

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

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Chairman Lamborn, Ranking Member Lowenthal, and Members of the Subcommittee, I am pleased to appear before you today to discuss H.R. 5577, the *Innovation in Offshore Leasing Act*. H.R. 5577 would authorize the Secretary of the Interior to conduct Internet-based offshore oil and gas lease sales; provide criteria for the development, implementation, and management of such a system; and establish a time-frame for the execution of an Internet-based lease sale. The Bureau of Ocean Energy Management (BOEM) supports the goal of improving our offshore leasing processes to provide the best return to the Federal taxpayer while ensuring the safety and security of sale participants and related data. However, as I will discuss in more detail, we have concerns about some provisions of H.R. 5577. BOEM has been actively analyzing the feasibility of modernizing the lease sale process, and looks forward to working with the Subcommittee on this issue.

Background

The Outer Continental Shelf Lands Act (OCSLA) directs BOEM to manage access to, and to receive a fair return for, the energy and mineral resources of the Outer Continental Shelf (OCS) to help meet the energy demands and mineral needs of the Nation, while also balancing such access with the protection of the human, marine, and coastal environments. The current competitive bidding framework for BOEM's oil and gas leasing program has been in place since the early 1980's. Over the last several years, BOEM has begun taking steps to modernize and streamline the leasing process. Additionally, recent events have demonstrated that some modifications to the lease sale process are warranted. Nonetheless, adopting an electronic bidding system as prescribed in detail by this legislation would represent a major adjustment from current practices in BOEM's oil and gas leasing program that could complicate on-going modification efforts, and is of uncertain practical benefit.

The BOEM Gulf of Mexico OCS Region (GOMR) recently completed the ninth and tenth offshore lease sales associated with the Outer Continental Shelf Oil and Gas Leasing Program for 2012-2017. Unlike the previous sales, Sales 241 and 226, which were held and completed on March 23, 2016, had a large and disruptive group of protesters in attendance. The protestors ignored the posted "Rules of Behavior" (no masks, no large signs, no disrupting the bid opening, etc.), climbed on to the stage, damaged property and attempted to stop the lease sale. The venue and its configuration did not provide a means for preventing the protestors from obstructing the bid opening or reading process. Although no one was seriously injured and the lease sales continued despite the disruption, the situation created a potential safety hazard for all present.

Additionally, BOEM's GOMR is located in New Orleans, Louisiana, a humid subtropical climate subject to tropical storms and hurricanes, high average rainfall, and flood events. There are recorded instances where severe weather events have prevented timely submittal of bids and, as such, BOEM recognizes that severe weather events could deter bid submittals and interrupt or postpone the successful implementation of future lease sales.

Current Modernization Efforts

Internet Live-Streaming of Bid Opening

BOEM had been considering alternative methods of hosting public meetings prior to the events that took place at the March 23, 2016, lease sale. This re-evaluation of the lease sale process is part of our on-going effort to reduce costs associated with travel and rental expenditures and to help BOEM minimize its carbon footprint. To help meet these objectives, and in particular to ensure the safety of its employees, BOEM is seriously considering the use of live-streaming to provide public viewing of the next lease sale, Western Planning Area Lease Sale 248, which is scheduled for August 24, 2016.

Internet-based Lease Sales

In March 2016, BOEM chartered an Electronic Bidding Team to explore the use of an electronic-based lease sale process. This was partly in response to an evaluation of BOEM's oil and gas leasing process by the Department's Office of Inspector General, which concluded that BOEM should put further effort and resources into pursuing an electronic bidding (e-bidding) option for oil and gas lease sales. Given the current fiscal environment and government-wide efforts to be more efficient, BOEM is exploring opportunities to leverage modern technology and align its oil and gas leasing process with other bidding and auction formats utilized by BOEM's renewable energy program, other DOI agencies, States, and industry. The e-bidding initiative also builds off the principles outlined in Executive Order 13571 on streamlining service delivery and improving customer service. Furthermore, recent safety concerns associated with holding in-person lease sales provided additional impetus to evaluate e-bidding as a way to modernize BOEM's lease sale process.

To date, the E-Bidding Team has identified three areas within BOEM's current lease sale process that could potentially benefit from modernization: (1) safety and security during the bid submission and bid reading processes; (2) cost savings to the government and industry bidders; and (3) the potential to minimize weather-related impacts to the sale. Modernization could take the form of allowing bids to be submitted electronically, automation of data entry and generation of maps and statistics, live-streaming of the bid opening, and validation and reporting of final sale results. However, it should be noted that the benefits of electronic bidding need to be weighed against the development, maintenance, and operational costs of instituting a new system. Given the volume and amount of past OCS bonus bids (in some cases exceeding \$1 billion from a single lease sale), implementing such a system in a secure manner will require a great deal of system planning and development, either within BOEM or with assistance from outside sources. BOEM's research on this topic is ongoing and the bureau will continue to work

with industry to discuss any potential concerns around data security and other logistical concerns.

Given that only two GOMR lease sales are held in most years, such a modernization effort is not likely to result in significant cost savings to the government, perhaps for many years given the anticipated substantial costs associated with system design, development, testing and implementation. In addition, we anticipate that a substantial portion of the GOMR lease sale costs can be avoided by moving toward live-streaming of the bid opening process; these savings would be expected to be achieved regardless of any decision to utilize an e-bidding system.

H.R. 5577

While we appreciate the sponsors' intent and share the goal of having an efficient, effective, and transparent lease sale process, we have concerns with H.R. 5577. Many of the provisions in H.R. 5577 are already addressed in our current lease sale process, and the prescriptive nature of these provisions, if enacted, could actually reduce BOEM's flexibility to institute future reforms to improve its processes. The Secretary of the Interior already has the authority and flexibility to implement an Internet-based lease sale system and BOEM already has the ability to accept documents electronically, per 30 CFR 560 subpart E. All of the bill's individual lease sale-specific data reporting requirements are met in the current system. While BOEM will continue to consider options for instituting electronic bidding in the future, we believe that the bill's timeframe for implementation of an Internet-based lease sale process – that at least one lease sale be conducted under the new system within one year of enactment – is highly problematic. BOEM does not have the ability to implement a process within the timeframe prescribed.

Conclusion

While BOEM supports the overall intent of H.R. 5577, we would like to work further with the Committee to address our concerns with the bill before the Committee moves forward with this legislation.

Mr. Chairman and Ranking Member, thank you again for the opportunity to be here today. I am happy to answer any questions that you or the Committee may have.