

**TESTIMONY OF
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BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
REGARDING THE FISCAL YEAR 2013 BUDGET OF THE
BUREAU OF OCEAN ENERGY MANAGEMENT**

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Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today to discuss the President's Fiscal Year (FY) 2013 Budget request for the Bureau of Ocean Energy Management (BOEM) within the Department of the Interior (DOI).

This request is designed to provide the resources necessary to advance BOEM's commitment to effective and efficient management and oversight of the Nation's offshore resources as part of our comprehensive energy strategy to encourage safe and responsible domestic oil and gas exploration and development, as well as to expand development of clean and abundant renewable energy resources.

Re-organization and reform

As we know, the *Deepwater Horizon* explosion and oil spill in the Gulf of Mexico spurred the Obama Administration to undertake the most aggressive and comprehensive reforms to offshore oil and gas regulation in U.S. history. With the guidance, support, and oversight of Congress, these reforms have included significant structural changes to our offshore energy regulatory and oversight regime, including the creation of three new, independent agencies with distinct, focused missions that provide responsible management and strong safety oversight of the development of the United States' offshore energy and mineral resources.

Prior to FY 2011, the Minerals Management Service (MMS), had jurisdiction over offshore energy activities and was overwhelmed by multiple, sometimes conflicting missions that included responsibility for leasing, environmental reviews, safety oversight, and the collection of revenue from offshore operations. As noted by the National Commission on the BP *Deepwater Horizon* Oil Spill and others, the agency also faced significant resource constraints that limited its ability to keep pace with rapid expansion of, and technological advances related to, offshore oil and gas development.

On May 19, 2010, Secretary of the Interior Ken Salazar directed the reorganization of MMS to divide its multiple missions among three new entities: BOEM, the Bureau of Safety and Environmental Enforcement (BSEE), and the Office of Natural Resources Revenue (ONRR). During FY 2011 while the transformation was being planned, the responsibilities of BOEM and BSEE were administered by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). The final stage of the reorganization of the former MMS became

effective at the beginning of FY 2012, with the establishment of BOEM and BSEE as separate agencies with the distinct missions.

BOEM is now charged with managing the Nation's offshore energy and mineral resources in a balanced way that promotes efficient and environmentally responsible energy development through oil and gas leasing, renewable energy development, and a commitment to rigorous, science-based environmental review and study. BOEM's functions include offshore leasing, resource evaluation, review and administration of oil and gas exploration and development plans, renewable energy development, National Environmental Policy Act (NEPA) analysis, and environmental studies. As you will hear from my colleague, Director James Watson, BSEE functions as the offshore safety authority, charged with enforcement of the strengthened safety and environmental standards implemented in the wake of *Deepwater Horizon*.

BOEM's organizational structure is designed to advance each of the elements of its mission. Our nation-wide programs are grouped into three headquarter offices that focus on strategic resource development, environmental analysis and applied science, and renewable energy development.

The *Office of Strategic Resources* manages offshore resources to help meet the Nation's energy and resource needs through programs to provide access to, and fair return to the American taxpayer for, offshore energy and mineral resources. This includes development of the Five-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program; design of individual lease sales; assessment of oil and gas and mineral resource potential, tracking of inventories of oil and gas reserves, permitting of geological and geophysical activity, and economic evaluation to ensure the receipt of fair value through lease sales and lease terms.

The *Office of Renewable Energy Programs* works to advance a sustainable OCS renewable energy future through collaborative planning and siting that promotes environmentally responsible and de-conflicted energy generation. Among other things, this office supports Secretary Salazar's "Smart from the Start" initiative to facilitate siting, leasing, and construction of new projects, spurring the responsible development of offshore wind resources off the Atlantic coast.

The *Office of Environmental Programs* conducts and oversees applied science and environmental assessments at every stage of the offshore energy development planning process – for both conventional and renewable energy activities – in order to inform decisions for environmentally responsible ocean energy and mineral development. This office is led by the Chief Environmental Officer, a new position established in FY 2012 to oversee the integration of BOEM's rigorous scientific analysis with resource development decision-making.

To carry out these activities in the field, BOEM has three regional offices – in the Gulf of Mexico, the Pacific and Alaska – located in New Orleans, Louisiana; Camarillo, California; and Anchorage, Alaska. The regional offices are integrated into the national programs and are integral to oil and gas resource evaluations, environmental studies and assessments, leasing activities, review of exploration and development plans, fair market value determinations, and geological and geophysical permitting.

In order to ensure an efficient and integrated approach to offshore energy development, BOEM and BSEE work together closely and certain functions remain linked and require close coordination. We designed the reorganization to ensure that both agencies operate efficiently and without unnecessarily redundant bureaucracies. For example, BOEM and BSEE continue to share an administrative infrastructure and functions that service both bureaus efficiently while reducing costs.

Key priorities and accomplishments

Since its establishment on October 1, 2011, BOEM has made substantial progress and achieved a number of important priorities. These priorities will continue to guide the agency's activities throughout the remainder of FY 2012, and moving into FY 2013. These priority areas include:

Developing and Implementing the Five-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program. On December 14, 2011, BOEM held Western Gulf of Mexico (GOM) Lease Sale 218 – the last Western GOM sale scheduled under the current Five-Year program and the first sale conducted after completion of a supplemental environmental impact statement that considered the effects of the *Deepwater Horizon* oil spill. BOEM has scheduled Consolidated Central GOM Sale 216/222, the final sale in the current Program, for June 20, 2012. While working to implement these sales, BOEM is also developing the next Five-Year Program. Last November, BOEM issued the Proposed OCS Oil and Gas Leasing Program for 2012-2017, which makes more than 75 percent of undiscovered technically recoverable oil and gas resources estimated in federal offshore areas available for exploration and development, while also advancing an innovative, regionally-tailored approach to offshore oil and gas leasing designed to take into account the particular resource potential, environmental and social concerns, and infrastructure condition of each planning area. BOEM will finalize the Program in FY 2012.

Conducting rigorous scientific and environmental analysis to support all stages of the OCS Lands Act process—from pre-sale planning through exploration and development. Rigorous scientific analysis underlies all of BOEM's decisions. For example, BOEM held Western Gulf of Mexico Lease Sale 218 after conducting necessary environmental analyses to evaluate available information concerning the effects of the *Deepwater Horizon* oil spill. BOEM recently completed a similar analysis with respect to the Central Gulf of Mexico Planning Area in preparation for holding Lease Sale 216/222. BOEM also completed an extensive supplemental environmental analysis for the Chukchi Sea Planning Area that addressed key issues including the potential effects of a hypothetical, very large oil spill, which supported to the Secretary's decision to affirm Chukchi Sea Lease Sale 193, originally held in 2008. This analysis resulted in Chukchi Lease Sale 193 being judicially upheld and the injunction of those leases being lifted. At the post-lease stage, BOEM currently conducts site-specific environmental assessments on all deepwater exploration and development plans, rather than relying on categorical exclusions as had been done historically.

Ensuring a Fair Return. BOEM lease terms now include a range of fiscal and drilling requirements to ensure that taxpayers receive fair value and encourage operators to undertake diligent development, consistent with the Administration's *Blueprint for a Secure Energy Future*. Recent changes made in these terms include raising the minimum bid level from \$37.50

per acre to \$100 per acre in deepwater depths of 400 meters or greater; promulgating policies that will reduce the time a lease can be held without drilling activity by up to three years in water depths of 400 to 1,600 meters; and increasing rental rates to encourage faster exploration and development of leases. The higher minimum bid level strengthens the bidding process and supports goal of ensuring a fair return. It also discourages bidders from acquiring tracts with the intention to hold them undrilled for many years. Lessees who meet the shorter drilling time frames earn three additional years on the lease term as an added incentive for timely drilling. BOEM has both increased base rental rates and established escalating rentals to encourage faster exploration and development of leases, or earlier relinquishment when exploration is unlikely to be undertaken by the current lessee.

Conducting Reviews of Exploration and Development Plans. BOEM conducts efficient and thorough reviews of exploration and development plans. Consistent with strengthened standards for environmental analysis, BOEM is committed to ensuring that its process for reviewing and approving plans is rigorous, efficient, and transparent to industry. BOEM works collaboratively with industry throughout the review of plans, with the goals of ensuring that operators comply with BOEM's heightened operational and environmental standards and that the review process is efficient.

Advancing Renewable Energy Leasing and Development. BOEM is has established the regulatory framework for renewable energy leasing and development. On April 19, 2011, Secretary Salazar announced the approval of the Cape Wind Associates' Construction and Operations Plan (COP). The Secretary signed the Cape Wind lease in 2010, and it is the first offshore commercial wind lease in the United States. Recently, BOEM has taken a number of important steps towards additional lease sales in FY 2013 and beyond, including: developing a commercial lease form and conducting an analysis to determine auction formats; completing an environmental assessment to support leasing in wind energy areas off of four Mid-Atlantic states; and issuing Calls for Information and Nominations to gauge industry interest in the areas offshore Rhode Island, Massachusetts, Maryland and Virginia. BOEM also is moving forward with the review for a potential Mid-Atlantic Wind Energy Transmission Line, which would enable up to 7,000 megawatts of wind turbine capacity to be delivered to the electric grid.

The Bureau's FY 2013 Request will build on of these accomplishments and support critical ongoing efforts, including:

Science Based Decision-making. One of BOEM's core principles is the integration of science with decision-making through comprehensive research and rigorous analysis. The new Office of Environmental Programs establishes an umbrella organization that integrates applied scientific research and information with the environmental analyses that BOEM conducts in support of programmatic decisions. This structure facilitates top-quality research by talented scientists from a range of disciplines, as well as targeted scientific study to support policy needs and priorities.

Strengthening of the Environmental Review Processes. BOEM is committed to setting high standards for analyses conducted in compliance with the National Environmental Policy Act (NEPA) and other governing statutes, and this budget request continues ongoing efforts to strengthen these processes. BOEM is conducting a comprehensive review of its application of

NEPA in order to ensure that environmental risks are thoroughly analyzed, appropriate protective measures are implemented, and the process is transparent and well-understood within the Federal government and by stakeholders. This review includes an ongoing assessment of the use of categorical exclusions. In the interim, BOEM is conducting site-specific environmental assessments for all new and revised exploration and development plans in deepwater.

The “Smart from the Start” Initiative. The Secretary’s “Smart from the Start” initiative, first included in the FY 2011 President’s Budget Request, aims to facilitate efficient and environmentally responsible siting, leasing, and construction of new wind energy projects in the Atlantic. The FY 2013 request will continue these efforts and support ongoing collaboration between BOEM, intergovernmental task forces, industry, and stakeholders and a continued focus on environmental assessment, while developing formats and processes for renewable energy lease auctions. BOEM expects to hold the first competitive lease sales for offshore wind in FY 2013.

Developing the first Geological and Geophysical (G&G) Programmatic Environmental Impact Statement (PEIS) for areas in the Mid- and South-Atlantic. BOEM is committed to conducting thorough, scientific reviews that will facilitate a better understanding of potential conventional and renewable resources in the Atlantic, which is central to our strategy for evaluating potential future leasing in the mid and south Atlantic. This PEIS will evaluate potential environmental effects of multiple G&G activities, such as seismic surveys, that will be conducted to inform future decisions regarding oil, natural gas, and renewable energy development on the OCS in the Mid- and South-Atlantic planning areas. BOEM will issue this draft PEIS this spring.

The FY 2013 Budget Request

For FY 2013, BOEM is requesting an operating level of \$164.1 million, which includes \$101.4 million in offsetting collections (\$98.8 million from rental receipts and \$2.6 million from cost recovery fees). This funding will support all of the agency’s priorities, including those described above.

This request is consistent with the direction set forth in the FY 2012 Budget for BOEM’s predecessor-agency BOEMRE, which consists of funding increases that are limited, reflecting difficult tradeoffs given the state of the economy and tight fiscal constraints. BOEM’s FY 2013 request includes careful analysis of the resources needed to develop the new agency’s capacity and to execute its functions carefully, responsibly, and efficiently. Consistent with the overall contours of BOEM’s FY 2013 request, these targeted increases, which amount to \$3.3 million above the FY 2012 enacted level, reflect modest increases for renewable energy auction support services, environmental studies, and fixed costs – and are necessary to advance Administration priorities that are vital to BOEM’s mission.

Renewable Energy Auction Support Services (+\$1,296,000; +0 FTE). In order to achieve the Secretary’s renewable energy goal outlined in the “Smart from the Start” initiative, BOEM must accelerate the auction schedule of potential wind leases. Because it is not yet equipped with the technical support or expertise to manage these auctions, BOEM will contract those services and purchase wind resource data in the near term.

Environmental Studies (+\$700,000; +0 FTE). The requested increase will enable BOEM to initiate high priority baseline characterization and monitoring studies. With the release of the proposed Five-Year Program, establishing baseline information will become an increasing need in order to ensure a scientific basis for informed and environmentally responsible policy decisions.

Fixed Costs (+\$1,453,000; +0 FTE). Fixed costs in the amount of \$1,453,000 are fully funded in this request. These costs include increases needed to support employee pay, changes in Federal health benefits and Worker's Compensation, rent to the General Services Administration (GSA), and payments to the Department through its Working Capital Fund.

Offsetting Collections/Cost Recovery (-\$322,000; +0 FTE). This requested change reflects a revised net estimate of BOEM's 2013 offsetting collections and cross recovery fees.

Administrative Reduction (-\$122,000; +0 FTE). This reduction offsets high-priority increases in the FY 2013 request and will be applied by reducing administrative services within BOEM.

The FY 2013 Request also includes a change to a mandatory program and authority that directly relates to BOEM's programs. These include:

Deep Gas Incentives. The Administration proposes to repeal Section 344 of the Energy Policy Act of 2005. Section 344 mandated royalty incentives for certain "deep gas" production on the OCS. This change will help ensure that Americans receive fair value for federally owned mineral resources. Based on current oil and gas price projections, the budget does not assume savings from this change; however, the proposal could generate savings to the Treasury if future natural gas prices end up below current projections.

Conclusion

BOEM plays a vital role in advancing safe and responsible offshore energy development and in helping to secure our energy future.

Particularly given an environment where serious fiscal constraints demand difficult tradeoffs, we appreciate that critical resources provided over the course of the last fiscal year – including investment in robust science to inform decisions relating to ocean energy policy and management and appropriate environmental safeguards. It is imperative to sustain this level of investment moving into the next fiscal year, and the FY 2013 request reflects a careful analysis of the resources needed to ensure our ability to carry out the important mission with which we are charged.

Thank you once again for the opportunity to testify here today, and for your consistent support throughout the reorganization process. I look forward to our continued work together, and to answering your questions today.