

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

JULY 20, 2010

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

Offshore Energy Reforms Completed

The reforms we have embarked on over the last year and a half are substantive and systematic, and we will continue to build on them. The 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. But this unprecedented disaster at the Deepwater Horizon has only strengthened our resolve. We believe that our reform efforts 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 reforms we have already undertaken:

First, we focused our efforts on ethics and other concerns that had been raised in the revenue collection side of the MMS. We:

- upgraded and strengthened ethics standards and enforcement 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, and:

- 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 necessary increases in the MMS budget for FY 2010 and FY 2011, including a 10 percent increase in the number of inspectors for offshore facilities; and
- developed a new approach to ongoing oil and gas activities on the Outer Continental Shelf (OCS) aimed at promoting the responsible, environmentally-sound, and scientifically-grounded development of oil and gas resources on the OCS.

In reversing the plans of the previous administration, and charting a new course for oil and gas development on the OCS, we cancelled the upcoming Beaufort and Chukchi lease sales in the Arctic, removed Bristol Bay altogether from leasing in both the current five-year plan and the next five-year plan, and removed the Pacific Coast and the Northeast entirely from any drilling under a new five-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- or 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 for off-shore wind – cutting through jurisdictional disputes -- and approved the Cape Wind project;
- announced the establishment of a regional renewable energy office to coordinate and expedite the development of wind 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.

Reorganization of the Minerals Management Service

I appointed Michael Bromwich as BOEM Director on June 15th. Michael, a former Inspector General of the Department of Justice and, more recently, an attorney in private practice, will lead us through the reorganization, which will lay 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.

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.

In a May 19 Secretarial Order, I restructured the MMS, separating the bureau's resource management, safety, environmental oversight, enforcement, and revenue collection responsibilities, and reassigned those functions to three new entities within the Department: the Bureau of Ocean Energy Management, the Bureau of Safety and Environmental Enforcement, and the Office of Natural Resources Revenue. I also 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 an implementation plan for the reorganization of the Department's offshore energy program.

The plan is based on the premise that the activities formerly carried out by the Minerals Management Service must be clearly defined and distinct from one another in order to eliminate both real and perceived conflicts within the organization. Another key objective of the restructuring was to establish necessary checks and balances in the relationship of the three new entities, but to also ensure that critical linkages among the three organizations were maintained to provide a predictably administered program. The plan balances the imperative to move quickly with the analysis and planning required to effectively achieve the identified objectives.

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 five years.

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 learned from the event. We are taking aggressive action on multiple fronts, including:

- inspecting all deepwater oil and gas drilling operations in the Gulf of Mexico;
- issuing a safety notice to all rig operators in the Gulf;
- implementing the 30-day safety report to the President, including issuing notices to lessees on new safety requirements, developing new rules for safety and environmental protection, and issuing suspensions of deepwater drilling on the OCS to ensure that oil and gas companies implement adequate safety measures to reduce the risks associated with deepwater drilling operations; and
- requiring operators to submit information in their exploration plans regarding blowout scenarios– 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 enhance safety and environmental protection and improve overall management, regulation, and oversight of operations on the Outer Continental Shelf.

The Council on Environmental Quality (CEQ), working with the Department of the Interior, is conducting a review of National Environmental Policy Act (NEPA) policies, practices, and procedures for the Department of the Interior's Minerals Management Service (MMS) decisions for Outer Continental Shelf (OCS) oil and gas exploration and development. We anticipate that additional reforms will be informed by this review.

Finally, the President established the independent bipartisan National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, which has been tasked with providing options on how we can prevent and mitigate the impact of any future spills that result from offshore drilling.

The Administration will make sure that BP and other responsible parties are held accountable, that they will pay for the costs of the government's response to the spill, and compensate individuals, families, and business for losses and damages that arise from the spill. We will do everything in our power to make the affected communities whole. As part of this effort, last Thursday BOEM Director Michael Bromwich notified BP in writing that it is required to pay royalties on all oil captured from the leaking well and that it may also be responsible for royalties on any oil lost or wasted from the well if it is determined that such loss or wasted oil was due to negligence or regulatory violations that contributed to the tragedy.

Supplemental Legislation

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 10 percent increase in the number of inspectors. Our restructuring of the OCS program will require additional resources to implement the aggressive reforms we are pursuing. We are currently hiring an additional 12 inspectors and taking other actions that are outlined in the 30-day report to the President. 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 to fund near term resources for these activities. These funds are critically needed to bolster inspections of offshore oil and gas platforms, draft health, safety, and environmental protection regulations, develop the required enforcement measures for these new 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 days to up to 90 days. This is also necessary, and I urge Congress to include it in the final version of the supplemental.

Sustained Response Efforts in the Gulf

My staff and I have worked virtually non-stop to address the Deepwater Horizon incident since April 20th. I personally have worked in Houston, Louisiana, Mississippi, Alabama, and Florida many days since then to help with efforts to both stop the oil spill and to protect the coasts, wetlands, marine environments, and wildlife threatened by this spill. We have deployed over 1,000 employees to the Gulf, and they have been 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 Admiral Thad Allen, we remain hopeful that the well will soon be killed and the planned cementing operations will ultimately seal the well. And good progress is being made on drilling the relief wells. Oil spill containment and clean up of the Gulf remains of utmost importance to us.

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 600 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. And Dr. Marcia McNutt, my science advisor and the Director of the United States Geological Survey, has been at the Unified Command Center in Houston almost continuously since May 2010, providing science-based and technical expertise, coordination, and oversight to BP's efforts to contain the leak and kill the well.

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 people in the Department devoting significant time and energy to various investigations and inquiries 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 several months, we have seen what the employees in the Bureau of Ocean Energy Management, Regulation and Enforcement are capable of -- their professionalism, dedication to the Department, and enthusiasm for the reforms underway. With Michael's help we will be able to cast aside the shadow that was left by an errant few, as well as the old policies that prioritized production over ethics, safety, and the environment.

Conclusion

Much of my time as Secretary of the Interior has been spent working to reform old practices of the MMS and 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 work with other federal agencies to conduct thorough environmental analysis and scientific study, gather public input and comment, and carefully examine the potential safety and spill risks.

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.

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, protect our important places and resources, and take actions based on valuable lessons learned that will help prevent similar spills in the future.