

**Testimony of Jon Hrobsky**

**July 6, 2016**

**U.S. House of Representatives Committee on Natural Resources**

**Energy and Mineral Resources Subcommittee**

**Legislative Hearing on H.R. 5577,**

**The Innovation in Offshore Leasing Act of 2016**

Thank you Chairman Lamborn, Ranking Member Lowenthal, Congressman Graves and Members of the Subcommittee for the opportunity to testify before the Subcommittee today on H.R. 5577, the Innovation in Offshore Leasing Act of 2016. I appreciate the invitation to testify today, and I appreciate the opportunity to share my own views with you. These views are informed by my experience of working on Outer Continental Shelf (OCS) issues for over a dozen years both in federal service at the U.S. Department of the Interior and in the private sector, including understanding all of the work that goes into preparing for a lease sale, having been behind the scenes for some of the largest OCS oil and gas lease sales in history and then working with the region as they went through a rigorous process to determine bid adequacy. I believe the Bureau of Ocean Energy Management (the Bureau) possesses one of the most highly skilled workforces in the country and is more than up to the challenge of implementing H.R. 5577 and conducting OCS oil and lease sales online. I would note that while a different leasing process and bid evaluation occurs, the Bureau of Ocean Energy Management already conducts wind energy lease sales online. I support H.R. 5577.

Congress made it clear in the Outer Continental Shelf Lands Act their direction to Secretary of the Interior that oil and gas leasing and oil and gas lease sales are an important element of our nation's energy policy by stating, "the outer Continental Shelf is a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and

orderly development, subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs.”

Since the very first lease sale of the U.S. Outer Continental Shelf off the coast of Louisiana in 1954, the U.S. Department of the Interior has been conducting oil and gas sales regularly with most years having multiple sales per year. These sales have resulted in billions of dollars to the treasury and billions of barrels of oil and gas equivalent produced. The technology within the industry has changed since that time where today there is activity in over 10,000 feet of water and wells have been drilled over six-miles deep from the surface of the ocean.

While the technology to analyze bids and comb through seismic data has kept up, the reading of the bids in person, before an audience should be modernized and take advantage of technology, including moving the system online.

H.R. 5577 builds upon that that work and keeps it in place while migrating to the Internet. One of the reasons OCS oil and gas lease sales have been so successful is the concept that competing bidders do not know how many bidders, their identity or the amount of money placed within individual bids. That often can mean a delta of tens of millions of dollars in difference between the highest and second highest bidder. That disparity benefits taxpayers. Keeping the bids sealed and requiring that all bids must be submitted 24-hours prior to the Sale are important concepts reflected in the legislation.

Data security is the most important component to the online nature of leasing. H.R. 5577 requires the Secretary of the Interior to have a secure system in place that has been tested and verified. With some of the notable data breaches that have taken place in the private and public sector, making sure the Bureau has the security capability in place to meet the challenge is paramount.

On Page 2, Line 25 of the bill states the Secretary shall ensure, “an independent, third-party observer from the Department of the Interior’s Office of the Inspector General present during the bid reading process to prevent

wrongdoing, independently certify the bidding process, and maintain transparency.” While I believe having someone outside of the bureau verify the process is a positive and would like to see that aspect retained in the bill; by placing the Inspector General in an operational role, the legislation may inadvertently frustrate the Inspector General’s office’s ability to be independent should they need to investigate an irregularity in a future sale. There are a number of officials that could be assigned the duty and act independently of the Bureau, including a designee of the Department’s Solicitor, while still ensuring the Inspector General’s independence.

An additional aspect of the bill I think will be useful is the requirement to make statistical information of individual Sales available to the public. That data will continue to allow historic comparisons for policy makers and may aid in future decision-making in the direction of OCS oil and gas sales.

I believe the efforts in the bill and the ensuing dialogue between the Bureau and potential future lessees, including the workshop will ensure a better experience for lessees and the Bureau and one in which all parties will have greater confidence. Inviting some of the oversight entities to witness tests and understand the online process including the Inspector General’s office, the Government Accountability Office and staff from the Congressional committees of jurisdiction may also reduce future confusion.

The feedback to Congress and hopefully the flexibility to make changes where necessary will continue to ensure this process is transparent and accountable to the taxpayer.

I applaud the transparency and efforts to bring leasing online. From our stock markets to applying for a loan, managing personal finances or shopping at an online retailer, most of the public uses the Internet for financial transactions. While the process to move oil and gas lease sales online will not be overnight, it is an endeavor that the Bureau can and should do.

Thank you again, and I would be happy to answer any questions you may have.