy security. I am pleased to hear reports that the number of rigs coming into the Gulf continues to increase. That demonstrates the industry's confidence about doing business in the region, and, more importantly from my perspective, their confidence in their ability to meet our safety requirements. But I am equally cautious about the potential for this increased activity to increase the risks associated with offshore drilling, and that is what I want to spend some time discussing with you this morning.

We must never forget the horrors of April 20, 2010, the loss of the 11 crewmembers, and the nearly 90 days that followed before the well was finally permanently sealed. But we also must not be lulled into believing that once we have addressed the weaknesses highlighted by that tragedy, both in the regulatory program and within the industry, we have somehow completed the task of improving safety. This is an ever-changing industry with rapidly advancing technologies, as demonstrated here at OTC, and we as the regulator must continue to adapt if we are to remain effective.

Building BSEE

We have been hard at work building this new agency and working to make our processes more efficient. We have hired 28 engineers and 46 inspectors in the past two years, and are looking to bring on more than 200 additional people to conduct permit and spill response plan reviews, inspect offshore facilities and ensure environmental compliance. We are continuing our aggressive recruiting efforts, and I am very pleased that we recently received approval to pay employees in critical career fields, such as petroleum engineering, up to 25 percent above the federal salary schedule.

I had the great pleasure last week to visit with students at Texas Southern University, and yesterday I met with students from the University of Houston. It is refreshing and encouraging to meet with these bright, eager individuals looking for an opportunity to make a difference, and I know the future of BSEE and of the industry will be in good hands as they come into the workforce and apply their knowledge and skills toward the safe development of our nation's energy resources.

Hiring this many people this quickly has its challenges, and training is certainly one of them. Our new National Offshore Training and Learning Center is ramping

up, and some of you might have noticed we made a little bit of news last week with a course we were teaching on the Mr. Charlie rig. Hiring that we do now does not automatically translate into more inspections and more permit reviews immediately; however, the investments we are making now in time and training will ensure we are able to keep pace with the increasing activity in the Gulf of Mexico and continue to reduce risks and promote safety.

Safety: All Levels, At All Times

That brings me to a key point. A lot of attention has been focused on the number of permits we have issued since the *Deepwater Horizon*. Others have focused on the number of Incidents of Noncompliance, or INCs, that have been issued in that same time. Those are both important numbers for a variety of obvious reasons; however, I do not believe the goal of BSEE should be to approve a certain number of permits or issue a certain number of INCs. Rather, we must use our full suite of authorities and resources, employing both prescriptive and performance based standards to instill safe practices at all levels, at all times.

This starts with drafting and issuing clearly defined and meaningful regulations and guidance with appropriate input from the regulated community and other stakeholders. It continues through the review of applications for permits to drill or

oil spill response plans, when our experts determine whether the proposed activities can be accomplished safely. It includes the necessary dialogue to help the industry understand our requirements for those applications,, and it also includes inspections drills, transparency in our policies and consistency in our actions, and a firm hand when required.

And I want to be clear: that firm hand, the actual enforcement actions such as INCs or civil penalties, will continue to be applied when appropriate.

While BSEE's predecessor organization chose not to exercise its authority to hold contractors accountable for their actions, we will enforce regulations in every case, and will issue INCs or civil penalties as appropriate. We will do this in a measured and consistent way, and with consideration to all the factors contributing to the violation, but we will not turn away from exercising our full authority.

All of these activities combined promote compliance. And, all of these activities center on Leadership. BSEE employees are among the most experienced and skilled experts in offshore energy development, and they are committed to public service. We are leaders in the field, but we can only do so much. We can promote a culture of safety that goes well beyond a checklist, but we cannot instill it. We

need everyone in the industry, at all levels – from the CEOs to the company men to the deckhands – to understand that safety is one of their responsibilities, and that they need to focus on that at all times.

Regulatory Focus

One of BSEE's responsibilities is to issue clearly defined, meaningful regulations.

As I mentioned earlier, in the immediate aftermath of the *Deepwater Horizon* tragedy, the bureau issued new requirements that addressed critical weaknesses and allowed drilling activities to resume while providing confidence that those activities could be conducted safely. Since that time, there has been a great deal of anticipation about the next generation of regulations that would further enhance safety and environmental protection, based upon the lessons learned from the blowout and spill. We had considered issuing an Advance Notice of Proposed Rulemaking to solicit comments about the items that should be addressed in new regulations. However, the reports of the President's Oil Spill Commission, the National Academy of Engineering, and our own investigation conducted jointly with the Coast Guard, identified significant weaknesses and provided numerous, substantive recommendations that need to be addressed sooner rather than later. Our analysis of those recommendations caused us to decide to move forward with the formal rulemaking process to address those issues, and provide a level of

transparency and certainty for the industry and other interested parties so they can be appropriately involved in the process. Our regulatory focus for the year includes four key items: 1) completing the Final Drilling Safety Rule; 2) completing the SEMS 2 rule, which further enhances the existing Workplace Safety Rule ; 3) preparing a proposed rule to enhance the requirements for blowout preventers (BOPs); and 4) preparing a proposed rule on Production Safety Systems and Lifecycle Analysis.

The Drilling Safety Rule was published on October 14, 2010 as an interim final, or emergency rulemaking. We are completing revisions to that rule based on a number of comments received on the emergency rule requesting additional clarifications, or appropriate modifications that we determined would not reduce the level of safety one bit. For those of you wondering if the “should to must” issue will get addressed, you will see that taken care of in this rule..

The Workplace Safety Rule went into full effect last November, and now companies are required to have and be implementing a SEMS program. In September of last year, we published a rule that included refinements and an expansion of the SEMS program, which is colloquially known as SEMS 2. SEMS 2 includes additional provisions involving stop work authority, requirements for

reporting unsafe working conditions, requirements for employees to participate in the development and implementation of the SEMS program, and requirements for the use of independent third parties to perform SEMS audits. The final rule will also include training and performance criteria for audits and auditors.

Those previous two items are extensions of existing rules, but we are also working on some new safety standards, including one related to the design, manufacture and repair of Blowout Preventers (BOPs). The Drilling Safety Rule contained a number of provisions related to blowout preventers, but the various investigations on the *Deepwater Horizon*, in particular the ones from the National Academy of Engineers and the BSEE-U.S. Coast Guard Joint Investigation Team, highlighted a number of additional issues with BOPs – arguably the most critical piece of safety and well control equipment on a rig – that need to be addressed. This is a rule that I believe is much needed, and we will work deliberately toward getting a draft rule published. This is an area where we will need active involvement from both those in the industry as well as other stakeholder organizations as we work on crafting this proposal. Therefore, on May 22, in Washington, D.C., we are going to host an all-day public forum to discuss BOPs and how we can continue to improve their reliability and safety. We are inviting experts from around the country to participate in panel discussions, and I am looking forward to an open and candid

dialogue. We will be providing details about the time and location of the forum and panel participants in the next few days.

Finally, we are also working on a draft rule to update oil and gas production safety systems regulations. These regulations have not had a major revision since 1988. Since that time, production has moved into deeper and deeper water, and regulations have simply not kept pace with technological advances. This rulemaking will address recommendations resulting from our recent investigation on the BP Atlantis platform, and will propose an expanded use of lifecycle analysis of critical equipment to increase equipment reliability. This is a performance-based system that includes design verification, quality assurance requirements, a failure reporting process to identify quality of design defects, repair and maintenance requirements and certification of equipment and personnel. These revisions will provide BSEE a powerful regulatory tool that can be used in the future to incorporate new technologies into the program.

In addition to these four rulemaking activities, we will soon be issuing a Notice to Lessees (NTL) clarifying our expectations for Oil Spill Response Plans. While this NTL will clarify our requirements and incorporate lessons learned from the *Deepwater Horizon* response, we are calling on the industry to move beyond

simply purchasing more of the same equipment that has been available for decades, and to develop innovative technologies that increase the effectiveness of oil spill response equipment and to come up with new capabilities altogether that will significantly improve recovery operations should the worst case scenario happen. We saw last summer during the X-Prize competition at Ohmsett, BSEE's oil spill test tank, that even existing technology can be modified to significantly increase its effectiveness. I believe the industry needs to now put forth the effort in research and development to significantly improve recovery time and effectiveness and reduce the risk to the environment should a spill occur.

The Way Ahead

While the spotlight on BSEE may have faded somewhat, our commitment has only deepened. We have completed the reorganization, and we have implemented significant regulatory reforms that I believe truly have enhanced the safety of offshore operations. But our work is not done. We have built a world-class regulatory program the people of the United States can have confidence in. It is a dynamic program, an evolving program, just as the industry we regulate. And that means we will continue to grow, to analyze and critique our processes and our regulations to ensure we are keeping pace and maintaining the highest standards of safety to reduce risks, protect offshore workers, and enable the United States to

remain the world leader in environmentally responsible offshore energy development.

Thank you very much for your time this morning.