STATEMENT OF
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COMMITTEE ON NATURAL RESOURCES
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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) 2012 Budget request for the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) in the Department of the Interior (DOI).

As the 112th United States Congress begins its work, I want to discuss a set of issues that we are addressing at the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). Over the past nine months, we have been implementing a number of far-reaching reforms to strengthen the regulation of offshore oil and gas drilling and strike the appropriate balance between resource development and regulatory oversight. I thought it might be useful to describe some of the initiatives we have pursued during this period and focus on some of the issues we have been addressing.

My staff and I have been aggressively pursuing reforms that directly relate to many of the drilling safety, environmental protection, and regulatory oversight issues recently identified in the final report of the National Commission on the BP *Deepwater Horizon* Oil Spill and Offshore Drilling (Commission). We have been moving forward with the fundamental reforms and new regulatory measures necessary to improve the safety of offshore drilling, as well as enhance protection of the ocean and coastal environments. At the same time, we are working every day to allow safe drilling and production operations in the Gulf of Mexico to continue in order to keep production flowing and people working in an industry that is crucial to our nation's economy and energy independence.

The challenges presented by offshore oil and gas development – for both industry and government – are substantial, and so are the changes that are necessary. These changes include the reorganization of the former Minerals Management Service (MMS) to provide clarity of mission and to strengthen oversight. We also have established heightened standards for drilling practices, safety equipment, and environmental safeguards. These new rules set forth prescriptive standards that industry must meet, establish, for the first time in the history of the U.S. offshore regulatory system, performance-based standards focused on identifying, and establish barriers against, specific risks associated with offshore drilling operations.

These reforms are substantial, and much work is being done to ensure that the change we are seeking to implement is both lasting and effective. Our ultimate goal is to promote a culture of safety within industry and to serve as aggressive but reasonable regulators who have the tools

and expertise necessary to do the job. The reforms that we are pursuing are necessary to allow government oversight and safety measures to keep pace with the challenges and risks of offshore drilling, particularly as those operations push into deeper water and new frontiers, such as the Arctic, and face increased technical challenges.

I would like to briefly summarize the changes that we have made since the *Deepwater Horizon* explosion and resulting oil spill – and that we are continuing to implement. I will also describe the work we are doing to ensure that safe and environmentally responsible offshore drilling operations, in both shallow and deep water, can proceed.

Reform of Offshore Oil and Gas Regulation

Reorganization of the Former Minerals Management Service

As we announced in January, we are continuing to move forward with the fundamental reorganization and reform of the former MMS. In the place of MMS, we are establishing three strong, independent agencies, each possessing clearly defined roles and missions. As became clear immediately after *Deepwater Horizon* and as discussed in the Commission's Report, MMS – with its conflicting missions of simultaneously promoting resource development, enforcing safety regulations, and maximizing revenues from offshore operations, and due to a chronic lack of resources – could not keep pace with the challenges of overseeing industry operating in U.S. waters. The reorganization of the former MMS is designed to remove those conflicts by segregating missions across three new agencies and providing each of the new agencies with the clarity of mission and new resources necessary to fulfill its regulatory responsibilities. We are designing and implementing these organizational changes while respecting the crucial need for information-sharing and the other links among the functions of the former MMS. Recognizing and addressing these operational issues is essential to ensuring that the regulatory processes related to offshore leasing, plan approval, and permitting do not come to a grinding halt.

The first step of the reorganization was completed on October 1 of last year, when the revenue collection arm of the former MMS was moved to the Office of the Secretary, with reporting responsibilities and a chain of command completely separate and distinct from the offshore regulator. The establishment of this new agency – the Office of Natural Resource Revenue (ONRR) – was a crucial first step that addressed one of the fundamental conflicts – between revenue collection and the offshore regulator's resource development and safety responsibilities – that plagued the former MMS.

By the end of the current fiscal year, we intend to complete the separation of the former MMS resource management and leasing functions from the safety and environmental enforcement functions. This change is designed to address the remaining fundamental conflict that existed within the former MMS – between the promotion of offshore energy development through leasing and plan approval decisions and the responsibility for ensuring that offshore operations are conducted safely and with appropriate protection for the environment. We believe that the separation of these missions is essential to reforming the government's oversight of energy development in the nation's offshore areas. These two new agencies that we have

announced are the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE).

BOEM will be responsible for promoting and managing the development of the nation's offshore resources, including oil, gas, and renewable resources. This mission involves ensuring that the nation's offshore energy resources are developed wisely, economically and with appropriate protections for the environment. The structure that we have developed and that we are implementing ensures that effective reviews of the environmental impacts of proposed projects are closely analyzed and well-understood; that these impacts are given appropriate weight during decision-making related to resource management; and that the appropriate balance is struck. These processes must be both rigorous and efficient so that operations can go forward in a timely way and with confidence that appropriate steps to mitigate potential environmental effects are taken. Within BOEM, we are creating the senior position of Chief Environmental Officer, who will be responsible for ensuring that environmental concerns are appropriately balanced in leasing and planning decisions and for coordinating and promoting scientific research that facilitates sound stewardship of our marine environments.

By establishing BSEE as the offshore safety agency, we are separating resource management from safety oversight. This will provide the engineers who review permit applications and the inspectors who ensure compliance with our workplace and drilling safety regulations with greater independence, more budgetary autonomy, and clearer focus. The mission of BSEE will be to enforce safety and environmental regulations independently and rigorously. Our goal is to create a tough-minded, but fair, regulator that can effectively keep pace with the risks of offshore drilling and promote the development of a safety culture in offshore operators. We are working now to establish within BSEE a new environmental compliance and enforcement function, which never existed as an explicit program in the former MMS. Through BSEE, we also will establish the review and enforcement of oil spill response plans as an area of national-level focus and oversight in order to foster better coordination with other federal agencies involved in oil spill response.

The structure and functions of BOEM and BSEE are the result of a thorough and rigorous analysis undertaken deliberately but efficiently over the past several months. We undertook the process in this way to ensure that we address the structural and conflict of interest problems that existed in the former MMS and to plan for the orderly establishment of the new agencies. We have worked with and received advice from leading experts in government transformations. We have also examined closely the offshore regulatory regimes of other nations, including those of the United Kingdom and Norway. In considering various options and making these key structural and organizational decisions, we have sought and received the advice and guidance of BOEMRE career personnel. We have discussed the reorganization with employees throughout BOEMRE and received their input; we collected and analyzed data relating to the Bureau's processes, systems and regulatory metrics; and we developed a number of alternative models and options, which we discussed with BOEMRE career leadership, for restructuring and reforming the Bureau. Finally, we also are considering, and will continue to bear in mind, the recommendations of the President's Commission, which has done its own analysis of these issues and recommends organizations that are in overall general alignment with BOEM and BSEE.

Implementing Reform and Changing Agency Culture and Practices

New structures and clear missions are essential to establishing agencies that will be effective in managing the environmentally-responsible development of the Outer Continental Shelf (OCS) resources and overseeing the safety of offshore operations. But true reform requires a fundamental change in an organization's culture. Therefore, in addition to making structural changes by establishing BOEM and BSEE, we are working to change the way the former MMS does business. I'll describe below several of the changes we already have made.

Last August, I directed BOEMRE personnel in the Gulf of Mexico region to no longer routinely use categorical exclusions under the National Environmental Policy Act (NEPA) to approve new projects in deepwater. Instead, we are conducting site-specific environmental assessments of those exploration and development plans. We are working closely with industry to implement this new policy in a balanced and fair way. We also are in the midst of a comprehensive review of our application of NEPA, including specifically the use of categorical exclusions, and we are working closely with the Council on Environmental Quality (CEQ) on this evaluation.

To address another important issue – real and potential conflicts of interest involving BOEMRE personnel – last year we issued a tough new recusal policy. Employees in our district offices, where our inspections and permitting functions reside, must notify their supervisors about any potential conflict of interest and request to be recused from performing any official duty in which such a potential conflict exists. For example, our inspectors now are required to recuse themselves from performing inspections of the facilities of former employers. Also, our inspectors must report any attempt by industry or by other BOEMRE personnel to inappropriately influence or interfere with their duties. Soon BOEMRE will be issuing a broader version of the policy that applies these ethical standards across the agency. This policy presents operational challenges for some of our district offices in the Gulf region, which are located in small communities where the primary employers are offshore companies. However, the need for tough rules defining the boundaries between regulators and the regulated is both compelling and necessary. These rules are necessary for us to have the confidence we need to assure the public that our inspections and enforcement programs are effective, aggressive, and independent.

We also have established within BOEMRE a new Investigations and Review Unit (IRU), which is comprised of a team of professionals with investigative and law enforcement backgrounds. The mission of the IRU is to promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by Bureau employees; pursue allegations of misconduct by oil and gas companies involved in offshore energy projects; and, provide the Bureau with the ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents. The IRU took the lead in the report of the BP Atlantis investigation, which was released on March 4. The investigation included interviews of 29 individuals, analysis of more than 3,400 engineering drawings and related documents, and the review of hundreds of additional documents. Based on a thorough review of the evidence, the investigation found the majority of the allegations to be largely unfounded, but did find that there were a number of

problems with the way that BP organized, stored, and labeled engineering drawings and documents.

As part of our broad and continuing reform efforts, we have created 11 implementation teams that have been hard at work for several months and are the central organizational focus for our efforts to analyze critical aspects of BOEMRE's structures, functions, processes, policies, and procedures. These teams are important in their own right, but they are also integral to our reorganization efforts. These teams are considering the various recommendations for improvement that we have received from several sources, including the President's Commission, the National Academy of Engineering, the Outer Continental Shelf (OCS) Safety Oversight Board commissioned by Secretary Salazar, and the DOI Inspector General. These teams are laying the foundations for lasting change in the way BOEMRE does business.

The key areas and issues that these teams are working on include:

Permitting. We have a team devoted to reviewing and improving BOEMRE's drilling permit review and approval process, which is central to ensuring that proposed drilling operations will be conducted safely and that permit applications are reviewed in a timely and efficient manner.

Inspections. We have several teams that are focused on various issues associated with developing effective, risk-based approaches to our offshore inspections programs. We also are developing the infrastructure – and recruiting the expert personnel – necessary to conduct real-time monitoring of the highest risk operations, such as deepwater drilling operations. Such monitoring of industry performance during critical phases of drilling operations is a capacity that we feel strongly must be developed, and is consistent with the findings and recommendations of the National Academy of Engineers. We are developing new training programs and curricula for inspectors, supervisory inspectors, and engineers involved in BOEMRE's safety compliance and enforcement programs.

Regulatory Enforcement. We are evaluating the adequacy of the enforcement tools we have employed, including the system for documenting and tracking incidents of non-compliance with prescriptive regulations, the adequacy and use of civil penalties, and the process for evaluating operator qualifications and the system for debarring unsafe operators. We are reviewing potential gaps in our regulations, including a review of the regulatory standards used by other countries, and we are exploring more effective use of civil penalties for violations of BOEMRE's safety and environmental regulations. We believe the current enforcement framework, which limits civil penalties to only $35,000 per day, per incident, is simply inadequate to deter violations for large operations where an operator may spend $1 million a day on a given deepwater lease.

Environmental Compliance and Enforcement. We are designing new inspections and enforcement programs relating to environmental compliance, programs that have never previously existed in the agency.

Incident Investigations. We are evaluating and developing investigative procedures relating to specific categories of accidents and incidents, including industrial accidents on rigs and platforms, fires, and oil spills.

Oil Spill Response. We are conducting a comprehensive review of oil spill response and the adequacy of operators' oil spill response plans (OSRPs). This team is working closely with the Coast Guard and other federal agencies to develop enhancements to regulations governing OSRPs and more effective reviews of those plans in light of lessons learned from the *Deepwater Horizon* oil spill response.

Safety and Environmental Management Systems (SEMS). We are designing an oversight and auditing program for operators' compliance with the new requirements of the Workplace Safety rule, which represents a significant advance in the promulgation of performance-based standards for safety and environmental protection.

Finally, changing the culture of the former MMS and establishing BOEM and BSEE as vigorous and effective regulators will require the infusion of new blood into the organizations. Although BOEMRE has many devoted and competent public servants, we recognize that the former MMS lacked expertise in important areas related to safety oversight. Moreover, the sweeping reforms in culture and process that we are pursuing necessitate, almost by definition, new energy, fresh talent, and new ways of thinking. Therefore, we will conduct nationwide searches to identify talented personnel to fill many of the key senior positions in the new BOEM and BSEE. We also are engaged in an aggressive recruitment campaign to hire new engineers, inspectors, scientists and other experts into the Bureau.

All of these measures will help us ensure the rigorous and independent oversight of offshore drilling.

Making Reform Work: The Need for Additional Resources

As described above, we have laid the groundwork for far-reaching organizational change. The success of our reforms now depends in large part on providing the new agencies with the financial resources, tools, training and culture to be effective. Improving the safety of offshore drilling and the effectiveness of government oversight of this inherently risky activity will require a substantial infusion of resources into the offshore regulator.

As detailed in the Commission's Report, MMS never had the resources to provide the rigorous and effective oversight of offshore oil and gas activity that is necessary. This weakness became more significant as industry continued its pursuit of higher-risk projects in deepwater and other frontier areas such as the Arctic. We agree with the Commission's strong recommendation for a substantial increase in the resources devoted to government oversight of offshore activities because an effective regulator is so clearly in the public's – and in industry's – interests.

Industry has expressed its support for providing additional resources to BOEMRE to the House and Senate Appropriations Subcommittees on Interior, Environment, and Related

Agencies in a letter, dated November 17, 2010 and signed by the American Petroleum Institute, the American Exploration & Production Council, the International Association of Drilling Contractors, the Independent Petroleum Association of America, the National Ocean Industries Association, and the US Oil and Gas Association.

FY 2012 Budget Request

BOEMRE's FY 2012 request is $358.4 million, an increase of $119.3 million over the FY 2010 enacted budget after adjusting for funds transferred to the Office of the Secretary as part of the ongoing reorganization of the former MMS. This request excludes funds requested for the newly established ONRR which are being requested separately within the Office of the Secretary appropriation. The request is offset by $151.6 million in eligible OCS rental receipts, $8.6 million in cost recovery fees, and $65.0 million in inspection fees resulting in a net request of $133.2 million in appropriated funds. These additional resources are essential to effectively protect our nation's natural resources as well as to address industry's need for an efficient, effective, transparent, and stable regulatory environment.

The budget for the Department includes $506.3 million for the components of the former Minerals Management Service to continue the reorganization and reform efforts of both offshore energy development activities and mineral revenue management.

Summary of Requested Budget Changes

The Budget proposes the following discretionary funding increases and decreases relative to the 2010 enacted level. A portion of the requested funding ($10.2 million) for the inspection capability/monitoring initiative was received under the current FY 2011 continuing resolution and was offset by a rescission of prior year BOEMRE balances.

Inspection/Monitoring Capability (+$44,483,000; +116 FTE): Additional staff are needed to accelerate implementation of the new inspection and oversight regime currently under development. This will require additional personnel with diverse backgrounds to conduct varied types of inspections and oversee high risk activities, including critical drilling activities such as BOP testing and cement/casing activities as drilling operations approach production zones, and emergency shutdown tests on production platforms. BOEMRE is actively evaluating significant process reforms, such as inspecting in teams rather than solo, implementing a stronger risk-based inspection strategy that will require additional oversight on higher risk activities, redesigning training protocols, and incorporating new technologies such as real-time monitoring of key drilling activities. The request includes funding for increased offshore transportation costs. Under the current FY 2011 Continuing Resolution, a net amount of $10.2 million is available for this purpose, which BOEMRE is using to begin implementation.

Engineering Studies – TA&R (+$11,360,000; +12 FTE): Deepwater Horizon brought to the forefront the need to raise the level of resources dedicated to the evaluation of current and proposed oil and gas exploration and development technology. Since its inception over three decades ago, the TA&R Program budget has not kept pace with the increased cost of research and demands for TA&R managed research. In its January 2011 report to the President, the

Commission identified the need for increased safety and containment research both within industry and the federal government in order to maintain the capability to address emergencies as drilling technology moved operations into deeper waters and further from shore. The Commission's findings were substantiated by testimony by industry and experts from academia who identified the lack of research for the offshore oil and gas sector. The Commission determined that neither government nor industry had invested sufficiently in research, development, and demonstration to improve containment or response technologies. The Commission found funding to be inadequate and stated that "Congress needs to make funding the agencies responsible for regulating the oil and gas development a priority in order to ensure a safer and more environmentally responsible industry in the future" and that the "desire to tap resources in deeper waters should be accompanied by equivalent investments in subsea equipment, operator training, research and development for containment and response technologies."

In addition to further deepwater research, the Commission recommended "an immediate, comprehensive federal research effort to provide a foundation of scientific information on the Arctic" and that "a comprehensive interagency research program to address oil-spill containment and response issues in the Arctic should be developed, funded, and implemented within the federal government." Although industry has a significant role and responsibility to conduct this research to ensure its operations are safe, BOEMRE (and the future BSEE), as the government safety regulator needs to have sufficient technical capabilities to conduct its own research and verify that the information and research provided by industry is accurate.

Examples of near-term deepwater safety and containment research by the TA&R Program include assessment of subsurface blow-out preventer design, performance, maintenance, and inspection; well cementing, barrier, and containment practices and procedures; remotely operated vehicle intervention and capabilities; and wild well control technology. The TA&R Program will continue to transfer research results to rule writers, investigators, plan reviewers, and others that need this information to improve the safety of offshore operations.

Oil Spill Research (+$8,620,000; +4 FTE): Increased funding for the Oil Spill Research Program is needed to address several key knowledge gaps brought to light by the Deepwater Horizon oil spill. The program leverages its ocean research funding, often providing funds to address needed data gathering through support to academics and university partners. Agencies including NOAA, the Navy, and the National Science Foundation often contribute funds or ship time to these efforts as they have ancillary needs for information to support their own missions. The program will continue to play a leadership role in both technology assessment and spill simulation.

NEPA and Environmental Studies Staff (+$8,063,000; +52 FTE): The need for additional environmental studies also requires staff to manage the studies, both scientific staff and coordination staff, including Contracting Officer's Representatives (CORs) for the Environmental Studies Program (ESP). As planned in FY 2011, BOEM will continue to expand its environmental review requirements and capability in FY 2012, at both the pre-lease and post-lease stages. At the pre-lease review stage, environmental specialists will begin their

coordination efforts with the environmental compliance activity in BSEE. Coordination with BSEE will continue at the post-lease stage.

The staff will consist of marine archaeologists; social scientists and economists; benthic/fisheries biologists; avian and marine mammal biologists; protected species biologists, air-quality experts and/or meteorologists; physical, biological and chemical oceanographers; water-quality/pollution specialists, and other disciplines. Scientific staff will conduct environmental and socioeconomic resource impact analyses required for the preparation of environmental impact statements and for an increased number of site-specific environmental assessments. These staff will also serve the ESP as CORs for all phases of studies procurement and monitoring.

Permitting (+$6,945,000; +41 FTE): Additional staff are needed to review and process lease management, qualification, bonding and unitization requests and issues, as well as requests for development activities, such as plan and permit processing and approval. A recently published report by the Department of the Interior OCS Oversight Safety Board to the Secretary of the Interior states that the "Gulf of Mexico (GOM) district offices are challenged by the volume and complexity of permit applications and the lack of a standardized engineering review protocol. In addition, the Pacific Region's permitting staff is facing significant succession issues." It goes on to state that the workforce associated with regulating day-to-day activities has not increased proportionately to work demands, creating challenges in the need to balance an adequate analysis of permit requests with the need to be responsive to industry. For instance, Applications for Permits to Modify (APMs) have increased by 71 percent from 1,246 in 2005 to 2,136 in 2009 in the New Orleans District. In the Pacific, 80 percent of current permitting employees will be retirement eligible in the next 2.5 years. The requested funds will enable BOEMRE to ensure that staffing levels are commensurate with increasing workloads.

Environmental Studies (+$6,500,000; +0 FTE): In FY 2011, the ESP began studies needed to support high priority information needs related to the Deepwater Horizon Oil Spill. Also, renewable energy requirements are increasing and will include establishment of baselines and monitoring. Many of these studies will be ongoing for several years, and the additional funds in FY 2012 are needed to continue these studies and to initiate additional studies. This information will be critical in order to comply with NEPA regulations and an extensive suite of environmental laws (including Marine Mammal Protection Act (MMPA), Endangered Species Act (ESA), National Historic Preservation Act (NHPA), Coastal Zone Management Act (CZMA), Magnuson-Stevens Fishery Conservation and Management Act (MSFCMA), and Migratory Bird Treaty Act (MBTA). As it has in the past, the ESP will leverage its funds with other interested Federal and private stakeholders, while ensuring that it fulfills its mission to acquire applied research specific to the oil and gas, marine minerals, and renewable energy programs.

Investigations and Review Unit (+$5,782,000; +20 FTE): Funding is requested to staff and equip IRU, a team of professionals with law enforcement backgrounds or technical expertise whose mission is to: promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by bureau employees; pursue allegations of misconduct by oil and gas companies involved in offshore energy projects; and assure the bureau's ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents.

The IRU will evaluate all information submitted and will, where appropriate, conduct further investigation. The IRU will be consulting and sharing information with the Department of the Interior's Office of Inspector General (OIG), and they will jointly determine which office conducts any investigation of those allegations.

Environmental & Operational Oversight Compliance (+$5,115,000; +33 FTE): In FY 2012, BSEE will continue to build its compliance capabilities, both environmental and operational, and will work closely with BOEM to:

- participate in NEPA activities throughout the process, specifically in developing post-lease mitigation measures;
- issue safety and environmental protection related rules and regulations; and
- provide independent safety, engineering and technical authorization before any exploration, development or production plans are implemented.

Establishing a new environmental enforcement arm and expanding operational safety capabilities of BSEE is imperative. Development of appropriate regulations and policies, and subsequent industry and stakeholder outreach, is necessary to ensure the right mix of safety and environmental protection to minimize the risk of accidents. BSEE must coordinate closely with BOEM to capitalize on efficiencies related to bureau inter-dependencies, while recognizing and avoiding conflicts that may otherwise result in bureaucratic delays to safe exploration and development. Frequent independent, technical reviews will ensure that regulations, policy, and guidance keep pace with the complexities of OCS activities, including the use of new exploration and development technologies in frontier areas. Environmental mitigation and safety measures will need to be tested, verified, and improved in an adaptive management framework. Information systems may need to be enhanced to better track compliance with new safety and environmental requirements. A substantial effort will be required in explaining the new requirements to industry and interested stakeholders.

Management Operations Support (+$2,860,000; +12 FTE): Funds are requested to staff leadership and support positions for the new BSEE bureau directorate. As the bureau becomes further established, funds will be needed to support the increased operating activities of this office. While BOEMRE is developing reorganization plans with the goal of minimizing administrative redundancy, existing leadership funding will be allocated to BOEM. Therefore, funding to support the leadership of BSEE is required.

General Support – Resource Management (+$2,527,000; +0 FTE): The ongoing reorganization and enhancement of BOEMRE activities includes efforts to attract environmental scientists, engineers, and support personnel needed to support the thorough review of offshore energy development activities. These funds will provide for general support needs such as rent, information technology (IT) and general equipment, communications, utilities, supplies, materials, and travel for the additional personnel.

Renewable Energy (+2,050,000; +11 FTE): The requested funds will set the stage for BOEMRE to work with applicants for offshore renewable energy/alternative use projects, with a focus on specific needs in the Atlantic and Pacific OCS. A significant increase in workload is expected in both the Atlantic and Pacific OCS for conducting environmental reviews, processing

commercial leases, coordinating with stakeholders, and conducting inspection and enforcement activities.

The Secretary has announced an offshore wind initiative called "Smart from the Start" to facilitate the rapid and responsible development of renewable energy on the OCS. One of the main components of this initiative is identifying priority areas up and down the Atlantic Coast for appropriate wind development. BOEMRE and the Department, in close partnership with states, stakeholders, and tribes have been working to identify Wind Energy Areas (WEAs) off the Atlantic coast. These WEAs use coordinated environmental studies, large-scale planning and expedited approval processes to speed offshore wind energy development. Based on stakeholder and public participation, BOEMRE will prepare regional environmental assessments in the WEAs to evaluate the effects of leasing and site assessment activities in the areas to be leased. If no significant impacts are identified, BOEMRE could offer leases in these mid-Atlantic areas as early as the end of 2011 or early 2012. Comprehensive site-specific NEPA review will still need to be conducted for the construction of any individual wind power facility, and BOEMRE will work directly with project managers to ensure that those reviews take place on aggressive schedules.

Fair Market Value (+$1,930,000; +1 FTE): This initiative will support activities to thoroughly assess the oil and gas potential and fair market value of OCS tracts offered for lease through purchase of critical software, hardware, data, and the hiring of an additional analysis staff member. This funding will contribute to ensuring the nation receives a fair return for publicly owned energy resources.

General Support – Safety and Environmental Enforcement (+$1,246,000; +0 FTE): The ongoing reorganization and enhancement of BOEMRE activities includes efforts to attract additional engineers, scientists, and support personnel needed to support the thorough review of offshore energy development activities. These funds will provide for general needs such as rent, information technology (IT) and general equipment, communications, utilities, supplies, materials, and travel for the additional personnel.

Oil Spill Response Compliance (+$1,240,000; +8 FTE): Additional staff are needed to ensure an adequate level of oil spill response oversight, including review and approval of OSRP and industry compliance inspections. OSRP reviews are conducted for new plans, biennial updates, amendments and plan revisions, and to confirm that an operator has proper equipment, people, and structures in place to respond to an oil spill. Compliance inspections, such as unannounced oil spill exercises and unannounced response equipment inspections, test and evaluate an operator's preparedness level. Staff also verify training for response personnel and participate in table top exercises in which response team members simulate response actions using their OSRP. The experience with the Deepwater Horizon oil spill highlighted the need for increased oversight of company OSRPs.

Independent Advisory Board (+$1,200,000; +4 FTE): The Board was conceived by the Reorganization Team and would be charged with reviewing BOEM internal policies, procedures, rules, and regulations. It would also provide peer review through participation of BSEE staff

who would serve as informal advisors. Requested funds would also cover operating costs such as travel and space.

Fixed Costs (+$1,192,000; 0 FTE): Fixed costs of $1.2 million are fully funded within this request.

Reorganization Efficiencies and Budget Changes (+$1,058,000; + 1 FTE): A total increase of $3.5 million is required to maintain existing administrative staff and meet non-variable costs because funding from revenue management sources will no longer be available. An amount of $150,000 and one FTE is requested to meet increased administrative workload resulting from the expansion of the BOEMRE workforce. These adjustments are offset by anticipated reorganization efficiencies totaling $2.6 million that will be achieved through more efficient use of existing facilities and consolidation during the reorganization.

Marine Spatial Planning (+$1,000,000; +4 FTE): The requested funds will enable BOEMRE to coordinate Coastal and Marine Spatial Planning (CMSP) efforts with other federal and state agencies, determine information and data needs, make sure these needs are met to effectively implement CMSP policy, and fulfill the requirement under Executive Order 13547 Stewardship of the Ocean, Our Coasts, and the Great Lakes. BOEMRE has been designated as the lead bureau in DOI for CMSP and will significantly participate in its implementation. With oil and natural gas, renewable energy, shipping/navigation, military uses, recreational and commercial fishing, and others activities competing for space on the OCS, it is becoming more important to coordinate the growing demand for multiple uses. This function is critical to the integrity of the 5-Year Oil and Gas Leasing Program that balances these various competing interests and contributes to determining the size, timing, and location of leasing activity on the OCS. This initiative will complement the FY 2010 Multipurpose Marine Cadastre initiative, a marine information system that brings together data layers about environmental, physical, political, and social aspects of the OCS. In a single, interactively generated map, users can see all official boundaries, rights, restrictions, and responsibilities in State and Federal waters. In FY 2012, support for Gulf of Mexico, Atlantic, and Arctic CMSP activities will be a significant focus of this initiative.

Bid Evaluation (+$310,000; +2 FTE): Additional staff are needed to interpret data and information in order to complete bid adequacy determinations, estimate discovered volumes of oil and gas, develop lease sale analogs for new discoveries, and revise assessments of undiscovered resource potential. These activities contribute to ensuring that fair market value is received for public resources.

Inspection Fee (-$55,000,000; 0 FTE): The funding increases requested in this budget would be partially offset by $65 million in collections from OCS inspection fees, a $55 million increase in revenue relative to the 2010 enacted level. New fees would be charged on drilling rigs (+$17 million) and the existing fees on fixed OCS structures subject to inspection would be increased (+$48 million). This proposal will transfer a portion of the cost of offshore inspections from the taxpayers to the offshore oil and gas industry. The proposal is consistent with the recommendations of the Commission's report. In its report, the Commission specifically notes

that regulation of the oil and gas industry should "no longer be funded by taxpayers but instead by the industry that is being permitted to have access to a publicly-owned resource."

Offsetting Collections (-$5,273,000; 0 FTE): In FY 2012, BOEMRE requests to retain $160.2 million from eligible offsetting rental receipts and cost recovery fees to defray the costs of bureau operations. This is a $5.3 million increase in collections compared to the FY 2011 level. This net increase is composed of an $8.2 million increase in projected offsetting rental collections and a $2.9 million reduction in anticipated revenue from cost recovery fees.

Marine Minerals (-$2,000,000; 0 FTE): This reduction is being offered to offset priority budget increases and will eliminate funding for BOEMRE's marine minerals program. Under this program, BOEMRE works with federal, state and local entities to issue leases for sand and gravel in the OCS. BOEMRE receives eight to 10 requests per year. BOEMRE retains the authority to process individual lease requests for sand and gravel on a case-by-case basis, funds permitting.

Administrative Cost Savings: (-$1,432,000; +0 FTE): In support of the President's commitment to fiscal discipline and spending constraints, BOEMRE is participating in an aggressive Department-wide effort to curb non-essential administrative spending. In accordance with this initiative, BOEMRE's justification assumes $447,000 in savings in FY 2012 against actual FY 2010 expenditures. The activities where savings will be realized include: advisory contracts; travel and transportation of people and things; printing; and supplies. There will be no programmatic impact as a result of implementing these savings initiatives; instead, functions will be performed in a more efficient and more effective manner. Actions to address the Accountable Government Initiative and reduce expenses builds upon the management efficiency efforts in travel, relocation, and strategic sourcing proposed in the FY 2011 budget request resulting in total savings of $1.4 million.

Center for Marine Resources and Environmental Technology (CMRET) (-$900,000; -0 FTE): BOEMRE proposes to eliminate the earmarked funding for the CMRET in order to redirect the funding to higher priorities.

These resources discussed above are essential to creating an efficient, effective, transparent and stable energy development process and regulatory environment. Without them, we will be significantly limited in our ability to adequately achieve the goals of the reorganization, follow through on the many reforms we have launched over the past several months, and implement many of the recommendations from the Commission's Report and other reviews of this agency. In addition to these important limitations, we would be unable to devote sufficient resources to facilitate new exploration and resource development. That result is unacceptable. It is our collective responsibility to ensure that we have the resources to carry out the major changes that are necessary to improve and transform this agency.

Mandatory Proposals and Other Reforms in the FY 2012 Budget:

The Budget includes several mandatory proposals that directly relate to BOEMRE's programs:

Fee on Nonproducing Oil and Gas Leases: The budget includes a proposal for a $4/acre fee (indexed annually for inflation) on all new non-producing federal oil and gas leases (onshore and offshore). This fee provides a financial incentive for oil and gas companies to either place leases into production or relinquish them so that the tracts can be re-leased and developed by new parties. The fee is expected to generate revenues of $25 million in 2012 and $874 million over 10 years.

Repeal of Deep Gas Royalty Incentives: The budget proposes to repeal Section 344 of the Energy Policy Act of 2005, which extended and expanded existing deep gas royalty relief. Based on current natural 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.

Industry Reform

As the foregoing discussion suggests, we have much work to do internally to improve the effectiveness of government oversight of offshore energy development and drilling. These changes are both substantial and necessary. However, industry must change as well, and we have an important role in helping to spur that change. We are doing so through the promulgation of new prescriptive regulations to bolster safety, evaluate and mitigate environmental risks, and introduce performance-based standards similar to those used by regulators in the North Sea. We have heightened the standards for equipment, safety and environmental safeguards in the drilling and production stages of offshore operations – and we will continue to do so in open and transparent ways in the coming months and years.

We promulgated two new rules last fall that raise standards for the oil and gas industry's operations on the OCS. One of these rules strengthens requirements for safety equipment and drilling procedures; the other improves workplace safety by addressing the performance of personnel and systems on drilling rigs and production platforms.

The first rule, the Drilling Safety Rule, was an emergency rulemaking that put in place heightened new standards for well design, casing and cementing, pressure testing, and well control equipment, including blowout preventers. For the first time, operators are now required 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.

The second rule we implemented is the Workplace Safety Rule, or the SEMS Rule, which aims to reduce the human and organizational errors that lie at the heart of many accidents and oil spills. The development of this rule was in process well before *Deepwater Horizon*, but the promulgation of these performance-based standards was frustrated for a variety of reasons. Unfortunately, as was the case in other countries such as the United Kingdom and Norway, it took a major accident to provide the impetus necessary for these standards to be imposed.

Under the Workplace Safety Rule, operators now are required to develop a comprehensive safety and environmental management program that identifies the potential hazards and risk-reduction strategies for all phases of drilling and production activities, from well design and construction, to operation and maintenance, and finally to the decommissioning of platforms. Although many companies had developed such SEMS systems on a voluntary basis in the past, many had not. And our reviews had demonstrated that the percentage of offshore operators that had adopted such programs voluntarily was declining.

In addition to the new rules, we have issued important guidance, in the form of Notices to Lessees (NTLs), which provides operators additional direction with respect to compliance with BOEMRE's existing regulations.

For example, NTL-06 (the Environmental NTL) requires that operators submit well-specific blowout scenarios and worst case discharge calculations – and that operators also provide the assumptions and calculations behind these scenarios. My staff and I are working closely with operators to ensure that they have the information necessary to perform their worst case discharge calculations accurately and in accordance with the guidance set forth in NTL-06.

Following the lifting of the suspension of deepwater drilling operations, we issued NTL-10, which provides operators with guidance related to regulatory compliance and subsea containment. First, each operator is directed to submit a corporate statement that it will conduct proposed drilling operations in compliance with all BOEMRE regulations, including the new Drilling Safety Rule. The NTL also provides 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 light of the Macondo well blowout, it is essential that deepwater operators demonstrate that they have access to vital source control and subsea containment systems in the event of a loss of well control.

Finally, in January we announced the formation of the Ocean Energy Safety Advisory Committee, which will be comprised of representatives from federal agencies – including BOEMRE, the Department of Energy, the NOAA, the United States Geological Survey, the Environmental Protection Agency, and the Coast Guard – as well as the offshore oil and gas industry, academic institutions, and other non-governmental organizations. Secretary Salazar has selected Dr. Tom Hunter, the former head of the Sandia National Laboratory who was central to the Macondo well control effort, to chair this committee. The Advisory Committee will be a center of excellence charged with driving research and development and technical innovation across government and industry in the areas of drilling safety, well control and subsea containment, and oil spill response.

Returning Industry to Work Safely

Regulatory and industry reform in the wake of a significant offshore disaster has happened before. The United Kingdom and Norway substantially changed their oversight of offshore drilling and production following the *Piper Alpha* and *Alexander Kielland* incidents, respectively. Australia is currently facing many of the same issues we are confronting following

the Montara well blowout, which occurred only eight months before the *Deepwater Horizon* disaster.

The specific challenges facing us, however, are unique in many significant respects. The scale of the offshore oil and gas operations in U.S. waters, particularly in the GOM, is vastly greater than those in the North Sea. The economies of many of the Gulf Coast states, particularly Louisiana, are closely tied to the offshore industry. The Gulf accounts for more than 25 percent of domestic oil production and over 10 percent of domestic gas production. One of the key challenges that we are addressing – and that cannot be avoided – is for government and industry to make the fundamental reforms necessary to improve the safety and environmental protection in this massive industry, while at the same time allowing operations to continue.

The major challenge facing the country is to dramatically improve the safety of drilling in the GOM, particularly in deepwater, while continuing with operations, keeping production flowing and keeping people working. Drilling in shallow water is moving forward. Since our first post-*Deepwater Horizon* safety standards were introduced in June 2010, BOEMRE has approved 38 permits to drill new wells for operations that have complied with the new requirements. More work remains to be done in order to keep safe operations working, and we will continue working with industry and devoting our resources to processing plans and permits for shallow water drilling. For many months, we were told that our reforms were too sweeping and that they inappropriately lumped low-risk shallow water operations with more risky deepwater operations. The recent loss of well control in the Gulf in connection with a shallow-water platform operated by Apache substantially weakens this argument. Offshore operations are inherently risky activities – whether they take place in shallow or deep water – and safety needs to be enhanced across the board.

Resuming drilling in deepwater – under conditions that are safe and environmentally responsible – poses even greater challenges. The heightened standards and regulatory changes applicable to deepwater drilling are substantial and have been made rapidly. There have been, understandably, a number of questions from industry and others about our new regulations, the NTLs, and how we will apply NEPA going forward with respect to deepwater drilling operations. We have held dozens of meetings, both in the Gulf region and in Washington, DC, with federal and state representatives, industry groups, non-governmental organizations, and individual operators to answer questions about the new rules and to provide clarity about the post-*Deepwater Horizon* regulatory environment. In December, we also issued a guidance document, which provides a comprehensive description of the way forward for permitting in deepwater. We have discussed the contents of the guidance with a number of companies and have received input from them and others from industry. While it probably is not realistic that this guidance will resolve every question that an operator may have about the deepwater permitting process, we intended for the guidance to address the significant questions that we have heard and to provide answers to help operators move forward with the resumption of work in deepwater.

One of the major issues that must be addressed so that deepwater drilling can resume in significant measure is subsea containment. Federal regulations require operators to be prepared to address a loss of well control in deepwater, and the *Deepwater Horizon* event quite

dramatically demonstrated the need to have viable subsea containment measures on hand for every deepwater operation. NTL-10, as discussed above, asks operators to describe the equipment and systems they can deploy to shut in a well if necessary.

Industry has formed two subsea containment groups – the Marine Well Containment Company (MWCC) and a program sponsored by Helix Energy Solutions Group (Helix) – to provide operators with access to source control and flow management systems in the event of a loss of well control in deepwater.

It took longer than we anticipated for these industry groups to make their subsea containment systems available to individual companies seeking to drill in deepwater. In fact, the testing of key components of each of these groups' containment systems, including their capping stacks, was not completed until very recently. This testing was witnessed and reviewed by BOEMRE engineers, and both capping stacks performed according to their specifications.

Until the MWCC and Helix were able to establish the effectiveness of their containment systems, it was not possible for operators to rely on these subsea containment systems to demonstrate their ability to respond promptly and effectively to a loss of well control in deepwater. We believe industry recognized this, which is why so few deepwater drilling permit applications have been filed. Now that the capping stacks have been tested and other components of these systems reviewed, we will be in a position to review individual drilling permit applications that designate MWCC or Helix resources. This information will assist us in determining whether sufficient subsea containment resources are available to individual operations in light of the particular well design proposed, reservoir pressures, worst-case discharge estimates, and other aspects of the operation. As you know, we approved two deepwater permits since the *Deepwater Horizon* incident, and we anticipate that additional deepwater permits will follow.

I hope that the above information provides you confidence that there is a way forward for drilling on the nation's OCS, and that we are working very hard to ensure that this activity is conducted in a manner that is safe for both workers and the environment. The lessons of the *Deepwater Horizon* event, as discussed so vividly in the report of the Commission, cannot be quickly forgotten. It has been less than one year since the blowout and the spill, and already substantial and sweeping reforms have been made. Much additional work remains to be done, for both government and industry, to ensure that offshore operations are safe, to provide rigorous government oversight, and to keep people working in this vital industry.

I very much appreciate the opportunity to share with you the reforms we are implementing and our hopes and expectations for the future. Mr. Chairman this concludes my statement. Please allow me to express my sincere appreciation for your support and we look forward to working with you on these and related issues in the months ahead. It would now be my pleasure to answer any questions you or other Members of the Subcommittee may have at this time.