

**STATEMENT OF KEN SALAZAR
SECRETARY OF THE INTERIOR
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON THE CONTINUING REFORM OF THE
OUTER CONTINENTAL SHELF PROGRAM**

JUNE 24, 2010

Chairman Bingaman, Ranking Member Murkowski, 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 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 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.

To review the reforms we have undertaken:

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 concrete action to:

- upgrade and strengthen ethics standards throughout MMS and for all political and career employees;
- terminate the Royalty-in-Kind program to reduce the likelihood of fraud or collusion with industry in connection with the collection of royalties; and
- aggressively pursue 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 started reforms of the offshore oil and gas regulatory program, which included actions to:

- initiate in Fall 2009 an independent study by an arm of the National Academy of Engineering to examine how we could upgrade our inspection program for offshore rigs;
- procure 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
- develop 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, removed Bristol Bay altogether from leasing under the current 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 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 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 took action to:

- finalize 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;
- announce 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
- commence discussions and enter 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 issues raised by, and 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 moratorium 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 accident 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 sixteen months to strengthen the OCS budget. As I already mentioned, the 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 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. I appreciate the Senate's prompt action in passing the supplemental on May 27. 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 approve 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 witness the work Departmental staff and volunteers are carrying out 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, the Flow Rate Technical Group, which is led by U. S. Geological Survey Director Dr. Marcia McNutt, and a scientific team led by Energy Secretary Steven Chu recently 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. 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, the NPS and FWS dispatched approximately 590 employees.

Representatives from the FWS also participated with the U.S. Coast Guard, the Environmental Protection Agency, 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.

In the last 60 days 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.

Legislative Efforts at Reform

All four of the bills before you today address reform of the Department's offshore energy and mineral resource development program. I would like to provide you some general comments on each of these bills and a few provisions in particular.

Your legislation, Mr. Chairman, S. 3516, the "Outer Continental Shelf Reform Act," would provide general organic authority for the restructuring of the offshore energy and minerals program in the Department and would make additional changes reforming some of the underlying laws governing management of these resources.

I have previously testified in support of organic legislation for the functions performed by MMS, noting 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 provisions in S. 3516 authorizing the creation of the three new entities are consistent with the changes I have directed in my Secretarial Order. The report and schedule for implementation that I will receive on July 9th will provide a detailed roadmap for this reorganization and will greatly inform the process. The Administration would like to continue discussion with the Committee regarding the specifics in this legislation of the appointment and confirmation of the new bureau and office directors.

A number of the changes contained in this bill 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. In this same vein, S. 3509, the “Safer Oil and Gas Production Research and Development Act”, would amend certain research and development provisions contained in the Energy Policy Act of 2005 to provide an additional focus on research and development on safety and reduced environmental impacts from development of these resources.

A focus on strengthened safety and oversight and the environmental impacts of offshore oil and gas operations are priorities of the Administration. These issues, and several others in the bills before you today, will require the Department to work closely with the Committee and other relevant federal agencies to ensure a coordinated approach to attaining these important objectives.

S. 3516 also includes new planning requirements, including a requirement for detailed descriptions of equipment and plans to address potential well blowouts. S. 3497, the “Oil Spill Prevention and Mitigation Improvement Act,” includes a similar focus, amending the Outer Continental Shelf Lands Act to require that leases entered into under that Act include a plan for containment and termination of discharges of oil, and a timeline for accomplishing those actions.

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.

S. 3516 would also 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. The Administration supports authority to provide for longer review time and for stronger reviews of exploration plans prior to drilling. We would like to work with the Committee on this important issue.

We are also supportive of the changes in S. 3516 intended to strengthen civil and criminal penalties contained in the OCSLA. These provisions are generally consistent with the support for increasing these penalties that Deputy Secretary Hayes expressed before this Committee on May 25th.

It is also important to provide the Department with the tools necessary to appropriately staff critical and hard-to-fill positions in these new entities. We look forward to continuing the dialog on this issue, as well.

Strengthening the Way We Do Business

Over the past several weeks I have talked about the many ways we have changed the direction of the MMS, both programmatically and structurally. S. 3431 would change laws governing ethical standards and fraudulent statements by MMS employees.

I have already mentioned the actions in this regard that I ordered last year. I am also pleased to have two former Inspectors General, in Michael Bromwich and Wilma Lewis,

to help lead our reform efforts. But my interest in strengthened ethics standards isn't limited to employees of the MMS. President Obama made it clear from the earliest days of this Administration that ethical behavior, among both political and career employees, was to be held to a premium standard. On January 26, 2009, I issued a memorandum to all employees regarding the high ethical standards with which we were all expected to carry out our duties. I also directed the Department's Ethics Office to review Department-specific regulations and recommend areas where improvements could be made. On August 19, 2009, I issued a Secretarial Order laying out additional clarifications to enhance and promote a stronger ethical culture at the Department.

S. 3431 would codify portions of the new standards made applicable to MMS employees in January 2009. The Department's Ethics Office is currently preparing updates to statutory language, including updates to provisions applicable to Departmental offices and to lands and energy and mineral development programs. I look forward to working with you and the sponsor as we move to modernize these important obligations.

Conclusion

Much of my time as Secretary of the Interior has been spent working to promote reform of prior practices in the Minerals Management Service 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. We are also 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.

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. 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 that will help prevent similar spills in the future.