

STATEMENT OF
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BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES
ON THE DEEPWATER HORIZON INCIDENT: PROPOSALS TO REFORM AND
REORGANIZE THE MINERALS MANAGEMENT SERVICE
JUNE 17, 2010

Thank you, Chairman Costa, Ranking Member Hastings, and Members of the Committee for the opportunity to be here today. I appreciate the opportunity to discuss our ongoing safety and management reform efforts related to offshore energy activities. Since I was named acting director of the Minerals Management Service (MMS), we have continued our aggressive response to the BP oil spill in the Gulf of Mexico and efforts to improve the Department of the Interior's ability to respond to help prevent such events in the future.

I will discuss these reforms in more detail later in my statement, but I want to be clear from the beginning that the changes that we have been making are substantive and systemic, not just cosmetic. These reforms are critical to help us prevent future occurrences of events like the Deepwater Horizon drilling rig explosion and the subsequent BP oil spill.

Immediately after I was named acting director, I reviewed the major changes that we have made at MMS. Since January 2009, the Secretary has taken the bureau in a bold new direction, as exemplified by massive undertakings to tackle the ethics challenges at MMS, develop a new plan for oil and gas development on the Outer Continental Shelf (OCS), and create the renewable energy program.

We have worked to reform the MMS's culture of doing business by issuing new ethics standards for all MMS employees during Secretary Salazar's first weeks here at the Department in January 2009. The Secretary terminated the Royalty-in-Kind program and implemented recommendations to improve MMS's royalty collection program that came

from the Department's Inspector General and a committee chaired by former Senators Bob Kerrey and Jake Garn.

The Secretary also extended the public comment period by 180 days on the Draft Proposed 5-year Program for the OCS produced by the previous Administration. He held regional meetings with thousands of stakeholders in Alaska, California, Louisiana, and New Jersey. The information and input gained from these additional meetings led to the Department's announcement, on March 31st, of a new and balanced strategy for exploring and developing our oil and gas resources on the OCS. This plan is intended to focus on development in the right ways and in the right places, provide order and certainty to industry and investors, and deliver a fair return to American taxpayers for the use of their resources.

The changes and reforms we are implementing have resulted in a better balance between our energy needs and our stewardship of the environment. For example, the Secretary cancelled lease sales in the Chukchi and Beaufort Seas because of concerns about the sensitivity of the Arctic and its unique vulnerability to oil spills. He also cancelled the oil and gas lease sale scheduled for the magnificent fishing grounds of Bristol Bay in Alaska. The President formally withdrew Bristol Bay from any oil and gas leasing through June 30, 2017.

As we evaluate new areas for potential exploration and development on the OCS, we will conduct thorough environmental analysis and scientific study, gather public input and comment, and carefully examine the potential safety and spill risk considerations. Even before the Deepwater Horizon explosion occurred, the Secretary directed the National Marine Board, an arm of the highly respected National Academy of Sciences, to conduct an independent review of MMS's inspection program for offshore facilities. And the Department's fiscal year 2011 budget request provides funding to increase the number of inspectors available for the offshore oil and gas program by more than 10 percent.

The BP Deepwater Horizon oil spill tragedy has also served to underscore the need to develop clean, renewable sources of energy. Since the beginning of the Obama Administration, the Department has been focused on these issues and has set priorities for the environmentally responsible development of renewable energy on our public lands and the OCS. As we have moved forward to implement the President's clean energy goals, we have expanded the scope of the MMS's portfolio to include a stronger and more effective renewable energy program.

On March 11, 2009, Secretary Salazar issued a Secretarial Order that made facilitating the production, development, and delivery of renewable energy on the OCS and on public lands top priorities at the Department. These goals are being accomplished in a manner that does not ignore, but instead protects our signature landscapes, natural resources, wildlife, and cultural resources, and working in close collaboration with all relevant federal, state, Tribal and other agencies with natural resource stewardship authority.

In April 2009 Chairman Wellinghoff of the Federal Energy Regulatory Commission and the Secretary signed an agreement clarifying our respective agencies' jurisdictional responsibilities for leasing and licensing renewable energy projects on the OCS. This agreement allowed us to move forward with the regulatory framework for OCS renewable energy development that standardized the process and brought certainty to the application process for OCS wind, solar and hydrokinetic resources. This framework is important as it provides the "rules of the road" for states and companies to pursue development of projects on federal submerged lands.

The Secretary also approved the Cape Wind project off Massachusetts' coast, and the Department has taken the first steps to stand up major wind projects off the coasts of New Jersey and Delaware. The Secretary is working with the Atlantic Coast Governors to give renewed impetus to developing the potential for offshore wind projects. In keeping with this goal, on June 8, the Secretary announced that ten governors of East Coast states and the Department signed a Memorandum of Understanding formally establishing an Atlantic Offshore Wind Energy Consortium to promote the efficient, orderly, and

responsible development of wind resources on the OCS through increased federal-state cooperation. Under the MOU, the consortium will develop an action plan setting forth priorities, goals, and specific recommendations and steps for achieving the objectives outlined in the agreement.

The Secretary also announced the establishment of a regional renewable energy office, located in Virginia, which will coordinate and expedite, as appropriate, the development of wind, solar, and other renewable energy resources on the Atlantic OCS.

The effort that we have put forward at the Department since January 2009 has been a massive effort to chart a new direction for the Department of the Interior, including MMS.

Substantive and Systemic Improvements

The tragedy and the massive spill in the Gulf have made the importance and urgency of this reform agenda clear. The Secretary issued Secretarial Order No. 3299 announcing the reorganization of the MMS and the establishment of the Bureau of Ocean Energy Management; the Bureau of Safety and Environmental Enforcement; and the Office of Natural Resources Revenue.

Under the supervision of the Assistant Secretary for Land and Minerals Management, the Bureau of Ocean Energy Management will ensure the environmentally responsible and appropriate development of the OCS for both conventional and renewable energy in a predictable and effective manner. The Bureau of Safety and Environmental Enforcement will ensure that all production operations are safe and that potential negative impacts on marine ecosystems and coastal communities are appropriately considered in each phase of development and mitigated to the fullest possible extent through its independent regulation, oversight, and enforcement powers.

Under the supervision of the Assistant Secretary for Policy, Management and Budget, the Office of Natural Resources Revenue will be responsible for the royalty and revenue

management function ensuring the full and fair return to the American people for the utilization of these resources.

Secretary Salazar has asked the Assistant Secretary for Policy, Management and Budget, Rhea Suh, the Assistant Secretary for Land and Minerals Management, Wilma Lewis, and one of his Senior Advisors, Chris Henderson, to oversee these reorganization and reform efforts. They all have strong organizational skills and outstanding experience and expertise in strategic planning, business administration, and performance management in the public and private sectors that will be invaluable assets as we move forward to implement this effort, which will ensure the independence of the agency's inspections and enforcement mission.

The Secretary has testified before your Committee in support of organic legislation for the functions now performed by MMS. The OCS currently provides 31 percent of the Nation's domestic oil production and almost 11 percent of its domestic natural gas production. The MMS is one of the largest collectors of non-tax and non-trust revenue for the Treasury, and has collected an average of more than \$13 billion annually for the past 5 years. The Administration believes that agencies with responsibilities of this magnitude should be governed by thoughtfully considered organic legislation.

The President submitted to Congress, along with other Administration proposals to address the BP oil spill, legislation requesting additional funds for the Department to inspect offshore oil and gas platforms, draft enforcement and safety regulations, and carry out studies needed in light of this event. The legislation would also extend the time allowed by statute for MMS to review and approve oil and gas exploration plans from 30 to 90 days.

A Steadfast Focus on Safety

Following the tragic and unprecedented explosion of the Deepwater Horizon drilling rig, Secretary Salazar ordered immediate inspections of all deepwater oil and gas drilling operations in the Gulf of Mexico, and we issued a safety notice to all rig operators

reminding them of their responsibilities to follow our regulations and to conduct full and thorough tests of their equipment.

The Secretary also established an OCS Safety Oversight Board comprising top Departmental officials charged with strengthening safety and improving overall management, regulation, and oversight of operations on the OCS.

On May 27th, the Secretary delivered to the President the results of the 30-day safety review that he ordered the Department to undertake. The purpose of that Safety Report was to evaluate oil and gas safety measures that could be put in place on an interim basis before the on-going investigations to identify the root cause of the BP oil spill disaster have been completed. We consulted with a wide range of experts from government, academia and industry in drafting this report, and the draft recommendations contained in it were peer reviewed by seven experts identified by the National Academy of Engineering.

The report recommends a number of specific measures that can be taken on both a short and longer term basis to improve the safety of offshore oil and gas activities, including aggressive new operating standards and requirements for offshore energy companies. Key recommendations include a recertification of all Blowout Preventers for new floating drilling operations; stronger well control practices, blowout prevention and intervention procedures; tougher inspections for deepwater drilling operations; and expanded safety and training programs for rig workers.

After reviewing the report, the President ordered the Department to immediately implement a number of actions, including a continuation of the existing moratorium and a suspension of the issuance of new permits to drill new deepwater wells until the Presidential Commission investigating the BP oil spill has completed its six-month review. We are taking these immediate actions now, and we are laying the groundwork for additional measures in the future. On June 8th, for example, the Secretary announced

the release of a "Notice to Lessees" that provides an initial set of new safety requirements that all offshore operators must meet.

Conclusion

Mr. Chairman, the Secretary and his management team at the Minerals Management Service look forward to working with you over the coming weeks as we continue to implement real reform to improve the safety, transparency, and efficiency of oil and gas exploration and production operations on the OCS.