

**STATEMENT OF
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**BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
MAKING THE GULF COAST WHOLE AGAIN: ASSESSING THE RECOVERY
EFFORTS OF BP AND THE OBAMA ADMINISTRATION**

June 2, 2011

Chairman Issa, Ranking Member Cummings, and Members of the Committee, I am happy to be here in response to your invitation and to discuss the activities of the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) following the Deepwater Horizon oil spill in the Gulf of Mexico. In response to the *Deepwater Horizon* explosion and resulting oil spill in the Gulf of Mexico, the Obama Administration launched the most aggressive and comprehensive reforms to offshore oil and gas regulation and oversight in U.S. history. The reforms, which strengthen requirements in areas ranging from well design and workplace safety to corporate accountability, are helping ensure that the United States can safely and responsibly expand development of its energy resources. We are also reforming and strengthening offshore energy oversight by re-organizing the former Minerals Management Service in order to eliminate conflicts and to assure accountability and safety in how our nation's resources are developed. Since important new safeguards were put in place, BOEMRE has continued its timely review of shallow and deepwater permits as well as exploration and development plans in the Gulf of Mexico, ensuring that safe and responsible oil and gas production continues.

But while we do ensure those seeking permits to explore and produce offshore have appropriate response plans before they receive a permit, the Federal government's direct activities to support oil spill response fall outside the jurisdiction of my agency. In addition, although my agency is not directly involved in the Gulf Coast recovery efforts beyond Coastal Impact Assistance Program grants, and we do not work with BP on its recovery efforts, I note that earlier this year the Natural Resource Trustees for the Deepwater Horizon oil spill – which include DOI – announced that BP has agreed to provide \$1 billion toward early restoration projects in the Gulf of Mexico to address injuries to natural resources caused by the spill. To the extent that the issues the Committee is exploring today extends beyond my agency's jurisdiction, I will take those questions back to the Department of the Interior and refer you to the appropriate agency.

Offshore Development: Necessary Reforms

At BOEMRE, we have devoted considerable effort over the past year to putting in place a new – and necessary – set of rigorous standards for safety and responsibility in

our offshore development program. Our aggressive reforms to offshore oil and gas regulation and oversight are the most extensive in U.S. history.

These reforms, which are discussed in more detail below, strengthen requirements for everything from well design and workplace safety to corporate accountability, and are helping ensure that the United States can safely and responsibly expand development of its energy resources consistent with our stewardship responsibilities. It is a program with a focus on worker and environmental safety. We are determined to hold industry to the highest standards in oil and gas operations.

Over the months during and since containment of the spill associated with the *Deepwater Horizon* explosion, multiple reviews and investigations – some still ongoing – have resulted in reports advocating the need for change. Bodies ranging from the President’s Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, the Department of the Interior’s Inspector General, the Department’s own Safety Oversight Board, to multiple Committees of the House and Senate, have highlighted the need for reform not only of the way the Department does business but of the way oil and gas operations are carried out on the Outer Continental Shelf.

Many of the recommendations presented in these reports have validated the administrative actions and reforms we have been undertaking here at the Department to promote safety and science in offshore oil and gas operations. These changes were necessary to ensure that industry has the tools available to help prevent a spill like this from happening again.

We have put industry on notice that they will be held to the highest standards in safety and environmental responsibility in their oil and gas operations. We have promulgated necessary new regulations to bolster safety and to enhance the evaluation and mitigation of environmental risks. For example, the Drilling Safety Rule, prompted by the *Deepwater Horizon* event, put in place tough new standards for well design, casing and cementing, and well control equipment, including blowout preventers. Under it, operators are required, for the first time, to obtain independent third-party inspection and certification of each stage of the proposed drilling process. In addition, an engineer must certify that blowout preventers meet new standards for testing and maintenance and are capable of severing the drill pipe under anticipated well pressures.

In order to reduce the human and organizational errors that lie at the heart of many oil spills, BOEMRE has also introduced, for the first time, performance-based standards similar to those used by regulators in the North Sea. The Workplace Safety Rule was in process well before Deepwater Horizon, but as described in the Commission’s report, it took a major spill to provide the impetus necessary for these standards to be imposed.

As a result of these new regulations, operators are now required to develop a comprehensive safety and environmental management program that identifies the potential hazards and risk-reduction strategies for all phases of activity, from well design

and construction, to operation and maintenance, and finally to the decommissioning of platforms.

BOEMRE has also issued Notices to Lessees (NTLs) that provide additional guidance to clarify how operators must comply with existing regulations. NTL-06, issued in June of 2010, clarifies that current regulations require an operator's oil spill response plan to include a well-specific blowout and worst-case discharge scenario. NTL-06 also requires that operators provide the assumptions and calculations behind these scenarios. NTL-10, issued in December of 2010, clarifies informational requirements, including a statement of compliance from the operator that it will conduct the applied-for drilling operation in compliance with all applicable agency regulations, including the new Drilling Safety Rule. This notice also confirms that BOEMRE will be evaluating whether each operator has submitted adequate information to demonstrate that it has access to, and can deploy, subsea containment resources that would be sufficient to promptly respond to a deepwater blowout or other loss of well control.

In addition to our enhancing drilling and workplace safety, we have focused much of our attention on the reorganization of the former Minerals Management Service into independent entities with distinct missions to oversee the leasing and energy development process, to regulate offshore drilling, and to collect the revenues from federal energy development. Having these three conflicting functions reside within the same bureau (MMS) enhanced the potential for internal conflicts of interest among the objectives of the agency. The process of reorganization began on May 19, 2010, when Secretary Salazar issued Secretarial Order 3299, which dissolved the MMS and called for the establishment of three new entities, including:

- The Bureau of Ocean Energy Management (BOEM), responsible for managing development of the Nation's offshore resources in an environmentally and economically responsible way. Functions carried out by BOEM will include leasing, plan administration, environmental studies, National Environmental Policy Act (NEPA) analysis, resource evaluation, economic analysis and the Renewable Energy Program;
- The Bureau of Safety and Environmental Enforcement (BSEE), which will enforce safety and environmental regulations. Functions to be carried out by BSEE will include Offshore Regulatory Programs, research, oil spill response, and all field operations including permitting and inspections, which will include newly formed training and environmental compliance functions; and
- The Office of Natural Resources Revenue, the revenue collection arm of the former MMS and which has already become a separate entity within the Office of the Secretary.

By October 1 of this year, the offshore resource management function will be separated from the safety and enforcement function and thus, in BOEMRE's place, we will have the two brand new agencies mentioned above.

These reforms are also supported by the President's fiscal year 2012 budget, which has requested additional resources essential to effectively protect our natural resources as well as to address the need for an efficient, effective, transparent, and stable offshore regulatory environment. Most critically, the budget request will provide for an increase in inspection capability, partially funded through higher user fees that will enable BOEMRE to conduct additional inspections and oversee high risk activities, as well as an investment in permitting to sustain efficient review, processing and approval of permits.

Getting Industry Back to Work

BOEMRE continues to facilitate domestic exploration by issuing permits. We have continued to issue shallow water permits in every case where the application complies with all of our heightened standards that apply to shallow water operations. To date, 55 new shallow water well permits have been issued since the implementation of new safety and environmental standards on June 8, 2010. Permits have averaged 6 per month since October 2010, compared to an average of 8 per month in 2009. Just 7 of these permits are currently pending; with 7 having been returned to the operator for more information.

Deepwater drilling applications fall into two categories for the implementation of our new regulations. The deepwater moratorium was lifted on October 12, 2010. When we refer to deepwater drilling applications, there are two distinct categories:

- Deepwater permits requiring subsea containment: Since industry demonstrated in mid-February that it had developed subsea containment capabilities, we have approved 40 of these permits for 15 unique wells, with 25 permits pending, and 20 permits returned to the operator with requests for additional information, particularly information regarding containment.
- Deepwater activities not requiring subsea containment: Since the implementation of new safety and environmental standards, 40 of these permits have been approved, with 1 currently pending. These activities include water injection wells and procedures using surface blowout preventers.

It is important to note that there was never a moratorium on drilling in shallow water, and the suspension of drilling in deepwater ended on October 12, 2010. Still, critics argue that the pace of permitting over the past months lags far behind the pace of several years ago. They ignore two central facts. First, drilling in the Gulf of Mexico was declining for several years prior to the *Deepwater Horizon* event – in 2009, there were only one third as many shallow water drilling permits as in 2006, and the number of deepwater permits dropped 20% over the same period.

Second, our new regulations to strengthen drilling safety and protect the environment have required operators to work to make sure they drill safely, and our drilling engineers have to work to ensure compliance with the expanded set of requirements. That takes more time than the process that existed previously, when the

rules were inadequate and some of our reviews were insufficiently exacting. This may be frustrating to some in the industry, but the additional rules and heightened scrutiny are completely appropriate and in the best interests of the nation.

These requirements are calculated to meaningfully raise the level of safety in drilling operations, and they make a difference. Indeed, these new standards reflect a broad consensus on ways in which the rules governing offshore drilling needed to be improved. In countless meetings with industry participants over the past several months, I have asked whether any of these new rules were viewed as unnecessary, overly burdensome, or ill-advised. Not a single company executive or technical expert has responded that the new standards were anything other than appropriate. And the claim that the regulatory environment is uncertain, because additional new rules may be around the corner, is simply wrong. Since putting in place emergency rules last summer, we have made considerable effort to make clear that any future standards will be developed through the transparency of the normal notice and comment rulemaking process after careful consideration of public input.

The time it takes to issue new post-*Deepwater Horizon* deepwater drilling permits is attributable to the need to comply with the new drilling safety requirements, as well as our existing regulations relating to subsea containment. Operators must demonstrate that they are capable of deploying adequate resources to deal with a well blowout for each well they propose to drill, which industry did not do until mid-February. Following *Deepwater Horizon*, it would be unforgivable not to require operators to make this demonstration.

We have a responsibility to enforce the new drilling rules, conduct broader environmental reviews, and require individualized demonstrations of well containment capabilities. That is our responsibility as regulators of an inherently risky business. It is a responsibility we take very seriously.

Coastal Restoration

The Coastal Impact Assistance Program (CIAP) was created by Congress in 2005 to allow coastal states to provide for ecosystem restoration, and to help mitigate the impacts of oil and gas production on the Outer Continental Shelf. Under CIAP, the Secretary of the Interior is authorized to distribute \$250 million for each of the fiscal years 2007 through 2010 to oil and gas producing states and coastal political subdivisions. To enable BOEM and BSEE to focus on programs more directly aligned with their missions, CIAP is currently being transferred to the U.S. Fish and Wildlife Service, with full transfer to be completed by FY2012.

On July 29, 2010, President Obama signed Public Law 111-212, which includes an amendment to the Energy Policy Act of 2005 (EPAAct). Under the Amendment, projects specifically designed to respond to a spill of national significance may be funded on an emergency basis by CIAP. This emergency funding provision has the potential to

assist state and local governments in the Gulf as they work to restore their coasts from the impacts of the *Deepwater Horizon* spill.

In September 2010, Secretary of the Navy, Ray Mabus, issued a report titled, *America's Gulf Coast: A Long Term Recovery Plan after the Deepwater Horizon Oil Spill*. The report recommends that CIAP be utilized as another potential funding source to further the recovery of the Gulf Coast.

In October 2010, BOEMRE issued expedited funding guidelines for projects that specifically respond to the *Deepwater Horizon* spill. Amended projects types included:

- Oil recovery operations in wetlands or coastal areas;
- Fish and wildlife rehabilitation services for animals impacted by the spill;
- Wetlands and coastal area restoration projects, such as replanting native grasses or buffers that were destroyed by oil; or
- Creation of riparian buffers to prevent the infiltration of oil further into wetlands or coastal areas.

Conclusion

Mr. Chairman, we have made significant strides in reforming the way the offshore oil and gas program is carried out here at the Department of the Interior and on the Outer Continental Shelf. We have raised standards and promoted safety and science in offshore oil and gas operations. And because of the hard work of industry and people in BOEMRE, we have been approving and issuing plans and permits, and getting people back to work.

This concludes my statement and I am happy to answer any questions you or other Members of the Committee may have.