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BOEMRE Deputy Director Discusses the Future of Offshore Oil and Gas Development in the U.S. at Capitol Hill Oceans Week

WASHINGTON- Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) Deputy Director Walter Cruickshank delivered remarks today at Capitol Hill Oceans Week (CHOW) 2011 in Washington, D.C.

This year's CHOW focuses on how the United States can secure an adequate, affordable, and sustainable supply of ocean and coastal resources and services for the benefit of current and future generations. An active participant in CHOW each year, BOEMRE funds approximately \$30 million per year for scientific studies in the Gulf of Mexico, the Atlantic, the Pacific, and the Arctic and is responsible for regulating activities on the 1.7 billion acres of U.S. offshore area on the Outer Continental Shelf.

In today's speech, Deputy Director Cruickshank discussed the path forward for U.S. regulation of offshore oil and gas development, outlined the new offshore organizational and regulatory framework, and identified future opportunities for offshore energy supply.

Deputy Director Cruickshank's remarks, as prepared for delivery, are below:

Good afternoon. Thank you for inviting me to speak about the future of offshore oil and gas development in the United States. I welcome this opportunity to talk about the importance of offshore oil and gas development to our energy security, and the steps being taken to ensure future drilling occurs safely.

The Deepwater Horizon explosion resulted in the tragic loss of eleven lives and enormous damage to the environment. The tragedy was a wake-up call for both industry and government, and it sent a clear message that we had to take a long, hard look at existing safety technologies, practices, and regulations and make immediate, lasting, improvements.

Over the past year, BOEMRE has been working to do just that:

- We have issued rules and regulations that substantially enhance drilling and workplace safety and strengthen environmental protection.
- We have implemented a requirement that operators must have a plan and the demonstrated ability to shut in a deepwater blowout and capture oil flowing from a wild well. That is a major advance over last year, when we watched as BP attempted to improvise a response to contain the Macondo blowout.
- We have put in place a number of structural and procedural reforms to reduce the conflicts of interest inherent in the mission of the former Minerals Management Service (MMS) and to enhance safety and elevate environmental protection.

Today, I want to focus on the future – the path forward for U.S. regulation of offshore oil and gas development. I will present a blueprint for the new offshore organizational and regulatory framework in the U.S.

Then, I will discuss the new rules that apply to offshore drilling in U.S. waters and bring you up to date on the status of offshore drilling activities in the U.S.

Finally, I will briefly discuss what our next steps are to identify future opportunities for offshore energy supply.

I. Reorganization

We are reorganizing the former Minerals Management Service into three strong, separate agencies within the Department of the Interior. The new structure will eliminate the inherent conflicts that existed when MMS was responsible for promoting resource development, enforcing safety regulations, and collecting revenues from offshore operations. The President's Commission on the Deepwater Horizon oil spill found that these conflicts resulted in an agency that was guided for decades by a predominant interest in maximizing revenues for the U.S. Treasury, rather than promoting safety and rigorous oversight. That was unacceptable, and that is why one of our guiding principles has been to eliminate those conflicts by separating and clearly delineating missions across the three new agencies.

The first stage of reorganization took effect on October 1, 2010, when the revenue collection arm of the former MMS became the Office of Natural Resources Revenue – now located in a separate part of the Department of the Interior, reporting through a completely separate chain of command.

We are in the midst of implementing the second stage of the reorganization: separating the offshore resource management from the safety and enforcement programs. On October 1, the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) will be replaced by two brand new agencies.

We are creating the Bureau of Ocean Energy Management (BOEM), which will be responsible for managing development of the nation's offshore resources in an environmentally and economically responsible way.

We are also creating the Bureau of Safety and Environmental Enforcement (BSEE), which will develop and enforce safety and environmental regulations.

In making the important structural and design decisions that are shaping these two new agencies, we have relied on several guiding principles:

- First, separating resource management from safety oversight to allow our permitting engineers and inspectors greater independence, more budgetary autonomy and clearer senior leadership focus. For BSEE, the goal is to create an aggressive, tough-minded but fair regulator that can effectively evaluate the risks of offshore drilling, promote the development of safety cultures in offshore operators, and keep pace with technological advances.
- Second, ensuring that we create a strong and effective BSEE so that it can properly carry out the critical safety and environmental protection functions that are central to its mission and that were historically under-funded within MMS.
- Third, providing an organizational structure that ensures that thorough environmental analyses are conducted and that the potential environmental effects of proposed operations are given appropriate weight during decision-making related to resource management. We are placing the balance of our environmental science and environmental analysis resources in BOEM to ensure that leasing and plan approval activities are properly balanced and that environmental considerations are fully taken into account at early stages of the process, not after important resource decisions have already been made.

Let me provide you with a few examples of how we are strengthening the role of environmental analysis and enforcement.

We are creating the new position of Chief Environmental Officer in BOEM to provide assurance

that environmental considerations will be given adequate consideration in resource development decisions, including the development of five-year plans, leasing decisions, exploration and development plan reviews, and other decisions that bear on resource management. We are recruiting nationwide to fill this important new position now and hope to attract an environmental scientist of national reputation who will serve as an important voice for environmental considerations in the agency and be a key player in developing the nation's oceans policies, while at the same time recognizing that the role is not to arrest offshore energy development.

In BSEE, we are creating a new dedicated environmental enforcement and compliance program. When we lease offshore, operators agree to certain stipulations to minimize adverse impact on the environment. Later on in the process, when operators submit their exploration and development plans, they undertake to mitigate environmental effects that their activities produce. Historically, our personnel have tried to determine whether those commitments – in the form of stipulations and mitigations – have been fulfilled. But the agency has never before had personnel specifically dedicated to that task. We think this will make offshore energy development more environmentally responsible and provide opportunities for dedicated professionals interested in ensuring that the ocean and coastal environments are protected.

We are also reviewing our application of the National Environmental Policy Act (NEPA), including the use of categorical exclusions. We obtained public comments on our NEPA policy and are reviewing these comments, while working with Council on Environmental Quality to develop a new framework designed to ensure that environmental risks are thoroughly analyzed and appropriate protective measures are implemented. In the meantime, we are requiring that site-specific environmental assessments – not categorical exclusion reviews – be conducted for all new and revised deepwater exploration and development plans.

II. Regulatory Developments and the Current Status of Offshore Drilling

In addition to reforming our organization and procedures, we have implemented a number of new regulations to improve the effectiveness of government oversight of offshore energy development and drilling. These are substantial changes in safety and accident prevention, blowout containment and spill response.

We have done this through the two new rules announced last fall that raise standards for the oil and gas industry's operations on the Outer Continental Shelf (OCS).

The first rule, the Drilling Safety Rule, created tough new standards for well design, casing and cementing – and well control procedures and equipment, including blowout preventers. Operators are now required to obtain independent third-party inspection and certification of the proposed drilling process. An engineer must also 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 is the Workplace Safety Rule, which requires operators to identify risks, establish barriers to those risks, and seeks to reduce the human and organizational errors that lie at the heart of many accidents and oil spills. Under this rule, 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.

In addition to these new rules, we issued Notices to Lessees (or NTLs) that provide additional guidance to operators on complying with existing regulations. Last summer, we issued NTL-N06, 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. Our engineers and geologists then independently verify these worst case discharge calculations to ensure that we have an accurate picture of the spill potential of each well.

Following the lifting of the deepwater drilling moratorium last year, we issued NTL-N10, which among other things, confirms that BOEMRE will be conducting well-by-well evaluations of whether the operator has demonstrated 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. Operators must now have a plan and access to necessary equipment – in advance – to shut in a deepwater blowout and capture oil flowing from a wild well.

Our regulatory changes over the past year have been sweeping and swift, especially compared to the historical pace of change. We worked through the policy and implementation issues diligently and consulted frequently with members of industry in both the Gulf of Mexico and in Washington to provide guidance on complying with the rules.

We have more to do. We have more safety measures to implement, including potential new requirements for blowout preventer configuration and ROV capabilities and items that may arise from the ongoing investigations in to the root causes of the Macondo blowout. We will follow-up on our workplace safety rule with additional provisions that we could not finalize under the previous rulemaking process, such as requiring third party audits of Safety and Environmental Management Systems. And we will work with other federal agencies to improve standards for oil spill response.

We are also looking to other sources to improve our processes, including the recently formed Ocean Energy Safety Advisory Committee. This federal advisory committee includes representatives of federal agencies, industry, NGOs, and academia. The 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. The committee will provide recommendations about the establishment of a permanent Ocean Energy Safety Institute to foster long-term collaboration among stakeholders. The Advisory Committee and the Institute are key components of a long-term strategy to address the ongoing technological needs and inherent risks associated with offshore drilling, and particularly deepwater drilling.

Another key advisory body, the OCS Scientific Committee, is a public federal advisory committee that provides advice on the appropriateness, feasibility and scientific value of our OCS Environmental Studies Program and informs decisions related to environmental aspects of the offshore energy and marine minerals programs. This committee is central to our efforts to ensure scientific integrity in our decision-making regarding offshore energy development.

The Department of the Interior and BOEMRE are also actively engaged with the National Ocean Council (NOC) on the National Ocean Policy. Starting today, the NOC is hosting 12 public listening sessions across the country as a way for the public to become involved in the stewardship of our nation's oceans. BOEMRE is organizing three of these public listening sessions on behalf of the NOC: today and tomorrow in Barrow and Anchorage, Alaska and on June 30 in New Jersey.

III. Future Energy Supply from the OCS

Even as we confront the difficult challenges associated with these reform efforts and the reorganization, we remain focused on moving our nation's energy portfolio forward. The OCS accounts for more than 30 percent of domestic oil production and approximately 11 percent of domestic natural gas production, and it contains about 60 percent of the total technically recoverable oil and 40 percent of the total technically recoverable natural gas estimated to be in undiscovered fields in the United States. We are working diligently to complete the necessary environmental reviews for the remaining Gulf of Mexico Lease Sales in the current five year program. We are fully engaged in the preparation of the new five year oil and gas leasing program set to begin in 2012. And we are working to complete the environmental analysis that will allow permitting of seismic surveys for evaluation of potential resources in the mid and south Atlantic.

We are fulfilling the Administration's commitment to reduce the nation's dependence upon fossil fuels by working toward the responsible development of offshore renewable energy resources.

We are relatively new to this at BOEMRE, having received the regulatory responsibility for offshore renewable energy in 2005, but we have already reached some important milestones.

In 2009, we published our renewable energy regulatory framework and issued four leases for resource data collection offshore Delaware and New Jersey. In 2010, we initiated the commercial leasing process off Delaware, Maryland and Massachusetts, and in April we started the leasing process offshore New Jersey. And, also in April, Secretary of the Interior Ken Salazar announced that the Cape Wind Construction and Operations Plan has been approved for the first commercial offshore wind energy project off Massachusetts.

Last November, Secretary Salazar launched the "Smart from the Start" wind energy initiative for

the Atlantic OCS. This initiative is designed to facilitate siting and leasing for commercial wind projects on the OCS – to encourage responsible development while ensuring projects are built in the right way and in the right places. “Smart from the Start” has three key elements: (1) streamlined processes for commercial wind lease issuance; (2) identification of Wind Energy Areas followed by concerted information gathering; and (3) proceeding on a parallel but separate track to evaluate offshore transmission line proposals.

Under “Smart from the Start,” we are working with state, federal, local and tribal entities and other interested stakeholders to better coordinate suitable areas for potential development off the coasts of Atlantic states.

IV. Conclusion

Offshore drilling in the United States OCS will continue to play a major role in our energy security. We have made the necessary changes, and we are moving ahead with additional reform efforts to further strengthen the regulatory process.

A lot has changed over the past year and we are continuing to improve drilling standards. The process of making offshore energy development both safe and sufficient to help meet the nation’s and the world’s energy demands will remain a continuing, ongoing, dynamic enterprise.

The central challenge that Deepwater Horizon highlighted is the need to establish the institutions and systems – and the processes of cultural change and improvement– necessary to ensure that neither government nor industry becomes satisfied to the point that they think no further change is necessary.

We are determined to succeed in creating a system that allows continued offshore development to meet our nation’s energy needs, while ensuring safety and environmental protection. That’s the goal we will continue to pursue.

Likewise, offshore renewable energy remains a top priority for the nation. As we continue with our aggressive and comprehensive regulatory reforms and reorganization, we will remain focused and dedicated to leading the nation toward a renewable energy future.

Thank you for your time and attention.

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