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UNITED STATES DEPARTMENT OF THE INTERIOR
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON INTERIOR, ENVIRONMENT, AND RELATED AGENCIES
U.S. SENATE**

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Mr. Chairman and members of the Committee, 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.

With the guidance, support, and oversight of Congress, the Obama Administration has been implementing the most aggressive and comprehensive reforms to offshore oil and gas regulation in U.S. history following the *Deepwater Horizon* explosion and oil spill in the Gulf of Mexico. The Minerals Management Service (MMS) was restructured into three new, independent entities, and the Bureau of Ocean Energy Management (BOEM) took on the role of effective and efficient management and oversight of the Nation's offshore resources as part of our comprehensive strategy to encourage safe and responsible domestic oil and gas exploration and development. BOEM is also committed to expand development of clean and abundant renewable energy resources. Both activities support job growth and healthy local economies, and this budget request is designed to provide the resources necessary to advance this commitment.

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. As you will hear from my colleague, Director James Watson, the Bureau of Safety and Environmental Enforcement functions as the offshore safety authority, charged with enforcement of the strengthened safety and environmental standards implemented in the aftermath of *Deepwater Horizon*. We designed the reorganization to ensure that both agencies operate efficiently and without unnecessarily redundant bureaucracies. For example, BOEM and BSEE continue to share administrative infrastructure and functions that service both bureaus efficiently.

For FY 2013, BOEM is requesting an operating level of \$164.1 million, which includes a base appropriation of \$62.7 million and \$101.4 million in offsetting collections (\$98.8 million from rental receipts and \$2.6 million from cost recovery fees). The BOEM manages 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.

BOEM's organizational structure is designed to advance core elements of its mission including: strategic resource development, environmental analysis and applied science, and renewable energy development.

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 form the basis of the budget request moving into FY 2013. These priority areas include:

Developing and Implementing the Five-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program for 2007-2012. In December 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. The BOEM has scheduled Consolidated Central GOM Sale 216/222, the final sale in the current Program, for June 20, 2012. In addition, BOEM is 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. It advances 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. The 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 Lease Sale 216/222. The BOEM has completed an extensive supplemental environmental analysis for the Chukchi Sea Planning Area that addresses key issues including the potential effects of a hypothetical, very large oil spill. The analysis supported 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. The 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 lease terms include raising the minimum bid level from \$37.50 per acre to \$100 per acre in water depths of 400 meters or greater; promulgating policies that 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 the goal of ensuring a fair return. It 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. The 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. The 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. The BOEM works collaboratively with industry throughout the review of plans, to ensure operators understand and comply with BOEM's stronger operational and environmental standards and that the review process is efficient.

Advancing Renewable Energy Leasing and Development through the "Smart from the Start" Initiative. BOEM has established a regulatory framework for renewable energy leasing and development on the OCS and has taken critical steps to support the development of an offshore wind industry. 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.

The Secretary's "Smart from the Start" initiative, announced in FY 2011, is intended to build on the existing regulatory framework and facilitate the efficient and environmentally responsible siting, leasing, and construction of new wind energy projects in the Atlantic. Recently, BOEM completed a number of important steps to advance 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. The 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 FY 2013 request continues these efforts and supports 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. The BOEM expects to hold the first competitive lease sales for offshore wind in FY 2013.

Science Based Decision Making. A core principle of BOEM 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. The 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. The BOEM is conducting a comprehensive review of its application of NEPA 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.

Developing the first Geological and Geophysical (G&G) Programmatic Environmental Impact Statement (PEIS) for areas in the mid and south Atlantic. The BOEM is committed to conducting thorough, scientific reviews that 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, conducted to inform future decisions regarding oil, natural gas, and renewable energy development on the OCS in the mid and south Atlantic planning areas. The BOEM will issue the draft PEIS this spring.

The FY 2013 Budget Request

This FY 2013 BOEM budget request is consistent with the direction set forth in the FY 2012 budget for BOEM and consists of limited funding increases reflecting difficult tradeoffs given the tight fiscal constraints. The BOEM's FY 2013 request of \$164.1 million includes careful analysis of the resources needed to develop the agency's capacity and to execute its functions carefully, responsibly, and efficiently. Consistent with the overall contours of BOEM's 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, and payments to the Department's Working Capital Fund.

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

The FY 2013 request also includes legislative proposals that directly relate to BOEM's programs including:

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.

Fee on Non-Producing Oil and Gas Leases. The Administration will submit a legislative proposal to encourage energy production on lands and waters leased for development. A \$4.00 per acre fee on non-producing Federal leases would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be leased to and developed by other parties. The proposed fee would apply to all new leases onshore and offshore and would be indexed annually. In October 2008, the Government Accountability Office issued a report critical of past efforts by Interior to ensure that companies diligently develop their Federal leases. Although the report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other non-producing fee proposals considered by the Congress in the last several years. The fee is projected to generate revenues to the U.S. Treasury of \$13.0 million in 2013 and \$783.0 million over ten years.

Conclusion

The BOEM plays a vital role in advancing safe and responsible offshore energy development to secure our energy future. Given our environment where serious fiscal constraints demand difficult decisions, we appreciate the critical resources Congress has provided in recent appropriations – 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 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.