

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
U.S. SENATE**

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Chair Landrieu and Members of the Committee, I am pleased to appear before you today to discuss a number of important issues including, the current 2012 – 2017 Five Year Oil and Gas Leasing Program, the United States – Mexico Transboundary Hydrocarbon Agreement, and development of the next Five Year Oil and Gas Leasing Program for 2017 – 2022.

2012 – 2017 Five Year Oil and Gas Leasing Program

The 2012 – 2017 Five Year Oil and Gas Leasing Program (2012 – 2017 Five Year Program) became effective in August 2012, and schedules lease sales in six planning areas with the greatest resource potential, including more than 75 percent of the estimated undiscovered, technically recoverable oil and gas resources on the Outer Continental Shelf (OCS) comprising nearly 219 million acres in 15 proposed lease sales.

To date, the Bureau of Ocean Energy Management (BOEM) has conducted five lease sales – two in the Western Gulf of Mexico Planning Area, two in the Central Gulf of Mexico Planning Area, and one in the portion of the Eastern Gulf of Mexico Planning Area not subject to moratorium under the Gulf of Mexico Energy Security Act. Under the current Five Year Program, approximately 4.3 million acres, including 794 tracts, have been leased for a total of nearly \$2.3 billion in bonus bids. The next sale in the Five Year Program is Lease Sale 238 in the Western Gulf of Mexico Planning Area scheduled for August 2014. Six other lease sales are scheduled for the Western, Central and Eastern Gulf of Mexico Planning Areas, and three lease sales are scheduled offshore Alaska, one each in portions of the Chukchi Sea, Beaufort Sea, and Cook Inlet Planning Areas.

The 2012 – 2017 Five Year Program adopted a targeted leasing strategy in the Arctic to focus oil and gas leasing on the most promising blocks, while protecting important Arctic habitats and critical subsistence activities. The strategy, which includes consultations with Alaska Natives, the State, other Federal agencies, and other stakeholders, identifies areas considered for leasing that have high resource potential and clear indications of industry interest while appropriately weighing environmental protection and subsistence use needs.

BOEM is currently pursuing a specific strategy to develop modern, robust scientific information about the scope and location of potential oil and gas resources in the Mid and South Atlantic and to resolve significant potential conflicts between oil and gas activity and other important OCS uses in these areas, including military, fishing, and vessel traffic uses as well as environmental and infrastructure concerns. A Record of Decision that sets a framework for appropriate geological and geophysical (G&G) survey activities off the Mid- and South Atlantic coast and clears the way for G&G permits to be considered, is expected to be issued in the coming weeks. Information gained from this G&G data gathering will help inform BOEM's decisions regarding potential future leasing along the Atlantic coast.

United States – Mexico Transboundary Hydrocarbon Agreement

Earlier this year, BOEM issued three leases in the Western Planning Area of the Gulf of Mexico, along the United States – Mexico Maritime Boundary. The three bids were opened during the Eastern and Central Gulf of Mexico Planning Area lease sales held on March 19, 2014. The three bids totaled over \$21 million and were submitted by Exxon Mobil Corporation.

The United States – Mexico Transboundary Hydrocarbon Agreement (Transboundary Agreement), signed into law on December 26, 2013, creates a new level of certainty for U.S. and Mexican firms operating in the Gulf offshore boundary region and makes additional areas accessible for exploration and production activities. The Transboundary Agreement sets clear guidelines for the development of oil and natural gas reservoirs that cross the maritime boundary. Under the Agreement, U.S. and Mexico's operators will be able to voluntarily enter into agreements to jointly develop those reservoirs. In the event that consensus cannot be reached,

the Transboundary Agreement establishes the process through which U.S. and Mexico's operators can individually develop the resources on each side of the border while protecting each nation's interests and resources.

The Transboundary Agreement allows leaseholders on the U.S. side of the maritime boundary to cooperate with Mexico's operators, in the joint exploration and safe and responsible development of hydrocarbon resources. The Agreement also provides for joint inspection teams from the Bureau of Safety and Environmental Enforcement (BSEE) and the Mexican Government to ensure compliance with applicable laws and regulations. Relevant agencies in both countries will review plans for the development of these reservoirs, and additional requirements may be set before development activities are allowed to begin.

This agreement makes the entire transboundary region, which was subject to legal uncertainty in the absence of an agreement, more attractive to U.S.-qualified operators. BOEM estimates that the transboundary area contains as much as 172 million barrels of oil and 304 billion cubic feet of natural gas.

With entry into force of the Transboundary Agreement on July 18, the leasing moratoria on blocks within the 1.4 nautical mile buffer area north of the Continental Shelf boundary in the Western Gap expires, and those blocks will be available for leasing.

2017 – 2022 Five Year Oil and Gas Leasing Program

With the current Five Year Program expiring in August 2017, BOEM recently announced the first step in a robust public engagement and analytical process to develop the next schedule of potential offshore oil and gas lease sales.

The OCS Lands Act requires the Secretary of the Interior, through BOEM, to prepare and maintain a schedule of proposed oil and gas lease sales in Federal waters, indicating the size, timing and location of sales that would best meet national energy needs while achieving an appropriate balance among the potential for environmental impacts, for discovery of oil and gas, and for adverse effects on the coastal zone.

Last month, BOEM took the first step in the development of the next Five Year Program with the publication of a Request for Information and Comments on the Preparation of the 2017-2022 Outer Continental Shelf Oil and Gas Leasing Program (RFI). The RFI is the initial step in a two-and-a-half to three-year planning process and does not identify any specific course of action. Per statute and consistent with previous efforts and judicial guidance, BOEM will evaluate all 26 OCS planning areas during this first stage. The publication of the RFI begins a 45-day comment period ending on July 31, 2014. The RFI provides an opportunity for interested parties to submit comments and suggestions about the potential for leasing and to identify environmental and other concerns and uses that may be affected by offshore leasing. BOEM seeks a wide array of input, including information on the economic, social and environmental values of all OCS resources, as well as the potential impact of oil and gas exploration and development on other resource values of the OCS and the marine, coastal and human environments.

Substantial public involvement and extensive analysis will accompany all stages of the planning process. BOEM is reaching out to a broad array of stakeholders, including State governments, coastal organizations, and tribal representatives to educate them on BOEM's programs, policies and procedures, as well as working with the Department of Defense (DOD) to resolve potential conflicts between the OCS leasing program and DOD requirements to use the OCS for national defense and security. BOEM is holding meetings with coastal States if requested; BOEM has met with the State of North Carolina and is scheduled to meet with the Commonwealth of Virginia in early July. Additionally, in response to coastal state requests and in order to enable States to prepare a robust response to the RFI, BOEM is hosting a meeting in its Gulf of Mexico Region office in New Orleans on July 16-17 to share comprehensive information on BOEM's, as well as the Bureau of Safety Environmental Enforcement's, programs from oil and gas leasing to decommissioning activities.

Using the information received in response to the RFI, BOEM will prepare decision documents describing the Draft Proposed Program, followed by a Proposed Program and a Proposed Final Program. Throughout the planning process, BOEM consults with all interested parties and seeks additional public comment on the Draft Proposed and Proposed Programs. Concurrently, BOEM will prepare a Programmatic Environmental Impact Statement (PEIS) required by the National

Environmental Policy Act to evaluate the potential environmental impacts of various OCS oil and gas leasing alternatives under the Proposed Program and to help inform decisions on the Proposed Final Program.

Permitting and Production

The aforementioned BOEM activities have the potential to increase exploration, drilling, and production on the OCS. I have been asked to mention a few significant efforts by our sister agency, the Bureau of Safety and Environmental Enforcement (BSEE). To further enhance safety and environmental protection across offshore operations, BSEE has initiated a variety of regulatory improvements to address key safety issues. As BSEE continues to evaluate possible regulatory updates, for topics such as well control processes and technologies, crane safety and oil spill response and preparedness, the bureau has also worked to streamline the regulatory process to improve efficiency, provide for more stakeholder input, and keep pace with industry as offshore activity and production increases.

Over the past few years BSEE's permit review times have decreased, without sacrificing human safety and protection of the environment. For example, BSEE achieved an average review time of 59 days for deepwater New Well permits submitted and approved in 2013, down from 71 days in 2011. BSEE has focused on reducing risks offshore by thoroughly reviewing each permitted activity on a case-by-case basis that is consistent with the level of risk that each activity carries.

BSEE's continued improvements in predictability and consistency in permitting are evidenced by the record number of rigs currently drilling in deepwater in the Gulf of Mexico (GOM) and the ongoing work for 8 new floating platforms in the GOM that are expected to add up to 700,000 barrels of oil per day capacity in 2014 through 2016. Additional discoveries under evaluation for development in the deepwater GOM could facilitate development of an additional 700,000 barrels of oil per day capacity by 2020. The Energy Information Administration forecasts oil production from the GOM to increase to nearly 2 million barrels per day by 2016.

Industry continues to view GOM deepwater as a major development target, and BSEE continues to heighten safety standards to address the challenges of operating in these areas. The GOM has recently seen a historic number of deepwater Mobile Offshore Drilling Units (MODUs) that are either working or are under contract preparing to start work. As a point of reference there were approximately 35 deepwater MODUs in April of 2010 (about 9 drillships and 26 semisubmersibles) and now there are 44 (26 drillships and 18 semisubmersibles) as of June 2014. New and revised deepwater rig contracts and BSEE interaction with industry on specific projects suggests that the number of deepwater MODUs in the GOM is expected to continue to increase through 2017. The number of deepwater MODUs is expected to vary within a range of 50 to 60 floating drilling rigs depending on the timing of development projects coming on line, trends in future discoveries and movement of rigs in and out of the GOM as exploration and development activities increase globally.

BSEE remains committed to its efforts to increase efficiency and transparency in its permitting process. For example, BSEE is developing an ePermitting system that should provide companies with additional information about permitting requirements, leading to increased predictability and transparency in the permitting process. The system should also allow BSEE personnel to more easily focus on proposed activities with higher risk levels, thus helping BSEE fulfill its mission of protecting both offshore workers and the environment.

Conclusion

Chair Landrieu and Members of the Committee, thank you again for inviting me to appear before your Committee. I look forward to working with the Committee especially as we proceed with development of the new Five Year Program. I am happy to answer any questions.