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BOEMRE Director Highlights Role of Environmental Reviews, Announces Science Recruitment Tour at Information Transfer Meeting

NEW ORLEANS – Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) Director Michael R. Bromwich delivered the keynote address today at the bureau's Information Transfer Meeting (ITM) in New Orleans. This year's plenary session, "Moving Forward: Emerging from the Deepwater Horizon Event," provided an opportunity to discuss new, comprehensive reforms that have been implemented in the wake of the Deepwater Horizon explosion and resulting oil spill.

First held in 1980, BOEMRE's Gulf of Mexico Region's ITM provides a forum for the sharing of results, methodologies, and ideas related to environmental studies. Scientists and researchers present, discuss and share their findings in support and funded in part by the bureau's environmental studies program.

During his remarks, Director Bromwich announced that he will kick off a university tour with visits to ten universities throughout the country to discuss the new environmental science-related opportunities created through the bureau's re-organization. BOEMRE will be hiring environmental scientists in the coming months to do work in fields ranging from environmental studies to NEPA review to environmental compliance – all of which are critical to the balanced development of offshore resources.

The Director's remarks as prepared for delivery are below:

Good morning. I very much appreciate the opportunity to speak to you during this plenary session of our Information Transfer Meeting. We do not yet fully understand the implications and effects of last year's tragic oil spill – the full impacts may not be known for many years. But forums such as this give us the opportunity to share what we have learned and help to guide our future efforts. The information discussed here will contribute greatly to the body of knowledge about the spill itself as well as the overall effects of offshore energy production on our environment. This enhanced knowledge will help us to make better decisions for our environment and our economy.

One of the immediate lessons learned from the spill was that the standards for safety and environmental practices offshore must be raised, so I am pleased to be able to speak to you about how we are doing that and about some of the challenging issues we face in an unsettled and unsettling environment.

Since I took over the agency in mid-June, we have been working hard to institute broad and lasting changes to the way we regulate oil and gas drilling and development in the waters off our country's shores. And the truth is that these changes are long overdue. It's not unusual for serious reform to be triggered by a major catastrophe. In this case, it was the unprecedented deepwater blowout of the Macondo well, the sinking of the Deepwater Horizon drilling rig, the tragic deaths of 11 workers, and a spill of nearly 5 million barrels of oil into the waters of the Gulf of Mexico.

The Deepwater Horizon tragedy immediately roused both government and industry out of a complacency that had developed over the past several decades. The result of that complacency was that the increased dangers of deepwater drilling were not accompanied by increased vigilance and concern for the safety of those operations. That is changing.

This morning, I want to walk you through the steps that our agency is taking to upgrade its commitment to the responsible stewardship of our nation's offshore resources. These reforms are necessary – and reflect how seriously we take our responsibility to ensure that offshore drilling and its related activities, which are vital for the foreseeable future to our economy and security, are conducted safely.

When I was asked to take over responsibility for this agency, I received a broad, ambitious and urgent mandate from President Obama and Secretary Salazar – to reform offshore energy development, and the agency responsible for overseeing it. Since that time, we have been working to make profound changes necessary to restore the public's confidence that offshore oil and gas drilling and production can be – and will be – conducted safely and with appropriate protections for marine and coastal environments.

Following Deepwater Horizon, a broad consensus quickly emerged – in government and industry – that there was an urgent need for upgrading the safety rules and practices within the oil and gas industry. But far more quickly than many people anticipated, that consensus began to fray as new rules were developed and new requirements were imposed on companies operating offshore. Some of the offshore operators and support companies clearly recognized that Deepwater Horizon was the symptom of a broader failure in both industry and government – a systemic failure to ensure that advances in drilling and workplace safety kept pace with increasingly risky operations and to ensure that the industry regulator had the tools and resources to do its job. As a result, they supported our efforts to strengthen regulation of offshore drilling and began to undertake their own efforts to raise standards for drilling and workplace safety, spill containment, and spill response.

But there are other operators who, with surprising and disturbing speed, have seemed all-too-ready to shrug off Deepwater Horizon as a complete aberration, a perfect storm, one in a million. They point to the lack of a similar blowout in the decades before the explosion and spill and suggest that the steps taken in response have been an overreaction and were unnecessary. In my judgment, that is as disappointing as it is short-sighted.

Our view is that this was a broad problem that needed to be addressed broadly and boldly. That view has been supported most recently by the report issued by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. As the Commission describes in its report, regulatory and industry reform in the wake of a significant offshore disaster has happened before. The United Kingdom and Norway substantially changed their oversight of offshore drilling and production following the Piper Alpha and Alexander Keilland incidents. Australia is currently facing many of the same issues we are confronting following the Montara blowout, which occurred only eight months before Deepwater Horizon.

The specific challenges facing us, however, are unique in many significant respects. The scale of offshore oil and gas operations in U.S. waters, particularly in the Gulf of Mexico, is vastly greater than those in the North Sea. The economies of many of the Gulf Coast states are closely tied to offshore industry. The Gulf accounts for more than 25 percent of domestic oil production and approximately 12 percent of domestic gas production. In fact, for many months now, we have been hearing concerns expressed by business owners, public officials, and the public at large about the impact of the spill and its aftermath on the economies of Gulf Coast states. Those concerns are real and need to be taken seriously.

One of the key problems that we are addressing – and that cannot be avoided – is ensuring that government and industry make the fundamental reforms necessary to improve the safety and environmental protection in this massive industry, while at the same time allowing for the continuity of operations and production.

I. Scope of the Problem

As I mentioned a moment ago, there are some in the oil and gas industry that dismiss Macondo as an isolated event that does not represent a systemic problem. But evidence developed by the President's Commission convincingly refutes the notion that Deepwater Horizon was a one-in-a-million event. They identified 79 loss of well control accidents in the Gulf between 1996 and 2009. That's a lot more than one in a million. Very recently, we saw a loss of well control in the Gulf involving a platform in shallow water. Thankfully, the consequences were not dire, but that event certainly undermines the claim that such events are exceedingly rare – and also undermines the claim, which we have heard repeatedly, that the risks in shallow water are trivial or non-existent. That's simply not true.

The Commission also found that federal oversight was deeply compromised by combining separate and conflicting missions within one agency — namely, the responsibility for promoting the expansion of offshore leasing and drilling and the responsibility for ensuring safety and protecting the environment.

According to the Commission, and others who have recently addressed these issues, regulators failed to keep pace with the dramatic transformation of the offshore drilling industry and the move to deepwater drilling. Neither inspectors on the front lines nor senior Minerals Management Service (MMS) officials had the tools or the training to fully oversee deepwater offshore drilling. Both industry and government were unprepared to contain a deepwater well blowout. And, very importantly, MMS did not receive predictable and adequate funding needed to effectively oversee offshore drilling. Over the past 20 years, the MMS budget for leasing, environmental protection, and regulatory oversight remained stagnant while deepwater drilling in the Gulf of Mexico expanded dramatically. Unfortunately, little has changed so far with respect to the funding issue – largely because of the Congress's inability to reach agreement on FY 2011 funding levels.

II. Reorganization

We at the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) have been working to address the important structural issues the Commission addressed in its report. Let me be specific about what we have already done, and what we plan to do in the future. Together with Secretary Salazar, we have undertaken the most aggressive and comprehensive reform of offshore oil and gas regulation and oversight in U.S. history.

This includes the reorganization of the former MMS to establish mission clarity and to strengthen oversight; and it also includes the development and implementation of heightened standards for drilling practices, safety equipment, and environmental safeguards.

Let me outline for you the main elements of our fundamental reorganization and reform of the former MMS. As we have previously announced, in the place of the former MMS – and in the place of BOEMRE, the direct and temporary successor to MMS – we are creating three strong, independent agencies with clearly defined roles and missions. MMS simply could not keep pace with the challenges of overseeing industry operating in U.S. waters in part because it had conflicting missions. It was expected to promote resource development, to enforce safety regulations, and to maximize revenues from offshore operations. And all of this, with utterly inadequate resources.

The reorganization of the former MMS is designed to remove those conflicts by clarifying and separating missions in three new agencies. The new agencies now have clear missions and structures that will support those missions. We are designing and implementing these organizational changes while we take into account the crucial need for information-sharing and the other links and connections among the functions of the former MMS. This is essential to ensure that the operating processes related to offshore leasing, plan approval and permitting operate efficiently and effectively from the outset.

On October 1 of last year, the revenue collection arm of the former MMS became the Office of Natural Resources Revenue and now is

located in a different part of the Interior Department, with a reporting structure and chain of command completely separate from the offshore regulator.

Over the coming months, the offshore resource management and enforcement programs will be established as separate, independent organizations. The next steps in the reorganization are more difficult, but also extremely important: they involve separating the energy development functions and resource management functions from the safety and environmental enforcement missions of the nation's offshore regulator. The Interior Department, as well as the President's Commission, has concluded that the separation of these missions is essential to reforming the government's oversight of offshore energy development.

I want to touch on some details of the two new independent agencies – the Bureau of Ocean Energy Management – or BOEM – and the Bureau of Safety and Environmental Enforcement – or BSEE. This re-organization is more than just moving boxes around on an organization chart – it is about making fundamental, thoughtful changes in the way these agencies operate.

- BOEM will be responsible for managing development of the nation's offshore resources. This involves ensuring that the environment is protected and that the nation's offshore energy resources – including oil, gas, and renewable resources – are developed wisely, economically and in the country's best interests.

- BSEE will independently and rigorously enforce safety and environmental regulations.

Ever since Deepwater Horizon, we have been engaged in a comprehensive and rigorous analysis to ensure that we address the structural issues and conflict of interest problems that existed in the former MMS and to plan for the orderly commencement of the new Bureaus.

One of the important steps in our planning and analysis was to ensure that we can implement these changes while minimizing disruptions to the Bureau's daily operations. Given the national focus on energy development and production at a time of high gasoline prices, this is essential. We did it by discussing the reorganization with employees throughout BOEMRE over the course of many months. We received their input; collected and analyzed data relating to the Bureau's processes, systems and regulatory metrics; and developed a number of alternatives for restructuring and reforming the Bureau. This work has been painstaking and time consuming, but it has been essential to making informed decisions regarding the transformation of the Bureau.

I want to highlight a couple of the more significant changes we are making, which promote the principles of independence, development of rigorous and thorough science, and safety and environmental protection.

- We are separating resource management from safety oversight to allow permitting engineers and inspectors, who are central to overseeing safe operations, greater independence, more budgetary autonomy and clearer missions and leadership focus. Our goal is to create a tough-minded, but fair, regulator that can effectively keep pace with the risks of offshore drilling and will promote the development of safety cultures in offshore operators.

- We provide a structure that ensures that sound environmental reviews are conducted and that the potential environmental effects of proposed operations are given appropriate weight during decision-making related to resource management in BOEM. This is to ensure that leasing and plan approval activities are properly balanced. These processes must be both rigorous and efficient so that operations can go forward promptly with full understanding of their potential environmental effects and confidence that appropriate mitigation against those potential environmental effects are in place.

- We strengthen the role of environmental review and analysis in both organizations through various structural and organizational mechanisms. Those include:

    - The creation of a first-ever Chief Environmental Officer in BOEM. This person will be responsible for ensuring that environmental concerns are appropriately balanced in leasing and planning decisions and for helping set the scientific agenda relative to our oceans. This is a new, high-profile and extremely important position, which we hope and expect will attract top-flight talent;
    - Separating the environmental review and leasing programs in BOEM's regional offices;
    - The creation of new plan approval processes in BOEM;
    - The development, for the first time, of a brand new Environmental Compliance and enforcement function, which will reside in BSEE; and
    - The establishment of the review and enforcement of Oil Spill Response Plans, which will be conducted in BSEE and will be addressed as a national-level priority.

III. Scientific Integrity in Decision-Making

One of the guiding principles of our reform agenda is a fundamental change in the approach to decision making, which includes a renewed commitment to develop thorough, credible and unfiltered scientific data.

Over the past few decades, oil and gas development moved farther and farther offshore as industry sought new productive discoveries, sought to increase domestic oil and gas supplies and provide the country with greater energy independence. While important science has always been conducted and has been involved in these developments, we have concluded from our reviews of the Presidential Commission as well as those we have conducted internally, that our scientific community has not always had a strong enough voice. We

are changing that.

This past September, Secretary Salazar issued a Secretarial Order establishing a Scientific Integrity Policy for the Department, which we as a bureau are wholeheartedly embracing. Scientific and scholarly information considered in our decision-making must be sound, of the highest quality, and be the product of rigorous scientific and scholarly processes. To achieve those goals, we must cultivate and reinforce a culture of scientific integrity.

This means that our employees, political and career, must never suppress or alter, without new scientific or technological evidence, scientific or technical findings or conclusions – period. Further, employees will not be pressured to alter or censor scientific findings, and they will be protected if they uncover and report scientific misconduct. This is not about finding fault with the past, because the truth is that the agency's scientific work has in been many instances been unfairly maligned, but instead a strong commitment and prescription for the future.

This also means that we have to devote greater resources to, and elevate the role of, our scientists within the offshore regulators. As I mentioned earlier, we are for the first time establishing the position of a Chief Environmental Officer for BOEM. This person will be empowered, at the national level, to make decisions and final recommendations when leasing and environmental program directors cannot reach agreement. The Chief Environmental Officer also will be a major player in setting the scientific agenda for the nation's oceans. And by creating an entirely new environmental compliance function for BSEE, we are providing for the first time regulatory oversight focused on the environment.

As we work to elevate science in our decision-making, it is critically important that we have the necessary resources to conduct scientific studies, complete NEPA reviews, and fill important positions in environmental compliance.

That's why I am announcing today that beginning the week of April 4 and continuing through May, we are conducting a recruitment tour focusing on some of the nation's finest environmental programs located in universities across the country. I will personally be visiting schools along the West Coast, in the Midwest, Northeast, and Gulf of Mexico regions, including Louisiana State University. I was at LSU last October to talk about opportunities within BOEMRE for engineers, and I very much look forward to returning to talk to students studying a broad range of environmental sciences. We will discuss not only the current opportunities for scientists in the bureau, but also the exciting new positions within the office of the Chief Environmental Officer and positions in our new Environmental Compliance unit. In the coming weeks, we will finalize the list of schools and provide more details about dates and times.

We are serious about these fundamental reforms and about a renewed focus on science in decision-making. As you will see throughout this meeting, BOEMRE conducts world-class studies and we employ some of the field's leading experts. Our recruitment efforts will bolster our resources and ensure that our reforms are lasting and effective.

For those who might now be thinking that the pendulum is swinging too far to the other side, we believe this is not the case. We are mindful of the fact that industry must continue developing the energy resources that exist offshore. This development is crucial to the economy, employment, and energy independence. We are striving to strike the appropriate balance between the imperatives of energy development and awareness of the potential environmental effects of energy development – and to ensure that appropriate measures are taken to protect against those effects. Creating and maintaining a culture of scientific integrity will enable us to make those decisions with greater confidence that we will be able to pursue energy development while having a thorough, science-based understanding of the risks posed by that activity and what can and should be done to reduce those risks.

IV. Implementation Teams and Other Reforms of BOEMRE Policies

Let me quickly discuss the important, substantive work that is going on within the agency to provide the tools, training and changes to the culture to make sure that the reorganization will have the results that we are aiming for.

As part of our broad and continuing reform efforts, we have created a number of Implementation Teams that have been hard at work for several months. They are the central focus of our efforts to analyze critical aspects of BOEMRE's structures, functions and processes, and implement our reform agenda. These teams are integral to our reorganization effort and are considering the various recommendations for improvement that we have received from several sources, including the Oil Spill Commission, the National Academy of Engineering, and the Safety Oversight Board commissioned by Secretary Salazar, and the Department of Interior Inspector General. In short, these teams are laying the foundation for lasting change to the way BOEMRE currently does business and the way its successor agencies – BOEM and BSEE – will do business in the future.

We are in the midst of reviewing our application of the National Environmental Policy Act (NEPA), including in particular the use of categorical exclusions. We have obtained public comments on our NEPA policy and we are in the process of reviewing and analyzing the comments we received. We are working closely with the Council on Environmental Quality (CEQ) on this evaluation. In the meantime, we are requiring that site-specific environmental assessments, as opposed to the categorical exclusion reviews performed in the past, be conducted for all new and revised exploration and development plans in deepwater. As I am sure many of you know, yesterday we approved the first deepwater exploration plan since Deepwater Horizon. It was submitted by Shell and as part of our review of the plan, we conducted the first of these site-specific environmental assessments.

To address conflicts of interest, we have issued a tough new recusal policy that will reduce the potential for real or perceived conflicts of interest. Employees in our district offices must notify their supervisors about any potential conflict of interest and request to be recused from performing any official duty in which such a conflict exists. Soon, we will be issuing a broader version of the policy that applies these ethical standards across the agency. I know that this will present operational challenges for some of our district offices in the Gulf region, which are located in small communities where the primary employers are offshore companies. But the need for tough rules defining the

boundaries between regulators and the regulated is necessary and compelling. These rules are necessary to assure the public that our inspections and enforcement programs are effective, aggressive and independent.

Finally, we are staffing our new Investigations and Review Unit, a unit I created immediately on taking over the agency. This unit, which is composed of professionals with law enforcement backgrounds or technical expertise has several important missions. First, it will promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by Bureau employees. Second, it will pursue allegations of misconduct against oil and gas companies involved in offshore energy projects. And third, it will provide the Bureau with the ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents.

V. New Safety and Environmental Regulations

I have discussed many of the reforms that we are pursuing to improve the effectiveness of government oversight of offshore energy development and drilling. These changes are both substantial and necessary. However, as the report of the President's Commission makes abundantly clear, industry must change as well. Some of this work must be initiated and implemented by industry, but my agency has a clear and important role in helping to spur that change.

We are doing so through the issuance of new prescriptive regulations to bolster safety, and to enhance the evaluation and mitigation of environmental risks. We have raised the bar for equipment, safety and environmental safeguards in the drilling and production stages of offshore operations – and we will continue to do so in open and transparent ways in the coming months and years. We have also introduced – for the first time – performance-based standards similar to those used by regulators in the North Sea. We have done all of this through the development and implementation of the two new rules, announced last fall, that raise standards for the oil and gas industry's operations on the OCS.

The first rule, the Drilling Safety Rule, is an emergency rule prompted by Deepwater Horizon. It has put in place tough new standards for well design, casing and cementing, – and well control equipment, including blowout preventers. For the first time, operators are now required 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.

The second rule we issued is the Workplace Safety Rule, which aims to reduce the human and organizational errors that lie at the heart of many accidents and oil spills. The development of this rule was in process well before Deepwater Horizon, but as described in the Commission's report, the promulgation of these performance-based standards was frustrated for various reasons. Unfortunately, as was the case in other countries such as the U.K. and Norway, it took a major accident to provide the impetus necessary for these standards to be imposed.

Operators now are 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. Although many progressive, forward-looking companies had developed such SEMS systems on a voluntary basis in the past, many had not. And our reviews had demonstrated that the percentage of offshore operators that had adopted such programs voluntarily was declining.

In addition to these important new rules, we have issued what we call Notices to Lessees (or NTLs) that provide additional guidance to operators on complying with existing regulations.

In June, we issued NTL-06, which requires that operator's oil spill response plans include a well-specific blowout and worst-case discharge scenario – and that operators also provide the assumptions and calculations behind these scenarios.

In November, we issued NTL-10, a document that establishes informational requirements, including a mandatory 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. The NTL 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. This information will help us evaluate operators' compliance with current spill response regulations.

Regulatory changes have been rapid, especially compared to the historical pace of change, and there have been, understandably, a number of questions from industry. These questions have been about our new regulations, about the NTLs, and about how we will apply NEPA going forward with respect to deepwater drilling operations.

We have held dozens of meetings, both in the Gulf region and in Washington, D.C., with federal and state representatives, industry groups, non-governmental organizations, and individual operators, to answer questions about the new rules and to provide clarity about the post-Deepwater Horizon regulatory environment.

The fact that continuing guidance is necessary should not come as any surprise to anyone. With the volume of new rules and formal guidance we have issued in recent months, the need for additional clarification was inevitable and necessary. It reflects no more than the fact that these are complex issues to work through, which is exactly what we have been doing.

We need to distinguish this kind of discussion and consultation, which is necessary to the enterprise of regulating a complex industry, with the type of relationship in which a regulatory agency forsakes its institutional independence and becomes the captive of the regulated industry. We are in favor of constructive engagement and continuing dialogue. But we will not permit any sacrifice of our institutional

independence.

We are working hard to ensure that this important industry continues to be able to operate fully and successfully. Since February 17, when the groups organized by industry established that they had developed a suite of resources capable of dealing with a subsea blowout, we have approved four deepwater permits. And more will be approved in the coming weeks and months. That said, one thing that the Secretary and I believe firmly is that a retreat on drilling safety is not an option.

VI. The Path Forward

The challenge facing government and industry in the months and years ahead is to ensure that we do not once again become complacent, but rather that we continue to make progress in developing state-of-the-art safety, containment and response capabilities. Government, industry and the best minds in our universities must continue to collaborate on ongoing research and development to create cutting-edge technologies in areas such as well condition sensor capabilities and remote BOP activation, among others. These initiatives are vitally important to pursue – by individual companies and by industry as a whole.

This is why we have established the new Ocean Energy Safety Advisory Committee, which will include federal agencies, industry, academia, national labs, and various research organizations. The 15-member committee will work on a variety of issues related to offshore energy safety, including drilling and workplace safety, well intervention and containment and oil spill response. This will be a key component of a long-term strategy to address on an ongoing basis the technological needs and inherent risks associated with offshore drilling, and deepwater drilling in particular.

We recently announced the membership Advisory Committee – and I'm happy to report that we have top-notch members from the oil and gas industry, as well as from academia, NGOs, and the government. As you know, Secretary Salazar has asked Dr. Tom Hunter, the former head of the Sandia National Lab, to chair the Committee.

The Ocean Energy Safety Institute, which will be nurtured and shaped by the Advisory Committee, will foster collaboration among all key stakeholders to increase offshore energy safety. The Institute will focus on a broad range of matters relating to offshore energy safety, including drilling and workplace safety, well intervention and containment, and oil spill response. It will also help spur collaborative research and development, training and execution in these and other areas relating to offshore energy safety.

Most importantly, this Institute is a key component of a long-term strategy to address on an ongoing basis the technological needs and inherent risks associated with offshore drilling, and deepwater drilling in particular.

As you can tell, we have been busy, and have been busily engaged with the industry, to make offshore drilling as safe as possible. We hope this constructive engagement continues and that in the very near future we will see a fully occupied offshore drilling industry that is operating more safely – and with greater environmental safeguards – than ever before.

I hope you find this year's Information Transfer Meeting to be informative and invigorating. I thank you for your time and attention.

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