

**STATEMENT OF DAVID J. HAYES
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BEFORE THE
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND ENVIRONMENT
UNITED STATES HOUSE OF REPRESENTATIVES**

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Thank you, Chairman Markey, Ranking Member Upton, and Members of the subcommittee for the opportunity to discuss with you today the ongoing efforts within the Department of the Interior and the Administration related to offshore energy development safety and regulatory reforms. I am accompanied today by Steve Black, Counselor to the Secretary, who helped develop and draft the Department's Report on Increased Safety Measures for Energy Development on the Outer Continental Shelf, also known as the "30-day Report," which was delivered to the President on May 27, 2010.

Introduction

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 program. Before I detail the many reforms of this program that Secretary Salazar and his team have implemented over the past 17 months, let me provide a few general comments on the discussion draft of legislation, the "Blowout Prevention Act of 2010", that the subcommittee made public at the end of last week.

Overall, given the level of detail contained in this draft, the Administration will require additional time and analysis to fully understand and assess the policy and legal implications of its provisions before we can provide the subcommittee with a detailed position on this bill.

However, a number of the provisions in the legislation appear to tier off recommendations made in the 30-day Report to the President, and would codify those recommendations, many of which are already underway. With this in mind, we recognize that existing statutory authority and regulations may provide a sufficient legal pathway to develop the technologies and practices needed to raise drilling operation and safety requirements to a higher standard.

Continued Reform

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.

Specifically, these reforms have included the following:

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 under 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 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:

- 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;
- relevant to the subcommittee's legislative effort, 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 suspensions 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.

Further, on April 30th Secretary Salazar 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.

On June 18, 2010, the Department issued a Notice to Lessees (NTL) requiring 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. 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.

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 Secretary Salazar's 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. We 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.

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 17 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 outlined above, 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. 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.

Reorganization of the Minerals Management Service

On June 15, the President and Secretary Salazar appointed Michael R. Bromwich as the Director, of the Bureau of Ocean Energy Management, Regulation and Enforcement. Director Bromwich 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.

Director Bromwich joins the team that has been working out the details of the reorganization – 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 the Secretary's senior advisors, who have been tasked with developing 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. Secretary Salazar has returned to the Gulf Region numerous times to help the Administration's effort to

protect the coasts, wetlands, and wildlife threatened by this spill. The Department has 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 the Secretary and Energy Secretary Steven Chu, we 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. I have been devoting my 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, 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. We should 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 Director Bromwich'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.

Conclusion

We have spent much time at the Department 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 toward clean energy sources and away from spending hundreds of billions of dollars each year on oil. 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.

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.