

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

Hearing on “*Evaluating Federal Offshore Oil and Gas Development on the Outer Continental Shelf*”

July 12, 2017

Chairman Gosar, Ranking Member Lowenthal, and Members of the Subcommittee, I am pleased to join you today to discuss the Department of the Interior’s (Department) offshore programs carried out by the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE), and our efforts to advance these programs to help secure American energy dominance, create jobs, lower costs for working Americans and build a strong economy, freeing us from dependence on foreign oil. Through these programs, the Department is providing access to our energy resources offshore, while adhering to all safety and environmental laws and regulations.

The Outer Continental Shelf (OCS) is a vital component of our nation’s energy economy. It accounts for 18% of domestic oil production, 4% of domestic natural gas production, billions of dollars in annual revenue for the Treasury, states, and conservation programs, and supports more than 300,000 jobs. OCS activities are a key aspect of the Trump Administration’s America First Energy Agenda and Secretary Zinke’s goal of maintaining our nation’s energy dominance by advancing domestic energy production, generating revenue, and creating and sustaining jobs throughout our country.

Background

The Department manages and regulates the development of America’s natural resources, including oil, gas, mineral, and renewable energy sources offshore. American energy resources create hundreds of thousands of jobs and generate significant revenue both to the U.S. Treasury and states. Through natural resource policies designed to foster growth and facilitate local input, the Department provides opportunities for new jobs and revenue for Federal, state and local governments.

BOEM manages the Nation’s energy and mineral resources on 1.7 billion acres of Federal submerged lands known as the Outer Continental Shelf (OCS). BOEM is responsible for managing development of these resources through offshore leasing, resource evaluation, review and administration of oil and gas exploration and development plans, renewable energy development, economic analysis, National Environmental Policy Act analysis, and environmental studies. BOEM promotes energy security, environmental protection and

economic development through responsible, science-informed management of offshore conventional and renewable energy and mineral resources. BOEM carries out these responsibilities while ensuring that American taxpayers receive fair market value from OCS leases, balancing the energy and mineral needs of the Nation with the protection of the human, marine, and coastal environments.

BSEE was established to protect life, property, and the environment by ensuring the safe and responsible exploration, development, and production of the Nation's offshore energy resources. BSEE fulfills this mission through integrated preparedness, prevention, and compliance activities. The Bureau's diverse team includes highly skilled engineers, geoscientists, geologists, environmental specialists, inspectors, and preparedness analysts. As the Administration works to support and promote domestic energy production, BSEE is taking the necessary steps to provide effective oversight of oil and natural gas development on the OCS, which reflects a careful balance among resource development, production goals, worker safety, and environmental protection. BSEE also consults with BOEM on these issues with respect to renewable energy.

BSEE actively works to promote the efficient and responsible production of America's offshore energy resources, pursuing this objective through a comprehensive program of permitting, regulations, compliance monitoring and enforcement, technical assessments, inspections, and incident investigations. As a steward of the Nation's OCS oil, gas, and mineral resources, BSEE protects Federal royalty interests as well as energy users by ensuring that oil and gas production methods maximize recovery from underground reservoirs.

The Administration's America First Energy Plan is an "all-of-the-above" plan that includes oil and gas, coal, and renewable resources and the OCS is integral to the development of important energy resources. A key principle of this plan is that America's free markets will help determine where and when energy development on the OCS is feasible. To begin implementing this strategy, the President signed an executive order on April 28, 2017 which directs the Secretary to take regulatory steps to encourage energy exploration and production. In furtherance of this directive and in order to respond to our Nation's energy needs, the Department is engaged in a variety of ongoing efforts to support domestic offshore production while meeting our stewardship and environmental responsibilities. These efforts include predictable leasing; reducing barriers to accessing energy resources on the OCS; reviewing and streamlining leasing and permitting processes to serve its customers and the public more efficiently and effectively; regulatory reform; and improving coordination among key stakeholders, including state and local governments, other Federal agencies, and the public.

Outer Continental Shelf Contribution to Energy Independence

Oil and gas production from the OCS is a significant part of the America First Energy Plan and is a critical component in the Nation's energy supply. As of July 2017, there were more than 3,000 active oil and gas leases on more than 16 million OCS acres. In 2016, OCS leases provided 582 million barrels of oil, which accounted for 72% of all oil production from Federal lands, and 18% of total U.S. production of oil. During that same period, 1.3 trillion cubic feet of natural gas was produced in Federal waters, representing 27% of all natural gas produced on Federal lands and 4% of total U.S. natural gas production.

The OCS is also a key revenue source for the Federal Government, providing a significant non-tax source of funding to Federal as well as state treasuries, which serves as an important economic driver for local communities across the country. More than 85 oil and gas companies operate on Federal submerged lands. There are more than 2,100 offshore production platforms and approximately 26,800 miles of pipelines transporting oil and gas to shore. In FY 2016, BOEM and BSEE offshore oil and gas activities supported a total of more than 300,000 jobs across the country, and billions in value added economic output. In 2016 alone, production from leases on the Federal OCS generated \$2.8 billion dollars in leasing revenue.

I would now like to provide you with information on the most recent activities in these programs.

The 2012 - 2017 and 2017 – 2022 OCS Oil and Gas Leasing Programs

Last month marked the end of the 2012 – 2017 Five Year OCS Oil and Gas Leasing Program. During that period, BOEM held 13 lease sales. Not including Lease Sale 244, BOEM awarded leases on over 1,350 tracts for a total of over \$3.3 billion in bonus bids. Lease Sale 244, the final sale in the program, was conducted on June 21 in the Cook Inlet Planning Area in Alaska. That sale received bids on 14 tracts for a total of \$3,034,815 in high bids and the bid evaluation process is currently being conducted. This is the first time in twenty years that OCS tracts in the Cook Inlet have received bids.

Last month also marked the beginning of the 2017 – 2022 Five Year Offshore Oil and Gas Leasing Program. The Program schedules ten region-wide sales comprised of unleased acreage in the Western, Central, and Eastern Gulf, not subject to moratoria or otherwise unavailable. This includes one sale during 2017 and 2022 and two sales during 2018, 2019, 2020, and 2021. This region-wide sale approach provides greater flexibility for industry to respond to changing market conditions, including Mexican energy reforms. The first lease sale in this program is scheduled for August 2017 in the Gulf of Mexico and will offer approximately 13,725 tracts covering about 73 million acres. The Program also offers one sale off the coast of Alaska in Cook Inlet.

Lease Continuation Through Operations Rule

On June 9, 2017, BSEE issued a final rule entitled, “Oil and Gas and Sulphur Operations on the Outer Continental Shelf— Lease Continuation Through Operations”, which amended sections 250.171 and 250.180 of title 30 of the Code of Federal Regulations. This rule, issued in response to provisions of the Consolidated Appropriations Act of 2017 (P.L. 115-31), extends from 180 days to one year the time a lease in its extended term is allowed to continue between periods of production, drilling or well-reworking operations on that lease, before the lease would expire. These additional months mean companies doing business on the OCS will have more planning flexibility, which will help them be more cost efficient, create more jobs, and maximize the economic benefit for the entire nation.

Secretary’s Order 3349

On March 29, 2017, Secretary Zinke signed Secretary’s Order 3349, which implements the review of agency actions directed by an Executive Order signed by the President on March 28, 2017, and entitled "Promoting Energy Independence and Economic Growth." It also directs a reexamination of the mitigation policies and practices across the Department of the Interior in

order to better balance conservation strategies and policies with the equally legitimate need to create jobs for hard-working American families.

BSEE and BOEM are undertaking a thorough review of their rulemakings in accordance with this directive. In addition, on June 22, 2017, the Secretary requested public input on how the Department of the Interior can improve implementation of regulatory reform initiatives and policies and identify regulations for repeal, replacement, or modification. (82 Federal Register 28429; <https://www.federalregister.gov/documents/2017/06/22/2017-13062/regulatory-reform>) The Secretary's request also provides an overview of the Department's approach for implementing the regulatory reform initiative to alleviate unnecessary burdens placed on the American people, which was established by President Trump in Executive Order (E.O.) 13777, "Enforcing the Regulatory Reform Agenda."

Secretary's Order 3350

On May 1, 2017, Secretary Zinke signed Secretary's Order 3350, which implements the President's Executive Order 13795 entitled, "Implementing an America-First Offshore Energy Strategy" (Executive Order). Secretary's Order 3350 enhances opportunities for energy exploration, leasing, and development on the OCS; establishes regulatory certainty for OCS activities; and enhances conservation stewardship, providing jobs, energy security, and revenue for the American people. BOEM and BSEE were tasked, as discussed more fully below, with the following action items:

Initiation of the National Program Process

This action item calls for the development of a new Five-Year Outer Continental Shelf Oil and Gas Leasing Program, with full consideration given to leasing the OCS offshore Alaska, Mid-Atlantic, South Atlantic, and the Gulf of Mexico, in accordance with the provisions of the Outer Continental Shelf Lands Act (OCSLA) as directed by the Executive Order. On July 3, BOEM initiated development by publishing in the *Federal Register* a Request for Information (RFI) seeking comments from a multitude of stakeholders, including states, local and tribal governments, Federal agencies, energy and non-energy industries, public interest groups, and the general public. The information will be used in the analyses that the Secretary must consider in making his first of three decisions on potential sales, the Draft Proposed Program. Under the last Administration, 94% of the OCS was off-limits to responsible development, despite interest from state and local governments and industry leaders. The Trump Administration is dedicated to promoting access to our offshore energy resources in order to promote energy dominance, create more job opportunities, and keep energy prices low for American families and businesses. By opening the planning process for a new Five-Year Program, we will achieve these goals while also ensuring the public has a say in how our natural resources are used.

Cooperation with the National Marine Fisheries Service on Seismic Survey Permitting Oversight

SO 3350 directs BOEM, in cooperation with the National Marine Fisheries Service (NMFS), to establish a plan to expedite consideration of Incidental Take Authorization requests, including Incidental Harassment Authorizations (IHA) and Letters of Authorization, that may be needed for seismic survey permits and other OCS activities; and to develop and implement a streamlined

permitting approach for privately-funded seismic data research and collection aimed at expeditiously determining the offshore energy resource potential of the U.S.

On May 11, 2017, Departmental leadership met with their National Oceanic and Atmospheric Administration (NOAA)/NMFS counterparts to begin to establish a plan to expedite consideration of Marine Mammal Protection Act authorization requests, as well as associated Endangered Species Act requests, and to develop and implement a streamlined permitting approach for privately-funded seismic surveys. All parties agreed that NMFS and the Department, through the U.S. Fish and Wildlife Service, would convene an interagency working group to carry out these tasks. BOEM remains steadfast in its goals to implement its legal requirements expeditiously and effectively. BOEM will participate in the interagency working group as soon as it is established, identifying issues and potential solutions that would most help to streamline the permitting process for seismic surveys.

Consideration of Atlantic Seismic Permitting Applications

This directive calls for the expedited consideration of appealed, new, or resubmitted seismic permitting applications for the Atlantic. As we begin the important job of deciding which areas will be offered for exploration and development in a new Five-Year Program, information on what resources are potentially available is critical. For this reason, we are moving forward with evaluation of the seismic permit applications for the mid- and south Atlantic. The current data for these areas was collected 30 to 40 years ago. There have been many advances in technology since then, and we need to have a better understanding of the resources we manage for the nation.

Following the previous Administration's January 2017 denials of six pending G&G permit applications, and the subsequent Notices of Appeal by the applicants, BOEM's Acting Director issued a memorandum on May 10, 2017, seeking a remand by the Interior Board of Appeals of the January 2017 denials so that the applications could be processed. Upon request by BOEM, the Interior Board of Land Appeals remanded the appealed denials to BOEM on May 15, 2017, and BOEM notified the companies that the denials had been rescinded.

BOEM has resumed its evaluation of the previously denied applications. The NMFS Draft Proposed IHAs were published in the *Federal Register* on June 6, 2017, initiating a 30-day public comment period that has since been extended by NOAA to July 21, 2017. The draft IHAs will be updated to reflect any new information resulting from the public review. BOEM will then coordinate with NMFS on mitigation issues.

Review of Notice to Lessees (NTL) No. 2016-N01

The order directs BOEM to promptly complete the previously announced review of NTL No. 2016-N01 and to produce a report describing the review and options for revising or rescinding the NTL. This NTL modified BOEM's financial assurance program, which is designed to ensure that OCS lessees are able to meet all of their obligations. Currently, the timeline for implementation of the NTL has been extended pending completion of the review by the Department. However, BOEM has the authority to issue sole liability orders if it determines there is a substantial risk of nonperformance of the interest holder's decommissioning liabilities.

BOEM is finalizing its review of NTL 2016-N01, and has obtained significant industry feedback, principally from the Outer Continental Shelf Advisory Board, the Offshore Operators Committee, and the Pipeline Coalition. Final program recommendations from BOEM to senior management are forthcoming. Consistent with Secretary's Order 3350, BOEM does not intend to implement the NTL prior to completing its review.

Re-Examination of the "Offshore Air Quality Control, Reporting, And Compliance" Proposed Rule

This action item requires that BOEM immediately cease all activities to promulgate the "Offshore Air Quality Control, Reporting, and Compliance" Proposed Rule published in the *Federal Register* on April 5, 2016, and all other rules and guidance published pursuant thereto. BOEM is reviewing options for revising or withdrawing the proposed rule.

Review of the Well Control and Blowout Preventer Rule (BOP)

This action item directs BSEE to "Promptly review the final rule on 'Oil and Gas and Sulfur Operations in the Outer Continental Shelf - Blowout Preventer Systems and Well Control' for consistency with the policy set forth in section 2 of the Executive Order as well as all policies, rules, guidance, instructions, notices, or other implementing actions that have been adopted or are in the process of being developed relating thereto."

The final Well Control Rule (WCR) was issued more than 12 months ago and is being implemented by industry while some provisions of the rule have staggered implementation dates. Based on feedback from industry and other parties since the final rule was issued, BSEE has identified potential modifications to the rule and subsequent related rulemakings. While internal review of this regulation is ongoing, any change would require adherence to the rulemaking process, which would provide opportunities for public comment on any proposed changes.

Review of Final Rule on Exploratory Drilling in the Arctic

This action item calls for the prompt review by both BOEM and BSEE of the final rule entitled "Oil and Gas and Sulfur Operations on the Outer Continental Shelf - Requirements for Exploratory Drilling on the Arctic Outer Continental Shelf," published in the *Federal Register* on July 15, 2016. In accordance with Section 4c of Secretary's Order 3350, the President's Executive Order on Promoting Energy Independence and Economic Growth, signed on March 28, 2017, as well as OMB guidance on Regulatory Review, internal review of this regulation is ongoing. Any change would require adherence to the rulemaking process, which would provide opportunities for public comment on any proposed changes.

BOEM and BSEE are currently on track to comply with all action items tasked to them by Secretary's Order 3350.

Renewable Energy Program

BOEM has thirteen commercial offshore wind energy leases in Federal waters, totaling over 1.2 million acres on the OCS. In fact, BOEM's Offshore Renewables Program now has wind energy leases off every state from Massachusetts to North Carolina, forming the foundation for an offshore wind industry in the Atlantic.

In the Atlantic, BOEM has held seven competitive offshore wind lease sales, generating \$67.9 million in high bids. In December 2016, after soliciting input from all stakeholders, particularly the fishing community, BOEM conducted an auction for 79,350 acres offshore New York, resulting in a winning bid of \$42,469,725 for the lease area. This auction, which yielded the highest revenue of any domestic offshore renewable energy auction to date, underscores the growing market demand for renewable energy among our coastal communities. In March 2017, BOEM auctioned 122,405 acres offshore Kitty Hawk, North Carolina. The provisional winner of the lease sale is Avangrid Renewables, LLC, with a bid of over \$9 million.

In the Pacific, BOEM continues to work closely with states and other stakeholders to facilitate offshore renewable energy development on the OCS off California, Oregon, and Hawaii. In the Gulf of Mexico, we are seeing interest by some oil companies to possibly use renewable energy resources to provide or supplement power for offshore operations, as well as interest from oil and gas-related manufacturing, fabrication and service industries to expand into the renewable energy sector.

Marine Minerals Program

BOEM is the only Federal agency authorized under the OCSLA to convey OCS sand resources for shore protection, beach, or wetland restoration projects undertaken by a Federal, state or local government. In exercising this authority, BOEM may issue a negotiated non-competitive lease for the use of OCS sand to a qualifying entity in response to a request.

BOEM has invested more than \$40 million over the past 20 years to identify non-energy resources on the OCS, conduct world-class scientific research, and lease OCS resources to coastal communities and other Federal agencies in need. Information from environmental research and resource identification has informed environmental assessment and leasing decisions concerning the use of OCS sand resources in beach nourishment and coastal restoration. To date, BOEM has authorized the conveyance of over 139 million cubic yards of sand in eight states resulting in the restoration of 303 miles of coastline. Notable projects include significant beach restoration in Brevard, Duval, and Pinellas Counties in Florida, and coastal restoration along the coasts of New Jersey and New York in the aftermath of Hurricane Sandy. Major restoration efforts have also occurred along the coastline of Louisiana.

Conclusion

Mr. Chairman, thank you again for the opportunity to be here today to discuss the Department, BOEM and BSEE's efforts to execute our missions to safely and responsibly reduce our dependence on foreign oil and create jobs through the development of these important energy resources.

I will be glad to answer any questions that you or members of the Subcommittee may have.