

**DEPARTMENT OF THE INTERIOR, ENVIRONMENT,
AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2013**

WEDNESDAY, MARCH 14, 2012

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Jack Reed (chairman) presiding.
Present: Senators Reed, Tester, and Murkowski.

DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT

STATEMENT OF HON. ROBERT V. ABBEY, DIRECTOR

OPENING STATEMENT OF SENATOR JACK REED

Senator REED. Let me call the hearing to order. Good morning. I want to welcome our witnesses to the subcommittee's oversight hearing on Federal offshore and onshore energy development programs within the Department of the Interior.

On behalf of the members of the Interior, Environment, and Related Agencies Subcommittee, I'd like to welcome our panel and thank everyone for joining us here today.

Now, before us, we have the Honorable Robert V. Abbey, who's the Director of the Bureau of Land Management (BLM); the Honorable Tommy P. Beaudreau, Director of the Bureau of Ocean Energy Management (BOEM); and the Honorable James Watson, Director of the Bureau of Safety and Environmental Enforcement (BSEE). Gentlemen, thank you.

Director Beaudreau and Director Watson, this is your first hearing before the subcommittee as heads of these two new bureaus which were created in October of last year, so we wanted to offer a special welcome to both of you.

As many of you know, the subcommittee was fortunate to have the opportunity to discuss many aspects of energy development when Secretary Salazar appeared before us 2 weeks ago. In particular, I'm especially grateful that we had the opportunity to discuss with him the potential for offshore wind development to create new manufacturing and assembly jobs and to generate renewable energy in my home State of Rhode Island and in other States.

However, and I know that many of my colleagues on both sides of the aisle will agree, there is much more to discuss about energy policy, which is why we've convened this hearing today.

Making sure that the right resources and policies are in place and that safe and responsible energy development on public lands is a significant part of this subcommittee's jurisdiction. The three agencies that we have before this subcommittee today all play a huge role in ensuring the success of the President's energy strategy by overseeing both conventional and renewable energy development on Federal lands and in our Federal waters.

We must ensure that these three agencies have the right resources with staffing in place to perform their permanent inspections and enforce their duties. That is why I think it's important to start with an overview of where these agencies are in terms of their fiscal year 2013 budget requests.

For the offshore perspective, the budget proposed a large increase to BSEE for a total of \$222.2 million. That's a 13-percent increase or \$24.8 million more than fiscal year 2012 funding levels.

The President's request also continues the inspection fee program that the Congress established last year and proposes to collect \$65 million in inspection fees from drilling operations to offset the appropriations request.

The budget request also includes a total program level for BOEM of \$164.1 million. That's a \$3 million increase more than the fiscal year 2012 levels, or approximately 2 percent.

Finally, the budget includes a program level of \$173.4 million for BLM energy program. That's a \$33 million increase more than the fiscal year 2012 level or approximately 23 percent.

The budget request also includes a new \$48 million inspection fee program similar to the one we enacted last year for BSEE that will offset the appropriations request. I'm anxious to hear from Director Abbey how these fees would be used to strengthen energy development on BLM lands.

We're also going to take a look this morning at the progress that's being made to better process offshore and onshore permits and efforts that these agencies have made to recruit, hire and train new petroleum engineers and inspection personnel.

Since the Deepwater Horizon incident less than 2 years ago, major reforms have been made to the way the Interior Department oversees the planning, leasing, and permitting processes for offshore energy development. I understand that concerns are being raised about whether the administration is acting quickly enough to exploit our offshore energy reserves.

It is also important to note that lease sales are underway and permits have in fact been approved since the incident including a total of 325 deepwater drilling permits and an additional 116 shallow water drilling permits approved in the Gulf of Mexico as of Monday, March 12.

As we move ahead, I think the administration must strike the proper balance between the speed of processing and ensuring that industry is drilling responsibly and safely especially in the context of the largest oil spill in our Nation's history which we saw with the Deepwater Horizon incident.

The same can also be said for making sure that we are addressing onshore energy development in a thoughtful and environmentally sensitive manner. I look forward to discussing efforts to improve the BLM inspection process, particularly related to the steep rise in the use of hydraulic fracking on public lands.

Now, before we hear from our panel, I'd like to recognize Ranking Member, Senator Murkowski, and other colleagues if they'd like to speak.

Senator REED. Senator Murkowski.

STATEMENT OF SENATOR LISA MURKOWSKI

Senator MURKOWSKI. Thank you, Mr. Chairman, and welcome to our witnesses. I appreciate all that each of you do. It was nice to visit with you, Director Beaudreau. It's always nice to have an Alaskan at the helm. You clearly understand what we're faced with so on many of these issues. But, again, welcome to each of you.

As Americans face steeply rising energy costs, it's important that this subcommittee ensure that the agencies that sit before us today have the resources that they need and the right policies are in place to maximize domestic production from our Federal lands in an environmentally responsible manner.

Now, a number of new authorities were included in last year's Interior bill that I hope will give your agencies the tools necessary to improve the pace of permitting and increase our domestic production.

For example, new fees on offshore operators were authorized and 50 percent of these collections must be used to expand capacity and expedite the development of the Outer Continental Shelf (OCS). Authority was also given to pay higher salaries for certain critical job positions in order to address the problems with hiring sufficient numbers of key personnel to review the exploration plans and the process permits in a timely fashion, as the chairman has mentioned.

Finally, the responsibility for reviewing air quality issues in the Arctic OCS was transferred from the Environmental Protection Agency (EPA) to BOEM to deal with egregious permitting delays, almost 6 years in one case. I'd like to hear from all of you today about how these new authorities are being utilized, and whether you believe that you've got the tools that you need to improve the pace of permitting and increase production both on and offshore.

Improving the Department's performance is particularly important to me in light of recent Department of the Interior reports that indicate that while overall production domestically is at an all-time high, but it's not necessarily the case on Federal lands and waters.

ENE News recently reported the production of natural gas declined by 11 percent in fiscal year 2011 and oil production declined by 14 percent. A significant portion of this is clearly the result of the moratorium that was put in place in the Gulf of Mexico following the Deepwater Horizon.

So I would like to explore with you today what the current pace of permitting is in the gulf; how many drilling rigs are operating; whether the improvements have been made to improve and accelerate the approval of exploration plans and drilling permits.

I think there is a difference of opinion out there between the Department and the industry on whether or not things are improving. So I would like to hear your perspective on that.

The discrepancy between production on State and private lands versus Federal lands also concerns me as I look at the new policies that are proposed in the fiscal year 2013 budget that will make leasing on Federal lands less competitive.

When companies have the option of oil exploration on large new reserves on State and private lands, whether it's North Dakota or Texas, or for natural gas in the Marcellus Shale, I question the wisdom of proposals to increase Federal onshore royalty rates and put in place new inspection and drilling fees, and charge a fee on the so-called nonproducing leases.

It seems to me that this is just taking us in a direction that will make our Federal lands less competitive, and we may see a continued trend of more investment fleeing to the stateside into the private lands or possibly even to other countries.

Again, I thank the witnesses for joining us and for the work that they do within their respective agencies and look forward to the questions.

Senator REED. Thank you, Senator Murkowski. I just have to point something out. Mr. Beaudreau is from Alaska, but his father is from Woonsocket, Rhode Island. So that is either the shrewdest appointment ever made—

Senator MURKOWSKI. Way to go. Phenomenal.

Senator REED [continuing]. Or the luckiest appointment ever made, and only time will tell.

Senator MURKOWSKI. I'm sure he also has ties to Montana.

Senator REED. If not, he's bought a cabin there. Senator Tester, do you have any comments?

STATEMENT OF SENATOR JON TESTER

Senator TESTER. I would. Thank you, Chairman Reed, and Ranking Member Murkowski for holding this hearing today, and I want to welcome Mr. Abbey, Mr. Beaudreau, and Mr. Watson to the hearing this morning.

I want to say just a few quick words about the fiscal year 2013 Department of the Interior budget. First, there's been a lot of talk about oil and gas leasing and development in the United States and the need to expand the developments, reduce our dependence on foreign oil. And I firmly believe that we do need to reduce our dependence on imported oil.

We are giving \$1 billion a day to countries that don't necessarily like us much and that hasn't done us much good in securing and developing our economy or enhancing our national security.

But I think it's important we don't confuse reducing our dependence on foreign oil with reducing prices at the pump. We all know the price of gasoline isn't just about supply and demand factors and the talking point of "drill baby drill" isn't getting us those desired results. So let's be honest about the facts.

Drilling is up. There are more drilling rigs in the United States than there are anywhere else in the world. Production is up. We're producing more than we have in the last 8 years. Dependence on imported oil is declining. Consumption, domestically, is down.

But we are facing competition from China for oil, and that is driving the world price as well as speculators influencing the market and adding as much as 56 cents a gallon at the pump. All this is to say that we need to look at an “all-the-above” solution. There is no magic bullet.

In Montana, energy production is fueling our economy, literally, with the Bakken Field, we’re producing nearly 500,000 barrels per day. I’m proud Montana is a part of that expanding energy, domestic energy solution.

But I also want to point out that this hearing isn’t just about extracting traditional fuels from public lands. We also need to permit renewable energy projects in a timely manner. We need to put just as much effort into those leasing and approvals of those projects to secure our energy future.

And I look forward to visiting with each one of you today and, particularly, you, Bob, about getting more renewable energy up and running. I look forward to visiting with you about those throughout this hearing and hearings to come.

Senator TESTER. And, once again, I want to thank Chairman Reed and Ranking Member Murkowski, for holding this hearing.

Senator REED. Thank you very much, Senator. Gentlemen, your statements are part of the record, so you may be free to summarize your comments and Mr. Abbey, please begin.

SUMMARY STATEMENT OF ROBERT V. ABBEY

Mr. ABBEY. Well, thank you, Mr. Chairman, and members of the subcommittee. It’s always a pleasure to appear before you today to discuss the President’s fiscal year 2013 energy and minerals budget request for BLM. In the interests of time, I will keep my opening remarks quite brief.

BLM, as many of you know already, is responsible for managing more than 245 million acres of public lands primarily in the 12 Western States, as well as approximately 700 million acres of on-shore subsurface mineral estate nationwide.

BLM’s unique multiple-use management of public lands includes activities as varied as livestock grazing, outdoor recreation and conservation of natural, historical, cultural, and other important resources. America’s public lands provide resources that are critical to the Nation’s energy security and will continue to play an important role in domestic energy production, in mineral development, for decades to come.

Our management of public land resources and protection of public land values results in extraordinary economic benefits to local communities and to this Nation. It is estimated that in 2011, BLM’s management of public lands contributed more than \$120 billion to the national economy and supported more than 550,000 American jobs.

BLM’s fiscal year 2013 budget proposal reflects the administration’s efforts to maximize public benefits while recognizing the reality of the current fiscal situation.

The New Energy Frontier Initiative recognizes the value of environmentally sound, scientifically grounded development of both conventional and renewable energy resources on public lands. Conventional energy resources on these public lands continue to play

a critical role in meeting the Nation's energy needs, producing 41 percent of the Nation's coal, 13 percent of natural gas, and 5 percent of the domestically produced oil.

During 2011, BLM held 32 onshore oil and gas lease sales covering more than 4 million acres. Onshore mineral leasing revenues are estimated to be \$4.4 billion in 2013. The fiscal year 2013 budget strengthens BLM's oil and gas inspection capability through a proposed fee on oil and gas producers similar to the fees now charged for offshore inspections.

Collection of these fees is consistent with the principle that users of the public lands pay for both the cost of use authorizations and for providing for oversight activities. This fee will generate an estimated \$48 million to improve safety and production inspections for oil and gas operations.

President Obama, Secretary Salazar and this Congress have stressed the critical importance of renewable energy to the Nation's energy security, job creation, and long-term economic development. To date, Secretary Salazar has approved 29 commercial-scale, renewable-energy projects on public lands, and these include 16 solar, 5 wind, and 8 geothermal projects that represent more than 6,500 megawatts and 12,500 jobs.

BLM's fiscal year 2013 budget proposes a \$5 million increase for these efforts, and we do intend to reach our goal of almost 11,000 megawatts of renewable energy production in 2013.

PREPARED STATEMENT

Finally, the budget proposes legislative initiatives to reform hard-rock mining, remediate abandoned mines and encourage diligent development of nonproducing oil and gas leases.

Mr. Chairman, members of the subcommittee, again, thank you for this time.

[The statement follows:]

PREPARED STATEMENT OF ROBERT V. ABBEY

Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear here today to discuss the President's fiscal year 2013 energy and minerals budget request for the Bureau of Land Management (BLM).

BLM, an agency of the Department of the Interior (DOI), is responsible for managing our national system of public lands, which are located primarily in 12 Western States, including Alaska. BLM administers more than 245 million surface acres, more than any other Federal agency. BLM also manages approximately 700 million acres of onshore subsurface mineral estate throughout the Nation. BLM's unique multiple-use management of public lands includes activities as varied as energy production, mineral development, livestock grazing, outdoor recreation, and the conservation of natural, historical, cultural, and other important resources. BLM is one of a handful of Federal agencies that generates more revenue than it spends.

MEETING OUR NATION'S NEEDS

BLM's management of public land resources and protection of public land values results in extraordinary economic benefits to local communities and to the Nation, helping to contribute more than \$120 billion annually to the national economy and supporting more than 550,000 American full and part-time jobs according to the Department of the Interior Economic Contributions report of June 21, 2011. Energy and mineral resources generate the highest revenue values of any uses of the public lands from royalties, rents, bonuses, sales, and fees.

These benefits are not only economic, but also contribute substantially to America's energy security. During calendar year 2011, BLM held 32 onshore oil and gas lease sales—covering nearly 4.4 million acres—which generated about \$256 million

in revenue for American taxpayers. Onshore mineral leasing revenues are estimated to be \$4.4 billion in 2013. The 2011 lease sale revenues are 20-percent more than those in calendar year 2010. There are currently more than 38 million acres of Federal mineral estate under oil and gas lease, and since only about 32 percent of that acreage is currently in production, BLM is working to provide greater incentives for lessees to make production a priority. In fiscal year 2011, DOI collected royalties on more than 97 million barrels of oil produced from onshore Federal minerals. Moreover, the production of nearly 3 trillion cubic feet of natural gas made it one of the most productive years on record.

Meanwhile, the coal produced from more than 300 Federal coal leases, on nearly a one-half million acres of Federal mineral estate, generated more than \$780 million in royalties. This coal is used to generate electricity in at least 40 States, accounting for more than one-fifth of all electricity generated across the country. BLM held four coal leases sales in 2011. BLM accepted bonus bids of more than \$700 million for these four lease sales, underscoring the administration's commitment to the goals of energy security and job creation.

BLM also is leading the Nation on the new energy frontier, actively promoting solar, wind, and geothermal energy development. Under Secretary Salazar, BLM has approved permits for 29 commercial-scale renewable energy projects on public lands or the transmission associated with them since 2009. This includes 16 solar, 5 wind, and 8 geothermal projects. Together, these projects represent more than 6,500 megawatts (MW) and 12,500 jobs, and when built will power about 1.3 million homes. In addition, DOI has identified more than 3,000 miles of transmission lines for expedited review. Enhanced development of wind power is a key component of our Nation's energy strategy for the future. There are currently 437 MW of installed wind power capacity on BLM-managed public lands, but there are 20 million acres of public lands with wind potential. Additionally, nearly one-half of U.S. geothermal energy production capacity is from Federal leases. The fiscal year 2013 budget reflects a goal of permitting a total of 11,000 MW of clean renewable energy by the end of 2013.

FISCAL YEAR 2013 BUDGET OVERVIEW

BLM's fiscal year 2013 energy and minerals budget makes significant investments in America's economy, while making difficult choices to offset priority funding increases. Investments in this budget will promote America's energy production at home and grow America's economy. The proposed budget for BLM makes a strategic investment in support of the New Energy Frontier, an important Secretarial initiative. Investment in this program today will reap benefits for years to come.

The total fiscal year 2013 BLM budget request is \$1.1 billion in current authority, which is essentially the same as the fiscal year 2012 enacted level. The budget proposes \$952 million for BLM appropriation and \$112 million for the Oregon and California grant lands appropriation, BLM's two main operating accounts. The budget makes strategic funding shifts to target high-priority initiatives, scales back on lower-priority programs, and sustains and expands energy program activities. The budget also includes several important legislative proposals linked to the uses of lands and resources, including proposals to fund the remediation of abandoned hardrock mines; to provide a fair return to the taxpayer from the production of several hardrock minerals on Federal lands; to encourage diligent development of oil and gas leases; to repeal a prohibition on charging oil and gas permitting fees along with associated mandatory funds; and to reauthorize the Federal Land Transaction Facilitation Act. This testimony focuses on BLM's energy and mineral resources programs.

PROMOTING AMERICAN ENERGY PRODUCTION AT HOME

The fiscal year 2013 budget continues DOI's new energy frontier initiative to create jobs, reduce the Nation's dependence on fossil fuels and oil imports, and reduce carbon impacts. The Secretary's new energy frontier initiative emphasizes the value of scientifically based, environmentally sound development of both renewable and conventional energy resources on the Nation's public lands. Facilitating renewable energy development is a major component of this strategy along with effective management of conventional energy programs. BLM's proposed fiscal year 2013 budget advances the goals of the initiative by including priority funding for both renewable and conventional energy development on public lands.

Renewable Energy.—President Obama, Secretary Salazar, and the Congress have stressed the critical importance of renewable energy to the future of the United States. Success in attaining the Nation's goals to reduce greenhouse gas emissions, mitigate climate change, and protect the global environment relies on sustained ef-

forts to develop renewable energy resources. Renewable energy production is vital to our Nation's long-term economic development and energy security. The development of renewable energy creates American jobs and promotes innovation in the United States while reducing the country's reliance on fossil fuels.

BLM continues to make significant progress in promoting renewable energy development on the public lands in 2012, including working to approve additional large-scale solar energy projects and complete a draft Solar Programmatic Environmental Impact Statement to provide for landscape-scale siting of solar energy projects on public lands. The agency is working on wind development mitigation strategies with wind energy applicants and other Federal agencies, and is currently reviewing more than 45 wind energy applications. Additionally, the transmission infrastructure required to deliver renewable energy from production facilities to major markets relies on corridors across BLM-managed lands.

The fiscal year 2013 budget request includes a total program increase of \$7 million in the Renewable Energy Management program, including \$5 million in new funding. This will support additional environmental studies to accelerate the identification of prime areas for utility-scale renewable energy project development. It will also enable BLM to continue ongoing program management responsibilities associated with geothermal energy development by replacing mandatory funding previously provided by the Geothermal Steam Act Implementation Fund, for which new deposits have ceased. The remaining \$2 million increase is a transfer of geothermal funds from the oil and gas management program to BLM's renewable energy program.

Conventional Energy.—While we work to develop renewable energy sources, domestic oil and gas production remain critical to our Nation's energy supply and to reducing our dependence on foreign oil. Secretary Salazar has emphasized that conventional energy resources on BLM-managed lands continue to play a critical role in meeting the Nation's energy needs. Conventional energy development from public lands produces 41 percent of the Nation's coal, 13 percent of the natural gas, and 5 percent of the domestically produced oil. DOI's balanced approach to responsible conventional energy development combines onshore oil and gas policy reforms with effective budgeting to provide appropriate planning and support for conventional energy development.

The fiscal year 2013 budget proposes an increase of \$2.4 million in appropriated funding to be utilized for inspection and enforcement of coal production on Federal and Indian lands. The requested increase will fund the program at roughly the 2011 enacted level. BLM will continue efforts to institute cost-recovery fees within this program, but recognizes these fees may not be in place by the start of 2013.

The President's fiscal year 2013 budget proposes \$13 million in oil and gas program increases to provide industry with timely access to Federal oil and gas resources, backed by the certainty of defensible environmental analysis. Of that increase, a \$5 million program increase will restore BLM's leasing and oversight capacity to the 2011 enacted level. An additional \$3 million will be used for large, regional-scale studies and environmental impact statements for oil and gas leasing and development issues. Finally, an additional \$5 million programmatic increase will allow BLM to fully implement its leasing reform strategy without sacrificing other important program goals.

BLM is committed to ensuring oil and gas production is carried out responsibly. To accomplish this, BLM performs inspections to ensure that lessees meet environmental, safety, and production reporting requirements. BLM recently initiated a program using a risk-based inspection protocol for production inspections, based on production levels and histories. Success realized in this program will support expansion of this risk-based strategy to the other types of inspections the BLM performs. The risk-based strategy will maximize the use of inspection staff to better meet BLM inspection goals and requirements in the future.

The fiscal year 2013 budget proposes to expand and strengthen BLM's oil and gas inspection capability through new fee collections from industry, similar to the fees now charged for offshore inspections. Collection of these fees is consistent with the principle that users of the public lands should pay for the costs of use authorizations and the costs associated with the oversight of authorized activities. The inspection fee schedule included in the budget is estimated to generate \$48 million in collections, which would offset a proposed reduction of \$38 million in BLM's appropriated funds, while providing for a net increase of \$10 million in funds available for this critical BLM management responsibility. The increased funding is aimed at correcting deficiencies identified by the Government Accountability Office (GAO) in its February 2011 report, which designated Federal management of oil and gas resources including production and revenue collection as high risk. The \$10 million increase will help BLM achieve the high-priority goal of increasing the completion

of inspections of Federal and Indian high risk oil and gas cases by 9 percent more than fiscal year 2011 levels. BLM will also complete more environmental inspections to ensure environmental requirements are being followed in all phases of development. Fee levels will be based on the number of oil and gas wells per lease so that costs are shared equitably across the industry.

To encourage diligent development of new oil and gas leases, the administration is proposing a per-acre fee on each nonproducing lease issued after enactment of the proposal. The \$4-per-acre fee on nonproducing Federal leases (onshore and offshore) would provide a financial incentive for oil and gas companies to either put their leases into production or relinquish them so that tracts can be re-leased and developed by new parties.

The administration believes that American taxpayers should get a fair return on the development of energy resources on their public lands. A 2008 GAO report suggests that taxpayers could be getting a better return from Federal oil and gas resources in some areas. To this end, the administration is developing a proposed rule to address onshore royalty rates.

ABANDONED MINE LANDS AND HARDROCK MINING REFORM PROPOSALS

The budget includes legislative proposals to address AML hazards on both public and private lands and to provide a fair return to the taxpayer from hardrock production on Federal lands. The first component addresses abandoned hardrock mines across the country through a new AML fee on hardrock production. Just as the coal industry is held responsible for abandoned coal sites, the administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposal will levy an AML fee on all uranium and metallic mines on both public and private lands that will be charged on the volume of material displaced after January 1, 2013. The receipts will be distributed by BLM through a competitive grant program to restore the Nation's most hazardous hardrock AML sites on both public and private lands using an advisory council comprising of representatives of Federal agencies, States, tribes, and nongovernment organizations. The advisory council will recommend objective criteria to rank AML projects to allocate funds for remediation to the sites with the most urgent environmental and safety hazards. The proposed hardrock AML fee and reclamation program would operate in parallel to the coal AML reclamation program, as two parts of a larger effort to ensure that the Nation's most dangerous coal and hardrock AML sites are addressed by the industries that created the problems.

The budget also includes a legislative proposal to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by a leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. One-half of the royalty receipts would be distributed to the States in which the leases are located and the remaining half would be deposited in the Treasury. Pre-existing mining claims would be exempt from the change to a leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872. However, holders of pre-existing mining claims for these minerals could voluntarily convert their claims to leases. The Office of Natural Resources Revenue in DOI will collect, account for, and disburse the hardrock royalty receipts.

REDUCTIONS AND EFFICIENCIES

BLM's fiscal year 2013 budget proposal reflects many difficult choices in order to support priority initiatives and needs while supporting the President's commitment to fiscal discipline and spending restraint. In fiscal year 2013, BLM is requesting a decrease of \$2 million for its abandoned mine lands program. BLM will continue to fund the highest-priority sites, as determined through its ongoing ranking process. Red Devil Mine reclamation activities remain a high priority.

CONCLUSION

BLM's fiscal year 2013 budget request for energy and minerals programs provides funding for the agency's highest-priority energy and minerals initiatives, while making difficult but responsible choices for reductions to offset some of these funding priorities. Our public lands and resources play an important role in American lives, economies, and communities and include some of our Nation's greatest assets. This budget request reflects the administration's commitment to encourage responsible energy development on the public lands, as well as to ensure the American people receive a fair return for the public's resources. Mr. Chairman, thank you for the op-

portunity to testify on BLM energy and mineral budget request for fiscal year 2013. I will be pleased to answer any questions you may have.

Senator REED. Thank you very much, Director Abbey. Director Beaudreau.

BUREAU OF OCEAN ENERGY MANAGEMENT

STATEMENT OF HON. TOMMY P. BEAUDREAU, DIRECTOR

Senator REED. Please turn on your microphone.

Mr. BEAUDREAU. Okay. Yes. Thank you, Chairman Reed, Ranking Member Murkowski, and Senator Tester.

Thank you for the opportunity to appear today to discuss the President's fiscal year 2013 budget request for BOEM, and for the opportunity to provide these brief opening remarks.

As we know, the Deepwater Horizon rig explosion and oil spill in the Gulf of Mexico spurred the administration to undertake the most aggressive and comprehensive reforms to offshore oil and gas regulation in United States history.

Central to these reforms are the structural changes we have made to Federal oversight, including the establishment of new, independent agencies with clearly defined missions to provide effective management and strong safety oversight of the development of our shared offshore energy and mineral resources.

Simply put, BOEM is responsible for overseeing the environmentally and economically responsible development of our country's abundant offshore conventional and renewable energy resources. This includes promoting responsible offshore oil and gas development as well as renewable energy projects such as offshore wind.

BOEM's decisionmaking must closely consider the resource potential of geographic regions on the OCS, the critical role offshore energy development plays in the mix of resources necessary to meet the Nation's energy demands, the significance of offshore oil and gas to the economy and employment, and the vital need for environmental protection and responsible stewardship.

These are priorities and values shared by everyone in this room. This budget request is designed to provide BOEM with the resources necessary to advance our commitment to a comprehensive all-of-the-above energy strategy that encourages safe and responsible domestic oil and gas exploration and development as well as pushes forward with the development of offshore wind and other clean, renewable-energy resources.

The resources we have requested will allow BOEM to continue pursuing our programmatic priorities which include, one, finalizing and implementing the next 5-year offshore oil and gas leasing program which as proposed will include 15 potential lease sales and make available more than 75 percent of the undiscovered but recoverable oil and gas resources offshore of the United States.

Two. Conducting the rigorous scientific and environmental analyses that are necessary at all stages of the offshore energy development process. Last December, we held the first lease sale following the spill which was one of the most successful in the history of the Western Gulf of Mexico.

We will hold a consolidated lease sale for the Central Gulf of Mexico on June 20. Planning for both of these sales included rigorous analyses of available information concerning the environmental effects of the Deepwater Horizon oil spill.

Three. We continue to conduct efficient and thorough reviews of offshore exploration and development plans under the new heightened standards which include site specific environmental assessments on every deepwater exploration and development plan.

Four. We've implemented innovative lease terms that ensure that the American taxpayer receives fair return and that provides strong incentives for industry to diligently develop their lease holdings offshore to meet our energy needs.

Finally, we are on the forefront of development of offshore renewable energy resources. Over the next year and beyond, we expect to issue a number of commercial leases for offshore wind development particularly along the Atlantic coast.

PREPARED STATEMENT

BOEM is focused on its mission to help the United States secure its energy future through responsible development of conventional and renewable offshore energy. Thank you and thank this subcommittee for its continuing support of our mission and our efforts. [The statement follows:]

PREPARED STATEMENT OF TOMMY P. BEAUDREAU

Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear here today to discuss the President's fiscal year 2013 budget request for the Bureau of Ocean Energy Management (BOEM) within the Department of the Interior (DOI).

This request is designed to provide the resources necessary to advance BOEM's commitment to effective and efficient management and oversight of the Nation's offshore resources as part of our comprehensive energy strategy to encourage safe and responsible domestic oil and gas exploration and development, as well as to expand development of clean and abundant renewable energy resources.

With the guidance, support, and oversight of the Congress, the Obama administration has been implementing the most aggressive and comprehensive reforms to offshore oil and gas regulation in U.S. history following the Deepwater Horizon explosion and oil spill in the Gulf of Mexico. The Minerals Management Service (MMS) was restructured into three new, independent entities, and the Bureau of Ocean Energy Management (BOEM) took on the role of effective and efficient management and oversight of the Nation's offshore resources as part of our comprehensive strategy to encourage safe and responsible domestic oil and gas exploration and development. BOEM is also committed to expand development of clean and abundant renewable energy resources. Both activities support job growth and healthy local economies, and this budget request is designed to provide the resources necessary to advance this commitment.

In order to ensure an efficient and integrated approach to offshore energy development, BOEM and the Bureau of Safety and Environmental Enforcement (BSEE) work together closely and certain functions remain linked and require close coordination. As you will hear from my colleague, Director James Watson, BSEE functions as the offshore safety authority, charged with enforcement of the strengthened safety and environmental standards implemented in the aftermath of Deepwater Horizon. We designed the reorganization to ensure that both agencies operate efficiently and without unnecessarily redundant bureaucracies. For example, BOEM and BSEE continue to share administrative infrastructure and functions that service both bureaus efficiently.

For fiscal year 2013, BOEM is requesting an operating level of \$164.1 million, which includes a base appropriation of \$62.7 million and \$101.4 million in offsetting collections (\$98.8 million from rental receipts and \$2.6 million from cost-recovery fees). BOEM manages the Nation's offshore energy and mineral resources in a balanced way that promotes efficient and environmentally responsible energy develop-

ment through oil and gas leasing, renewable energy development, and a commitment to rigorous, science-based environmental review and study. BOEM's functions include offshore leasing, resource evaluation, review and administration of oil and gas exploration and development plans, renewable energy development, National Environmental Policy Act (NEPA) analysis, and environmental studies.

BOEM's organizational structure is designed to advance core elements of its mission including:

- strategic resource development;
- environmental analysis and applied science; and
- renewable energy development.

KEY PRIORITIES AND ACCOMPLISHMENTS

Since its establishment on October 1, 2011, BOEM has made substantial progress and achieved a number of important priorities. These priorities will continue to guide the agency's activities throughout the remainder of fiscal year 2012, and form the basis of the budget request moving into fiscal year 2013. These priority areas include:

Developing and Implementing the Five-Year Outer Continental Shelf Oil and Gas Leasing Program for 2007–2012.—In December 2011, BOEM held Western Gulf of Mexico (GOM) Lease Sale 218—the last Western GOM sale scheduled under the current 5-year program and the first sale conducted after completion of a supplemental environmental impact statement that considered the effects of the Deepwater Horizon oil spill. BOEM has scheduled Consolidated Central GOM Sale 216/222, the final sale in the current program, for June 20, 2012. In addition, BOEM is developing the next 5-year program. Last November, BOEM issued the proposed Outer Continental Shelf (OCS) Oil and Gas Leasing Program for 2012–2017, which makes more than 75 percent of undiscovered technically recoverable oil and gas resources estimated in Federal offshore areas available for exploration and development. It advances an innovative, regionally tailored approach to offshore oil and gas leasing designed to take into account the particular resource potential, environmental and social concerns, and infrastructure condition of each planning area. BOEM will finalize the program in fiscal year 2012.

Conducting rigorous scientific and environmental analysis to support all stages of the OCS Lands Act process—from pre-sale planning through exploration and development. Rigorous scientific analysis underlies all of BOEM's decisions. For example, BOEM held Western Gulf of Mexico Lease Sale 218 after conducting necessary environmental analyses to evaluate available information concerning the effects of the Deepwater Horizon oil spill. BOEM recently completed a similar analysis with respect to the Central Gulf of Mexico Planning Area in preparation for Lease Sale 216/222. BOEM has completed an extensive supplemental environmental analysis for the Chukchi Sea Planning Area that addresses key issues including the potential effects of a hypothetical, very large oil spill. The analysis supported the Secretary's decision to affirm Chukchi Sea Lease Sale 193, originally held in 2008. This analysis resulted in Chukchi Lease Sale 193 being judicially upheld, and the injunction of those leases being lifted. At the postlease stage, BOEM currently conducts site-specific environmental assessments on all deepwater exploration and development plans, rather than relying on categorical exclusions as had been done historically.

Ensuring a Fair Return.—BOEM lease terms now include a range of fiscal and drilling requirements to ensure that taxpayers receive fair value and encourage operators to undertake diligent development, consistent with the administration's Blueprint for a Secure Energy Future. Recent changes made in lease terms include raising the minimum bid level from \$37.50 per acre to \$100 per acre in water depths of 400 meters or greater; promulgating policies that reduce the time a lease can be held without drilling activity by up to 3 years in water depths of 400 to 1,600 meters; and increasing rental rates to encourage faster exploration and development of leases. The higher minimum bid level strengthens the bidding process and supports the goal of ensuring a fair return. It discourages bidders from acquiring tracts with the intention to hold them undrilled for many years. Lessees who meet the shorter drilling timeframes earn three additional years on the lease term as an added incentive for timely drilling. BOEM has both increased base rental rates and established escalating rentals to encourage faster exploration and development of leases, or earlier relinquishment when exploration is unlikely to be undertaken by the current lessee.

Conducting Reviews of Exploration and Development Plans.—BOEM conducts efficient and thorough reviews of exploration and development plans. Consistent with strengthened standards for environmental analysis, BOEM is committed to ensuring that its process for reviewing and approving plans is rigorous, efficient, and transparent. BOEM works collaboratively with industry throughout the review of plans, to ensure operators understand and comply with BOEM's stronger operational and environmental standards and that the review process is efficient.

Advancing Renewable Energy Leasing and Development through the "Smart from the Start" Initiative.—BOEM has established a regulatory framework for renewable energy leasing and development on the OCS and has taken critical steps to support the development of an offshore wind industry. On April 19, 2011, Secretary Salazar announced the approval of the Cape Wind Associates' Construction and Operations Plan. The Secretary signed the Cape Wind lease in 2010, and it is the first offshore commercial wind lease in the United States.

The Secretary's "Smart from the Start" Initiative, announced in fiscal year 2011, is intended to build on the existing regulatory framework and facilitate the efficient and environmentally responsible siting, leasing, and construction of new wind energy projects in the Atlantic. Recently, BOEM completed a number of important steps to advance additional lease sales in fiscal year 2013 and beyond, including:

- developing a commercial lease form and conducting an analysis to determine auction formats;
- completing an environmental assessment to support leasing in wind energy areas off of four Mid-Atlantic States; and
- issuing Calls for Information and Nominations to gauge industry interest in the areas offshore Rhode Island, Massachusetts, Maryland, and Virginia.

BOEM also is moving forward with the review for a potential Mid-Atlantic Wind Energy Transmission Line, which would enable up to 7,000 megawatts of wind turbine capacity to be delivered to the electric grid.

The fiscal year 2013 request continues these efforts and supports ongoing collaboration between BOEM, intergovernmental task forces, industry, and stakeholders and a continued focus on environmental assessment, while developing formats and processes for renewable energy lease auctions. BOEM expects to hold the first competitive lease sales for offshore wind in fiscal year 2013.

Science-Based Decisionmaking.—A core principle of BOEM is the integration of science with decisionmaking through comprehensive research and rigorous analysis. The new Office of Environmental Programs establishes an umbrella organization that integrates applied scientific research and information with the environmental analyses that BOEM conducts in support of programmatic decisions. This structure facilitates top-quality research by talented scientists from a range of disciplines, as well as targeted scientific study to support policy needs and priorities.

Strengthening of the Environmental Review Processes.—BOEM is committed to setting high standards for analyses conducted in compliance with NEPA and other governing statutes, and this budget request continues ongoing efforts to strengthen these processes. BOEM is conducting a comprehensive review of its application of NEPA to ensure that environmental risks are thoroughly analyzed, appropriate protective measures are implemented, and the process is transparent and well-understood within the Federal Government and by stakeholders. This review includes an ongoing assessment of the use of categorical exclusions. In the interim, BOEM is conducting site-specific environmental assessments for all new and revised exploration and development plans in deep-water.

Developing the First Geological and Geophysical Programmatic Environmental Impact Statement for Areas in the Mid- and South Atlantic.—BOEM is committed to conducting thorough, scientific reviews that facilitate a better understanding of potential conventional and renewable resources in the Atlantic, which is central to our strategy for evaluating potential future leasing in the Mid- and South Atlantic. This Programmatic Environmental Impact Statement (PEIS) will evaluate potential environmental effects of multiple Geological and Geophysical activities, such as seismic surveys, conducted to inform future decisions regarding oil, natural gas, and renewable energy development on the OCS in the mid and south Atlantic planning areas. BOEM will issue the draft PEIS this spring.

THE FISCAL YEAR 2013 BUDGET REQUEST

This fiscal year 2013 BOEM budget request is consistent with the direction set forth in the fiscal year 2012 budget for BOEM and consists of limited funding increases reflecting difficult tradeoffs given the tight fiscal constraints. BOEM's fiscal year 2013 request of \$164.1 million includes careful analysis of the resources needed to develop the agency's capacity and to execute its functions carefully, responsibly, and efficiently. Consistent with the overall contours of BOEM's request, these targeted increases, which amount to \$3.3 million more than the fiscal year 2012 enacted level, reflect modest increases for renewable energy auction support services, environmental studies, and fixed costs—and are necessary to advance administration priorities that are vital to BOEM's mission.

Renewable Energy Auction Support Services (+\$1,296,000; 0 FTE).—In order to achieve the Secretary's renewable energy goal outlined in the "Smart from the Start" Initiative, BOEM must accelerate the auction schedule of potential wind leases. Because it is not yet equipped with the technical support or expertise to manage these auctions, BOEM will contract those services and purchase wind resource data in the near term.

Environmental Studies (+\$700,000; 0 FTE).—The requested increase will enable BOEM to initiate high-priority baseline characterization and monitoring studies. With the release of the proposed 5-year program, establishing baseline information will become an increasing need in order to ensure a scientific basis for informed and environmentally responsible policy decisions.

Fixed Costs (+\$1,453,000; 0 FTE).—Fixed costs in the amount of \$1,453,000 are fully funded in this request. These costs include increases needed to support employee pay, changes in Federal health benefits and worker's compensation, rent to the General Services Administration, and payments to the Department's Working Capital Fund.

Offsetting Collections and Cost Recovery (−\$322,000; +0 FTE).—This requested change reflects a revised net estimate of BOEM's fiscal year 2013 offsetting collections and cost-recovery fees.

Administrative Reduction (−\$122,000; +0 FTE).—This reduction offsets high-priority increases in the fiscal year 2013 request and will be applied by reducing administrative costs within BOEM.

The fiscal year 2013 request also includes legislative proposals that directly relate to BOEM's programs including:

Deep Gas Incentives.—The administration proposes to repeal section 344 of the Energy Policy Act of 2005. Section 344 mandated royalty incentives for certain "deep gas" production on the OCS. This change will help ensure that Americans receive fair value for federally owned mineral resources. Based on current oil and gas price projections, the budget does not assume savings from this change; however, the proposal could generate savings to the Treasury if future natural gas prices end up below current projections.

Fee on Non-Producing Oil and Gas Leases.—The administration will submit a legislative proposal to encourage energy production on lands and waters leased for development. A \$4 per-acre fee on nonproducing Federal leases would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be leased to and developed by other parties. The proposed fee would apply to all new leases onshore and offshore and would be indexed annually. In October 2008, the Government Accountability Office issued a report critical of past efforts by Interior to ensure that companies diligently develop their Federal leases. Although the report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other nonproducing fee proposals considered by the Congress in the last several years. The fee is projected to generate revenues to the U.S. Treasury of \$13 million in 2013 and \$783 million over 10 years.

CONCLUSION

BOEM plays a vital role in advancing safe and responsible offshore energy development to secure our energy future. Given our environment where serious fiscal constraints demand difficult decisions, we appreciate the critical resources the Congress has provided in recent appropriations—including investment in robust science to inform decisions relating to ocean energy policy and management and appropriate environmental safeguards. It is imperative to sustain this investment moving into the next fiscal year and the fiscal year 2013 request reflects a careful analysis of the resources needed to ensure our ability to carry out the important mission with which we are charged.

Thank you once again for the opportunity to testify here today, and for your consistent support throughout the reorganization process. I look forward to our continued work together, and to answering your questions today.

Senator REED. Thank you very much. Director Watson, please.

BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT

STATEMENT OF HON. JAMES WATSON, DIRECTOR

Mr. WATSON. Good morning, Chairman Reed, Ranking Member Murkowski, and Senator Tester. Thank you.

I am pleased to appear before you for the first time as Director of BSEE and to discuss the tremendous strides we have made as well as our vision for the future of the agency.

We have a critical mission, providing safety and environmental oversight of offshore oil and gas operations on the OCS. In leading positive changes in the safety culture of offshore operations, our near-term goal is to restore America's confidence that offshore operations can be carried out safely and responsibly and without the tragic human and ecological costs that occurred as a result of the Deepwater Horizon tragedy.

In the long term, our goal is to set standards and build capacity for offshore safety assurance throughout this country and also to be the world leader for safe offshore operations.

The key to our success is the employees of BSEE. Over the past 3 months, I have met our employees from all of our offices. They've made it clear to me that they believe in and are passionate in our mission. They are unmatched in their knowledge of the offshore industry and are making the best use of the resources at their disposal to advance the cause of safety and responsible offshore oil and gas operations.

Overseeing safety and environmental performance on the OCS includes drilling permits and managing the orderly development of the Nation's offshore oil and gas resources. A lot of attention has been paid to our permitting pace, and I sympathize with the people who depend on these permits for jobs, the same people who were so negatively impacted by the Deepwater Horizon tragedy in many cases.

Permitting is an essential part of our safety mission. We issue permits only when companies have demonstrated that they can conduct their proposed operations safely and responsibly, they're meeting all of the enhanced safety standards, and they can respond effectively in the event of a worst case discharge.

By working closely with the industry, we have significantly decreased the amount of time it takes to approve a permit and have issued hundreds of deepwater and shallow-water permits over this past year.

However, those who believe that the pace of permitting should be automatically the same as before Deepwater Horizon are ignoring the lessons of that disaster.

I will commit to routing out inefficiencies in making the permitting as straightforward, predictable and understandable for the industry as possible, but not at the expense of safety.

When coupled with increasing hiring and training of engineers, scientists, inspectors and other personnel, these efforts will further

enhance the permitting process and improve safe and responsible operations on the OCS.

PREPARED STATEMENT

We've made a tremendous amount of progress since our formation. In my written testimony, I've provided a number of examples of how we spent the time focused on hiring new personnel, enacting safety reforms, improving our permitting process, and completing the reorganization of the Minerals Management Service.

Thanks again for this opportunity to testify. I look forward to answering your questions.

[The statement follows:]

PREPARED STATEMENT OF JAMES WATSON

Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear here today to discuss the President's fiscal year 2013 budget request for the Bureau of Safety and Environmental Enforcement (BSEE) in the Department of the Interior (DOI).

BSEE has an enormously critical mission—providing safety and environmental oversight of offshore oil and gas operations on the Outer Continental Shelf (OCS). More fundamentally, however, our mission is to restore the confidence of the American people that offshore operations can be carried out without the tragic human and ecological costs that were borne by the people of the Gulf of Mexico region nearly 2 years ago.

The budget request for BSEE strengthens and advances the reform efforts begun in the aftermath of the Deepwater Horizon tragedy. This request advances the President's vision of maintaining and expanding responsible oil and gas production on our OCS as part of an all-of-the-above approach to addressing our Nation's energy challenges, while providing the funding necessary to be the world leader in offshore safety and environmental oversight. The resources provided by the Congress over the past 2 years have been instrumental in laying the foundation and building a framework for a revitalized and enhanced offshore regulatory regime. This request continues the development of that framework, allowing us to continue the critical tasks that the President, the Congress, and the American people have rightly demanded of us.

Let me be clear: the employees of the former Minerals Management Service (MMS) were, with isolated yet well-publicized exceptions, an extremely committed group of public servants that dedicated their lives to their communities and their Nation, often foregoing much higher salaries they could have earned in the oil and gas industry. The need for reform did not stem from the actions of these dedicated professionals. It arose from outdated regulations, an inability to match the pace and scope of the offshore industry's growth, and leadership that was often forced to focus on one of several fundamentally different priorities to the detriment of the others. The reorganization of MMS by Secretary Salazar into BSEE, the Bureau of Ocean Energy Management (BOEM), and the Office of Natural Resources Revenue was designed to address these issues and allow the employees of each agency to apply their expertise with clarity of mission. The BSEE employees I have met in the past 3 months have made it clear to me that they believe in, and are passionate about, our mission, and I am fully confident that we have the right core of people in place to start this agency off in the right direction.

Overseeing safety and environmental regulations on the OCS includes issuing drilling permits, and managing the orderly development of the Nation's offshore oil and gas resources. A great deal of attention has been paid to our pace of permitting recently, and I greatly sympathize with the people who depend on these permits for jobs. It is in our country's interest to have a robust offshore oil and gas industry, and I am pleased to see a constant stream of new rigs coming into the gulf and an industry becoming increasingly optimistic about both the short and long-term outlook for their industry. However, I will not measure success for this agency by the rate at which we issue permits. Permitting is an essential part of our safety mission: we issue permits only when companies have demonstrated that they can conduct their proposed operations safely and responsibly. We will not rush permits out the door; we will conduct thorough reviews that ensure that the applicant is meeting all the enhanced safety standards put in place after the Deepwater Horizon explosion and oil spill, and that they can respond effectively in the event of a worst

case scenario. Those who believe that the pace of permitting should automatically be the same as before the Deepwater Horizon are ignoring the lessons of that disaster. I will commit to rooting out inefficiencies and making the permitting process as straightforward and understandable for the industry as possible, and these efforts, when coupled with increased hiring and training of engineers, scientists, inspectors, and other personnel, may very well enhance the permitting process. But our primary responsibility is ensuring safe and responsible operations on the OCS.

In March 2011, the Director of the former Bureau of Ocean Energy Management, Regulation and Enforcement came before you to discuss the reforms that agency had implemented to address the many safety, environmental protection, and regulatory oversight weaknesses highlighted in many reviews of the Deepwater Horizon spill, including those identified in the final report of the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (Commission). The Congress responded by passing the fiscal year 2012 Consolidated and Further Continuing Appropriations Act that provided BSEE with new resources needed to institutionalize these fundamental reforms and implement additional regulatory measures needed to improve the safety of offshore drilling, as well as to enhance protection of the ocean and coastal environments. I would like to update you on the progress our agency has made in the last year.

RECRUITMENT OF KEY POSITIONS

Although BSEE began operations as an independent agency only a few months ago, the recruitment for key management positions began last year after the reorganization effort received congressional support and resources. As a result, all key senior management positions have been filled. As part of our commitment to provide more comprehensive oversight of offshore oil and gas operations, we have increased the number of inspectors by 50 percent since April 2010, and the number of engineers, who also perform critical safety functions, by nearly 10 percent. There are still a considerable amount of positions yet to be filled, including additional inspectors, engineers, regulatory specialists, environmental specialists, and other critical disciplines. While recruiting is a time consuming process, we are confident that we will continue to show significant strides in building out the new organization.

REGULATORY CHANGE

We are continuing to update and enhance Federal regulations and ensure compliance through our offshore regulatory programs. We plan to update the Interim Drilling Safety rule, which was issued shortly after the Deepwater Horizon spill, in the near future to increase regulatory clarity while maintaining the same enhanced level of safety. Also, the Safety and Environmental Management Systems (SEMS) rule, which was finalized in September 2010, will be enhanced with the completion of the “SEMS II” rule. We are currently addressing comments received on the SEMS II proposed rule. We are also reviewing recent recommendations from the National Academy of Engineering as we continue to update regulations and enhance safety requirements.

PERMITTING

With significant new safeguards designed to reduce the chances of a loss of well control, and a new focus on capping and containment capabilities in the event that one occurs, the permitting environment is completely different now than it was before Deepwater Horizon. Comparing the pace of permitting pre- and post-Deepwater Horizon does not consider the current reality that applications must now meet a suite of new requirements that receive extremely close scrutiny by the Bureau’s engineers.

We have worked very hard to help industry better understand the requirements and improve the efficiency of the application process. Perhaps most significantly, BSEE held permit processing workshops for industry, which has improved the quality and thoroughness of applications. We published a permit application completeness checklist to make it clear to industry what information is required and to reduce the frequency with which operators submit incomplete applications. We have established priorities for reviewing permit applications—assigning the highest priority to permits for ongoing operations or emergency operations. We have begun to balance workloads for our engineers by taking some permit applications and moving them around to different districts. We have also allowed authorized users of our on-line permit application system to track the status of their applications. This answered the call from many operators for greater transparency in our permitting process. As a result of these steps, and the industry’s increasing familiarity with the process, permit review times have decreased significantly in the past year. Rigs that

had left the Gulf of Mexico are returning, new rigs are being contracted, and we are starting to see a small inventory of unused drilling permits develop.

While staying focused on our primary objective—ensuring that enhanced safety requirements are met—we plan to continuously monitor and improve our permitting processes throughout the upcoming year, to give industry increased confidence in the timeliness of the process, while rebuilding the American people’s confidence that these permitted operations can be performed safely and responsibly.

INSPECTION AND COMPLIANCE PROGRAM

BSEE continues to expand its capacity to maintain a robust and fair inspection and compliance program. With the additional resources provided by the Congress, BSEE has been able to add 28 new inspectors in the Gulf of Mexico region since the Deepwater Horizon spill, and we are continuing our efforts to hire additional inspectors. BSEE’s inspectors now witness far more activity on drilling rigs than before the Deepwater Horizon explosion and spill, including critical tests of blowout preventers (BOP).

BSEE has also begun to set up its new National Offshore Training and Learning Center (NOTLC) and has put two groups of new inspectors through a core curriculum in offshore inspections. We are also supplying our inspectors with new equipment and tools, including handheld computers, to make our inspection process more efficient and effective. Both of these initiatives were initiated using the 2010 oil spill supplemental funding, but will need base resources to continue. Those resources are specifically requested in fiscal year 2013.

ENVIRONMENTAL ENFORCEMENT

The Environmental Enforcement program was established as a separate division within BSEE to elevate the importance and visibility of the program, both internally and externally, to a level on par with safety and regulatory compliance.

This program will ensure compliance with all applicable environmental requirements, ensuring that operators keep the promises they make at the time they obtain their leases, submit their plans, and apply for their permits. The funding requested in fiscal year 2013 will support the full build-out of this critical function.

FISCAL YEAR 2013 BUDGET REQUEST SPECIFICS

BSEE’s fiscal year 2013 request is \$222.2 million; an increase of \$24.8 million more than the fiscal year 2012 enacted level. The request is offset by \$52.5 million in eligible OCS rental receipts, \$8.4 million in cost-recovery fees, and \$65 million in inspection fees, resulting in a net request of \$96.3 million in direct appropriated funds. These additional resources are essential to effectively protect our Nation’s natural resources as well as to address industry’s need for an efficient, effective, transparent, and stable regulatory environment.

BSEE’s fiscal year 2013 budget fully supports the President’s “Blueprint for a Secure Energy Future” by enabling the safe and environmentally responsible development of the Nation’s vast offshore energy resources. Until offshore renewable energy facilities are constructed, BSEE will focus its resources on conventional energy programs. Funds will be used to recruit expert engineers, scientists, and oil spill response specialists to support the development of strong scientific information and timely and thorough review of permits. The fiscal year 2013 budget request increases funding for operational offshore safety, oil spill response initiatives, environmental enforcement, and the development of modern electronic systems to increase the efficiency and effectiveness of offshore inspection and oversight activities.

The fiscal year 2013 budget includes funding to maintain the gains made to date, and proposes the following specific changes:

Critical Funding Needs for the Environmental Enforcement Division (+\$4,177,000; +14 FTE).—BSEE will further develop and manage an expanded environmental oversight role arising out of efforts to reform offshore operations and regulations as recommended by many external national investigative reports.

Research and Development for Offshore Drilling Safety (+\$2,000,000; 0 FTE).—BSEE will utilize this funding to perform additional, and more in-depth, research relating to safety systems and operations such as well cementing, BOP research, methods of shallow gas containment, and well control methods.

Operational Safety (+\$4,495,000; +29 FTE).—Funds will support ongoing re-organization efforts identified as critical to the success of BSEE in strengthening post-Deepwater Horizon regulatory and oversight capabilities. It represents a cross section of staffing for newly identified efforts and increased ac-

tivities such as development of regulations, safety management, structural and technical support, and oil spill response.

NOTLC for Inspection Program (+\$3,685,000; +11 FTE).—This will provide base funding for the NOTLC. NOTLC supports the BSEE's goals by providing upfront and ongoing learning and development opportunities to BSEE staff.

e-Inspections for the Enforcement Program (+\$2,300,000; 0 FTE).—This multi-faceted initiative would allow BSEE to replace the existing outdated paper-based process with a modern electronic system for conducting the inspections mandated by the OCS Lands Act.

Wellbore Integrity (+\$1,395,000; +9 FTE).—The requested funding will provide resources needed for BSEE to meet current requirements to evaluate whether operators have submitted adequate information demonstrating access and deployment capabilities for surface and subsea containment.

Sustain Administrative Operations (+\$5,000,000; 0 FTE).—Funding is needed to sustain the necessary level of support services for both BSEE and BOEM and to adjust the base to provide sufficient administrative services to both bureaus

Fixed Costs (+\$1,772,000; 0 FTE).—This request fully funds increased personnel-related costs and other fixed costs such as rent.

Inspection Fees (-\$3,000,000; 0 FTE).—This request partially offsets programmatic funding increases by increasing industry inspection fee revenue. This is not an increase in the amount of the fees, but rather increased revenue attributable to a full year collection at the current fee levels. The additional revenue will defray the cost of inspection and oversight activities.

Offsetting Collections (-\$1,800,000; 0 FTE).—BSEE anticipates a net increase in offsetting collections including rental receipts and cost recoveries. These collections reduce the need for direct appropriations and offset the cost of programmatic funding increases.

In addition to its continued focus on operational and environmental safety and compliance, the fiscal year 2013 request will further the completion of the reorganization of the former MMS and establish a base operating level consistent with the recommendations from the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling and the National Academy of Engineering's report on the Deepwater Horizon tragedy.

In fiscal year 2012, the Congress made a commitment to offshore safety and environmental protection by providing the necessary resources to complete our reorganization, hire additional people, and provide the necessary oversight to allow for the continued growth of offshore energy development while giving the American people confidence that their Government is doing everything it can to prevent another catastrophe like the Deepwater Horizon. The fiscal year 2013 request builds on these efforts by providing necessary training for our employees, and the tools to increase the efficiency of our processes and operations. As the Nation looks to expanding domestic energy development, we must provide the leadership and the expertise to ensure offshore oil and gas development operations are conducted in a safe and environmentally responsible way. BSEE provides that leadership and expertise, and we very much appreciate your commitment to the Bureau's mission and success.

Thank you again for the opportunity to be with you today.

Senator REED. Thank you very much, Director Watson. We'll initiate 6-minute question rounds to give my colleagues a chance to ask questions. I anticipate at least one or two rounds. We have a great many questions.

OFFSHORE WIND ENERGY

Let me begin with Director Beaudreau. By the way, thank you, gentlemen, for your excellent testimony. Director Beaudreau, you mentioned the accelerating approval of offshore, wind in particular, along the Atlantic coast.

We have made some significant investment both with Federal dollars and local dollars in terms of preparing Quonset Point, one of our former Navy bases, as a potential site for application. We have applications for 9 State projects, in State waters, we have an application for a project offshore in Federal waters.

We've also done a lot of planning, especially the area management plan, which has drawn nationwide attention as one of the

best, comprehensive approaches to evaluating offshore potential in areas of development. And, again, it's been recognized nationally.

But we seem to be falling behind other States in terms of approvals. The next big step for us is to release the draft environmental assessment. Can you give us an indication when that environmental assessment will be completed?

Mr. BEAUDREAU. Yes, Sir. You're absolutely correct about the work that the State of Rhode Island has done to promote the development of offshore energy. That work will feed and has fed directly into BOEM's process in evaluating the wind energy area in the shared area between Massachusetts and Rhode Island. What we call the area of mutual interest.

One example is the Special Area Management Plan, which was a comprehensive environmental assessment that is relevant to our process under the National Environmental Policy Act in evaluating the area. That analysis and the good scientific work sponsored by the State of Rhode Island will feed directly into our environmental assessment, as will all of the work that the State task force has done.

It helped us define what the potential conflicts might be, including the Cox's Ledge area which is a particular area of sensitivity both environmentally and for fishing interests.

In light of all of that work, work already done by my agency, and work done by the State of Rhode Island, we anticipate issuing a draft of the environmental assessment this spring, late this spring.

Senator REED. One of the reasons I am being critical of getting the environmental assessment out, is that it looks like August of this year, 2012, is, the time where the final environmental assessment will be issued, which would put us back on track with some of the other States along the Atlantic coast.

And if that's the case, would allow us to begin a leasing process at the end of the calendar year 2012, or early in 2013. Again, the fear is if we don't, we just fall behind, and that's not just a question of where the towers go in the water. It's also a question of the landside operations, where they might be situated.

So I would urge you again to expedite—Secretary Salazar has committed to expedite this draft environmental assessment. And then with similar speed, finalize the environmental assessment so we can begin the leasing process.

Mr. BEAUDREAU. Yes, Sir. This is absolutely a high priority for the Secretary and for my agency.

INSPECTION FEES

Senator REED. Let me just turn to Director Watson. And, I do anticipate a second round. Last year we included in, for BSEE, the inspection fee program. Can you tell us what improvements you're making with these fees? I think Director Abbey said it very well in terms of the proposed fees this year.

It makes sense to basically help defray the cost of inspections and review to immediately rebound to the benefit of the drillers because they're the ones who presumably get quicker approvals, better inspections, better protection for the environment and less problems down the road.

So can you comment, Director, about how you have been ensuring that these fees are being used well and wisely?

Mr. WATSON. Yes, Sir. The fees are focused on our safety program, primarily our field operations and our permitting operations.

The expense of these operations is mostly in the cost of our work force. We're increasing the size of that work force at a pretty steep rate for a small agency. We have already increased the numbers of inspections—inspectors—by a significant number.

We started at about 55, and I think we're up to 91 now. We're headed up to more than 100 and into about the 150 range that we're going to need for inspectors. And as you increase your number of inspections, you also need helicopters to get those inspectors offshore which are costly as well.

And then, turning to the permit side, we are adding almost 100 engineers. These are people who are plan reviewers for the information that's submitted to get a permit. And they are a combination of structural engineers, petroleum engineers, and some geophysicists and geologists to review those permitting applications.

So we are still challenged to bring those people into the work force, but we have an aggressive outreach program. We did get some incentives for hiring these people in the fiscal year 2012 appropriations which will be very valuable. And so, I'm optimistic about that program.

Senator REED. Just a quick—because my time has expired, the initial feedback from the industry is positive in terms of the more expeditious permitting process, the better sense of the professional skill of the inspections, is that what you're sensing?

Mr. WATSON. Well, my experience is the industry is looking at the bottom line, how quickly can they get a permit. But they are also focused on the competencies of our people. I haven't heard any disparaging remarks about our competencies.

On the permitting side, I think there's been a combination of efforts by the industry to provide more comprehensive, better-prepared applications than say a year ago. And on the BSEE side, I think we're also better at doing these new safety standards, at reviewing them.

And the numbers kind of bear this out. Just between last March and September, our average was about 97 days to get a permit processed. That was the average. And then between September and today, it's gone to 62 days. So it's right around 2 months right now.

And I think we can probably make some more improvements. But as I said in my opening statement, I'm not about the number of days it takes. I'm still about safety and environmental protection.

Senator REED. Thank you very much.
Senator Murkowski.

OIL AND GAS PRODUCTION

Senator MURKOWSKI. Thank you, Mr. Chairman. Gentlemen, thank you for your testimony this morning.

I want to try to better understand some statistics that are out there. Yesterday, the President released his, or he discussed the 1-year progress report on energy within the administration. He called it his blueprint for secure energy future.

And in that report, he notes that oil production is up overall. That's a statement that has certainly been made. He doesn't disclose where that increased production comes from. Whether it's on Federal lands, private, or State.

I mentioned in my opening comments, the Department of the Interior's own numbers would seem to indicate that onshore oil production is down 14 percent from last year, and offshore production down 17 percent. And yet, yesterday, when Secretary Salazar commented on the President's blueprint, he stated the fact of the matter is that we're producing more from public lands, both oil and gas, both onshore as well as offshore, than any time in recent memory.

So I'm trying to understand our data here. Because I think that this is important. People really do want to understand what the situation here is in this country. So I guess we've got a situation where either the data from the Department of the Interior is wrong, or it has not been communicated adequately or appropriately to the Secretary.

So the question that I have is, who's right here? When you peel this back, are we seeing an increased production on Federal lands and offshore as well, or not?

Mr. ABBEY. Well, let me take a stab at this, Senator Murkowski, and then others may contribute.

But, no doubt, the statistics would show that the United States oil and gas production is up, and last year more oil was produced in this country than at any time since 2003, according to Dr.—

Senator MURKOWSKI. And do we, do we dissect that as just State, Federal—

Mr. ABBEY. I can.

Senator MURKOWSKI. Okay.

Mr. ABBEY. And, you know, no doubt the aggressive development of shale gas and shale oil has led to a shift to private lands in the East and to the South where there are fewer amounts of Federal mineral estate in those sections of the country.

As far as natural gas, last year, there was more natural gas produced from BLM-managed mineral estate than in decades. Oil production was down somewhat last year. But we are moving forward again now offering up additional parcels for leasing. We're processing more applications for permits to drill than in the past several years.

And so, we should see an increase in production of both oil on public lands as well as natural gas. But, again, natural gas production was up.

Senator MURKOWSKI. So it isn't accurate—Right. So, I'll grant you that. And I also recognize that—where that natural gas production is primarily coming from is on the State and the private side.

But is it an accurate statement then to state that a 14-percent decrease onshore from last year, and offshore, down 17 percent for oil?

Mr. ABBEY. Well, again, the statistics will speak for itself.

Senator MURKOWSKI. But this is where the confusion is because the statistics are being used to suggest that there is this incredible increase in oil and gas production. But we all know that oil, you've

got oil production, and you've got gas production, and we're seeing remarkable, remarkable opportunities with natural gas within our shale formations.

And that's good. I support that absolutely. What I'm trying to understand is whether or not our oil production, offshore and onshore, is up or down?

Mr. ABBEY. The oil production from onshore, Federal minerals, was down last year from previous years. I will say this though. Where the industry decides to produce, or where they decide to develop, is up to them.

For example, we have approved 7,000 applications for permits to drill that are not being drilled. We have more than 25 million acres of lands that we've leased that are not being developed. So a decision is being made by the market.

Senator MURKOWSKI. I understand that. And I will, in probably my next round here, ask about some of those incentives or disincentives that we impose that kind of pushes, those that are in the exploration and production realm, to go from Federal lands to State lands.

I want to ask very quickly, and this is to you, Director Abbey. I mentioned it to the Secretary last week, a couple different times. This relates to the Legacy Well situation in Alaska.

LEGACY WELLS

For members of the subcommittee, it's somewhat an interesting situation. About 40 years ago, there was exploration by the Government, by the Navy primarily, in the National Petroleum Reserve, they drilled some 137 different wells, looking around, and, then moved on.

The problem that we face is they moved on without properly abandoning and caring for those wells. Now, decades afterwards, we're having some of the casings collapse. We've got erosion issues coming in. And it's not only unsightly, but it's an environmental scar. And it's something that has been difficult for Alaskans to accept because on the one hand the standards for—the environmental standards are exceptionally high—and I think appropriately so.

We want to make sure that we're taking care of the land there. But on the Federal Government's side, they can come in. They can explore. They can leave, and their environmental responsibility is not attended to.

If you were on the private side, you would be fined—I think the fines that we're talking about could be in the realm of \$40 million. The revenues that have been received from the National Petroleum Reserve-Alaska are certainly sufficient to help clean this up, but we're on track for cleaning up these at about the rate of 1 per year.

It's going to take us another 135 years to clean it up which is certainly not acceptable. So I asked the Secretary, and I would ask you, Director Abbey, whether or not we can get a commitment to be coordinating between BLM and the Alaska Oil and Gas Conservation Commission to not only provide the Commission with an inventory of the exact number, the associated costs for plugging them, and then a plan.

An action plan, so that we can have a reasonable level of assurance that we will move forward, that the Government will move

forward, in keeping their commitment to Alaska and to the land up there.

Mr. ABBEY. My response would be similar to what the Secretary shared with you. We are committed to working with the State of Alaska to identify where the highest-priority needs are for cleanup.

We have spent millions of dollars to date in cleaning up some of those legacy wells—

Senator MURKOWSKI. And they're expensive, we acknowledge, yes.

Mr. ABBEY [continuing]. Very much, very expensive. This year we are—we do have sufficient funds to clean up an additional three, but as you suggest, and I will admit, that's a pretty slow progress toward dealing with the challenge that we face.

Senator MURKOWSKI. Well, we need to be working on this together, so I appreciate that. Thank you, Mr. Chairman.

Senator REED. Thank you, Senator Murkowski. Senator Tester, please.

OIL AND GAS PRODUCTION

Senator TESTER. Yes, thank you, Mr. Chairman. And, once again, thank you all for being here.

As I mentioned in my opening statement, the number of rigs operating in the United States this year is the highest number in probably 8 or 10 years. The United States has more rigs operating right now, and correct me if I'm wrong, than the rest of the world combined.

Our domestic production is at an all-time high. And, you know, maybe the public lands is down some, and I want to get into that a little bit. But the fact is, if it's up on State and private, we got more rigs operating in the United States than the whole rest of the world combined.

And I talked to a person from eastern Montana today where they've got a bunch of permits, and they can't get any rigs because they're all tied up. I don't know, you know, I just kind of want to get your perspective on all of this because there's about 32 million acres of Federal land that's leased right now.

As you pointed out there, I think there's 7,000 applications, permits to drill, that have been issued, and not drilled? Can you give me—give me some insight into why that is. Give me some insight into what you're seeing as trends on the Federal lands.

Mr. ABBEY. Well, Senator, I'd be happy to. Again, there's a lot of factors that come into play relative to a decision that would be made by the industry on where they choose to drill.

As it relates to the number of applications for permits to drill, we issued 4,200 last year. That was more than the number that were submitted by the industry. We had a little backlog from the previous year, and we were able to address some of the backlog.

But we issued 4,200 applications for permits to drill last year. At the end of the year, we had more than 7,000 that were not being drilled. As I mentioned, there are several factors for that. Sometimes, it's financing. Another factor that comes into play is that the industry themselves have chosen to drill elsewhere where it's more economical.

But it is a choice that they have to make. It is a choice that they make every day. We are moving forward as expeditiously as possible to streamline our review processes without forsaking the need to insure safety as well as environmental diligence on the drilling operations.

We're increasing our inspections for all drilling. But much of the easy plays are located right now on the private mineral estate.

WELL INTEGRITY INSPECTIONS

Senator TESTER. Okay. And this goes to, I think, Senator Murkowski's last question, or last point, and that is as we push to open up lands in a responsible way, not sacrificing one resource for another, we also have to consider things like the casing, how it's cemented in.

And, quite frankly, I hope we're thinking about what happens when the wells usefulness is gone. I hope we're thinking about that upfront. So, can you give me some sort of idea on what the thought process is to make sure that this land's being leased responsibly, and that the development is being done in a responsible way so that we don't have a bunch of wrecks like Senator Murkowski was talking about?

ONSHORE OIL AND GAS LEASING

Mr. ABBEY. Well, let me start by saying that in 2009, when Secretary Salazar and I both came into our new positions, we inherited an onshore oil and gas program that was on the verge of collapse.

And I say that because more than 50 percent—or close to 50 percent of all the parcels that were being offered for lease by BLM were being protested or litigated. That's unacceptable. There were literally hundreds of leases that had been awarded by the Department of the Interior, specifically, BLM, tied up in protests and litigation.

And so the millions of dollars that we had collected from the oil and gas companies for their leases that they purchased, were placed in suspense accounts until those protests and litigation could be resolved. Again, that was unacceptable.

The rules that were in place to govern the oil and gas operations, and to ensure production verification of the oil and gas that was being extracted from these public assets, were more than 20 years old. Technology had advanced significantly in that 20-year period, but no one was paying attention to updating those rules.

We had EPA and other fellow agencies criticizing the National Environmental Policy Act (NEPA) analysis that was being performed by BLM, primarily as it related to air quality documents.

We had sportsmen, we had other public land stakeholders criticizing the leasing everywhere and anywhere mentality that was going on at the time, and certainly, very much a part of BLM culture.

Because there were concerns about the environmental damage that was being—that was occurring as a result of not doing a very good job of looking at these lands before we committed those lands through leasing.

So we took it upon ourselves not to ignore the challenge or the problems, but to address them. And one of the ways that we have been able to address them is to insure that there is a better opportunity to look at these lands prior to committing them through leasing.

And we've done that through our leasing reforms. The primary purpose for our leasing reform is to make sure that the lands that we are going to be leasing, are the right ones to lease, and they have the greatest chance to be developed in a timely manner.

Senator TESTER. Did you say that 50 percent of the leases, when you took over, were being either litigated or protested? Is that what I heard you say in this answer?

Mr. ABBEY. Close to 50 percent—

Senator TESTER. So where are you at, now?

Mr. ABBEY [continuing]. Close to 50 percent of the parcels that we were offering were being protested or litigated.

Senator TESTER. Okay. And what—

Mr. ABBEY. At this point in time, it's around 35 percent.

Senator TESTER. Okay, okay. My time is up. We'll save some for the next round. Thank you, Mr. Chairman.

Senator REED. Thank you very much, Senator Tester. This is a very, I think, useful line of questioning. Just as Director Abbey points out, there are a significant number of leases that are capable of being drilled, but not being drilled. Those are the decisions of the private entrepreneurs, the companies, onshore.

OFFSHORE LEASING

Offshore, Director Beaudreau, is that the same situation where you have a significant number of leases all ready, approved, and yet the drilling activities are not commencing?

Mr. BEAUDREAU. Ah, yes, that's correct. There's a significant percentage of the leases that have been issued by the Interior Department offshore that are not currently subject to an exploration or development plan.

And we've tried to develop, both through our leasing process and postleasing processes, to try to encourage prompt and diligent development of those leases to bring them into exploration, bring them into production.

As Director Abbey indicated, there are a number of commercial factors that weigh into industry's decisions about when and where to drill. We're trying to line up our leasing process and our incentives to influence those decisions so that we can have prompt development.

Senator REED. Thank you.

ONSHORE INSPECTION FEES

Director Abbey, in the President's budget, we've mentioned there's a request for additional inspection fees that will be comparable to the increases that we've provided to BSEE and the Director is using, Director Watson, for improving his program.

Can you indicate how you can improve your program with these fees?

Mr. ABBEY. I'd be happy to. And, thank you for the question. As Senator Tester alluded to, it's important that if we are going to be

leasing these parcels of public lands for oil and gas development, that we have sufficient inspections to insure that it's being done responsibly.

You know, we—it is our goal to inspect drilling operations that are considered a high risk. And those high-risk operations are those with the most violations, but also those that are producing the most volumes of gas or oil.

We test for blow-out preventer equipment, setting and cementing casings. We also test for plugging operations and well-completion operations. The additional monies that we would get from the inspection fee would provide sufficient funds to add another 46 inspectors to our work force that would again allow us another opportunity, or greater opportunity, to be onsite when the drilling is actually taking place.

HYDRAULIC FRACTURING

Senator REED. One of the other complicating aspects is the fact that the new technology, the fracking technology, has raised at least issues which are being evaluated by State authorities, by other agencies, and it's, I would think, something that you are looking at more closely now in terms of your inspection program; is that accurate?

Mr. ABBEY. It is. You know, fracking is not new by any means. About 90 percent of the wells that are being drilled today on public lands are using the fracturing technology.

So our inspections have always included looking at the fracking operations as they were occurring. But again, the additional fees would provide us opportunities to be onsite more often than where we are right now.

ROYALTY RATES

Senator REED. The Secretary has also indicated recently his intention to raise the onshore royalty rate from 12.5 percent to 18.75 percent. Can you tell me how these rates, the present rate and the proposed rate, compare to State rates? Because State rates is probably the comparable point.

Mr. ABBEY. Well, it varies somewhat. Let me just suggest that our primary goal is to make sure that the American taxpayer is receiving a fair return for the assets that are being developed. That's the least that we can do.

At the same time, as we go forward we have analyzed what some of the States—well, many of the States actually—are charging relative to royalty for production that are occurring within or around State lands.

We've also done some analysis of what some of the other countries have—are charging relative to royalties or similar types of fees that are assessed oil and gas companies.

Even though our budget was based upon an assumption that an increase of royalties would go to 18.75 percent for both oil and natural gas, let me just reassure the members of this subcommittee that that decision has not been reached.

We're continuing to look at the full range of statistics that we have been able to compile, the analysis that we're continuing to

perform, prior to making any decision to increase the royalties for oil and gas production on these public lands.

ONSHORE OIL AND GAS PRODUCTION

Senator REED. Well, thank you very much. And I know Senator Murkowski is going to get into this, and she's raised a very important question about the difference between production figures on private lands and public lands.

And I think implicit in all your answers has been just that there are commercial reasons why even if the lease is available, it's not being utilized. Can you kind of list the three or four general, number of rigs? Is there an insufficient number of rigs?

Mr. ABBEY. Well, no doubt—Well, I don't have the figures. But I do know that the availability of rigs is an equation that comes into consideration by the companies relative to where they're going to be developing, or drilling.

Let me just say right up front. It is quite—it is a lot cheaper to drill on private land than it is on public lands. All they have to do is cut a deal with the private landowner.

When you come before BLM with a proposal to drill on public lands, there are a lot of factors that we evaluate. Again, we have to look at the appropriateness of leasing certain parcels for oil and gas development or any particular use. We have to adhere to NEPA. We have to adhere to consultation not only with Native Americans, but with the Fish and Wildlife Service to ensure that the proposals that are before us can be adequately mitigated.

So there are an awful lot of rules and regulations that the companies would have to adhere to. But each of those rules and regulations are intended to make sure that the production goes forward to the degree that it can be allowed as appropriate.

But also the leasing reforms that we have applied are to provide greater certainty to the industry themselves that if they lease a parcel of land, that they're going to be able to develop that parcel of land. And I can tell you in 2009 that was not the case.

Senator REED. Well, thank you. My time has expired. Senator Murkowski, please.

ONSHORE ROYALTY RATES

Senator MURKOWSKI. Well, thank you. And I'll follow on because you've given me a little bit of assurance by saying the decision has not been made on this issue of increasing the royalty rates onshore.

You have stated, and rightly so, that it is more costly to develop on the public lands. And so, as we look to a royalty rate increase as has been suggested, that too then adds to that cost.

And again, to my earlier point, I think it causes developers to look to develop on State and private lands before they would turn to our public lands. I do think it's important to recognize the study that was commissioned by the Department to look at the royalty rate structures on our Federal lands and compare them to other States, as you've noted, to other countries.

There's a consensus coming out of the report that says that they—that a rate increase is not warranted. They compare Wyoming to other onshore areas and conclude that Wyoming's competitive edge is on shaky ground, and Alberta and British Columbia

are aggressively seeking to attract investment by offering incentives for lower royalty rates that encourage development.

So I really hope that the Department is looking very critically at your own analysis and working to insure again that we are not putting additional hurdles in place for development on Federal lands, additional costs on top of the costs that are already in place.

So I am glad to hear you make the statement that it has not been—a conclusion has not been reached. Do you have any idea when you might make that determination, where you're going with that?

Mr. ABBEY. Well, Senator, we really don't—or least, I don't, at this point in time. I do know that we had conversations as recently as yesterday with the Office and Management and Budget regarding proposed rules as it relates to royalty increases.

You know, Wyoming is doing quite well. You cited that in this study and said that they're losing their competitive edge.

Senator MURKOWSKI. Your study, not mine.

Mr. ABBEY. But nonetheless, there are a lot of factors that we have taken into consideration relative to what we will ultimately propose for any royalty rate increase.

I will say this to you that the 12.5-percent royalty rate that's in place right now for both natural gas and oil has been in place for decades. And so, I do think it was prudent that we conducted this study. That we are doing the analysis to determine what is a fair return to the American taxpayer.

OUTER CONTINENTAL SHELF INSPECTION PERSONNEL

Senator MURKOWSKI. Let me ask about the timeliness of where we are with OCS permitting. And I guess I'll bring you into the conversation, Director Watson.

Can you tell us how the Department is doing with respect to hiring the additional personnel that you need to conduct the inspections and process the permits?

As I mentioned in my statement, in the last Interior bill, we moved forward the new fees to help with this effort, provide additional authorities to not only increase the level of competition, but really to try to get additional funds for those personnel responsibilities.

Where are we with that? I'm still hearing from folks that they feel that the agency is still understaffed, and that is causing what they consider to be ongoing delays. Where are we?

Mr. WATSON. We began with about 60 inspectors and a modest number of engineers that do the permitting. And we have a target that is based on where the industry is projected to go in terms of the number of applications that we would expect to get, plus all of the new standards that we've implemented and the workload that's required.

And it comes out to you need about a total of 150 inspectors, and you need about 230 engineers. And so, we are on a process of hiring inspectors and engineers. In the area of inspectors, we've gone up from about 60 last year to 91 this year.

And on the engineers, we've added about 10 percent. So we're needing to add more engineers.

Senator MURKOWSKI. You've got a long ways to go.

Mr. WATSON. We do have a long way to go in engineers. But, as you know, the appropriation just came out in December. It was vital that we had some ability to incentivize those engineers to work for the U.S. Government instead of for the oil companies. They're paid very well by the oil companies especially when the price of oil is what it is today.

So we are in the process of implementing that pay incentive. And we also are doing some aggressive outreach to connect with new graduates from the engineering schools. We're even working with the American Petroleum Institute and other industry organizations to assist us with those people that may want to work for the Government because of some of the benefits and perhaps some of the stability that we can provide that the industry typically doesn't.

So I'm optimistic. It'll take a couple of years for us to reach our goal. But I think we will make a big stride this year.

Senator MURKOWSKI. Well, as you all know, the congressional intent was that part of these new fees be used to expand the capacity so that we could expedite the orderly development of offshore there.

And I do appreciate the timelines and I also recognize that we just can't snap our fingers and have these folks in place. But I—you will be able to count on me to keep inquiring with you on a regular basis to see how we are doing, not only in getting the bodies in these positions, but again making sure that it's going towards the goal which is a more orderly and expedited processing for these OCS permits.

So it's not only getting the bodies in, but making sure that we're seeing greater movement there. My time has expired, Mr. Chairman.

Senator REED. Thank you very much, Senator Murkowski. Senator Tester.

Senator TESTER. Yes, thank you, Mr. Chairman. I want to talk about fracking for a little bit.

HYDRAULIC FRACTURING

A current complaint from the industry is there's too many cooks in the kitchen. The Department of Energy (DOE), United States Geological Survey (USGS), and the EPA are all in the process of studying fracking. I've heard that there's maybe as many as 10 agencies that are involved in the process.

I think the budget gives \$13 million to USGS. I think there's about \$45 million for fracking research in total in the different budgets. Duplication is something that I'm always worried about. People doing the same work in different agencies, and we can get a little better bang for the buck.

I just want to get your perspective on what's going on with the research effort. And is there coordination between agencies so that there isn't overlapping research.

Mr. ABBEY. Again, duplication is always a concern for all of us, I believe, as we go forward during these lean times. I'm aware of two studies that we are assisting with. We're not—only with data.

One study by EPA, and then a second study that's being conducted by the USGS within the Department of the Interior. Our participation, like I said, is fairly limited to providing statistics and

data that they are then taking into account as part of their analysis.

As it relates to BLM, we are proposing a new rule relative to fracking. The components of that rule are based upon three primary recommendations. It came to us from the DOE Task Force on Fracturing Technology.

The three components that we're focused on are public disclosure of the chemicals that are being used on drilling operations on public lands. Many States have such disclosure policies in place right now, and we want to make sure that the standards that are going to apply to public lands, are similar to what's being applied on State lands.

The second component of our proposed fracking rule will address well-bore integrity, to make sure that the casings that are being used during the drilling operation are secure. They're going to protect groundwater.

And then the third component is water management, both looking at the source of the water that's being used because there's a significant amount of water that's used in fracking operations in most circumstances. And then, second, what occurs with the disposal of that wastewater after a fracking operation ceases.

Making sure that the disposal is consistent with local and State law, not Federal law, but local and State law. So those are the three components that we've incorporated into our proposed rule. We anticipate releasing a draft rule pertaining to fracking as early as April.

Senator TESTER. I want to take it one more direction, and that is, when I talk to the industry, the industry says, fracking is going on so deep that it can't impact the potable water up above.

When I talk to folks, other folks, they're saying that their water is being impacted by the fracking. I don't know which is the truth. USGS has estimated that some aquifers in the Bakken are losing about 1 to 2 feet per year due to increased energy production.

I don't know why that is, if it's because of fracking or some other reason. But water's very, very important. And I just wondered, can you give me any idea if, number one, the aquifers in the Bakken are indeed losing that kind of—that they're being diminished by one to feet a year?

And, second, why is that? And, third, is there something we can do about it?

Mr. ABBEY. Well, I would refer you to USGS for the answer to your specific question relative to what is causing that depletion. I do know that many fracking operations require an extensive amount of water. That water has to come from somewhere.

And so energy companies are securing water rights wherever they're operating in order to have access to such water so that they can continue with the fracking operation. But I would also give acknowledgement to the industry for they understand the potential impact, and certainly the long-term impacts of continuing the operations that are currently taking place with the amount of water.

And they're doing, or at least proposing to do, a better job of re-using water. And actually treating water onsite so it can be used there on additional or new fracking operations.

Senator TESTER. Well, it is a big issue. I mean, there was an amendment on the floor yesterday that I think failed because some people didn't want to encourage more fracking. The Bakken play is because we have the ability to frack. We're getting natural gas because we have the ability to frack. We like to see it done.

But by the same token, 10 years from now, we don't want to look back and say, "Oh, my God! What have we done?" So I would hope that the research that's being done is being done in a coordinated fashion and very timely.

WELL CLOSURE

I want to talk about well closure for BLM wells, for wells on BLM land. Could you compare the procedure to what happens on state or private lands in a State like Montana when it comes to well closure?

Mr. ABBEY. Well, again, we take plugging and abandonment quite seriously because it's the last time we actually have an opportunity to look down the hole before the cement is placed.

And so, we give that one of the highest priorities as part of our inspection program—is that when there is going to be a well that's going to be closed and abandoned—that we have our inspectors out there almost 100 percent of the time to make sure that the process is completed based upon the engineering that had gone into that design and approval process.

Senator TESTER. Is that the—can you give me any idea—you may not have knowledge—what goes on the State or private lands as far as well closure?

Mr. ABBEY. I really don't. I do know that there should be some similarities, but some States do a better job of prioritizing inspections than others. I won't cite any examples relative to who does that better than others, but nonetheless, you know, we are responsible for managing these wells on Federal lands, and that's where our focus is right now.

Senator TESTER. All right. Thank you very much.

Senator REED. Thank you, Senator Tester. I have a few more questions and I will then obviously recognize my colleagues for their additional questions.

OFFSHORE LEASE AUCTIONS

Mr. Beaudreau, I understand that you're going to use a new auction process format for offshore wind, alternate energy, unlike what you do for oil and gas in the gulf, for example.

And it raises a question of why the different auction procedures, first question. Second, we've got to get that information out to potential applicants in a very expeditious way otherwise they might not be prepared when the auction occurs.

And, frankly, they also, deserve the opportunity of, evaluating, and commenting on the procedures to insure that they are fair to all potential parties.

So, could you comment on the reason for the new procedures and also commit to getting the proposal out quickly so that relevant parties can participate?

Mr. BEAUDREAU. Yes, the reason for the new procedures is that, strictly speaking, offshore wind energy development is fundamen-

tally different than oil and gas. You have a finite area that is being made available. You want to make sure that you get as much efficiency out of that area as possible.

Unlike oil and gas where you purchase a parcel. You assume the risk for the parcel. You drill a well. If it's a dry well, you go someplace else. Here, we have a number of interested companies. We have a number of interests that we need to take into account in considering how to lease the finite area.

That includes the efficiency of their project. The likelihood that this particular operator can actually bring a viable project online, and the best configuration of multiple projects within the limited area.

And so that creates a little bit more complex process. That said, we are very actively evaluating alternatives for this leasing process with the idea of, while addressing those multiple factors that distinguish it from oil and gas, keeping it as simple as possible.

And there's a number of reasons for that. We have gone through an extensive process to make this area available. We want to encourage the development of offshore wind, and so we want to keep our auction process as simple as possible, while at the same time, getting the area into the hands of operators who will be able to stand up real projects.

With respect to the auction process and familiarity among operators with that process, you're absolutely right. That is essential. We put out a description, an auction format information request last fall, and had a comment period provided to operators and got a lot of useful feedback from operators about the different factors and alternatives we could employ in the auction format.

And so we've been extensively engaged with operators through that process. And we are planning into the run-up to lease sales, coordination with operators, to make sure they understand exactly how a lease process will unfold, exactly what would be expected of them, because we want an efficient lease sale.

And we want it to work, and we want it to work right out of the box.

Senator REED. Do you have an idea of when you will be prepared to sort of publish a final, or at least final for comment, proposal?

Mr. BEAUDREAU. Yes. We've done all of the comment and so now we're working on finalizing what the auction format will be.

You know, each auction will have to be tailored a little bit to the region, but we hope to have all of that in place for competitive leasing later this year.

OFFSHORE WIND INSPECTION

Senator REED. Very good. Now, assuming you've got turbines and transmission lines operating in the water, will BOEM employees conduct the on-site inspections? Or, will BSEE step in and take over?

Mr. BEAUDREAU. Yes. So in the near term, part of what we're trying to do with the additional funding that we've received is hire structural engineers who can help us evaluate construction and operation plans which is a key component down the road to getting steel in the water.

Eventually, when those operations are up, steel is in the water, BSEE will have a role in conducting safety inspections and compliance with respect to those operations.

Senator REED. Director Watson, you're collaborating right now for the hand off, I presume?

Mr. WATSON. Yes, Sir. The two Bureaus were just recently created, but we have a lot of inter-dependencies, and there's still evolution going on. I think right now our priority is with the oil and gas safety and establishing our environmental enforcement division.

But we'll be ready when the time comes to take on the wind work.

Senator REED. Just a final question. You know, you don't have the same dangers that we saw with the oil rig exploding, et cetera, but you have the problems of hurricane damage, et cetera.

Have we clearly set out the responsibility for the leaseholders in terms of their obligation to repair and to remediate? You know, there's no oil fund for this process, I presume.

Mr. BEAUDREAU. No, that's right. And there are other mitigation factors around the impacts on avian resources, marine mammals. That is why we're doing these environmental analyses so we can develop mitigation measures and requirements to ensure that, one, the operations go up that can provide energy from renewable sources, but, two, we're managing the potential impacts.

Senator REED. Thank you very much. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman. I want to add a couple more questions to the inquiry from Senator Tester on fracking.

HYDRAULIC FRACTURING

One of the concerns that I'm hearing from folks is that the concern that these will be overlapping or duplicative regulations that are coming out of BLM on top of what they already face within the States.

Can you speak to that as an issue? Give me some assurance there that we're not just adding on additional, Federal regulations, on top of what the States are doing, and how you will work to eliminate any such redundancy?

Mr. ABBEY. Again, as I mentioned earlier, there's going to be three components of our fracking rule: disclosure of chemicals, well-bore integrity, and water management.

The similarities that exist would be in the disclosure of chemicals. Many States now are requiring—

Senator MURKOWSKI. Right.

Mr. ABBEY [continuing]. As part of fracking operations, for the companies to disclose what chemicals are being used as part of their operations.

We will be requiring that, but we also hope—

Senator MURKOWSKI. Will that information be shared publicly, or will there be provisions that will allow for protecting any trade secrets that might exist?

Mr. ABBEY. The information would be available publicly unless there's some rationale and justification that the companies would provide us to keep that trade secret from being made public.

Senator MURKOWSKI. So that would be considered on a case-by-case basis?

Mr. ABBEY. It would be considered on a case-by-case, and we have a process already in place to make that type of determination.

Senator MURKOWSKI. Okay. All right. Let me ask about onshore inspection fees.

ONSHORE INSPECTION FEES

Currently, BLM collects more than \$32 million for the processing of the APDs, and this fiscal year 2013 budget proposes new authority to collect an additional inspection fee that apparently totals \$48 million.

How did you establish these fees? Are they based on actual inspection costs? Where did they come from?

Mr. ABBEY. Basically, they are based on actual costs, or what our estimates of actual costs would be. The fee itself would be implemented in accordance with the number of wells that are on a particular lease.

And, for example, if there's a lessee with a lot of wells on that particular lease, they would pay more inspection fees than a smaller operator would.

Senator MURKOWSKI. So, has there been any assessment on the impact to small businesses that may be on the Federal lands? When we're talking offshore, we don't worry about that because you don't have any very small operators there.

But, has there been any kind of an assessment there that looks at what the impact may be on those smaller businesses?

Mr. ABBEY. We have done that analysis and that assessment and, you know, quite frankly though, the highest risk we have sometimes are with smaller operators. They just do not have the capital to do everything that's required to ensure environmental protections for the drilling that's occurring or the production that's occurring.

So there's a necessity for us to get out there on the site to make sure that those operators are complying with all the laws and rules of governing their operations. So we can't ignore them. But we have taken into account—or taken into our analysis the economic effects or impacts to operators.

Senator MURKOWSKI. As you have done the analysis, have you looked at kind of the cumulative impact of these additional fees that we're talking about? You've got the existing APD fees. You're talking about new inspection fees, increasing royalty rates, perhaps.

Are you concerned that what might result is lower bonus bids coming out, less production on Federal lands, which then results in less revenue to the Treasury? Has that been factored into the analysis as well?

Mr. ABBEY. It is. And we understand the cumulative effects on the industry itself based upon everything that we are doing to ensure environmentally responsible drilling on these lands.

And to make sure that we're making appropriate parcels of public lands available for such extraction. Well, that is a factor that we've also taken into account as we review the royalty rate options before us.

We are looking at the cumulative effects—that all the other actions that we're also taking have on the industry.

Senator MURKOWSKI. Okay. Got one more question, Mr. Chairman. This is it for me.

BUREAU OF LAND MANAGEMENT/OFFICE OF SURFACE MANAGEMENT
MERGER

But, the Department yesterday had announced its analysis of this merger, the proposed merger between the OSM and BLM. It generated a fair amount of discussion and controversy within the Energy Committee when that was announced.

I do appreciate what the Department of the Interior has done to avoid the violation of the statutory responsibilities under the Surface Mining Control and Reclamation Act, but the analysis, as I understand it, fails to quantify how this merger is actually going to generate any savings or efficiencies.

And we had asked for an assessment of the costs and the benefits of the proposal. But, from what I can tell, the Department has failed to include any of that. I am of the mind that the Interior Department needs to go back and actually calculate whether the consolidation of administrative functions is really worth pursuing.

I know that you have been involved in this probably more so than most others out there. What can you tell us about this new proposal versus what was originally laid out there, and about the fact that we haven't been able to demonstrate that we're going to see any cost savings here?

Mr. ABBEY. Well, again, I think the jury is out relative to how much cost savings there actually will be. But—

Senator MURKOWSKI. You do agree that it is an important part of what this was all about?

Mr. ABBEY. It is. But we also believe that there will be efficiencies gained based upon the actions that the Secretary approved yesterday. And by that, and what you read, is that BLM will be providing administrative support to OSM.

Where they were required to hire similar skills in positions that we already had in place right now, they would no longer need those type of positions because those services would be provided by the BLM.

Some of the revenue collections functions would then be transferred to the Office of Natural Resource Revenue (ONRR). Again, gaining some efficiencies relative to the savings of positions. But the OSM would remain an independent entity within the Department of the Interior performing their mandated functions.

All we are trying to achieve are some administrative efficiencies, some cost savings, and to allow the OSM to focus their limited dollars on the important work that they do perform on behalf of this Nation.

Senator MURKOWSKI. So, are you suggesting then that the cost benefit analysis will still be coming to us? That, in fact, there is an ongoing assessment in terms of what cost savings might be achieved that we might be able to learn that later?

Mr. ABBEY. No, that's not what I'm implying. Basically, what I'm saying is that we're going to learn how much efficiencies there are,

or cost savings there are, as we go forward and implement the actions that were approved.

Senator MURKOWSKI. Well, I'm leaving here to go to another Appropriations subcommittee where I'm going to be inquiring with the Secretary of the Air Force about where they're going to achieve certain cost savings, and they're kind of going into the same thing.

Well, we'll see if we get the cost savings that we're hoping for. My argument to them was, you made that argument to me in 2005 with the Base Realignment and Closure round. We didn't achieve the cost savings. Now, you're going back and you're doing the exact same thing.

So count me a bit as a skeptic if we're waiting to see whether there's any efficiencies that are gained. I think you know that there's a lot of consternation about this specific merger. So I would hope that we would be focusing on how we see those savings, how we gain those efficiencies.

Mr. ABBEY. Again, I think that there will be some savings. I just could not give you the exact amount of savings at this point in time.

There will be fewer people that would be employed. The systems would be consistent, or at least the systems that we would have in place in BLM, that would allow us to provide the support that OSM would require, are already in place. So it wouldn't require us to do much adjustment or to increase that type of capacity.

And, again, we would be benchmarking against what OSM is currently doing and improving our own performance and operations within the BLM.

Senator MURKOWSKI. Mr. Chairman, thank you.

Senator REED. Thank you, Senator Murkowski.

Senator MURKOWSKI. And thank you, gentlemen, for your testimony.

Senator REED. Senator Tester.

Senator TESTER. Yes, thank you, Mr. Chairman. Just a very quick follow up on what Senator Murkowski was talking about.

You said there were going to be fewer people. Is there duplication that will be eliminated?

Mr. ABBEY. There is. I mean, that's why there will be less people because there will be duplication eliminated.

Senator TESTER. Okay. And will there be a higher level of accountability at least for us in order to know who to look at it, where the buck stops?

Mr. ABBEY. Yeah. You have my telephone number relative to the support function—

Senator TESTER. Well, I mean, part of the problem that I find is when it comes to accountability, I'm not talking about your agency, necessarily, is that there is duplication in work being done. And when it comes to a problem, when it arises, that there's—well, too many cooks in the kitchen.

So you can't nail anybody down. Would this, from your perspective, would this help with accountability?

Mr. ABBEY. I do. Again, there's a lot of opportunities for us to improve our performance.

Senator TESTER. Okay.

Mr. ABBEY. In these lean times that we're all in, we need to be looking at every opportunity that we have to improve our performance, to create the efficiencies that the American taxpayers are demanding, and to reduce costs, because there are no new dollars coming our way.

Senator TESTER. All right. Thank you. That was just brought up. I'm glad Senator Murkowski brought it up because I think ultimately in the end, I think money is important but for us, I think what's equally—well, it is equally important in my opinion is—if something goes upside down and there's more than one agency dealing with it, people slip through the cracks.

ONSHORE RENEWABLE ENERGY LEASES

But that's not what I want to talk about. In your budget this year, \$73 million was permitted to construct renewable energy projects on public lands. The agency has a goal of 10,000 megawatts at the end of the year.

The Department has recently sent out a request for information on proposing competitive leasing on public lands for renewable energy. It's a proposal similar to a bill that Senator Risch and I have, S. 1775, which directs the agency to pilot competitive leasing for renewable energy on public lands.

BLM's request is a bit different, for information, it's a bit different? It does not include revenue sharing for states or communities or ecosystems which are most impacted by the development and has minimal sideboards for mitigation or avoidance of natural resource damage, and it doesn't return funding to streamline the process, as S. 1775 does.

I believe it's because the BLM does not have the authority to do so today. I am optimistic to see the agency moving forward, but leasing is only a part of the equation. I would like to have you expand on how your agency plans to address the broader issue of impacts to communities, natural resources, if the permitting is expanded.

Mr. ABBEY. Well, first and foremost, we're quite intrigued by your legislation. Not only encouraging competitive process, but also, potentially, the return of some of the revenues back to mitigate for the impacts associated with such development.

So we look forward to working with you, Senator, and others in this Congress to pass common sense legislation that would allow us to meet our common goals.

As we go forward with greater emphasis on renewable energy development in using public lands to achieve that goal, we are quite confident that by calendar year 2013 we will have approved 11,000 megawatts of renewable energy generated from public lands.

That would include wind, solar and geothermal, primarily. We are also moving forward expeditiously through our land use planning process and our NEPA process to actually designate—in the case of solar, solar energy development zones, where we would steer development, do our best to steer development to areas that have already been screened, analyzed, and cleared for such development.

We would be proposing to do something similar for wind in the very, very near future, so that we could steer development to the

best places where that development could go forward and actually achieve our mutual goal of diversifying the Nation's energy portfolio.

At the same time, we understand that these are large-scale projects. They're large foot prints on these public lands. Therefore, we need to make sure that there is appropriate mitigation to offset the lands that are being dedicated for that particular type of use.

We will work very closely with the communities. We are working very closely with all public land stakeholders, with the industry itself, as well as environmental groups, to come up with an appropriate mitigation for such a large-scale commercial development. And I think we're seeing some successes.

GEOHERMAL DEVELOPMENT

Senator TESTER. That's good. I want to flesh out geothermal a little bit as long as you brought it up.

Mr. ABBEY. You bet.

Senator TESTER. I think it's an incredible opportunity to provide baseload power. It is very costly at this point in time.

Senator Murkowski and I have a bill which would expand our knowledge about geothermal energy and its potential.

Can you speak specifically, you touched on it, but specifically on your efforts to expand geothermal production and the barriers that you're facing at this point in time to deploying this technology?

Mr. ABBEY. Well, quite honestly, the footprint associated with geothermal is a lot less than with wind and solar. It also has probably the highest potential for future development than probably solar or wind as it relates to the amount of public lands that would be dedicated or made available for that type of particular use.

We're very optimistic about the future of geothermal. You know, the prices are not necessarily competitive when you're looking or competing against coal and some of the other conventional energy sources at this point in time. But we do believe that geothermal will be a major part of our Nation's energy portfolio in the years to come.

Senator TESTER. Are you facing any barriers at this point in time other than money?

Mr. ABBEY. No, we're not.

Senator TESTER. Okay. Well, thank you, Mr. Chairman. I think a three-member committee with a three-member board, this works out pretty damn nice. So thank you all very much for your time.

ADDITIONAL COMMITTEE QUESTIONS

Senator REED. Thank you, Senator Tester. I want to thank the witnesses for their excellent testimony and for your skillful leadership of your agencies. I also want to thank my colleagues for what I concur with Senator Tester was a very productive and very thoughtful hearing.

There may be additional questions. I would ask all of my colleagues to submit them within 1 week, by March 21, and for you gentlemen to respond as quickly as possible to any written questions.

[The following questions were not asked at the hearing, but were submitted to the Bureaus for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO ROBERT V. ABBEY

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

NATIONAL ENVIRONMENTAL POLICY ACT REVIEWS

Question. Bureau of Land Management (BLM) is now just completing work on the Solar Programmatic Environmental Impact Statement, which has been a 4-year effort to categorize Federal land into Solar Energy Zones (SEZs) where solar development is encouraged, areas off limits to solar development, and areas where solar development will be allowed only in situations where a variance is awarded.

In theory, this process was supposed to identify zones of BLM land where solar development is appropriate and the permitting process can be done expeditiously.

However, I am concerned that the benefits of this process are still unclear.

First, I don't understand how it will expedite permitting. BLM has not conducted comprehensive field studies of the SEZs, so solar development proposed within the zones will still be subject to a multi-year period of field studies, consultation with Fish and Wildlife Service (FWS), substantial species mitigation expenses, and likely another full EIS.

Second, BLM has already permitting numerous projects in the only large zone in California, known as Riverside East, and experts suggest that the transmission capacity to this zone will be used up by the projects already permitted and further development in this area is unlikely.

What incentives does BLM propose that will ensure that development of solar power on public lands in California is centered on these zones?

Answer. The Supplement to the Draft Solar Programmatic Environment Impact Statement (EIS) describes in detail proposed incentives for developers to site new projects in SEZs—including greater certainty of applications being approved and shorter permitting times. This will be further refined in the final EIS.

BLM has taken a number of important steps through the Supplement to the Draft Solar Programmatic EIS to facilitate future development in SEZs in a streamlined and standardized manner. Utility-scale solar energy development projects proposed in SEZs will be required to comply with National Environmental Policy Act (NEPA) and other applicable laws, including, but not limited to the Endangered Species Act and the National Historic Preservation Act, and applicable regulations and policies. Nonetheless, much of the environmental analysis completed for the Supplement to the Draft Solar Programmatic EIS will benefit future development in SEZs by minimizing the level of detailed analyses required for individual projects. In addition to this work, under the Supplement to the Draft Solar Programmatic EIS BLM is proposing to undertake a variety of additional activities that could help steer future utility-scale solar development to the SEZs. For example, these include faster and easier permitting in SEZs; improvement of mitigation processes; facilitation of the permitting of needed transmission to SEZs; encouragement of solar development on appropriate non-Federal lands; and economic incentives for development in SEZs. For further details please see the Supplement to the Draft Solar Programmatic EIS, section 2.2.2.2.3 incentives for Projects in SEZs at: http://solareis.anl.gov/documents/sup/Supplement_to_the_Draft_Solar_PEIS.pdf.

WEST MOJAVE SOLAR ENERGY ZONE

Question. The Conference Report to the fiscal year 2012 Interior, Environment, and related agencies appropriations bill states: “. . . the Secretary is instructed to complete a report evaluating the possible Solar Energy Study Areas in the West Mojave that respect designated off-road vehicle routes and provide the report to the Committee on Appropriations within ninety days of enactment of this Act.”

What is the status of this report?

Answer. BLM's California State Office is currently reviewing a draft report that includes a summary of BLM's approach and progress in the evaluation of solar energy development in the West Mojave. This evaluation is part of the Desert Renewable Energy Conservation Plan (DRECP). BLM is evaluating off-highway vehicle (OHV) access and other recreational resources as part of the environmental analysis. Recreation and OHV specialists at the BLM State offices, districts, and field offices are involved in this analysis. Some of the alternatives will include potential energy development impacts to OHV Open areas and to designated trails in the West Mojave. BLM is aware of the importance of access to multiple-use areas on public lands and is working with its Federal, State, and local partners to maintain multiple uses within the DRECP planning area.

When does BLM intend to create a SEZ in the West Mojave to encourage development in this area of lower ecological value?

Answer. Planning and analysis of renewable energy development in the West Mojave is currently underway. Draft environmental documents are expected to be released for public review in mid-September 2012. The final documents are expected to be released in mid-March 2013, and BLM anticipates making a final decision on the plan in late May 2013.

DRECP is the largest landscape planning effort in California, covering approximately 22.5 million acres of Federal and non-Federal land in the Mojave and Colorado (Sonoran) deserts of southern California. Solar, wind, and transmission development are all under consideration for the West Mojave in the DRECP. Alternatives will consider different configurations of development in the West Mojave on both Federal and non-Federal land. One possible outcome of the DRECP could be the designation of an additional SEZ in the West Mojave.

PRIORITY PERMITTING

Question. When this administration took office in 2009, more than 200 applications had been filed to develop renewable energy projects on BLM land in California, but no projects had been permitting, and only two were under formal NEPA review. Objectively speaking, the process for permitting was fundamentally broken.

Over the past 3 years, this administration has fixed a broken system. BLM now creates a list of 8 to 12 “priority projects” each year on which to focus its work. The projects on this list propose to develop less environmentally sensitive lands in a manner less likely to end up in court, and have developers who have done the necessary work lining up transmission agreements, power purchase agreements and conducting field studies to be considered, for lack of a better term, “ready to go.”

Bottom line: BLM has prioritized the permitting of the best projects, and it has been able to permit many good projects expeditiously as a result. The proof is in the pudding. Very few of the projects in California permitted through the priority list process have been challenged in Court. (Brightsource’s Ivanpaw, arguably the most controversial project permitted by BLM, was one of the two projects already under formal NEPA review when Obama took office.)

BLM is now just completing work on the Solar Programmatic Environmental Impact Statement, which attempts to categorize Federal land into SEZs where solar development is encouraged, areas off limits to solar development, and areas where solar development will be allowed only in situations where a variance is awarded.

How does BLM plan to integrate its highly successful “priority projects” approach to permitting with this new approach?

Answer. Over the past 3 years, BLM has implemented a program to prioritize the processing of renewable energy applications. These priority lists were developed in collaboration with FWS, the National Park Service (NPS), and the Bureau of Indian Affairs with an emphasis on early consultation. The screening criteria for priority solar and wind projects, developed through BLM policy memoranda issued in February 2011, assisted in evaluating and screening these utility-scale projects on BLM-managed lands. The process of screening for projects is about focusing resources on the most-promising renewable-energy projects. One of the likely outcomes of the Supplement to the Draft Solar Programmatic EIS is that some SEZs would be established. Projects located within the SEZs would be given priority for processing, all other factors being equal, over projects outside these zones. However, even if SEZs are established, there will almost certainly be legitimate reasons for developing certain projects outside of these zones, and BLM will work to ensure that permitting timelines are reasonable for all meritorious projects. As described in the Supplement to the Draft Solar Programmatic EIS (Appendix A, Section A.2.1.1), BLM will develop and incorporate into its Solar Energy Program an adaptive management and monitoring plan to ensure that data and lessons learned about the impacts of solar energy projects will be collected, reviewed, and, as appropriate, incorporated into BLM’s Solar Energy Program in the future.

DEPARTMENT OF DEFENSE LAND

Question. A recent study by the Defense Department (DOD) found that four military bases in California could produce 7,000 MW of solar power on marginal base lands. The lands cannot be used for training and have little ecological value. However, some of these base lands were “withdrawn” long ago. I understand that BLM and the Interior Department continue to assert that these lands should be returned to BLM management if they are developed for solar, even though these lands are often surrounded on all sides by the base. Realistically, I think Interior’s position will prevent the DOD from opening its bases to solar development if it means giving up control of lands in the middle of military bases.

Will BLM agree to work with the DOD to settle, within 3 months, its legal dispute with regard to management of withdrawn lands developed for solar energy?

Answer. While the development of renewable energy on the public lands is a national priority, providing opportunities for renewable energy development on DOD lands (including BLM withdrawn lands), is also important. We have established a collaborative process with the DOD to address renewable energy development opportunities on BLM-withdrawn land. The Department of the Interior (DOI) and DOD in April 2011 formed an Interagency Land Use Coordinating Committee (ILUCC) to help facilitate that dialogue. The Committee is co-chaired by DOI Deputy Assistant Secretary Sylvia Baca and DOD Assistant Deputy Under Secretary John Conger. The ILUCC members include not only BLM, but also FWS, NPS, Office of the Solicitor, and the individual DOD services. Several subgroups have been formed under the ILUCC to address various areas of collaboration, including a subgroup that is focused on resolving authorities for the siting and permitting of renewable energy projects on BLM withdrawn lands.

BUREAU OF LAND MANAGEMENT SOLAR SUPPLEMENTAL DRAFT PROGRAMMATIC
ENVIRONMENTAL IMPACT STATEMENT

Question. Director Abbey, last October BLM issued its Draft Supplemental Solar Programmatic Environmental Impact Statement (PEIS), which includes large amounts of “variance” lands outside the solar zones. It is my understanding that while applicants are strongly encouraged to pursue projects within the identified solar zones, BLM will consider permitting development in these “variance” areas. While some flexibility to consider lands beyond the zones may be necessary, I find it highly problematic that an estimated 50,000 acres of land that were donated or purchased with Land and Water Conservation Fund dollars have been included in the variance lands. Given that these lands were intended to be preserved in perpetuity, I do not believe they should be open for development. Can you tell me what is the process by which BLM will consider and grant permission for solar projects to be constructed on “variance” lands?

Answer. The process for considering solar projects on “variance” lands has been delineated in the Supplement to the Draft Solar Programmatic EIS in detail. However, no final decision has been made. In addition, there might be market, technological, or site-specific factors that make a project appropriate in a non-SEZ area. BLM will consider variance applications on a case-by-case basis, based on environmental considerations; consultation with appropriate Federal, State, and local agencies, and tribes; and public outreach. If BLM determines a variance application to be appropriate for continued processing, BLM will require the applicant to comply with NEPA and all other applicable laws, regulations, and policies at the applicant’s expense. Applicants applying for a variance must assume all risk associated with their application and understand that their financial commitments in connection with their applications will not be a determining factor in BLM’s evaluation process.

Why have donated and LWCF-acquired lands been included among the “variance” lands and what steps are being taken to avoid their development?

Answer. Comments received on the Supplement to the Draft Solar Programmatic EIS have requested that donated and LWCF-acquired lands be identified as exclusion areas for utility-scale solar energy development. BLM is currently considering this request. However, no decision has been made yet. We would be pleased to brief members of your staff if you so desire.

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

Question. Director Abbey, thank you as well for taking time to appear. While reading your testimony, I was most interested in what steps you take to increase the percentage of leased onshore lands which are currently producing. We have 38 million onshore acres leased, which is a slight decrease from the previous year, when 41 million acres were leased. On these 38 million acres, only 32 percent, by your estimate, are currently producing.

What is the prime deterrent to production on Federal onshore lands? It certainly is not a shortage of companies able to do the work. In fact, production on private lands has increased drastically—enough to cover the 15 million barrel shortfall from 2010 to 2011. In your opinion, what is holding back the huge amount of companies who want to work onshore from doing so on Federal lands?

Answer. The Bureau of Land Management (BLM) strives to achieve a balance between oil and gas production and protection of the environment. Facilitating the efficient, responsible development of domestic oil and gas resources is part of the administration’s broad energy strategy that will protect consumers and help reduce

our dependence on foreign oil. BLM is working on a variety of fronts to ensure that development is done efficiently and responsibly including:

- implementing leasing reforms;
- continuing leasing activities in the National Petroleum Reserve in Alaska;
- continuing to process drilling permits in a timely fashion; and
- improving inspection, enforcement, and production accountability.

Oil and gas drilling and development are market-driven activities, and the demand for leases is a function of market conditions. Market drivers include prevailing and anticipated oil and gas prices, bidder assessments of the quality of the resource base in a given area, the availability/proximity of necessary infrastructure, and the proximity of the lease to local, regional, and national markets and export hubs. The shale formations that currently have high industry interest for development, such as North Dakota's Bakken shale, Texas's Eagle Ford shale and the Marcellus and Utica shales of the Eastern United States, are primarily in areas with a high proportion of non-Federal land. These areas have seen increased development recently due to a favorable mix of the factors noted above. As drilling priorities shift due to changes in technology or markets, an operator may choose different areas for development. Further, BLM lands are primarily gas-prone. Recent national rig counts (by Baker Hughes) indicate that rigs drilling for gas are at an "all-time low" (by percentage) and the gas is selling at "a record discount to crude." (Wall Street Journal, May 14, 2012).

Approximately 38 million acres of Federal land are currently leased for oil and gas development. Approximately 12 million acres are producing oil and gas, and active exploration is occurring on an additional 4 million acres. BLM has approved approximately 7,000 drilling permits that are not being used by industry.

Question. You mention that you plan to take steps to increase production on leased lands, and I see that one step would be a proposed \$4 per-acre fee on nonproducing lands, which I do not support. Do you have any plans to increase regulatory clarity to make the process or permitting and oversight more straightforward? Do you plan to increase the minimum bids for onshore lands or shorten the time leases may be held without production?

Answer. The purpose of the nonproducing lease fee is to encourage diligent development of leased parcels. The nonproducing lease fee will provide financial motivation to either put leases into production or relinquish the leases so they can be released.

As part of BLM's ongoing efforts to ensure efficient processing of oil and gas permit applications, BLM will implement new automated tracking systems expected to significantly reduce the review period for drilling permits and expedite the sale and processing of Federal oil and gas leases.

The new system for drilling permits, which is expected to be fully online by May 2013, will track permit applications through the entire review process and quickly flag any missing or incomplete information. This will enable operators to communicate with the BLM more promptly to address deficiencies in their applications.

To expedite the sale and processing of Federal oil and gas leases, BLM will launch a new National Oil and Gas Lease Sale System, which will streamline the phases of competitive oil and gas lease sales by electronically tracking BLM's leasing process from start to finish. This new system will replace numerous stand-alone systems and provide a consistent, easy-to-use electronic process for both the oil and gas industry and BLM employees. BLM estimates the National Lease Sale System will be ready to begin testing in a pilot State by December 2012.

The Mineral Leasing Act establishes the national minimum acceptable bid and the primary term of an oil and gas lease. The act provides the Secretary of the Interior with the authority to establish a higher national minimum bid amount. However, the act does not provide authority to the Secretary to modify the primary term of an oil and gas lease.

QUESTIONS SUBMITTED TO TOMMY P. BEAUDREAU

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

Question. Director Beaudreau, thank you also for taking time to appear before this hearing today. In your testimony, you mentioned the efforts that the Bureau of Energy Management (BOEM) is making to increase offshore production, in light of the President's stated desire to increase production. You mention that you aim to open 75 percent of technically recoverable assets to drilling, and that you have taken steps to increase the percentage of currently leased lands that are producing.

I see that you have scheduled the final lease sale under this 5-year plan and that you are already looking forward to the next 5-year plan, under which you aim to open 75 percent of technically recoverable assets. Since we currently produce on only 2 percent of the total land in the Outer Continental Shelf (OCS), what effect will this have on the amount of land being produced on—that is, is an increase to 75 percent of technically recoverable assets as large a step as the President has stated?

Answer. The proposed Five-Year Oil and Gas Leasing Program for 2012 to 2017 focuses on encouraging exploration and development where the oil is—and the Gulf of Mexico still has the greatest, by a large margin, untapped resource potential in the entire OCS. The Gulf of Mexico is the crown jewel of the OCS, and will remain so for the foreseeable future as developments in seismic and drilling technology have opened new resource frontiers in the gulf. The Gulf of Mexico, in particular the deepwater, already has several world class producing basins, and just in the past year there have been a number of significant new discoveries.

The 75 percent represents the portion of BOEM's estimated total "undiscovered technically recoverable resources" on the OCS that underlie areas being considered for oil and gas leasing in the proposed program. Our geological and geophysical data indicate that those resources are not evenly dispersed across the OCS and that a relatively small area may have very high concentrations of potentially recoverable resources.

According to BOEM's findings, the Central Gulf of Mexico is estimated to hold more than 30 billion barrels of oil and 133.9 trillion cubic feet of natural gas of undiscovered resources. This is nearly double the resource potential of even the Chukchi Sea. The Western Gulf of Mexico is just behind the Chukchi Sea with more than 12 billion barrels of oil and nearly 80 trillion cubic feet of natural gas. BOEM derived the 75-percent figure from an evaluation of the undiscovered technically recoverable resources estimated in the proposed lease areas as a function of this total estimated amount.

Question. You also mentioned the steps you have taken to increase production on the lands which are currently leased, including a proposed \$4 per-acre fee on non-producing leases, which I do not support—you have raised the minimum bid on deepwater acres, and you have shortened the time that a lease may be held without any production occurring. What has been your feedback from industry on these two steps? What effects do you believe that these steps will have?

Answer. While BOEM implements these measures for offshore leases, we have continued to see robust industry interest in acquiring leases that include these underlying terms. The increased minimum bid and new lease terms were in place for Western Gulf of Mexico lease sale 218, held in December 2011. The bidding activity in that sale demonstrates that these changes are not having a detrimental impact on industry's interest in acquiring leases in the gulf.

A \$4 per-acre fee on nonproducing Federal leases would provide a financial incentive for oil and gas companies to either get their leases into production, or relinquish them so the tracts can be leased to and developed by new parties. In general, industry has not been supportive of the fee, citing concerns over delays that they argue are out of their control. However, the administration believes that this legislative proposal is important to encourage energy production on lands and waters leased for development. The \$4 per-acre fee would only apply to new leases and would be adjusted for inflation annually. The minimum bid on deepwater acres encourages prompt development and production, and helps to ensure that the American public receives fair market value for these shared resources. BOEM plans to use the minimum bid as a way to limit the sale size, rather than arbitrarily adjusting the size of the sale. This allows the market to determine which tracts are leased. The minimum bid strategy used will be consistent with the goal of maximizing the economic value of OCS resources.

As you mention, BOEM has taken several specific steps to provide incentives for diligent development and to encourage operators to bid on tracts that they are more likely to develop. These steps include:

Increasing Rental Rates To Encourage Faster Exploration and Development of Leases.—In the Gulf of Mexico, during the initial term of a lease and before the commencement of royalty-bearing production, the lessee pays annual rentals which either step-up by almost half after year 5—for leases in water 400 meters or deeper—or escalate each year after year 5—for leases in less than 400 meters of water. The primary use of step-up and escalating rentals is to encourage faster exploration and development of leases, or earlier relinquishment when exploration is unlikely to be undertaken by the current lessee. Rental payments also serve to discourage lessees from purchasing tracts they are unlikely to actually develop, and they provide an incentive for the lessee to drill the lease or to re-

linquish it, thereby giving other market participants an opportunity to acquire these blocks. In March 2009, in addition to implementing escalating rental rates, BOEM raised the base rental rates for years 1–5.

Tiered Durational Terms To Incentivize Prompt Exploration and Development.—Industry maintains that producing oil is a lengthy process that takes years between the time a lease is awarded and the time energy begins flowing from a well on that lease site. In order to address this concern, BOEM implemented tiered durational terms to incentivize prompt exploration and development for leases in the Gulf of Mexico for certain water depths (400–1,600 meters): a relatively short initial lease followed by an additional period under the same lease terms if the operator has already drilled a well. In addition, BOEM maintains lease terms graduated by water depth in order to account for technical differences in operating at various water depths. Bureau of Safety and Environmental Enforcement also recently informed lessees of a decision from the Department's Office of Hearings and Appeals that reaffirms the requirement that lessees demonstrate a commitment to produce oil or gas in order to be eligible for lease expiration suspensions.

Increased Minimum Bid.—In 2011, BOEM increased the minimum bid for tracts in at least 400 meters of water in the Gulf of Mexico to \$100 per acre, up from \$37.50, to help ensure that taxpayers receive fair market value for offshore resources and to provide leaseholders with additional impetus to invest in leases that they are more likely to develop. Analysis of the last 15 years of lease sales in the Gulf of Mexico showed that deepwater leases that received high bids of less than \$100 per acre, adjusted for energy prices at the time of each sale, experienced virtually no exploration and development drilling.

QUESTIONS SUBMITTED TO JAMES WATSON

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

Question. Thank you for making time today to appear before this hearing. I realize that you only assumed office on December 1, 2011, but I understand that you have already taken time to visit Port Fourchon, a vital supply and support hub for our offshore industry. I am hopeful that we will develop a close working relationship and that you will bring new and effective leadership to the Bureau of Safety and Environmental Enforcement (BSEE).

Reading through your testimony, a few points caught my attention. First, you mention that the new standards for inspection are much more stringent, reflected in the fact that the timeline for permit approval is now longer and that you have hired more inspectors and engineers. I understand that these steps were taken to account for increased difficulty in permitting, but despite this, I continually hear from industry about the difficulty that they face not only in permit approval, but also the submission process which occurs prior to any technical review of a permit application.

Would it make the permit submission process more streamlined if you were to hire more administrative personnel? I understand that already work is being shifted from district to district to alleviate excessive workload—could this be a function of understaffing on the administrative side of things?

Answer. Permit reviews are addressed by engineers in the Bureau's district offices. BSEE is hiring and training new engineers to reduce review and approval time and improve upon the efficiencies that we have achieved over the past year. The variation in workload that we see among our district offices in the Gulf of Mexico region is a result of the geographic distribution of oil and gas activity in the Gulf of Mexico. The bulk of the activity in the gulf is occurring in the areas overseen by our New Orleans and Houma District offices. When appropriate, we shift certain high-priority permits from the New Orleans and Houma District offices to other offices that have the ability to provide assistance. Permit applications are submitted and reviewed electronically, so engineers in any district have access to all submitted applications. Administrative personnel are essential to operations in our regional and district offices, and provide vital support to our engineers who are educated and trained to review or approve permit applications.

Question. I also hear that many of these submissions are being returned for resubmission 8 or 9 times—because of small grammatical errors or the use of footnotes. I understand that you have instituted a workshop for permitting, might it be helpful to these companies to have a workshop focused purely on the guidelines for submission, so that we may avoid these problems. Might it also be beneficial to rewrite the submission process so that permit applications are judged on their technical merits more heavily than their grammar?

Answer. As you point out, BSEE has held permitting workshops for industry that were attended by more than 200 offshore industry personnel. In addition, the Bureau has also published an Application for Permit to Drill (APD) submission checklist for operators to provide clear guidance to operators about the requirements for submitting a complete APD. Because of these efforts, as well as industry's increasing familiarity with the new safety requirements instituted after the Deepwater Horizon event, permit review times have decreased significantly over the past year and the number of applications returned to applicants for being incomplete or incorrect has also declined. We return submittals to applicants for substantive reasons, not for grammatical errors. The Bureau will continue to work with industry to make the permit application and review process as clear and efficient as possible, while continuing to ensure that every application meets all safety requirements.

Question. I also understand that you plan to update the Interim Drilling Safety rule to increase regulatory clarity, and that you are currently reviewing comments on the Safety and Environmental Management Systems II (SEMS II) rule to increase regulatory clarity and provide for a more streamlined, but still safe, process moving forward. What details can you give me about the changes you are making, and what affects you expect these changes to have?

Answer. The Final Drilling Safety Rule will respond to the comments received on the Interim Final Rule and is expected to be published in the Federal Register in the near term. These changes will provide a considerable amount of clarification and simplification of the regulations featured in the Interim Drilling Safety rule.

The SEMS II Proposed Rule proposes to expand, revise, and add several new requirements necessary to ensuring industry uses robust SEMS programs and to facilitate oversight. The comment period for the SEMS II Proposed Rule closed on November 14, 2011, and BSEE is currently reviewing the comments.

Question. I know that your agency, as well as the others testifying today, is actively involved in developing and implementing a long-term restoration plan for the Gulf of Mexico. I am sure you are aware that the Mabus report on America's gulf coast highlighted the need for developing quantifiable performance measures to track progress in the Gulf of Mexico recovery efforts, including an assessment of baseline environmental conditions. The subsequent Gulf Coast Ecosystem Restoration Task Force report echoed these recommendations and further noted the need for a robust data collection regimen. In light of the budget pressures facing your agency, how does the fiscal year 2013 budget support these important baseline environmental data collection activities? Are you considering more cost-effective, technologically advanced data collection systems, such as unmanned, persistent propulsion marine robotic vehicles?

Answer. Baseline environmental data collection responsibilities fall under the Bureau of Ocean Energy Management's (BOEM) Office of Environmental Programs, and are not BSEE functions. The environmental program under BSEE focuses on environmental compliance and enforcement efforts and relies upon BOEM for necessary environmental analyses.

BOEM's fiscal year 2013 budget request for environmental assessments includes an increase of \$700,000 to support environmental data collection for baseline information on species, habitats, and ecosystems. These studies and other scientific information form the basis of environmental assessments and environmental impact statements required under the National Environmental Policy Act prior to development. This increase in funding will enable BOEM to initiate one or two new high-priority baseline characterization and monitoring studies. These studies will expand the scientific basis for informed and environmentally responsible policy decisions at BOEM and the enforcement of environmental regulations by BSEE.

With respect to advanced data collection systems, BOEM has historically used the best-available technology in its studies and will consider emerging technologies when looking at future analyses.

Question. The Interior Department administratively issued new guidance for removal of idle iron—unilaterally changing previous regulations for the decommissioning of offshore platforms and wells. Would the Department of the Interior support amending the new idle iron guidance to either allow for structures to be reefed in place or provided an extension of time to remove structure that will eventually be placed in the Rigs-to-Reefs program?

Answer. The regulations regarding decommissioning facilities and wells (subpart Q of 30 CFR 250) have remained the same since October 30, 2002. The Notice to Lessees and Operators (NTL) No. 2010-G05 was issued on September 15, 2010 to clarify the decommissioning regulations, provide clearer definitions, and allow operators to submit plans for the use of wells and structures that are potentially no longer useful for lease operations. BSEE is currently reviewing plans on a case-by-

case basis and working with operators on schedules for decommissioning and future use of wells and structures.

BSEE supports the reuse of obsolete oil and gas facilities. About 12 percent of all platforms decommissioned annually in the Gulf of Mexico are used as artificial reefs through State-sponsored programs. The NTL 2010-G05 does not prevent an operator from reusing a structure. A proposal to reuse a facility as a reef is a complex multi-step process that must comply with several State and Federal regulations as well as engineering and environmental reviews. Consequently, not all structures are good candidates for artificial reefs. The Bureau's policy was developed in accordance with its mission and allows for sound adaptive management. We are in close communication with the State artificial reef coordinators, industry, and our Federal partners to ensure that the reuse of obsolete oil and gas facilities remains a viable alternative in the decommissioning process.

Question. It is my understanding that the Federal Fishery Rebuilding Plan for Gulf Red Snapper is based on the critical marine habitat provided by older oil and gas structures in the Gulf of Mexico. Has the Interior Department discussed or coordinated with the National Oceanic and Atmospheric Administration (NOAA) or the National Marine Fisheries Service (NMFS) on the potential devastating impacts to marine life from its idle iron directive?

Answer. The Department of the Interior, through BSEE, has coordinated, and will continue to coordinate with NOAA's NMFS on the decommissioning program and the possible impacts on marine life. The Department, in coordination with NMFS and Louisiana State University's Coastal Marine Institute, has also funded numerous studies regarding the habitat provided by Outer Continental Shelf facilities and the potential impact of decommissioning facilities on fisheries.

SUBCOMMITTEE RECESS

Senator REED. If there are any of my colleagues that wish to have statements submitted for the record, they will be accepted for the record without objection.

And with that, again, let me thank you, and conclude the hearing.

[Whereupon, at 11:04 a.m., Wednesday, March 14, the hearing was concluded, and the subcommittee recessed, to reconvene subject to the call of the Chair.]