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BOEMRE Director Delivers Remarks at World National Oil Companies Congress

Meets with Officials to Discuss Offshore Safety and Regulatory Issues

LONDON — Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) Director Michael R. Bromwich delivered remarks today at the 5th annual World National Oil Companies Congress in London. The World National Oil Companies Congress brings together senior executives from national oil companies and government leaders from around the world to discuss global energy issues. Director Bromwich is attending this year's meeting to further the bureau's efforts to expand bilateral and multilateral cooperation with regulatory counterparts around the globe, especially in light of the recommendations of the National Commission on the Deepwater Horizon Oil Spill and Offshore Drilling stressing the importance of sharing experiences across different international systems and establishing global standards and best practices.

While in the United Kingdom, Director Bromwich will also address the World Well Integrity Congress and the International Association of Oil and Gas Producers' Management System Workshop. Director Bromwich will also meet with U.K. officials to discuss their regulatory framework and how certain aspects of the U.K. regulatory system, such as the safety case model, are applied in practice.

In today's speech, Director Bromwich discussed the aggressive and far-reaching steps that BOEMRE is taking to renew its commitment to the responsible stewardship of the U.S. Outer Continental Shelf, some important recent international developments in the realm of offshore drilling, and a comprehensive set of guiding principles and expectations related to the future of offshore exploration and development.

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

Good afternoon. It is great to be here with you today. I want to start by thanking the conference organizers for putting together such an impressive event and for inviting me to speak about the future of offshore oil and gas regulation in the United States.

It was exactly a year ago yesterday that I became Director of the BOEMRE, which is the agency responsible for regulating offshore drilling and production in the United States. We renamed the agency to better reflect its mission but had a massive task ahead of us: undertaking a top-to-bottom reorganization of the agency and implementing major regulatory reforms, while at the same time responding to the worst offshore oil spill in United States history.

The tragic loss of life and the enormous, immediate, and visible damage to the environment from the Deepwater Horizon tragedy were a wake-up call for industry and government alike, sending a clear message that we had to take a good, hard look at existing safety technologies, practices, and regulations and make immediate, and lasting, improvements.

Over the past year, my staff and I have been working extremely hard to do just that.

Today, I will share with you the enormous changes that we are implementing. I will also describe

some important recent international developments that underscore 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 for the regulation of offshore drilling and development.

I. The BOEMRE Reorganization

Let me begin by talking about the structural reforms we are putting in place in the U.S. We are in the final stages of a comprehensive reorganization of the former Minerals Management Service (MMS). That agency had three conflicting missions: promoting resource development, enforcing safety regulations, and maximizing revenues from offshore operations.

Starting on October 1, these functions will be carried out by three strong, separate agencies within the Department of the Interior:

1. The Office of Natural Resources Revenue, is responsible solely for collecting revenues from offshore leases, and has been operating separately from the rest of the agency since last October;
2. The Bureau of Ocean Energy Management will be responsible for managing development of the nation's offshore resources in an environmentally and economically responsible way; and
3. The Bureau of Safety and Environmental Enforcement will enforce safety and environmental regulations offshore.

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 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 organizational changes alone are not enough to address the institutional weaknesses of the past. That is why we are taking concrete actions, over and above the reorganization, to strengthen certain key functions. This includes our environmental enforcement function, our inspections program, the way we review and approve Applications for Permits to Drill, and the way the agency deals with conflicts of interest. I want to share with you some of the key improvements we are making in each of these areas.

1. Strengthening Environmental Enforcement

First, we have taken a number of steps to strengthen the role of environmental analysis and enforcement in the new regulatory framework.

- We have created the brand new position of Chief Environmental Officer in BOEM to provide institutional assurance that environmental considerations will be given adequate weight in resource development decisions. This includes the development of five-year plans, leasing

decisions, exploration and development plan reviews, and other decisions that bear on resource management.

- We are also creating in BSEE a new dedicated environmental enforcement and compliance program. Historically, our overworked personnel have tried from time to time to determine whether operators have fulfilled their environmental commitments – in the form of stipulations and mitigations to minimize the adverse impact of operations to the environment. But the agency has never had personnel specifically dedicated to that task. Now we will.

2. Improving Inspections

In addition to strengthening the role of environmental analysis and enforcement, we have also taken a number of steps to improve our inspections program.

- Earlier this month, we announced that we would begin to use multiple-person, multi-disciplinary inspection teams for offshore oil and gas inspections. The new process will allow teams to inspect multiple operations simultaneously and thoroughly and will enhance the quality of inspections on larger facilities.

- In addition, we are creating for the first time a National Offshore Training Center led by a training director whom we are also currently seeking through a nationwide search. The Director of the National Offshore Training Center will develop national training strategies, curricula and programs to maintain and improve the technical capabilities of offshore inspections and compliance personnel throughout the bureau.

This will be a huge improvement on what existed previously. In the past, our inspectors have 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 function. The agency has never had a training center dedicated to training inspectors on how to do their jobs. Now we will.

3. Improving the Permit Application and Review Process

We also recently announced improvements to the permit application and review process. First, we published a permit application checklist to assist offshore oil and gas operators in submitting complete applications to drill. We also implemented a requirement that BOEMRE personnel conduct completeness checks before beginning an in-depth, substantive review of the application. This will allow our staff to capture the major gaps in the submission early in the review process. In addition, we developed clear permit review priorities that will expedite our review. Finally, in the coming weeks, we will launch an online tracking system, which will allow operators to track the status of their applications.

4. Addressing Conflicts of Interest

We are also taking steps to address conflicts of interest within the agency.

We have issued a tough new recusal policy that will reduce the potential for real or perceived conflicts of interest in our enforcement programs. Under the policy, 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 where such a conflict exists.

As a result, 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. A recent internal review demonstrated approximately 50 instances of our inspectors recognizing a conflict barred by the policy and taking appropriate action to recuse themselves.

In the coming weeks, we will be issuing a broader version of the policy that applies these ethical standards across the agency.

In addition, we created the Investigations and Review Unit (IRU), which is composed of

professionals with law enforcement backgrounds or technical expertise who promptly respond to allegations or evidence of misconduct and unethical behavior by Bureau employees.

The IRU 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. The IRU has already been a major contributor to two important investigations conducted by the agency.

5. Augmenting the BOEMRE Workforce

We believe that these far-reaching organizational and procedural changes will significantly enhance the bureau's role as a steward of our nation's resources on the U.S. Outer Continental Shelf (OCS). But we are not stopping at structural and procedural reform. We are also infusing the agency with much needed new resources and new personnel. We have already taken the first steps to accelerate our hiring of subject matter experts to bolster existing expertise in certain key areas. Specifically, we are looking for expertise in well operations, production operations, safety and environmental management systems, accident investigations, measurement systems and deepwater drilling.

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 with respect to resource development as well as safety oversight and enforcement.

6. Seeking Recommendations from Internal and External Experts

To achieve this, last fall we created a number of Implementation Teams, which have been hard at work for many months analyzing critical aspects of BOEMRE's structures, functions and processes, and implementing needed changes. 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 will be aided to a great extent by the recommendations that will flow from the 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 one of our nation's leading scientists, Dr. Tom Hunter. This committee includes representatives of federal agencies, industry, and academia.

The 15-member committee has already begun its 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.

II. Regulatory Developments and the Current Status of Offshore Drilling

In addition to reforming our organization and procedures, we have developed and implemented a number of new regulations to improve the effectiveness of government oversight of offshore energy development and drilling.

First, the Drilling Safety Rule is an important new rule prompted by Deepwater Horizon, creating 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 introduces for the first time in the US regulatory regime performance-based standards similar to those used by regulators in the North Sea. Operators in the U.S. are now 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.

Finally, we will soon be issuing a second proposed SEMS-related Rule, which will require third-party audits of mandatory SEMS programs and will address additional safety concerns that were not covered by the Workplace Safety Rule.

The proposed rule will enhance safety for offshore workers and provide greater protection of the marine environment through additional safety procedures, training programs, notification obligations and strengthened auditing procedures.

In the very near future, we will be launching another major rulemaking designed to further enhance offshore drilling safety. This process will be broad, inclusive and ambitious. Our goal will be 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.

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.

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 through formal Notices to Lessees, Q&As, and in-person meetings.

III. International Cooperation

A final – and very important – part of our long-term strategy includes continuing and strengthening our collaboration with our international counterparts.

Offshore regulators and senior policy officials have much to gain from collaborating with their counterparts in other countries to elevate the safety and environmental soundness of offshore operations around the world. To this end, in April, the Department of the Interior 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. In the coming weeks, I will convene a Working Group to address the best mechanism for continuing this dialogue.

We will also continue to work to strengthen existing channels for international cooperation and the

sharing of best practices across different regulatory regimes.

For example, BOEMRE will continue its participation with the International Regulators Forum (IRF), an organization that BOEMRE helped to found in 1994 to facilitate the cooperation and sharing of information among the leading offshore regulators.

BOEMRE will also continue to participate in a number of government-to-government initiatives to share best practices and build regulatory capacity. BOEMRE experts have participated in needs assessments and have conducted workshops in Suriname, Uganda, Papua New Guinea and Liberia. BOEMRE also continues its long-term technical assistance with the governments of Iraq and India. Later this month, BOEMRE will host a delegation from Mexico for the first of a series of information exchange workshops to fulfill the Secretary's mandate for developing the highest standards for operating in the Gulf of Mexico.

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.

IV. The Future of Offshore Drilling

Offshore drilling in the U.S. 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.

While a lot has changed over the past year, and we are continuing to upgrade drilling standards and workplace safety, 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.

Therefore, those who ask whether the regulatory system is "fixed" yet, or whether the agency is "fixed" yet, are asking the wrong question.

In fact, 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 think no further change is necessary. 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 evaluates the relevant risks associated with offshore drilling and other energy development activities in designing its regulations, its compliance program, and its enforcement programs. This includes the development of more sophisticated methods for measuring risk, designing programs for evaluating those risks and assessing whether industry is managing those risks appropriately.
- Second, 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.
- Third, a system in which all available scientific information and analysis is factored in to a process to ensure balanced decision making with respect to the environmental risks and economic benefits of offshore resource development.

- Fourth, a regulatory system that strikes appropriate balances and ensures that energy development is conducted safely and in an environmentally responsible manner, while also being more efficient, transparent and responsive.
- Fifth, 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.
- Sixth, institutions that spur continued government and industry focus on and innovation in the areas of risk assessment, technological advances in safety equipment, emergency response equipment, and further improvements in the effectiveness and availability of subsea containment resources, and oil spill response systems and coordination.
- Seventh, a set of industry performance standards that requires 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.
- 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 and the world'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.

Going forward, 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 believe in the tangible results I have seen, and I have seen the intense interest in what we are doing in industry, in the environmental community, and among the public at large. People are watching our work around the world, are interested and invested in it, and know the stakes involved in whether we succeed.

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.

Contact: [BOEMRE Public Affairs](#)