

THE BUREAU OF OCEAN ENERGY MANAGEMENT, REGULATION AND ENFORCEMENT

For Immediate Release

Date: April 19, 2011

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BOEMRE Director Discusses Future of Offshore Oil and Gas Development in the U.S. at Gulf Oil Spill Series

WASHINGTON – Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) Director Michael R. Bromwich delivered remarks today at the Center for Strategic and International Studies (CSIS) Gulf Oil Spill Series in Washington, D.C.

Director Bromwich discussed lessons learned from the Deepwater Horizon explosion and resulting oil spill, ongoing regulatory reform efforts, and the reorganization of the former Minerals Management Service.

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

Good morning. Thank you very much for inviting me back to CSIS to speak about the future of offshore oil and gas development in the U.S.

When I was here three months ago, in mid-January, to participate in the Center's Gulf Oil Spill Series, the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling – the President's Commission – had just issued its final report. It was a time when no new deepwater exploratory or development drilling permits had been approved since *Deepwater Horizon*. Most of the questions here and elsewhere at that time involved whether and when deepwater drilling would resume.

Much has happened since then. We have further elaborated and implemented rules and regulations that substantially enhance drilling and workplace safety and strengthen environmental protection. In addition, unlike a year ago when we watched in agony as BP attempted to improvise a response to contain the Macondo blowout, operators must now have a plan and the demonstrated ability to shut in a deepwater blowout and capture oil flowing from a wild well. That is a huge advance. And so as we approach the first anniversary of *Deepwater Horizon*, many people are asking the perfectly appropriate question: What has changed since last April? The answer is these new safety regulations, the new containment requirements, and much more.

These are some of the elements of the picture I want to paint today of the future of offshore energy development. To talk intelligently about the future, of course, I have to anchor it to the recent past and the present. I will do so by focusing, first, on the progress of our agency reorganization, which I began outlining for you in January. Second, I will bring you up to date on the status of offshore drilling in U.S. waters, focusing specifically on the Gulf of Mexico and the developments over the past few months. Third, I will describe some important recent international developments that suggest the value and importance of international cooperation and collaboration in the realm of offshore drilling. Finally, I will outline a comprehensive set of guiding principles related to the future of offshore drilling.

A year ago tomorrow, the *Deepwater Horizon* tragedy began to unfold in all its human and environmental horror. The explosions and fire on the rig took the lives of 11 men on the rig, injured many others and resulted in the spill of close to five million barrels of oil into the Gulf of Mexico. In some ways, these events seem like they took place a long time ago; but in other ways they seem to have occurred far more recently. At the time, and in the immediate aftermath, *Deepwater Horizon* served like an electric current, jolting the industry out of a complacency and overconfidence that had developed over the preceding decades, while also serving as a clear message that both industry and government had to reexamine their practices. The memories of the 11 crew members have guided our work – and I think the work of industry – and have reinforced our determination to diminish the risks that such a catastrophic blowout can occur again.

I. Reorganization

When I was here previously, on January 13, I outlined in broad strokes the blueprint for reorganizing the former Minerals Management Service (MMS) into three strong, separate agencies within the Department of the Interior. A week later, on January 19, Secretary of the Interior Ken Salazar and I outlined more specifics about the reorganization. We described how the new structure would eliminate the inherent conflicts that existed when MMS was responsible for promoting resource development, enforcing safety regulations, and maximizing revenues from offshore operations. The President's Commission 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 of last year, 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, reporting through a completely separate chain of command. We are in the midst of implementing the second and critically important stage of the reorganization: separating the offshore resource management from the safety and enforcement programs. The steps we are now taking are more difficult, but extremely important. On October 1 of this year, the BOEMRE will cease to exist. In its place, we will have 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 new Bureau of Safety and Environmental Enforcement (BSEE), which will 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. These included:

- 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 sufficiently 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 have been historically slighted and underfunded 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.

But it takes more than good intentions to address some of the institutional weaknesses of the past. It takes concrete and specific actions. That's what we are doing. To provide you with a few important examples, we are strengthening the role of environmental analysis and enforcement. Many of the investigations and reviews of the MMS over the past year – whether by the President's Commission, the Safety Oversight Board commissioned by Secretary Salazar, the Department of the Interior Inspector General and the Council on Environmental Quality (CEQ) – came to the conclusion that in the rush to maximize revenues, the agency had given short shrift to environmental considerations.

In response, and among other things, we are creating the brand new position of Chief Environmental Officer in BOEM to provide institutional 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 nationally 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.

We are also creating in BSEE 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 overworked personnel have tried from time to time to determine whether those commitments – in the form of stipulations and mitigations – have been fulfilled. But the agency has never had personnel specifically dedicated to that task. Now we will. 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.

As to our inspections program, which has been under-resourced and outmatched by industry, we are creating for the first time a National Training Center led by a training director whom we are also currently seeking through a nationwide search. Our inspectors have generally learned how to do their jobs through a combination of on-the-job training and industry-sponsored courses aimed at teaching how certain types of equipment work. The agency has never had a training center dedicated to training inspectors on how to do their jobs. Now we will.

Let me briefly 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 created last fall a number of Implementation Teams, which 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 needed changes.

These teams are integral to our reorganization and reform effort. They are considering the various recommendations for improvement that we have received from numerous sources, including the investigations I mentioned earlier. Through their work, 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.

We are also 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 are reviewing and analyzing these comments, while working with CEQ 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, 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 in our enforcement programs. Employees in our district offices, including our permitting engineers and inspectors, 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 is presenting some 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 continuing to staff 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, promptly responds to allegations or evidence of misconduct and unethical behavior by Bureau employees. It also pursues allegations of misconduct against oil and gas companies involved in offshore energy projects when there is credible evidence that rules and regulations have been violated.

II. Regulatory Developments and the Current Status of Offshore Drilling

When I was here in January, I discussed the reforms that we are pursuing to improve the effectiveness of government oversight of offshore energy development and drilling. These changes in safety and accident prevention, blowout containment and spill response were and continue to be 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 rigorous regulations to bolster safety, and to enhance the evaluation and mitigation of environmental risks. And we have also introduced – for the first time – performance-based standards similar to those used by regulators in the North Sea, where operators are responsible for identifying and minimizing the risks associated with drilling operations. 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 Outer Continental Shelf (OCS).

The first rule, the Drilling Safety Rule, is an emergency rule prompted by *Deepwater Horizon*. It creates tough new standards for well design, casing and cementing – and well control procedures and equipment, including blowout preventers. For the first time, operators are now required to obtain independent third-party inspection and certification 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 requires operators to systematically identify risks and establish barriers to those risks and thereby seeks to reduce the human and organizational errors that lie at the heart of many accidents and oil spills. This rule was being developed prior to *Deepwater Horizon* but, as described by the Presidential Commission's report, its issuance was frustrated over many years.

Under the Workplace Safety Rule (also known as the Safety and Environmental Management Systems or SEMS 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. 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 Notices to Lessees (or NTLs) that provide additional guidance to operators on complying with existing regulations. Last summer, 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. 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-10, a document that establishes informational requirements, including a mandatory corporate statement from the operator that it will conduct drilling operations in compliance with all applicable agency regulations, including the new Drilling Safety Rule. The NTL also 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.

Thus, as I mentioned at the outset, operators must now have a plan – in advance – to shut in a deepwater blowout and capture oil flowing from a wild well. They must have a plan, they must access to the equipment, and they must have arrangements – contractual or otherwise – that show their ability to make use of that equipment. Rather than improvising a containment response on the fly – with hits and misses – each operator needs to work through its containment plan in advance and we have to approve its plan.

Our regulatory changes over the past year have been sweeping and swift, especially compared to the historical pace of change, and we were asked many questions from industry about how to comply. We worked through the policy and implementation issues diligently, with frequent consultations in both the Gulf of Mexico and here in Washington. This process was constructive, it was done in good faith, and we made very substantial progress in further defining

and clarifying issues for the operators and the industry more generally. In fact, it was an example of appropriate engagement between government and industry.

What was destructive, corrosive and not done in good faith was the sniping from certain public officials and industry trade associations. They claimed, and some continue to assert, that we had imposed a “de facto” moratorium or created a “permitorium” that was blocking the issuance of drilling permits. Not because the applications had failed to meet all the requirements – which was the fact – but supposedly because we had made politically-motivated decisions not to issue them. That could not have been further from the truth, but it was repeated often enough that people who should have known better came to believe it. So, for example, a businessman from Louisiana told me that he understood that we in Washington had fully compliant permit applications sitting on our desks awaiting approval. He seemed surprised when I told him that our District offices in the Gulf of Mexico have that job, and that I have no role in making decisions on individual permits.

In fact, the chief obstacle standing in the way of our approving deepwater drilling permits, from October (when the deepwater moratorium was lifted) through the middle of February was the unavailability of resources to contain a subsea blowout. The absence of ready-made subsea containment systems and advance plans on how to deploy such systems is what allowed the Macondo well to flow unabated for 87 days. Last summer, the major oil and gas companies announced the formation of the Marine Well Containment Company (MWCC) whose mission was precisely to develop such a capability and make it available to the community of deepwater operators. Subsequently, a second industry group, the Helix Well Containment Group (Helix), announced its intention to build a separate containment system with similar capabilities. We encouraged both but endorsed neither. During the period from October through mid-February, we had numerous meetings with the containment companies and with individual operators, who acknowledged that they understood no deepwater permits could be issued until those capabilities had been developed, tested, and reviewed. Unfortunately, that failed to make much of an impression on those alleging a “de facto” moratorium. Needless to say, it would have been irrational and irresponsible to resume deepwater drilling before viable containment systems were available.

Finally, in mid-February, both Helix and the MWCC said that their systems were ready to operate. The systems, including the capping stacks, were tested in the presence of our engineers, and the test results were reviewed. In addition, Secretary Salazar and I went down to Houston, met with both groups, and looked at the capping stacks. The availability of the containment system is what led, on February 28, to the issuance of the first new deepwater drilling permit since *Deepwater Horizon*.

Since February 28, we have permitted 11 deepwater drilling wells. We were able to do so because in each and every case, the applications complied fully with our more rigorous safety and environmental requirements, and each of them had demonstrated the ability to contain a subsea spill, through entering into contractual arrangements with either Helix or the MWCC. To be clear, we have no preference. The requirement is solely that the resources be adequate to deal with a blowout of the particular well that has unique characteristics of water depth, well depth, pressure, and other well-specific characteristics. This well-by-well analysis is a time-intensive,

labor intensive process but one that is crucial to ensuring that adequate containment resources are available for each deepwater well that is drilled.

As we have moved forward with appropriate speed in deep water, we have continued to issue shallow water permits in every case where the application complies with all of our heightened standards that apply to shallow water operations. As of yesterday, we have approved 49 drilling permits for new wells in shallow water since last summer, and our pace of shallow water permitting has been consistent for many months, averaging six per month since October 2010. While this pace is slightly below historical averages, there is not a backlog of pending permit applications – there currently are only five shallow water permit applications pending, with another four having been returned to the operator for more information. But such historical comparisons are at some level beside the point. Because we don't have a permit quota, or even a permitting goal. Our goal is to approve every fully compliant permit application – with the emphasis on fully compliant – as promptly as we can – with our limited resources. Which brings us to the key issue of resources.

When I was here in January, I addressed the historical, consistent and shameful underfunding of MMS. Despite MMS's important missions, and the revenues generated for the U.S. Treasury by offshore leasing, exploration and production, the agency was put on a starvation diet throughout its history, but especially in recent years. The unanimous conclusion of the many reviews and investigations is that the major source of the problems with the nation's oversight of offshore energy development has been the lack of resources. Even so, financial support has been slow in coming. President Obama submitted a supplemental budget request last summer seeking an additional \$100 million for the agency. Until last week, that promise of a brighter future could not be redeemed because Congress had not acted on that request. We were poised to hire the additional inspectors, environmental scientists, and permitting personnel that we have needed, but we didn't have the funding. Now at least a part of that request has been met. Last week, Congress passed, and the President signed, a continuing resolution that provides the Department of the Interior a total of \$68 million above FY 2010 funding levels for both BOEMRE and the Office of Natural Resources Revenue. BOEMRE will receive approximately \$47 million of that amount. That is less than we need, but it is a significant sum, especially in a constrained budget environment where the funding of most other agencies is being cut.

Our funding needs have real-world implications. The 2011 funding will preserve our most essential functions for the remainder of the year as the President promised, and it will allow us to make significant incremental progress. But it won't allow us to improve operations for the future to the extent – and in the ways – that we think are desirable and necessary, and that others who have reviewed the agency's operations think are desirable and appropriate. We desperately need more engineers, inspectors and other safety personnel. We desperately need more environmental scientists and more personnel to do environmental analysis. We desperately need more personnel to help us with the permitting process. And much more. We have already taken the first steps to ramp up our hiring in certain key areas.

Last October and November, I visited five engineering and petroleum engineering schools in Louisiana and Texas as part of a drive to recruit engineers and inspectors to work for the agency. We generated more than 500 job applications in 10 days, but our hiring was clouded by

the continued uncertainty about funding. The week before last, we extended that recruitment drive to include environmental scientists. I visited nine top environmental science schools on the West Coast in five days, and in response we have already received more than 600 job applications. That was at a time when we were not yet assured of the funding. Now that we have it, we will be able to hire some of these enthusiastic environmental scientists who can help us perform our mission, as well as some of the engineering students who applied last fall. To further extend our recruiting, we plan to visit a number of other schools in various regions around the country.

But we are determined not to simply use these additional resources and personnel to do more of what we have done before. We need to learn from our shortcomings, address our weaknesses, and figure out better and more efficient methods for doing our work – both on the resource development side as well as on the safety oversight and enforcement side. We will be aided to a great extent by the recommendations that will flow from the internal implementation teams I mentioned earlier. But we will seek guidance from other sources as well.

One of those sources is the new Ocean Energy Safety Advisory Committee, chaired by former Sandia Laboratory Director Dr. Tom Hunter, which met for the first time yesterday. This federal advisory committee includes representatives of 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. The advice and recommendations of this distinguished Advisory Committee will be welcomed by our agency, and after October by BSEE.

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, the Advisory Committee and this Institute are key components 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.

III. International Standards and Cooperation

A final – and very important – part of our long-term strategy includes continuing and strengthening our collaboration with our international counterparts. The recommendations of the President's Commission stress the importance of sharing experiences across different international systems and establishing global standards and best practices. We agree with that. Offshore regulators have much to gain from collaborating to elevate the safety and environmental soundness of offshore operations around the world.

To this end, last week Secretary Salazar, Deputy Secretary David Hayes and I hosted ministers and senior energy officials from twelve countries and the European Union for the Ministerial Forum on Offshore Drilling Containment. This was a historic meeting for the Department – and it led to a fruitful dialogue about best practices and how best to develop cutting edge, effective safety and containment technologies. The meeting concluded with the unanimous recognition that this dialogue should continue at the highest levels of government. Going forward, we will continue to work to strengthen the channels for international cooperation and the sharing of best practices across different regulatory regimes.

BOEMRE will also continue its engagement with the International Regulators Forum (IRF), an organization that BOEMRE helped to found in 1994. The offshore regulatory agencies of the U.S., the U.K., Brazil, Norway, Canada, the Netherlands, Australia, New Zealand and Mexico participate in the IRF. These countries share information on technological advances, safety issues, accident investigations, regulatory policies, international standards and conventions, performance measurement, and research. Members may also exchange personnel, and establish reciprocal agreements. BOEMRE will continue its participation in this important forum.

In addition to these multilateral efforts, BOEMRE participates in a number of government-to-government initiatives. We are working with foreign regulatory agencies around the world to share best practices and build regulatory capacity through the Department of State's Energy Governance and Capacity Initiative (EGCI). This is a multi-agency global effort to provide a range of technical and capacity-building assistance to the governments and institutions of countries that are expected to become emerging oil and gas producers.

Through this program, BOEMRE experts have participated in needs assessments and have conducted workshops in Suriname, Uganda, Papua New Guinea and Liberia. In May, BOEMRE will bring a team to Uganda to discuss the specifics of oil and gas reserves classification and economic valuation for both discovered and undiscovered resources. A separate team will visit Guyana to conduct a workshop entitled U.S. Experience in Managing the Offshore Oil and Gas Sector.

In addition to this State Department-sponsored initiative, BOEMRE continues with long-term technical assistance with the governments of Iraq and India. In February 2011, we held a second joint industry-regulator workshop in New Delhi, focused on asset integrity management, with our regulatory counterpart in India.

In May, BOMERE will participate on an interagency team, sponsored by the State Department, to provide technical assistance on unitization of oil and gas contracts to the Government of Iraq, specifically the Ministry of Oil's Petroleum Contract and Licensing Department (PCLD).

Finally, and very significantly, we are also working with our counterparts in Mexico toward an agreement that would define regulatory protocols for the potential development of trans-boundary oil and natural gas reservoirs in the Gulf of Mexico. The development of common standards for major deepwater operations in our shared waters of the Gulf of Mexico is a priority for my Bureau, as it is for the government of Mexico.

As a result of these government-to-government engagements, we have embraced the opportunities to establish long-term working relationships and promote sound energy governance. Going forward, it is my hope that we will continue to collaborate with our foreign counterparts, both through bilateral government-to-government assistance programs and through appropriate multilateral channels in developing safer, more environmentally responsible drilling in the world's oceans. There is no escaping the central fact that offshore drilling not only will continue, but that it will expand into ever more challenging areas including deeper waters and the Arctic. The world demands energy, and to an increasing extent the oceans are where we find it. We need the global institutions and standards necessary to meet these challenges and to ensure safe and responsible development offshore resources around the world.

IV. The Future of Offshore Drilling

Offshore drilling in the United States OCS, and indeed around the world, will never be the same as it was a year ago. That much is clear. The changes that we have put in place will endure because they were urgent, necessary and appropriate. And more change will surely come, although not at the frantic pace of the past year. In fact, we are moving ahead right now. First, we will be launching in the very near future a major rulemaking designed to further enhance offshore drilling safety. This process will be broad, inclusive and ambitious. Our goal will be nothing less than a further set of enhancements that will increase drilling safety and diminish the risks of a major blowout. It will address weaknesses and necessary improvements to blowout preventers, as well as many other issues. We genuinely hope that the broad efforts undertaken by the industry in the wake of *Deepwater Horizon*, through its joint industry task forces, recently-announced Center for Offshore Safety, and other vehicles, will provide the basis for solid recommendations of best practices, including those that should be included within prescriptive or performance-based regulations.

Second, we will be enhancing the SEMS rule we issued last fall by requiring third-party audits of the SEMS programs, as well as other modifications and improvements to the SEMS rule. We are determined that this rule live up to its promise by causing operators to comprehensively and responsibly identify, address and remediate the risks of offshore drilling, especially those risks associated with the conditions of deepwater drilling.

While a lot has changed over the past year, and as I discussed we are continuing to improve drilling standards, I want to be absolutely clear about something – the process of making offshore energy development both safe and sufficient to help meet the nation's and world's energy demands will never be complete. It is a continuing, ongoing, dynamic enterprise. Those who ask the naïve and simplistic question, "Is offshore oil and gas regulation fixed yet?" or "Is the agency fixed yet?" miss the most important lessons of *Deepwater Horizon*. Because the central challenge that *Deepwater Horizon* exposed and 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 ever again becomes self satisfied to the point that they would answer that question, "yes." It's exactly that sort of complacency and over-confidence that set the stage for *Deepwater Horizon*.

Let me describe for you some of the key elements that my vision of the future of offshore energy oversight and development includes, most of which flow directly from the issues I have just discussed.

- First, a well-funded and resourced offshore safety regulator that closely evaluates the relevant risks associated with offshore drilling and other energy development activities in designing its regulations and compliance and enforcement programs. This includes the development of more sophisticated metrics for measuring risk, and designing programs for evaluating those risks and assessing whether industry is managing those risks appropriately.
- Second, industry performance standards, particularly for the highest risk operations in deepwater and challenging areas such as the Arctic, that cause operators to engage in rigorous and deeply self-critical evaluation of the hazards posed by their operations and the measures implemented to address those hazards.
- Third, a regulatory agency that has the tools and the resources – both technological and human – to hold all players involved in drilling and production activity in the nation’s oceans to high standards and, if there are safety or environmental violations, or an accident, holds all responsible parties accountable. This includes not only those companies that operate leases, the traditional subjects of agency regulation and enforcement, but their contractors and service providers such as the owners of drilling rigs as well.
- Fourth, enduring institutions that spur continued government and industry focus on and innovation in the areas of risk assessment, technological advances in safety equipment, and emergency response equipment, and further improvements in the effectiveness and availability of subsea containment resources, and oil spill response systems and coordination.
- Fifth, a resource management agency that develops and takes advantage of all available scientific information and analysis to support balanced decision making with respect to the environmental risks and economic benefits of offshore resource development.
- Sixth, a regulatory system that is effective in striking appropriate balances and ensuring energy development is conducted safely and in an environmentally responsible manner, and is also more efficient, transparent and responsive.
- Seventh, a leasing and revenue generation system that encourages the active development of the nation’s natural resources made available to industry to provide for the country’s energy needs.
- Eighth, a set of common principles and standards by which companies drilling and producing in the oceans govern their conduct, regardless of where in the world they are operating.

- And finally, an ocean energy program that includes not only the development of oil and gas resources, but also the aggressive and responsible development of renewable energy sources. The long-term solution to meeting the nation's energy needs must include power derived from clean and renewable sources such as offshore wind.

V. Conclusions

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 weaken as new rules were developed and new requirements were imposed on companies operating offshore. Some offshore operators and support companies plainly 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 as a result, they have supported our efforts to strengthen oversight of offshore drilling and, indeed, have undertaken their own efforts to raise standards for drilling and workplace safety, spill containment, and spill response.

But there have been others who, with surprising speed, have seemed all-too-ready to shrug off *Deepwater Horizon* as a complete aberration. 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. We need to do everything possible to keep the complacency from creeping back – into my agency and into industry. Industry and government regulators alike must continue to resist the fierce pressures to return to business as it used to be conducted. Down that path lies another *Deepwater Horizon*.

It has been a long year, and I have no expectation that it will get easier any time soon. But I did not take this job because I thought it would be easy. I believe in the work that we are doing. I believe in the tangible results I have seen, in meetings with industry, out on offshore rigs, and in the interest in our work I have seen in academic institutions I have visited over the year. People are watching our work around the world, are interested and invested in it, and know the stakes involved in whether we succeed. We cannot afford to fail, and we do not plan to fail. We are determined to succeed in creating a system that allows continued offshore development while ensuring safety and environmental protection. That's the goal we will continue to pursue with single-minded determination.

I thank you for your time and attention and am happy to take some questions.

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