

**STATEMENT OF
KEN SALAZAR
SECRETARY OF THE INTERIOR
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
LEGISLATION RELATED TO OIL AND GAS
DEVELOPMENT OFFSHORE AND ON PUBLIC LANDS**

May 17, 2011

Chairman Bingaman, Ranking Member Murkowski, and Members of the Committee, I am happy to appear before you today to discuss legislation intended to promote the Department of the Interior's reform of the offshore energy program and facilitate the development of oil and gas resources from our public lands and waters.

I am joined here today by Deputy Secretary David J. Hayes and Bureau of Ocean Energy Management, Regulation and Enforcement Director Michael R. Bromwich. Both Deputy Secretary Hayes and Director Bromwich have contributed critical hard work and played key roles in the Department's work to identify and implement key reforms that are advancing the Administration's commitment to safe and responsible domestic production.

As the President has stressed, the Administration is committed to promoting safe and responsible domestic oil and gas production as part of a broad energy strategy that will protect consumers and reduce our dependence on foreign oil. When President Obama took office, America imported 11 million barrels of oil a day. The President has put forward a plan to cut that by one-third by 2025. We are already making progress towards that goal. Last year, America produced more oil than at any time since 2003. To encourage production, the Administration is taking a series of steps to leverage existing authorities. These initiatives are part of the Administration's overall *Blueprint for a Secure Energy Future*, a broad effort to secure America's energy future and protect consumers by producing more oil at home and reducing our dependence on oil by using cleaner, alternative fuels and improving our energy efficiency.

As President Obama has said, "we cannot keep going from shock to trance on the issue of energy security, rushing to propose action when gas prices rise, then hitting the snooze button when they fall again." We are working to expand cleaner sources of energy, including renewables like wind, solar, and geothermal, as well as clean coal and natural gas on public lands. But domestic

oil and gas production remain critical to our nation's energy supply and to reducing our dependence on foreign oil.

In his radio address just this past Saturday, the President laid out the next steps of this strategy, highlighting some of the actions that the Administration is taking using existing authorities to expand responsible and safe domestic oil production. But we also need to go further, which is why the Administration is also calling on Congress to act on a series of legislative principles, which I will outline today.

Much of the content of these proposals overlaps with the legislative proposals that we are here today to discuss. We generally support S. 916, *the Oil and Gas Facilitation Act of 2011*, and S. 917, *the Outer Continental Shelf Reform Act of 2011*, and, as we will discuss, have begun to address a number of the provisions in these bills administratively. We support much of the intent of S. 843, *the Outer Continental Shelf Permit Processing Coordination Act*, and S. 516, *the Lease Extension and Energy Security Act of 2011*, and agree that facilitating the efficient, responsible development of our oil and gas resources is a necessary component of energy security. Other involved agencies may have additional views.

Administrative reforms

Let me begin by explaining some of the measures that the Administration is taking using the authorities that we already have.

First, we have devoted considerable effort over the past year – in the wake of the tragic *Deepwater Horizon* oil spill – to putting in place a new set of rigorous standards for safety and responsibility. Our aggressive reforms to offshore oil and gas regulation and oversight are the most extensive in U.S. history. The reforms strengthen requirements for everything from well design and workplace safety to corporate accountability, and are helping ensure that the United States can safely and responsibly expand development of its energy resources consistent with our stewardship responsibilities.

And consistent with these rigorous standards, the Department continues to facilitate domestic production by issuing permits. We have continued to issue shallow water permits in every case where the application complies with all of our heightened standards that apply to shallow water operations. To date, 53 new shallow water wells have been permitted since the implementation of new safety and environmental standards on June 8, 2010. Permits have averaged 6 per month

since October 2010. Since mid-February when industry first demonstrated subsea containment, we have permitted 14 deepwater wells.

Building on these important steps, the President's recent remarks highlight a series of additional measures that the Administration is taking using existing authorities. These include:

- Conducting annual lease sales in Alaska's National Petroleum Reserve, while respecting sensitive areas, and speeding up the evaluation of oil and gas resources in the mid- and south Atlantic Ocean;
- Holding Western and Central Gulf lease sales by mid-2012—including the Western and Central Gulf of Mexico lease sales that were postponed last year—consistent with the strengthened environmental review in light of lessons learned from the Deepwater Horizon oil spill;
- Creating new incentives for industry to develop their unused leases both on and offshore. Today, more than 70 percent of the tens of millions of offshore acres under lease are inactive, including almost 24 million inactive leased acres in the Gulf of Mexico, where an estimated 11.6 billion barrels of oil and 59.2 trillion cubic feet of natural gas of technically recoverable resources are going unused. Onshore, about 57 percent of leased acres – almost 22 million acres in total – are neither being explored nor developed;
- Extending drilling leases in the Gulf of Mexico that were affected by the temporary moratorium, as well as certain leases off the coast of Alaska. These measures will give companies more time to meet the rigorous standards that we have set in place for safe and responsible exploration and development;
- Coordinating an Alaska permitting process with a new, high-level interagency working group. A number of agencies within the federal government have mandates to ensure that Arctic development projects meet health, safety, and environmental standards. Using executive action, the Administration will formalize ongoing interagency collaboration and establish a high-level, cross-agency team to facilitate a more efficient permitting process in Alaska while ensuring that all standards are fully met.

Calling on Congress to Act

As described above, we are already taking extensive measures using our existing authorities. But we need Congress to help us do even more.

Let me start here by reiterating an important point that you have heard the President state consistently. At a time when oil companies are making near-record profits, with the biggest oil companies reporting profits in the range of \$4 billion each week, the President has called for an end to the taxpayer subsidies the federal government gives to oil and gas companies. As he noted in his address, at a time when many Americans are struggling to fill up their tanks and we are sacrificing to reduce our deficit, it just makes sense. The Administration strongly supports efforts in Congress to eliminate these unnecessary tax subsidies.

And today I'm announcing on behalf of the Administration a series of legislative principles intended to provide a framework for the efficient and responsible development of our domestic resources. These include measures to advance three primary objectives: Remove Outdated Disincentives to the Prompt Development of Oil and Gas Leases; Provide the Tools for the Federal Government to Oversee Offshore Oil and Gas Development Activities on a Timely and Effective Basis; and Ensure a Fair Return for American Taxpayers and Accountability for Safety Violations and Oil Spills. Specifically, this framework would:

- **Provide incentives for the Prompt Development of Oil and Gas Leases:**
 - Amend the Mineral Leasing Act of 1920 to allow for oil and gas leases that are less than 10 years in length. Current law requires that all onshore oil and gas leases extend for a full 10 years. This removes the Secretary's flexibility to encourage more prompt investment in domestic oil and gas development by issuing leases with shorter terms.
 - Establish incentives for lessees with nonproducing oil and gas leases that will encourage companies to either get their leases into production in a timely manner or relinquish them.
- **Provide the Tools for the Federal Government to Oversee Offshore Oil and Gas Development Activities on a Timely and Effective Basis;**
 - Codifying new safety and environmental standards for offshore oil and gas development that have been established through administrative procedures by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE);
 - Statutorily extend exploration plan approval time under the Outer Continental Shelf Lands Act to allow for appropriate environmental review;

- Formalize existing research collaboration by authorizing an Ocean Energy Safety Institute to connect government, industry, academia, and outside experts devoted to developing cutting-edge safety, containment, and response capabilities;
- Formalize the reorganization of the Bureau of Ocean Energy Management, Regulation and Enforcement and authorize BOEMRE to hire and maintain an expert workforce by:
 - Statutorily splitting BOEMRE into three entities: (1) Bureau of Ocean Energy Management responsible for managing offshore development; (2) Bureau of Safety and Environmental Enforcement charged with enforcing safety and environmental regulations; and (3) Office of Natural Resource Revenue (ONRR) responsible for collecting and disbursing revenues from energy production; and
 - Authorizing special hiring authorities for BOEMRE that allow the agency to address hiring for critical positions during times of need and at competitive salaries.
- **Ensure a Fair Return for American Taxpayers and Accountability for Safety Violations and Oil Spills**
 - Repeal portions of the Energy Policy Act of 2005 that expanded a now-outdated royalty relief program for offshore drilling operators thereby providing a better return to the American taxpayer;
 - Raise or eliminate the per-incident limit on access to the Oil Spill Liability Trust Fund to ensure that the Federal government can access the resources it needs to clean up an oil spill. The \$1 billion per-incident cap on expenditures out of the Fund is insufficient and could constrain the federal government's ability to respond to oil spills;
 - Repeal arbitrary limits on liability for damages resulting from offshore drilling, which have served as an implicit subsidy for the oil and gas industry for two decades; and
 - Increase civil and criminal penalties for companies that fail to comply with the requirements of the Outer Continental Shelf Lands Act and the Department of the Interior's implementing regulations, which include safety and environmental standards.

Some of these principles are being further developed as legislative proposals within the Administration; others were proposed by the Administration last year in the wake of the *Deepwater Horizon* spill. For example, the Administration has proposed that a portion of the civil CWA penalties from the DWH return to the Gulf. A number of these principles have been included in the several pieces of legislation you have introduced, Mr. Chairman.

Outer Continental Shelf Program Reforms

Mr. Chairman, you recently introduced S. 917, legislation that would address reform of the Department's offshore oil and gas program.

Over the months during and since containment of the spill associated with the Deepwater Horizon explosion, multiple reviews and investigations –some still ongoing – have resulted in reports indicating the need for change. Bodies ranging from the President's Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, the Department of the Interior's Inspector General, the Department's own Safety Oversight Board, to multiple Committees of the House and Senate, have indicated the need for reform not only of the way the Department does business but of the way oil and gas operations are carried out on the Outer Continental Shelf.

Many of the recommendations presented in these reports have validated the administrative actions and reforms we have been undertaking here at the Department to promote safety and science in offshore oil and gas operations. These changes were necessary to ensure that industry has the tools available to help prevent an accident like this from happening again.

We have put industry on notice that they will be held to the highest standards in safety and environmental responsibility in their oil and gas operations. As described briefly above, the Department, through the Bureau of Ocean Energy Management, Regulation and Enforcement, has promulgated necessary new regulations, including prescriptive regulations to bolster safety and to enhance the evaluation and mitigation of environmental risks. The Drilling Safety Rule is an emergency rule prompted by the *Deepwater Horizon* event. This rule has put in place tough new standards for well design, casing and cementing, and well control equipment, including blowout preventers. Under it, operators are required, for the first time, 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.

In order to reduce the human and organizational errors that lie at the heart of many accidents and oil spills, BOEMRE has also introduced, for the first time, performance-based standards similar to those used by regulators in the North Sea. The Workplace Safety Rule was in process well before *Deepwater Horizon*, but as described in the Commission's report, it took a major accident to provide the impetus necessary for these standards to be imposed.

As a result of these new regulations, operators are now required to develop a comprehensive safety and environmental management program that identifies the potential hazards and risk-reduction strategies for all phases of activity, from well design and construction, to operation and maintenance, and finally to the decommissioning of platforms.

BOEMRE has also issued Notices to Lessees (NTLs) that provide additional guidance to operators on complying with existing regulations. NTL-06, issued in June of 2010, clarifies that current regulations require an operator's oil spill response plan to include a well-specific blowout and worst-case discharge scenario. NTL-06 also clarifies that operators provide the assumptions and calculations behind these scenarios. NTL-10, issued in December of 2010, clarifies informational requirements, including a corporate statement from the operator that it will conduct the applied-for drilling operation in compliance with all applicable agency regulations, including the new Drilling Safety Rule. This notice also confirms 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.

Once industry was able to demonstrate the ability to fully comply with these new requirements, BOEMRE was able to resume issuing deepwater drilling permits. Since February 28, we have permitted 14 deepwater drilling wells and, in each case the applications complied fully with these more rigorous safety and environmental requirements, and each had demonstrated the ability to contain a subsea spill.

But one of the keystones of our reforms is the reorganization of the former Minerals Management Service into independent entities with distinct missions to oversee the leasing and energy development process, to regulate offshore drilling, and to collect the revenues from federal energy development. Having these three conflicting functions reside within the same bureau (MMS) enhanced the potential for internal conflicts of interest among the objectives of the agency. The process of reorganization began on May 19, 2010, when I issued Secretarial

Order 3299, which dissolved the MMS and called for the establishment of three new entities, including:

- The Bureau of Ocean Energy Management (BOEM), responsible for managing development of the Nation's offshore resources in an environmentally and economically responsible way. Functions carried out by BOEM will include leasing, plan administration, environmental studies, National Environmental Policy Act (NEPA) analysis, resource evaluation, economic analysis and the Renewable Energy Program;
- The Bureau of Safety and Environmental Enforcement (BSEE), which will enforce safety and environmental regulations. Functions to be carried out by BSEE will include Offshore Regulatory Programs, research, oil spill response, and all field operations including permitting and inspections, which will include newly formed training and environmental compliance functions; and
- The Office of Natural Resources Revenue, the revenue collection arm of the former MMS and which has already become a separate entity within the Office of the Secretary.

By October 1 of this year, the offshore resource management function will be separated from the safety and enforcement function, thus, in BOEMRE's place, we will have the two brand new agencies mentioned above.

These reforms are also supported by the President's fiscal year 2012 budget, which requested additional resources essential to effectively protect our natural resources as well as to address the need for an efficient, effective, transparent, and stable offshore regulatory environment. Most critically, the budget request will provide for an increase in inspection capability, partially funded through higher user fees, that will enable BOEMRE to conduct additional inspections and oversee high risk activities, as well as an investment in permitting to sustain efficient review, processing and approval of permits.

The Outer Continental Shelf Reform Act of 2011 is nearly identical to S. 3516 from the 111th Congress, which the Administration supported at a hearing before your Committee. Many of the provisions in this bill are consistent with the legislation principles I have announced today.

The legislation 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.

We support organic legislation for the functions performed by these programs. It is our view that such important responsibilities should be governed by a thoughtfully considered organic act. However, it is also important for organic legislation to provide the Secretary with the discretion to implement the details of a reorganization as complicated as this. The Administration would like to continue discussion with the Committee regarding the specifics in this legislation, such as 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. 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. 917 also includes new planning requirements, including a requirement for detailed descriptions of equipment and plans to address potential well blowouts. Consistent with this requirement, NTL-06, discussed above, clarifies that current regulations require that new filings for drilling permits, exploration plans, or development plans contain information specifically addressing the possibility of a blowout and the detailed steps that lessees or operators would take to prevent blowouts.

The legislation 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.

Finally, we are also supportive of the changes in S. 917 that would strengthen civil and criminal penalties contained in the Outer Continental Shelf Lands Act. These provisions are generally consistent with the support for increasing these penalties that the Administration has expressed in the past. 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 and other issues in the legislation.

Legislation to Facilitate Development of Resources

The Oil and Gas Facilitation Act of 2011, S. 916, is intended to facilitate the responsible development of oil and gas on Federal land and waters and reduce our dependence on energy developed by foreign sources through increasing our understanding of domestic oil and gas resources, coordinating interagency activity on permitting for oil and gas development, and facilitate transportation of Alaskan oil and natural gas.

The President and I are in complete agreement with you regarding the principles embodied in this legislation, and we support many of the provisions that are consistent with the principles discussed above. We agree that a better understanding of the oil and gas resources on the OCS is critical to ensuring that development takes place in the right ways and the right places. In response to the President's call for action, the Department is taking steps to expedite the evaluation of resource potential in the mid- and south Atlantic, including moving forward with the environmental analysis necessary to allow industry to proceed with seismic testing in the region as soon as possible.

S. 916 also contains provisions that would create an Outer Continental Shelf Permit Processing Coordination office in Alaska. S. 843, *the Outer Continental Shelf Permit Processing Coordination Act*, also being heard today, is nearly identical to these provisions but would broaden the authorization to include the establishment of regional OCS permit processing coordination offices to the Atlantic and Pacific regions, to be established at the point that lease sales are held there. These provisions are similar to a pilot program that has been in place in the Bureau of Land Management for several years that addresses onshore oil and gas permitting.

Interagency coordination is important for the efficient processing of permits throughout the OCS. As the Administration's Blueprint specifically notes, interagency coordination is necessary and important to facilitate responsible oil and gas development in Alaska. As mentioned above, the President has requested that a high level, cross-agency team be assembled in order to facilitate a more efficient permitting process in Alaska while ensuring that all standards are fully met. We believe that this specifically tailored approach will result in a better coordinated, more efficient, safe, and environmentally responsible offshore permitting process.

We also strongly support the repeal in section 203 of the deepwater royalty relief provisions of the Energy Policy Act of 2005, which is consistent with the President's 2012 Budget. We note that the Budget also proposes to terminate the Permit Processing Improvement Fund.

Finally, S. 516, the *Lease Extension and Secure Energy Act of 2011*, would require a one-year extension of leases in the Gulf of Mexico that were either not producing as of April 30, 2010, or were suspended from operations or other action in accordance with the May 30, 2010, NTL No. 2010-N04 issued by the Minerals Management Service or the suspension notice issued on July 12, 2010. As the president said Saturday, the Administration fully supports extensions for Gulf of Mexico leaseholders directly impacted by the drilling moratorium, and ten such suspensions have already been granted using administrative procedures to leaseholders who have demonstrated that they were affected by the moratoria.

Conclusion

Mr. Chairman, we have made significant strides in reforming the way the offshore oil and gas program is carried out here at the Department of the Interior and on the Outer Continental Shelf. We have raised standards and promoted safety and science in offshore oil and gas operations. The changes we have made will provide industry with the tools to help prevent an accident like this from happening again. Consistent with the framework presented by the *Blueprint for a Secure Energy Future*, we are working to secure our energy future by ensuring the potential for renewable energy development on our public lands and waters is realized. And we are pursuing the safe and responsible development of our conventional energy resources here at home.

Mr. Chairman, Senator Murkowski, this concludes my statement and I am happy to answer any questions you or other Members of the Committee may have.