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THE BUREAU OF OCEAN ENERGY MANAGEMENT, REGULATION AND ENFORCEMENT

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REMARKS OF MICHAEL R. BROMWICH DIRECTOR OF THE BUREAU OF OCEAN ENERGY MANAGEMENT, REGULATION AND ENFORCEMENT AT THE ENERGY INDUSTRY DIRECTORS CONFERENCE

Good morning. Thank you very much for inviting me to participate in today's Energy Industry Directors Conference.

It is a pleasure to be here with you to discuss how the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) is raising the bar for safety and environmental practices offshore and how the oil and natural gas industry is working with us – and must work with us – to make this possible.

Both government and industry play an important role in ensuring that offshore oil and natural gas drilling and development is conducted in as safe and environmentally responsible a manner as possible. We owe the American people nothing less.

Since I took over the agency in mid-June, we have been working hard to institute groundbreaking changes to the way we regulate oil and gas drilling and development in the waters off our country's shores. These changes are for the most part long overdue and, as is so often the case when it comes to serious reform in any field, were driven 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 matched by increased vigilance and concern for the safety of those operations.

This morning, I want to discuss the steps that our agency is taking to renew its commitment to the responsible stewardship of our nation's resources on the Outer Continental Shelf (OCS) and how industry is and must continue to help ensure the safe and environmentally responsible drilling and development of oil and natural gas offshore. These continued reforms are necessary – and both government and industry have a shared responsibility to ensure that this activity, which is vital to our economy and security, is conducted safely.

When I was asked to take the helm of this agency, I received a broad, ambitious and urgent mandate from President Obama and Secretary Salazar–to reform offshore energy development, starting with the agency responsible for overseeing it. Since that time, we have been working to make the 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.

This topic, of course, could not be more timely. Here in Houston, and in the audience today, there are directors and executives of many operators and support companies anxious to resume drilling activity as soon as possible. During the course of the past eight months, I have met with representatives of your companies and in fact, with many of you. Some of these companies seem

to recognize 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 that the industry regulator had the tools and resources to do its job.

But there are other operators who 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. Needless to say, that is disappointing and short-sighted. Let me state the obvious: we reject that view.

Our view has been supported most recently by the report issued by the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. If you have not read the Commission's report, I encourage you to do so. It is a thoughtful and comprehensive analysis of not only the spill itself, but of the history and development of offshore drilling and of the regulation of 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.

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. To illustrate the problem, consider this: U.K. offshore production (which again is at a much smaller scale than in the Gulf) dropped off substantially for two years following the Piper Alpha incident.

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 79, not 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 it certainly undermines the claim that these 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 had tough criticism for both industry and federal regulators. And although we at BOEMRE have been hard at work addressing the issues they raise, I think it's important to spend a minute to focus on where we were on April 20.

The Commission specifically notes significant failures and needed changes in industry's safety and environmental practices, safety training, drilling technology, containment and clean-up technology, preparedness, corporate culture, and management behavior.

One of the Commission's central regulatory recommendations is that the oil and gas industry should establish an entity similar to the Institute of Nuclear Power Operations (or INPO), which would be an industry-sponsored entity aimed at developing, adopting, and enforcing standards of excellence to ensure continuous improvement in safety and operational integrity offshore.

We believe this recommendation is worthy of serious discussion and debate; we view such a structure as potentially complementary to the critical reforms and improvements we have undertaken – rather than a substitute – and are interested to see what industry does to move forward with this suggestion. I trust that there has been or will be discussions about this issue at this conference.

The Commission was critical of industry but it was equally critical of federal regulators, including the former MMS. The Commission found that federal oversight was 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.

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 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, then there is the issue that I believe played a key role for the disaster: 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. That starvation diet continues.

II. Reorganization

We at BOEMRE have been working to address many of the 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.

These new rules set forth prescriptive standards that industry must meet. But they also establish, for the first time in the U.S. offshore regulatory system, performance-based standards focused on the identification and mitigation of specific risks associated with offshore operations.

These changes are substantial, and much work is being done to ensure that these changes are both lasting and effective. The ultimate goal is to establish an industry-wide culture of safety, and to have well-equipped and professional regulators. Both elements are necessary to keep pace with the challenges and risks of offshore drilling, particularly as those operations push into new frontiers and face increased technical challenges.

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 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 across three agencies.. And providing each of the new agencies with clear missions and new resources necessary to fulfill 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 regulatory processes related to offshore leasing, plan approval and permitting operate efficiently and effectively.

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 reporting structure and chain of command completely separate from the offshore regulator. The

President's Commission agrees with this change.

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 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 discuss with you some details of the two new independent agencies – the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (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.

- The new Bureau of Ocean Energy Management (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.
- The new Bureau of Safety and Environmental Enforcement (BSEE) will independently and rigorously enforce safety and environmental regulations.

Over the past many months, 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.

We have worked with and received advice from leading experts in government transformations and examined closely the offshore regulatory regimes of other nations, including the U.K. and Norway. We also have considered, and will continue to bear in mind, the recommendations of the President's Commission, which has done its own analysis of these issues. In fact, I was in New Orleans yesterday presenting to our 550-person Gulf of Mexico Regional Office the most recent decisions we have made that relate to the new structures we are creating.

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. We did this by discussing the reorganization with employees throughout BOEMRE. 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.

III. Implementation Teams and Other Reforms of BOEMRE Policies

Let me next 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 numerous sources, including the Oil Spill Commission, the National Academy of Engineering, 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 in the way BOEMRE currently does business and the way its successor agencies – BOEM and BSEE – will do business in the future.

In addition to the important work of the implementation teams, I want to briefly mention a number of other significant internal reforms.

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.

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.

Thus, our inspectors are required to recuse themselves from performing inspections of the facilities of former employers. Also, our inspectors must report any attempt by industry or by other BOEMRE personnel to inappropriately influence, pressure or interfere with his or her official duties. 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 both 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 up 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, provide the Bureau with the ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents. We are expecting to issue one of the first reports that arises from an IRU investigation later this week.

All of these measures will help us ensure the rigorous and independent oversight of offshore drilling.

IV. 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 done by the industry alone, 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 that 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 implemented 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 a variety of 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 the 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 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, and there have been, understandably, a number of questions from industry and others 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. Our most recent meeting was this past Monday, with representatives of more than a dozen companies. We have also issued a guidance document, which provides a comprehensive and detailed outline of the way forward for permitting in deepwater. We have discussed the contents of the guidance with a number of companies and have received input on the guidance from them and from industry.

We know that this guidance -- and other guidance that may follow will not resolve every question that an operator may have about the deepwater permitting process, but we intended it to address the significant questions that we have heard and to provide answers to help operators move forward with the resumption of work in deepwater.

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 hope and trust that this guidance has substantially clarified some of the difficult and complex issues that have arisen in recent months. We are committed to working with industry to provide additional guidance on these and other issues as it becomes necessary. We are working hard to ensure that this important industry continues to be able to operate fully and successfully, and we continue to believe new deepwater drilling will be approved in the coming months. That said, one thing that the Secretary and I believe firmly is that a retreat on drilling safety is not an option.

V. Industry's Role

As you can see, we have already put in place significant pieces of our comprehensive reform agenda. But in order for offshore drilling and development to truly be safe and environmentally responsible, the oil and natural gas industry needs to be just as aggressive about reform as we have been.

During my tenure as Director, I am confident that the leaders of the oil and natural gas companies have been working hard, just as we have at BOEMRE, to look for ways to continue improving safety and environmental protections. This continued push will be necessary in order to keep pace with industry ambitions to drill in deeper water in geological formations that have greater pressures.

A good example is the implementation of NTL-10, where we stated that adequate information was needed to demonstrate that a company 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. Since we issued NTL-10 in November, I have met, both individually and in groups, with oil and natural gas industry members to fully explain and clarify our expectations. In response, they have worked with us to satisfy this requirement through the development of subsea containment systems. Ultimately, we want to ensure that a company can demonstrate that it has the equipment and systems in place to respond to a blowout in deepwater. Judging from both conversations and personal observations, industry understands the importance of this regulation and has worked hard to meet this requirement.

As many of you know, Secretary Salazar and I traveled to Houston last week to see first hand what our engineers had tested – the containment systems and processes developed by both the Helix Well Containment Group and the Marine Well Containment Corporation. I was very encouraged by our visit, but because we all recognize that there remain some limitations to the current systems, I have asked both groups to meet with me quarterly to update me on their development and next steps to improve containment systems and response times..

As you all know, on Monday we approved the first new deepwater drilling permit since the Deepwater Horizon explosion and resulting oil spill. This permit represents a significant milestone for us and for the offshore oil and gas industry, and is an important step towards developing deepwater energy supplies offshore. This permit was issued for one simple reason: the operator, Noble Energy, successfully demonstrated that it could drill its deepwater well safely and that it was capable of containing a subsea blowout if it were to occur.

As part of its permit approval process, Noble Energy contracted with the Helix Well Containment Group to use its capping stack to shut in the well should a well control event occur. Based on the review of the permit application and Noble's subsea containment plan by our drilling engineers and geophysicists, the capabilities of the capping stack meet the requirements that are specific to the characteristics of the proposed well.

An enormous amount has changed since April 20. Following the spill, as you have heard, we focused on addressing industry's shortcomings, as well as our own. As I have described, we launched the most sweeping reforms of offshore regulation in U.S. history. We are reorganizing offshore oversight to eliminate conflicts of interest and provide regulatory focus; we have issued new drilling and workplace safety rules that reduce the risks of deepwater accidents; we are conducting site-specific environmental reviews in connection with deepwater drilling plans; and we are rigorously reviewing drilling plans and permit applications to ensure compliance with our enhanced safety measures. These changes have all taken place as a result of intense focus on prevention, spill containment, and spill response over the past ten months.

Despite false and misleading political rhetoric that there is a "de facto" moratorium in place in shallow and deepwater, we have issued 37 drilling permits for new shallow water wells since last June. 37. And while the pace of shallow water permitting slowed immediately after Deepwater Horizon, it was to allow the important new safety standards I have described to be put into place. In fact, the truth is that drilling applications in the Gulf of Mexico were trending downward for several years prior to Deepwater Horizon – in 2009, there were only a third of the shallow water drilling permits as in 2006, and the number of deepwater permits dropped 20 percent over the same period.

The major difference between last April and today is that, for the first time, we are requiring that operators demonstrate – in advance – that they have a plan and the equipment necessary to respond effectively in the event of another blowout. The capacity, the plan, and the equipment did not exist less than a year ago.

Moving forward, we will continue to analyze information that becomes available, and we will implement reforms necessary to make offshore oil and gas production safer, smarter and with stronger protections for workers and the environment. In developing these reforms, we will continue to actively communicate our requirements to the oil and natural gas industry. It is industry's responsibility to provide honest feedback and to ultimately meet any new requirements. It is important that both government and industry remain open to improvements to our regulations and to common industry practices in order to develop the necessary culture of safety. I think we are getting that kind of constructive feedback because rhetoric is checked at the door when we discuss the real challenges facing offshore drilling.

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.

One of the critical roles that you as directors of energy companies can play is to make sure that the attention to these issues does not lag over time – these are issues that require constant and continuing vigilance.

This is why we have established a 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 are in the process of making selections for this Advisory Committee right now – and I'm happy to report that we have top-notch nominations 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 have heard, 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 thank you for your time and attention.

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