**STATEMENT OF KEN SALAZAR**
**SECRETARY OF THE INTERIOR**
**BEFORE THE**
**COMMITTEE ON NATURAL RESOURCES**
**U.S. HOUSE OF REPRESENTATIVES**
**ON THE CONTINUING REFORM OF THE**
**OUTER CONTINENTAL SHELF PROGRAM**

**JUNE 30, 2010**

Chairman Rahall, Ranking Member Hastings, and Members of the Committee, I want to thank you for holding this hearing today as we continue to address the issues and challenges associated with the continuing reform of the Department of the Interior's offshore energy program.

Before we begin, I want to introduce Michael R. Bromwich, the new Director of the Bureau of Ocean Energy Management, Regulation, and Enforcement. His impressive background includes time as the Inspector General of the U.S. Department of Justice, as an Assistant U.S. Attorney, and since 1999, as an attorney in private practice. His extensive experience in government and the private sector in improving the way organizations work make him an ideal choice to lead the restructuring and reform of the Department's offshore energy program.

For the same reasons I chose Michael Bromwich for this position, I chose Wilma Lewis who oversees the Department's energy bureaus as the Assistant Secretary for Land and Minerals Management. A former U.S. Attorney for the District of Columbia and Inspector General at the Department, Wilma has played a central leadership role in some of the most significant reforms during my tenure as Secretary. She has helped shape reforms ranging from our new approach to offshore oil and gas leasing and a new emphasis on renewable energy development on the Outer Continental Shelf, to ethics reform, to the enhancement of leasing programs and the development of renewable energy programs onshore, to support for our study of policies designed to ensure

fair return to American taxpayers for the development of public oil and gas resources. I have also appointed her to chair the Safety Oversight Board in the aftermath of the Deepwater Horizon oil spill, and to help spearhead the reorganization of the Minerals Management Service (MMS) toward a new future.

**Offshore Energy Reforms Completed**

Although this unprecedented disaster, which resulted in the tragic loss of life and many injuries, is commanding our time and resources, it has also strengthened our resolve to continue reforming the Outer Continental Shelf (OCS) program.

The reforms we have embarked on over the last 17 months, and upon which we will continue to build, are substantive and systematic, not cosmetic. The kind of fundamental changes we are making do not come easily and many of the changes we have already made have raised the ire of industry. Our efforts at reform have been characterized by some as impediments and roadblocks to the development of domestic oil and gas resources. We believe, however, that they are crucial to ensuring that we carry out our responsibilities effectively, without compromise, and in a manner that facilitates the balanced, responsible, and sustainable development of the resources entrusted to us.

I want to review the reforms with you:

*First*, we focused our efforts on ethics and other concerns that had been raised in the revenue collection side of the MMS. We began changing the way the bureau does business and took the following concrete actions:

- upgraded and strengthened ethics standards throughout MMS and for all political and career employees;

- terminated the Royalty-in-Kind program to reduce the likelihood of fraud or collusion with industry in connection with the collection of royalties; and
- aggressively pursued continued implementation of the recommendations to improve the royalty collection program that came from the Department's Inspector General, the Government Accountability Office, and a committee chaired by former Senators Bob Kerrey and Jake Garn.

*Second*, we reformed the offshore oil and gas regulatory program, which included the following:

- initiated in the Fall of 2009 an independent study by an arm of the National Academy of Engineering to examine how we could upgrade our inspection and safety program for offshore rigs;
- procured substantial increases in the MMS budget for FY 2010 and FY 2011, including a ten percent increase in the number of inspectors for offshore facilities; and
- developed a new approach to on-going oil and gas activities on the OCS aimed at promoting the responsible, environmentally sound, and scientifically grounded development of oil and gas resources on the Outer Continental Shelf.

In that effort, we cancelled the upcoming Beaufort and Chukchi lease sales in the Arctic, removed Bristol Bay altogether from leasing both the current 5 year plan as well as the next 5 year plan, and removed the Pacific Coast and the Northeast entirely from any drilling under a new 5 year plan. We made clear that we will require full environmental analysis through an Environmental Impact Statement prior to any decision to lease in any additional areas, such as the mid and south Atlantic, and launched a scientific evaluation, led by the Director of the United States Geological Survey (USGS), to analyze issues associated with drilling in the Arctic.

*Third*, we laid the groundwork for expanding the mission of MMS beyond conventional oil and gas development by devoting significant attention and infusing new resources into the renewable energy program, thereby providing for a more balanced energy portfolio that reflects the President's priorities for clean energy. Toward that end, we:

- finalized long-stalled regulations that define a permitting process for off-shore wind – cutting through jurisdictional disputes with FERC in the process and ultimately approving the Cape Wind project;
- 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 Outer Continental Shelf; and
- entered into an MOU with governors of East Coast states, which formally established an Atlantic Offshore Wind Energy Consortium to promote the efficient, orderly, and responsible development of wind resources on the Outer Continental Shelf through increased Federal-State cooperation.

**Offshore Energy Reforms and Related Activities Underway**

Since the Deepwater Horizon explosion and oil spill, the reforms and associated efforts have continued with urgency, with particular focus on lessons being learned from the circumstances surrounding the event. We are aggressively pursuing actions on multiple fronts, including:

- inspecting all deepwater oil and gas drilling operations in the Gulf of Mexico and issuance of a safety notice to all rig operators;
- implementing the 30-day safety report to the President, including issuing notices to lessees on new safety requirements, and developing new rules for safety and

environmental protection; defending the suspension on new deepwater drilling, which is currently the subject of litigation; and

- implementing new requirements that operators submit information regarding blowout scenarios in their exploration plans – reversing a long standing exemption that resulted from too much reliance on industry to self-regulate.

Additional reforms will be influenced by several ongoing investigations and reviews, including the Deepwater Horizon Joint Investigation currently underway by the Bureau of Ocean Energy Management, Regulation and Enforcement, and the United States Coast Guard. In addition, at my request, a separate investigation is being undertaken by the National Academy of Engineering to conduct an independent, science-based analysis of the root causes of the oil spill. I also requested that the Inspector General's Office undertake an investigation to determine whether there was a failure of MMS personnel to adequately enforce standards or inspect the Deepwater Horizon.

Further, on April 30th I announced the formation of the Outer Continental Shelf Safety Oversight Board to identify, evaluate, and implement new safety requirements. The Board, which consists of Assistant Secretary for Land and Minerals Management Wilma A. Lewis, who serves as Chair, Assistant Secretary for Policy, Management and Budget Rhea Suh, and Acting Inspector General Mary Kendall, will develop recommendations designed to strengthen safety, and improve overall management, regulation, and oversight of operations on the Outer Continental Shelf.

Finally, the President established the independent bipartisan National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling tasked with providing options on how we can

prevent and mitigate the impact of any future spills that result from offshore drilling. The Commission will be focused on the environmental and safety precautions we must build into our regulatory framework in order to ensure an event like this never happens again, taking into account the other investigations concerning the causes of the spill.

**Supplemental Legislation**

The Administration will make sure that BP and other responsible parties are held accountable, that they will pay the costs of the government in responding to the spill, and compensation for loss or damages that arise from the spill. We will do everything in our power to make our affected communities whole. As a part of the response efforts, we expect to spend a total of $27 million through June 30, 2010 for Interior's response activities.

As part of our reforms, we are also building on the efforts we undertook in the last seventeen months to strengthen the OCS budget. As I already mentioned, the President's 2011 budget includes a ten percent increase in the number of inspectors. Our restructuring of the OCS program will require additional resources to aggressively pursue the reforms I outlined earlier, to implement the 30-day report to the President, and to potentially address the results of ongoing investigations and the findings of the President's Commission. We are currently hiring an additional twelve inspectors, six more than we proposed in the 2011 budget, and we are taking other actions that are outlined in the 30-day report to the President. Over the course of the next several years, our restructuring of a more robust OCS regulatory and enforcement program will dictate the need for engineering, technical, and other specialized staff.

The President's supplemental request of May 12, 2010, includes $29 million that will fund the near term resources we need for these activities. As you know, it is critically needed to support

our full and relentless reforms – to bolster inspections of offshore oil and gas platforms, draft enforcement and safety regulations, and carry out environmental and engineering studies. The President's request included a proposal to extend the time allowed by statute for review and approval of oil and gas exploration plans from 30 to 90 days – this is also needed and I hope Congress will include it in the final version of the supplemental.

**Reorganization of the Minerals Management Service**

On June 15, I appointed Michael R. Bromwich as the Director, of the Bureau of Ocean Energy Management, Regulation and Enforcement. Michael will lead us through the reorganization – the foundation for the reforms we have underway. He will lead the changes in how the agency does business, implement the reforms that will raise the bar for safe and environmentally sound offshore oil and gas operations, and help our Nation transition to a clean energy future.

Michael will join the team that has been working out the details of the reorganization. In a May 19 Secretarial Order, I tasked Rhea Suh, the Assistant Secretary for Policy, Management and Budget, Wilma Lewis, the Assistant Secretary for Land and Minerals Management, and Chris Henderson, one of my senior advisors, to develop a reorganization plan in consultation with others within the Administration and with Congress. The report will provide the plan to restructure the Bureau of Ocean Energy Management, Regulation and Enforcement in order to responsibly address sustained development of the Outer Continent Shelf's conventional and renewable energy resources, including resource evaluation, planning, and other activities related to leasing; comprehensive oversight, safety, and environmental protection in all offshore energy activities; and royalty and revenue management including the collection and distribution of revenue, auditing and compliance, and asset management.

The Deepwater Horizon tragedy and the massive spill have made the importance and urgency of a reorganization of this nature ever more clear, particularly the creation of a separate and independent safety and environmental enforcement entity. We will responsibly and thoughtfully move to establish independence and separation for this critical mission so that the American people know they have a strong and independent organization ensuring that energy companies comply with their safety and environmental protection obligations.

The restructuring will also address any concerns about the incentives related to revenue collections. The OCS currently provides nearly 30 percent of the Nation's domestic oil production and almost 11 percent of its domestic natural gas production and is one of the largest sources of non-tax and non-trust revenue for the Treasury. The MMS collected an average of more than $13 billion annually for the past 5 years. There will be clear separation between the entities that collect and manage revenue and those that are responsible for the management of the OCS exploration and leasing activities.

**Sustained Response Efforts in the Gulf**

Of utmost importance to us is the oil spill containment and clean up of the Gulf. I have returned to the Gulf Region numerous times to help the Administration's effort to protect the coasts, wetlands, and wildlife threatened by this spill. We have deployed approximately 1,000 employees to the Gulf and they are directing actions to contain the spill; cleaning up affected coastal and marine areas under our jurisdiction; and assisting Gulf Coast residents with information related to the claims process, health and safety information, volunteer opportunities, and general information on the efforts being carried out in the region.

Under the direction of National Incident Commander Admiral Thad Allen and an effort co-led by me and Energy Secretary Steven Chu, we announced an improved estimate of how much oil is flowing from the leaking well. That estimate, suggests that the flow rate is at least 35,000 barrels per day, based on the improved quality and quantity of data that are now available.

The Department's senior staff continues to offer coordination and guidance to the effort. Deputy Secretary David J. Hayes is devoting his time to coordinating the many Gulf-related response activities we are undertaking. Assistant Secretary for Fish, Wildlife and Parks Tom Strickland has been leading the Department's efforts for onshore and near shore protection. National Park Service Director Jon Jarvis and Acting Director of the Fish and Wildlife Service Rowan Gould continue to supervise incident management personnel and activities that their bureaus are taking to respond to the spill and clean up oil impacts. The NPS and FWS have dispatched approximately 590 employees to protect the eight national parks and 36 wildlife refuges and the numerous wildlife, birds, and historic structures they are responsible for in the Gulf of Mexico.

Representatives from the FWS also participated with the U.S. Coast Guard, the Environmental Protection Agency, National Oceanic and Atmospheric Administration and state and local governments in a series of public meetings with local residents to answer questions and offer information on a variety of topics related to the spill and response activities.

Finally, there are many, many people in the Department who are devoting significant time and energy to this event; to the various investigations and inquiries, both within the Administration and in Congress, that are being carried out; and to the ongoing reorganization and reform. I want to acknowledge their work and let them know their efforts are appreciated and are not going unnoticed.

Over the last couple of months, we have also seen what the employees in the Bureau of Ocean Energy Management, Regulation and Enforcement are capable of, their professionalism, their dedication to the Department, and their enthusiasm for the reforms underway. With Michael's help we will be able to cast aside the shadow on the many dedicated employees that has been left by an errant few, and by previous policies that have prioritized production over ethics, safety, and environmental protection.

**H.R. 3534, the CLEAR Act**

Mr. Chairman, last week you unveiled a new version of your comprehensive energy legislation, H.R. 3534, "the Consolidated Land, Energy, and Aquatic Resources Act." The Administration is carrying out a detailed review of this new version of your bill. While the primary focus of this legislation is the Department's mineral leasing programs, there are provisions of this bill that affect agencies other than the Department. It is important that the expertise of other affected agencies inform this process where appropriate. We will coordinate with other agencies in the Administration as we move forward with an evaluation of these important issues. Similarly, we expect that the findings of the recently-established Presidential Commission, the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, will also help inform decisions on what legislative changes are needed. However, I would like to offer some general comments on several provisions that specifically impact the Department.

When I testified before this Committee on the introduced version of H.R. 3534 last September, I indicated that the Department was in full agreement with the legislation's goals of ensuring a balanced and responsible approach to energy development on our public lands and waters and that dependable oversight and sensible reform of mineral royalty programs must be achieved. I

also indicated that, like you, I support reforms of the mineral leasing process and programs that will enable us to manage our onshore and offshore resources more effectively and responsibly.

We have firmly supported the need for organic legislation for the functions performed by MMS. We agree that an organization with such important responsibilities should be governed by a thoughtfully considered organic act. It is important for organic legislation to provide the Secretary with the discretion to implement the details of a reorganization as complicated as this. The report and schedule for implementation that I will receive on July 9th will provide me with a detailed roadmap for this reorganization and will greatly inform the process. The Administration would like to provide the Committee with more detailed comments regarding the specifics in this legislation, including the appointment and confirmation of the new bureau and office heads.

Significant time and effort have been spent by senior staff at the Department detailing and analyzing reorganization of the functions carried out by the MMS. Section 101 of H.R. 3534 would include in the Bureau of Energy Resource Management the onshore energy management functions currently carried out by the Bureau of Land Management under its multiple use land management mandate. We will work with your Committee to further examine these provisions.

There are many other provisions in this bill of which we are generally supportive and would like to continue discussions with the Committee. For example, a number of changes in H.R. 3534 highlight the need for increased safety of operations and consideration of the marine and coastal environment, including the need for integrated programs for both environmental research and technological research and development. A focus on strengthened safety and oversight and the environmental impacts of offshore oil and gas operations are priorities of the Administration.

We will work closely with other relevant agencies to ensure we develop a coordinated federal approach to address these objectives.

H.R. 3534 would extend the deadline for the Department to review and approve exploration plans; require that lessees obtain a drilling permit after approval of an exploration plan; and require that, prior to approval of such a permit, an engineering review of the well system be completed and reviewed. It also includes new planning requirements for detailed descriptions of equipment and plans to address potential well blowouts. The Administration supports authority to provide for longer review time of exploration plans to allow for stronger reviews of exploration plans prior to drilling.

Recognizing the importance of this information, on June 18, 2010, the Department issued a Notice to Lessees (NTL) requiring that new filings for drilling permits, exploration plans, or development plans to contain information specifically addressing the possibility of a blowout and the detailed steps that lessees or operators would take to prevent blowouts. This reverses a 2003 policy and a 2008 NTL that exempted many offshore oil and gas operations in the Gulf from submitting certain information about such a scenario and is consistent with the requirements contained in these bills.

We are also supportive of the changes in H.R. 3534 intended to strengthen civil and criminal penalties contained in the OCSLA. These provisions are generally consistent with the support for increasing these penalties that we have expressed in recent appearances before Congress. The Department is also supportive of adding language to the OCSLA authorizing the imposition of civil judicial penalties for violations of the Act.

It is also important that the Department have the tools necessary to efficiently and effectively carry out the duties related to offshore energy development, including to appropriately staff critical and hard-to-fill positions in these new entities. We look forward to working with the Committee and other agencies on the provisions in H.R. 3534 that address this issue. Provisions addressing royalty-related reforms may also be an important component of this reorganization. While additional time is needed to analyze the inclusion of a number of significant provisions, we do support the repeal of the royalty relief provision contained in section 344 of the Energy Policy Act of 2005 as this repeal is consistent with the President's fiscal year 2011 budget request.

The President's June 12, 2009 memorandum creating an Ocean Policy Task Force envisions a comprehensive, national approach to ocean planning. The Department is currently involved in a multi-agency process to develop a new national ocean policy that is intended to look ahead in the long term to help the United States think comprehensively about how we make better informed management decisions regarding the use and conservation of ocean, coastal, and Great Lakes resources. The Department supports the approach of the President's Task Force.

Finally, the Administration appreciates your focus on ensuring comprehensive and long-term restoration of the Gulf of Mexico in the wake of this tragedy. As the President has made clear, a long-term plan is needed to restore this unique coastal region from the effects of this tragedy, just the latest blow to befall the people and environment of this special place. The Administration is already moving forward with this plan, and the President has asked Secretary of the Navy Ray Mabus to develop a long-term Gulf Coast Restoration Support Plan that will include input by states, local communities, tribes, fishermen, businesses, conservationists, and other Gulf residents.

**Conclusion**

Much of my time as Secretary of the Interior has been spent working to promote reform of prior practices in the MMS and to advance the President's vision of a new energy future that will help us to move away from spending hundreds of billions of dollars each year on imported oil. A balanced program of safe and environmentally responsible offshore energy development is a necessary part of that future. Our efforts to develop a robust OCS renewable energy program are a major part of the effort to find that balance and help move our Nation toward a clean energy future. However, we also recognize that, for now, conventional oil and gas continues to play a significant role in our economy. As we evaluate new areas for potential oil and gas 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.

The findings of the Joint Investigation and the independent National Academy of Engineering will provide us with the facts and help us understand what happened on the Deepwater Horizon. Those findings, the work of the Outer Continental Shelf Safety Oversight Board, the OIG investigation and review, and the findings of the Presidential Commission will help inform the implementation of the Administration's comprehensive energy strategy for the OCS.

We are taking responsible action to address the safety of other offshore oil and gas operations, further tightening our oversight of industry's practices through a package of reforms, and taking a careful look at the questions this disaster is raising. We will also work with you on legislative reforms and the finalization of a reorganization that will ensure that the OCS program is effectively managed to achieve these goals.

Lastly, let me assure you this Administration will continue its relentless response to the Deepwater Horizon tragedy. Our team is committed to help the people and communities of the Gulf Coast region persevere through this disaster, to protect our important places and resources, and to take actions based on the valuable lessons learned that will help prevent similar spills in the future.