

**STATEMENT OF
TOMMY P. BEAUDREAU
DIRECTOR, BUREAU OF OCEAN ENERGY MANAGEMENT
UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

MAY 9, 2012

Chairman Hastings, Ranking Member Markey, and Members of the Committee, I am pleased to appear before you today to discuss the Bureau of Ocean Energy Management's (BOEM) offshore oil and gas leasing under the current Five Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program (Five Year Program), as well as our development of the next Five Year Program for 2012-2017. As the President has stressed, the Administration is committed to promoting safe and responsible domestic oil and gas production as part of a comprehensive, all-of-the-above energy strategy to grow America's energy economy and continue to reduce our dependence on foreign oil. Expanding safe and responsible development of the nation's offshore oil and gas resources through leasing under the Five Year Program is an important part of that strategy.

Leasing Under the 2007-2012 OCS Five Year Program

BOEM's offshore leasing activity under the current Five-Year Program reflects the Administration's overall approach to promoting safe and environmentally responsible oil and gas resource development, including encouraging exploration and development in the Gulf of Mexico (GOM), where resources and industry interest are most extensive, and where mature infrastructure exists to support oil and gas activities. Since the start of this Administration, BOEM and its predecessor agency have held four lease sales in the GOM under the current Five Year Program, generating more than \$2 billion in bonus payments, as well as more than \$144 million in rental and royalty payments.

Most recently, on December 14, 2011, BOEM held Western GOM Lease Sale 218. This lease sale was the first offshore oil and gas sale following the *Deepwater Horizon* explosion and oil spill and DOI's implementation of sweeping safety and environmental reforms, which heightened standards and improved oversight of offshore drilling. Sale 218 followed supplemental environmental analysis that considered new information – including information in light of the *Deepwater Horizon* event. The sale offered over 21 million acres for oil and gas exploration and development, and BOEM received bids on blocks covering over one million acres. The sale netted over \$324 million in bonus bids and over \$11 million in first year rentals.

BOEM will hold Consolidated Central GOM Lease Sale 216/222, the last remaining sale scheduled in the current Five Year Program, in New Orleans on June 20, 2012. The sale will include all available unleased acres in the Central Planning Area offshore Louisiana, Mississippi and Alabama. The proposed lease sale includes approximately 7,250 unleased blocks covering nearly 38 million acres in the Central GOM, a region that BOEM estimates contains close to 31 billion barrels of oil and 134 trillion cubic feet of natural gas that are currently undiscovered and

technically recoverable. BOEM estimates that the Central GOM sale could result in the production of 1 billion barrels of oil and 4 trillion cubic feet of natural gas. Sale 216/222 also follows the completion of supplemental environmental analysis in light of the *Deepwater Horizon event*.

The terms of recent sales reflect a range of administrative measures to ensure a fair return to taxpayers and encourage prompt and diligent development, consistent with policies articulated in the Administration's *Blueprint for a Secure Energy Future*. These include escalating rental rates to encourage prompt exploration and development of leases, as well as the opportunity for additional time if the operator demonstrates a commitment to exploration by drilling a well during the base period of the lease. The durational terms of leases are graduated by water depth to account for differences in time needed for analyses, planning safe and appropriate exploration, and if resources are found, production facility design and construction.

Moreover, beginning with Sale 218 last fall, BOEM increased the minimum bid for deepwater to \$100 per acre, up from only \$37.50, to ensure that taxpayers receive fair market value for offshore resources and to provide leaseholders with additional impetus to invest in and hold only those leases that they are reasonably likely to develop. Rigorous 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 time of each sale, experienced virtually no exploration and development drilling.

The terms of BOEM's lease sales also include a number of conditions to protect the environment. For example, the forthcoming Central GOM Lease Sale 216/222 will include stipulations to protect biologically sensitive resources, mitigate potential adverse effects on protected species, and avoid potential conflicts associated with oil and gas development in the region.

The 2012-2017 OCS Oil and Gas Leasing Program

With the current Five-year Program nearing its end date, BOEM is finalizing the Proposed Final OCS Oil and Gas Leasing Program for 2012-2017. We are also completing the corresponding Programmatic Environmental Impact Statement that analyzes the potential environmental effects of the Five-Year Program and provides the basis for subsequent environmental analysis throughout the implementation of the Program. DOI expects to finalize and issue both documents by the end of June, when the current Five-Year Program expires. The first lease sale under the new Five-Year Program is tentatively scheduled in the Western GOM in November or December of 2012.

The Proposed 2012-2017 OCS Oil and Gas Leasing Program

BOEM published the Proposed Five-Year Program for 2012-2017 in November 2011. It proposed making available offshore areas that contain more than 75 percent of undiscovered technically recoverable oil and gas resources that the OCS is estimated to hold. It will, as the Outer Continental Shelf Lands Act requires, represent a proper balance among the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact on the coastal zone.

Two primary guiding principles underlie this Proposed Program. First, the Proposed Program is

designed to promote the diligent development of the Nation's offshore oil and gas resources, which are and will remain central to the Nation's energy strategy, economy, and security. The Proposed Program is in alignment with the Administration's energy *Blueprint*, which aims to promote the Nation's energy security and reduce oil imports by a third by 2025 through a comprehensive national energy policy that includes a focus on expanding safe and responsible domestic oil and gas production.

Second, this Proposed Program is grounded in the lessons learned from the *Deepwater Horizon* tragedy, which caused the deaths of 11 workers and resulted in the release of nearly five million barrels of oil into the GOM. Since the *Deepwater Horizon* event, DOI has raised standards for offshore drilling safety and environmental protection in order to reduce the risk of another loss of well control in our oceans and improve our collective ability to respond to a blowout and spill. While offshore oil and gas exploration and development will never be risk-free, the risk from these activities can be minimized and operations can be conducted safely and responsibly, with appropriate measures to protect human safety and the environment.

Based on these principles, the Proposed Program provides for lease sales in six offshore areas where there are currently active leases and exploration and where there is known or anticipated hydrocarbon potential. This represents a regionally targeted approach that is tailored to the specific needs and environmental conditions of different areas in order to best achieve the dual goals of promoting prompt development of the Nation's oil and gas resources and ensuring that this development occurs safely and with the necessary protections for the marine, coastal and human environments. This approach accounts for the differences between different areas – including differences in current knowledge of resource potential, adequacy of infrastructure to support oil and gas activity, accommodation of regional interests and concerns, and the need for a balanced approach to our use of natural resources.

Therefore, the Proposed Program in the GOM is designed to be commensurate with the maturity of the infrastructure necessary to support offshore oil and gas activity, including infrastructure for spill containment and response, as described below. I would also like to emphasize that OCS leasing should not be “one size fits all,” and consideration of lease sales in the Beaufort and Chukchi Seas will be specifically tailored to those regions. The traditional area-wide leasing model that has been used in the Western and Central GOM is not appropriate for the Arctic, and BOEM is working to develop alternative leasing strategies specifically for the Arctic in order to focus potential leasing on areas that have significant resource potential while also mitigating the impact of offshore oil and gas activity on the unique Arctic environment and its subsistence resources. I will address our regionally-tailored approach to offshore oil and gas leasing under the next Five Year Program below.

Gulf of Mexico

Of the 15 lease sales included in the Proposed Program, 12 are in the GOM, where infrastructure is unparalleled and the oil and gas resource potential is best understood and known to be most prospective. The GOM currently supplies more than a quarter of the Nation's oil production, and both current and ongoing evaluation of offshore resources in the GOM is extremely sophisticated, contributing significantly to industry's and BOEM's understanding of this region's

oil and gas potential. Moreover, the infrastructure supporting the oil and gas industry, to bring resources to market and to respond in the event of an emergency, is the most mature and well developed in the GOM. Therefore, the Proposed Program schedules regular, area-wide lease sales in the Western and Central GOM throughout the Five Year Program. The Proposed Program also includes lease sales gauged to accommodate anticipated industry interest in the portion of the Eastern GOM that is not currently subject to congressional moratorium. Other areas in the Eastern GOM are not included in this Proposed Program because they are under a congressionally-mandated leasing moratorium until June 30, 2022.

Alaska

The Proposed Program schedules one sale each in the Beaufort and Chukchi Seas, deliberately set late in the Program, as well as a special interest sale in the Cook Inlet if industry demonstrates sufficient interest. With respect to the Cook Inlet Planning Area, BOEM published a Request for Interest in the *Federal Register* on March 27, 2012 to gauge industry interest in a potential lease sale in that area under the next Five Year Program. The period to respond to that Request for Interest closes on May 11, 2012.

The schedule with respect to the Beaufort and Chukchi Planning Areas is designed to allow for the development of a leasing approach that is appropriate for these Arctic areas and fully considers their resource potential, their specific environmental needs and sensitivities, concerns related to Native Alaskan culture, and the reliance of many Arctic communities on ocean resources such as marine mammals and fish for subsistence. The later scheduling of the potential sales in the Beaufort Sea and Chukchi Sea Planning Areas represents a balanced and careful approach to leasing in the Arctic. This approach takes into account the significant inventory of existing offshore leases in the Beaufort and Chukchi Seas. Most important, this approach is designed to allow time for further work in a number of critical areas.

First, the schedule allows time for further scientific study and environmental assessment of the Arctic. In June 2011, the United States Geologic Survey issued its *Evaluation of the Science Needs to Inform Decisions on Outer Continental Shelf Energy Development in the Chukchi and Beaufort Seas, Alaska*, as requested by the Secretary of the Interior. The report recognizes that a substantial body of scientific work and knowledge exists with respect to the Arctic and recommends areas of focus for ongoing and future study, as well as further synthesis of existing scientific information from various sources within and outside of the government. Moreover, this approach is consistent with Executive Order 13580, which was issued by President Obama in July 2011 and established a high-level Interagency Working Group on Coordination of Domestic Energy Development and Permitting in Alaska. This working group is chaired by the Deputy Secretary of the Interior and is focused on facilitating coordinated and orderly decision making in Alaska, including development and sharing of scientific information in support of regulatory processes.

Second, the Proposed Program is specifically designed to ensure that planning and designing lease sales in the Beaufort and Chukchi Seas take into account any information about geology and resource potential that may be developed as a result of exploration of current leases in those areas. Exploration may provide valuable data for defining the best areas for potential

development and for assessing reservoir characteristics such as volumes and pressures that are central to ensuring that appropriate safety measures and spill response resources are in place.

Third, as offshore exploration and development in the Arctic moves forward, so too must the development of spill response preparedness and infrastructure. Current spill response planning is focused on certain, limited near-term proposed drilling operations in the Arctic OCS. Longer term planning and infrastructure development are also necessary, particularly if major oil deposits are found and producers seek to engage in year-round production activities. Longer term planning is another major focus of the interagency working group. The potential evolution toward additional drilling activities in offshore waters in the Arctic could raise significant additional complexities regarding the availability of adequate response capability and infrastructure in this difficult frontier environment. The Proposed Program provides time for contingency planning and infrastructure development that is needed to address these issues.

Atlantic

This Proposed Program does not include lease sales in the North-Atlantic, Mid-Atlantic, and South-Atlantic planning areas based on, and in alignment with, the principles that underlie the entire Program. Many Atlantic states expressed concerns about oil and gas development off their coasts. While an OCS development strategy announced in 2009 included the Mid- and South-Atlantic under consideration for potential inclusion, a number of specific considerations supported the Secretary's decision not to schedule lease sales in these areas under this Proposed Program. Accordingly, BOEM is proceeding with a specific strategy to address these considerations and support decision-making on whether potential lease sales in the Mid- and South-Atlantic would be appropriate in the future.

First, the oil and gas resource potential in the Mid- and South Atlantic is not well understood and surveys of these areas are incomplete and out of date. Prior to scheduling lease sales in these planning areas, it is prudent to develop information evaluating the oil and gas resource potential of these regions. Accordingly, BOEM is moving forward expeditiously to facilitate resource evaluation in these areas, including conducting a programmatic Environmental Impact Statement (EIS) relating to seismic surveys in the Mid- and South- Atlantic. BOEM announced on March 28, 2012 the publication of the draft EIS and has just concluded a series of public hearings across the Mid- and South- Atlantic states. Second, there are complex issues relating to potentially conflicting uses, including those of the Department of Defense, which should be addressed so that any potential future leasing activity in these areas is designed appropriately. Finally, while evaluation of the resource potential of the Mid- and South Atlantic regions moves forward, so too should analysis and planning regarding the additional infrastructure necessary to support potential oil and gas activities, including spill response resources.

Pacific

Areas off the Pacific coast are not included in this Proposed Program. This approach is consistent with Section 18 of OCSLA, which gives priority leasing consideration to areas where the combination of previous experience; local, state, and national laws and policies; and expressions of industry interest indicate that potential leasing and development activities could be expected to proceed in an orderly manner. The Proposed Program specifically seeks to

accommodate the recommendations of governors of coastal states and local government. The exclusion of the Pacific Coast is consistent with state interests, as framed in an agreement between the governors of California, Washington, and Oregon signed in 2006, which expressed their opposition to oil and gas development off their coasts. Western states have continued to voice these concerns.

Finalizing the 2012-2017 OCS Oil and Gas Leasing Program

The Proposed Program, released in November of 2011, led to a significant outpouring of public interest. BOEM received over 280,000 comments during the 90-day comment period that followed the release of the Proposed Program. These comments came from a variety of sources, including affected states and local governments, including Native Alaskan villages and associations; congressional members; Federal agencies; the energy industry; non-energy industries, including small businesses; public interest and environmental groups; and the general public.

In addition to receiving written comments, BOEM held a series of public hearings in GOM states, Washington D.C., and across Alaska's North Slope. I personally presided over a number of these hearings – including a number of the hearings in Alaska, which provided an invaluable opportunity to hear directly from native communities about their needs and concerns, and to learn from their traditional knowledge about the environment, marine mammal populations, and other natural and cultural resources. BOEM is committed to integrating this critical information into the scientific and environmental analysis that informs our decision-making.

My agency takes this input very seriously, and we are working hard to consider the feedback we received and to integrate comments into our Proposed Final Program, as you will see in the coming months.

Conclusion

BOEM is working to help secure our energy future by contributing to an all-of-the-above energy strategy, including safe and responsible development of our conventional energy resources on the OCS. Mr. Chairman, thank you again for the opportunity to be here today to discuss the Bureau's effort in creating an oil and gas leasing program that will safely and responsibly reduce our dependence on foreign oil and create jobs through the development of these important energy resources. I am happy to answer any questions that you or the Committee may have.