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Remarks of Michael R. Bromwich, Director of the Bureau of Ocean Energy Management, Regulation and Enforcement at API Delta Chapter's 2010 Meritorious Service Awards Luncheon in New Orleans

Good afternoon. Thank you very much for inviting me to speak at your 2010 Meritorious Service Awards Luncheon. 2010 was a very difficult year for the industry and everyone who is associated with offshore energy development. The lessons learned from the horrible tragedy of Deepwater Horizon shed light on a number of systemic and regulatory weaknesses that had to be immediately addressed. We did that and in the process have re-shaped how both you and we do business.

There has been much public discussion about new regulations, delays in permitting, confusion and uncertainty. I have made a personal commitment to reduce industry uncertainty, and I personally have held more than 100 meetings with companies and industry associations to clarify regulations and guidance, listen to concerns, and work together to ensure offshore operators understand the requirements and have the information they need in order to comply with those requirements.

I appreciate being here with you to continue that dialogue and to talk about how the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) is raising standards for safety and environmental practices offshore, and about some of the challenging issues we face in an unsettled and unsettling environment.

Since I took over the agency in mid-June, we have been working hard to institute broad and lasting changes to the way we regulate oil and gas drilling and development in the waters off our country's shores. And the truth is that these changes are long overdue. It's not unprecedented for serious reform to be triggered by a major catastrophe. In this case, as we all know, it was the unprecedented deepwater blowout of the Macondo well, the sinking of the Deepwater Horizon drilling rig, the tragic deaths of 11 workers, and a spill of nearly 5 million barrels of oil into the waters of the Gulf of Mexico.

The Deepwater Horizon tragedy immediately roused both government and industry out of a complacency that had developed over the past several decades. The result of that complacency was that the increased dangers of deepwater drilling were not matched by increased vigilance and concern for the safety of those operations.

Today, I want to walk you through the steps that our agency is taking to upgrade its commitment to the responsible stewardship of our nation's resources on the Outer Continental Shelf (OCS). These continued reforms are necessary – and reflect how seriously we take our responsibility to ensure that offshore drilling and its related activities, which are vital for the foreseeable future to our economy, our energy security and national security, are conducted safely.

When I was asked to take over responsibility for this agency, I received a broad, ambitious and urgent mandate from President Obama and Secretary Salazar – to reform offshore energy development, and the agency responsible for overseeing it. Since that time, we have been working to make profound changes necessary to restore the public's confidence that offshore oil and gas drilling and production can be – and will be – conducted safely and with appropriate

protections for marine and coastal environments.

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 seemed to have 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 supported our efforts to strengthen regulation of offshore drilling and to undertake their own efforts to raise standards for drilling and workplace safety, spill containment, and spill response.

But there are other operators who, with surprising speed, have seemed all-too-ready to shrug off Deepwater Horizon as a complete aberration, a perfect storm, one in a million. They point to the lack of a similar blowout in the decades before the explosion and spill and suggest that the steps taken in response have been an overreaction and were unnecessary. Needless to say, that is disappointing and short-sighted.

Our view – that this was a broad problem that needed to be addressed broadly and boldly – has been supported most recently by the report issued by the President's Commission on the Deepwater Horizon Oil Spill. As the Commission describes in its report, regulatory and industry reform in the wake of a significant offshore disaster has happened before. The United Kingdom and Norway substantially changed their oversight of offshore drilling and production following the Piper Alpha and Alexander Keilland incidents. Australia is currently facing many of the same issues we are confronting following the Montara blowout, which occurred only eight months before Deepwater Horizon.

The specific challenges facing us, however, are unique in many significant respects. The scale of offshore oil and gas operations in U.S. waters, particularly in the Gulf of Mexico, is vastly greater than those in the North Sea. The economies of many of the Gulf Coast states are closely tied to offshore industry. The Gulf accounts for more than 25 percent of domestic oil production and approximately 12 percent of domestic gas production. In fact, for many months now, we have been hearing concerns expressed by business owners, public officials, and the public at large about the impact of the spill and its aftermath on the economies of Gulf Coast states.

One of the key problems that we are addressing – and that cannot be avoided – is ensuring that government and industry make the fundamental reforms necessary to improve the safety and environmental protection in this massive industry, while at the same time allowing for the continuity of operations and production.

I. Scope of the Problem

As I mentioned a moment ago, there are some in the oil and gas industry that dismiss Macondo as an isolated event that does not represent a systemic problem. But evidence developed by the President's Commission convincingly refutes the notion that Deepwater Horizon was a one-in-a-million event. They identified 79 loss of well control accidents in the Gulf between 1996 and 2009. That's 79, not one in a million. Very recently, we saw a loss of well control in the Gulf involving a platform in shallow water. Thankfully, the consequences were not dire, but that event certainly undermines the claim that such events are exceedingly rare – and also undermines the claim, which we have heard repeatedly, that the risks in shallow water are trivial or non-existent. That's simply not true. When we discuss these issues, we need to deal in facts and not in fantasies.

The Commission had tough criticism for both industry and federal regulators. And although we at BOEMRE have been hard at work addressing the issues they raise, I think it's important to spend a minute to focus on the state of affairs just before the spill.

The Commission specifically notes significant failures and needed changes on a full range of issues – industry's safety and environmental practices, safety training, drilling technology, containment and clean-up technology, preparedness, corporate culture, and management behavior.

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

Last week, API announced that such an entity, which will be called the Center for Offshore Safety, is being formed, although much about its structure, function and purpose remains to be defined. API's press release stated that the Center "will promote the highest level of safety for offshore operations, through an effective program that addresses management practices, communication and teamwork, and which relies on independent, third-party auditing and verification." We will be watching with interest to see how this Center takes shape and how it complements the critical reforms and improvements we have undertaken.

The Commission was critical of industry but it was equally critical of federal regulators, including the former MMS. The Commission found that federal oversight was deeply compromised by combining separate and conflicting missions within one agency —namely, the responsibility for promoting the expansion of offshore leasing and drilling and the responsibility for ensuring safety and protecting the environment.

According to the Commission, and others who have recently addressed these issues, regulators failed to keep pace with the dramatic transformation of the offshore drilling industry and the move to deepwater drilling. Neither inspectors on the front lines nor senior MMS officials had the tools or the training to fully oversee deepwater offshore drilling. Both industry and government were unprepared to contain a deepwater well blowout. And, very importantly, MMS did not receive predictable and adequate funding needed to effectively oversee offshore drilling. Over the past 20 years, the MMS budget for leasing, environmental protection, and regulatory oversight remained stagnant while deepwater drilling in the Gulf of Mexico expanded dramatically. Unfortunately, little has changed so far with respect to this funding issue.

II. Reorganization

We at BOEMRE have been working to address the important structural issues the Commission addressed in its report. Let me be specific about what we have already done, and what we plan to do in the future. Together with Secretary Salazar, we have undertaken the most aggressive and comprehensive reform of offshore oil and gas regulation and oversight in U.S. history.

This includes the reorganization of the former MMS to establish mission clarity and to strengthen oversight; and it also includes the development and implementation of heightened standards for drilling practices, safety equipment, and environmental safeguards.

Let me outline for you the main elements of our fundamental reorganization and reform of the former MMS. As we have previously announced, in the place of the former MMS – and in the place of BOEMRE, the direct and temporary successor to MMS – we are creating three strong, independent agencies with clearly defined roles and missions. MMS simply could not keep pace with the challenges of overseeing industry operating in U.S. waters in part because it had conflicting missions. It was expected to promote resource development, to enforce safety regulations, and to maximize revenues from offshore operations. And all of this with utterly inadequate resources.

The reorganization of the former MMS is designed to remove those conflicts by clarifying and separating missions in three new agencies, and providing each of the new agencies with clear missions and we hope substantial additional resources to fulfill those missions. We are designing and implementing these organizational changes while we take into account the crucial need for information-sharing and the other links and connections among the functions of the former MMS. This is essential to ensure that the regulatory processes related to offshore leasing, plan approval and permitting operate efficiently and effectively from the outset.

On October 1 of last year, the revenue collection arm of the former MMS became the Office of Natural Resources Revenue and now is located in a different part of the Interior Department, with a reporting structure and chain of command completely separate from the offshore regulator. The President's Commission agrees with this change.

Over the coming months, the offshore resource management and enforcement programs will be established as separate, independent organizations. The next steps in the reorganization are more difficult, but also extremely important: they involve separating the energy development functions from the safety and environmental enforcement missions of the nation's offshore regulator. The Interior Department, as well as the President's Commission, has concluded that the separation of these missions is essential to reforming the government's oversight of offshore energy development.

I want to discuss with you some details of the two new independent agencies – the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE). This re-organization is more than just moving boxes around on an organization chart – it is about making fundamental, thoughtful changes in the way these agencies operate.

- BOEM will be responsible for managing development of the nation's offshore resources. This involves ensuring that the environment is protected and that the nation's offshore energy resources – including oil, gas, and renewable resources – are developed wisely, economically and in the country's best interests.
- BSEE will independently and rigorously enforce safety and environmental regulations.

We have worked with and received advice from leading experts in government transformations and examined closely the offshore regulatory regimes of other nations, including the U.K. and Norway. We also have considered, and will continue to bear in mind, the recommendations of the President's Commission, which has done its own analysis of these issues.

One of the important steps in our planning and analysis was to ensure that we can implement these changes while minimizing disruptions to the Bureau's daily operations. We did this by discussing the reorganization with employees throughout BOEMRE. We received their input; collected and analyzed data relating to the Bureau's processes, systems and regulatory metrics; and developed a number of alternatives for restructuring and reforming the Bureau. This work has been time consuming, but it has been essential to making informed decisions regarding the transformation of the Bureau.

I want to highlight a couple of the more significant changes we are making, which promote the principles of independence, development of rigorous and thorough science, and safety and environmental protection.

- We are separating resource management from safety oversight to allow permitting engineers and inspectors, who are central to overseeing safe operations, greater independence, more budgetary autonomy and clearer missions and leadership focus. Our goal is to create a tough-minded, but fair, regulator that can effectively keep pace with the risks of offshore drilling and will promote the development of safety cultures in offshore operators.
- We are creating a structure that ensures that sound environmental reviews are conducted and that the potential environmental effects of proposed operations are given appropriate weight during decision-making related to resource management in BOEM. This is to ensure that leasing and plan approval activities are properly balanced. These processes must be both rigorous and efficient so that operations can go forward promptly with full understanding of their potential environmental effects and confidence that appropriate mitigation against those potential environmental effects are in place.
- We are strengthening the role of environmental review and analysis in both organizations through various structural and organizational mechanisms. Those include:
 - The creation of a first-ever Chief Environmental Officer in BOEM. This person will be responsible for ensuring that environmental concerns are appropriately balanced in leasing and planning decisions and for helping set the scientific agenda relative to our oceans. This is a new, high-profile and extremely important position, which we hope and expect will attract top-flight talent;
 - The separation of environmental review and leasing programs in BOEM's regional offices;
 - The creation of new plan approval processes in BOEM;
 - The development, for the first time, of a brand new Environmental Compliance and

- enforcement function, which will reside in BSEE; and
- The review and enforcement of Oil Spill Response Plans, which will be conducted in BSEE and established as a national-level priority.

III. Implementation Teams and Other Reforms of BOEMRE Policies

Let me quickly 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. I know many of you have questions, but I believe that these are important to mention.

As part of our broad and continuing reform efforts, we have created a number of Implementation Teams that have been hard at work for several months. They are the central focus of our efforts to analyze critical aspects of BOEMRE's structures, functions and processes, and implement needed changes.

These teams are integral to our reorganization effort. They are considering the various recommendations for improvement that we have received from numerous sources, including the Oil Spill Commission, the National Academy of Engineering, the Safety Oversight Board commissioned by Secretary Salazar, and the Department of Interior Inspector General. 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 we are in the process of reviewing and analyzing the comments we received. We are working closely with the Council on Environmental Quality (CEQ) on this evaluation. In the meantime, we are requiring that site-specific environmental assessments, as opposed to the categorical exclusion reviews performed in the past, be conducted for all new and revised exploration and development plans in deepwater.

To address conflicts of interest, we have issued a tough new recusal policy that will reduce the potential for real or perceived conflicts of interest. Employees in our district offices must notify their supervisors about any potential conflict of interest and request to be recused from performing any official duty in which such a conflict exists.

Thus, our inspectors are required to recuse themselves from performing inspections of the facilities of former employers. Also, our inspectors must report any attempt by industry or by other BOEMRE personnel to inappropriately influence, pressure or interfere with his or her official duties. Soon, we will be issuing a broader version of the policy that applies these ethical standards across the agency. I know that this will present operational challenges for some of our district offices in the Gulf region, which are located in small communities where the primary employers are offshore companies. But the need for tough rules defining the boundaries between regulators and the regulated is necessary and compelling. These rules are necessary to assure the public that our inspections and enforcement programs are effective, aggressive and independent.

Finally, we are staffing our new Investigations and Review Unit, a unit I created immediately on taking over the agency. This unit, which is composed of professionals with law enforcement backgrounds or technical expertise has several important missions. First, it will promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by Bureau employees. Second, it will pursue allegations of misconduct against oil and gas companies involved in offshore energy projects when there is credible evidence that rules and regulations have been violated. And third, it will provide the Bureau with the ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents. Recently, we issued the first report to come out of the IRU, which focused on alleged flaws with BP's Atlantis platform in the Gulf of Mexico.

IV. New Safety and Environmental Regulations

I have discussed many of the reforms that we are pursuing to improve the effectiveness of

government oversight of offshore energy development and drilling. These changes are both substantial and necessary. However, as the report of the President's Commission makes abundantly clear, industry must change as well. Some of this work must be 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 prescriptive regulations to bolster safety, and to enhance the evaluation and mitigation of environmental risks. We have raised the bar for equipment, safety and environmental safeguards in the drilling and production stages of offshore operations – and we will continue to do so in open and transparent ways in the coming months and years. We have also introduced – for the first time – performance-based standards similar to those used by regulators in the North Sea. We have done all of this through the development and implementation of the two new rules, announced last fall, that raise standards for the oil and gas industry's operations on the OCS.

The first rule, the Drilling Safety Rule, is an emergency rule prompted by Deepwater Horizon. It creates tough new standards for well design, casing and cementing, – and well control equipment, including blowout preventers. For the first time, operators are now required to obtain independent third-party inspection and certification of each stage of the proposed drilling process. In addition, an engineer must certify that blowout preventers meet new standards for testing and maintenance and are capable of severing the drill pipe under anticipated well pressures.

The second rule we issued is the Workplace Safety Rule, which seeks to reduce the human and organizational errors that lie at the heart of many accidents and oil spills. The development of this rule was in process well before Deepwater Horizon, but as described in the Commission's report, the promulgation of these performance-based standards was frustrated for various reasons. Unfortunately, as was the case in other countries such as the U.K. and Norway, it took a major accident to provide the impetus necessary for these standards to be imposed.

Operators now are required to develop a comprehensive safety and environmental management program that identifies the potential hazards and risk-reduction strategies for all phases of activity, from well design and construction, to operation and maintenance, and finally to the decommissioning of platforms. Although many progressive, forward-looking companies had developed such SEMS systems on a voluntary basis in the past, many had not. And our reviews had demonstrated that the percentage of offshore operators that had adopted such programs voluntarily was declining. I understand our workshop on the SEMS rule here in New Orleans last week was very well attended, and I'm sure some of you here today participated in that. I note that API's press release announcing the Center on Safety specifically notes the industry's interest in various performance-based systems, including the U.K.'s Step Change in Safety, the chemical industry's Responsible Care program, the Institute for Nuclear Power Operations, the OSHA Voluntary Protection Program, and the Safety Case Regime for international operators

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.

In June, we issued NTL-06, which requires that operator's oil spill response plans include a well-specific blowout and worst-case discharge scenario – and that operators also provide the assumptions and calculations behind these scenarios.

In November, we issued NTL-10, a document that establishes informational requirements, including a mandatory corporate statement from the operator that it will conduct the applied-for drilling operation in compliance with all applicable agency regulations, including the new Drilling Safety Rule. The NTL also confirms that BOEMRE will be evaluating whether each operator has submitted adequate information to demonstrate that it has access to, and can deploy, subsea containment resources that would be sufficient to promptly respond to a deepwater blowout or other loss of well control. This information will help us evaluate operators' compliance with current spill response regulations.

Regulatory changes have been rapid, especially compared to the historical pace of change, and there have been, understandably, a number of questions from industry. These questions have been about our new regulations, about the NTLs, and about how we will apply NEPA going

forward with respect to deepwater drilling operations.

We have held numerous meetings, both in the Gulf region and in Washington, D.C., with federal and state representatives, industry groups, non-governmental organizations, and individual operators, to answer questions about the new rules and to provide clarity about the post-Deepwater Horizon regulatory environment. We have also issued a guidance document, which provides a comprehensive and detailed outline of the way forward for permitting in deepwater. We have discussed the contents of the guidance with a number of companies and have received input on the guidance from them and from industry.

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

The fact that continuing guidance is necessary should not come as any surprise to anyone. With the volume of new rules and formal guidance we have issued in recent months, the need for additional clarification was inevitable and necessary. It reflects no more than the fact that these are complex issues to work through, which is exactly what we have been doing.

We need to distinguish this kind of discussion and consultation, which is necessary to the enterprise of regulating a complex industry, with the type of relationship in which a regulatory agency forsakes its institutional independence and becomes the captive of the regulated industry. We are in favor of constructive engagement and continuing dialogue. But we will not permit any sacrifice of our institutional independence.

We are working hard to ensure that this important industry continues to be able to operate fully and successfully, and we continue to believe new deepwater drilling will be approved in the coming months. That said, one thing that the Secretary and I believe firmly is that a retreat on drilling safety is not an option.

V. Industry's Role

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

During my tenure as Director, I have seen members of the industry work hard and in good faith for ways to continue improving safety and environmental protections. This continued push will be necessary in order to keep pace with industry ambitions to drill in deeper water in geological formations that have greater pressures.

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

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

As you probably know, yesterday we made two major announcements reflecting substantial

progress made by industry and by our agency over the last several months. We announced the fourth deepwater permit since February 17, when industry announced the completion and readiness of its subsea containment systems. These permits were issued for one simple reason: the operators successfully demonstrated that they could drill their deepwater well safely and that they were capable of containing a subsea blowout if it were to occur. We expect further deepwater permits to be approved in coming weeks and months based on the same process that led to the approval of these permits.

But perhaps even more important than this fourth permit was our announcement that we had approved the first exploration plan, for which we completed our first site-specific environmental assessment. Over the last several weeks, as we announced these deepwater permits, skeptics who tried to minimize their significance said the approval of the first new exploration plan would be a much more important milestone. Well, we have now reached that milestone as well.

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

The challenge facing government and industry in the months and years ahead is to ensure that we do not once again become complacent, but rather that we continue to make progress in developing state-of-the-art safety, containment and response capabilities. Government, industry and the best minds in our universities must continue to collaborate on ongoing research and development to create cutting-edge technologies in areas such as well condition sensor capabilities and remote BOP activation, among others. These initiatives are vitally important to pursue – by individual companies and by industry as a whole.

This is why we have established a new Ocean Energy Safety Advisory Committee, which will include federal agencies, industry, academia, national labs, and various research organizations. The 15-member committee will work on a variety of issues related to offshore energy safety, including drilling and workplace safety, well intervention and containment and oil spill response. This will be a key component of a long-term strategy to address on an ongoing basis the technological needs and inherent risks associated with offshore drilling, and deepwater drilling in particular.

We recently announced the selections for this Advisory Committee – and I'm very pleased that we have top-notch members from the oil and gas industry, as well as from academia, NGOs, and the government. As you know, Secretary Salazar has asked Dr. Tom Hunter, the former head of the Sandia National Lab, to chair the Committee.

The Ocean Energy Safety Institute, which will be nurtured and shaped by the Advisory Committee, will foster collaboration among all key stakeholders to increase offshore energy safety. The Institute will focus on a broad range of matters relating to offshore energy safety, including drilling and workplace safety, well intervention and containment, and oil spill response. It will also help spur collaborative research and development, training and execution in these and other areas relating to offshore energy safety.

Most importantly, this Institute is a key component of a long-term strategy to address on an ongoing basis the technological needs and inherent risks associated with offshore drilling, and deepwater drilling in particular.

As you have heard, we have been busy, and have been busily engaged with the industry, to make offshore drilling as safe as possible. We hope this constructive engagement continues and that in the very near future we will see a fully occupied offshore drilling industry that is operating more safely – and with greater environmental safeguards – than ever before.

I thank you for your time and attention.

And now, I am happy to take questions with the time we have remaining.

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