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Testimony on
Subcommittee on Energy and Mineral Resources
Legislative Hearing on Discussion Draft to Reorganize the Interior Department's Offshore
Energy Agencies

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Thank you for the invitation to the US Oil & Gas Association to comment on the Chairman's Discussion Draft to Reorganize the Interior Department's Offshore Energy Agencies."

The US Oil & Gas Association is the nation's oldest oil and natural gas trade association. It was founded in October 1917 in Tulsa, Oklahoma as the Mid-Continent Oil & Gas Association following the United States' entry into World War I. A principal purpose of the Association's formation was to provide essential supplies of petroleum and petroleum products to the allied forces; helping the Allies, "...to float to victory on a wave of oil." The US Oil & Gas Association's contribution to victory helped establish it as an Association in which individuals working cooperatively could resolve mutual problems and achieve great results.

Over the past ninety-four years the US Oil & Gas Association has been a strong advocate in public policy debates for the individuals who build and sustain the U.S. petroleum industry. These individuals represent companies of all sizes in the domestic industry, majors, independents; family owned companies, small partnerships as well as single entrepreneurialships.

The Association has over 3,500 individual members, covering the full spectrum of the domestic petroleum industry. The Association is unique among industry trade groups. It is the only national association with Divisions in the States along the vital Gulf of Mexico; which include the Texas Oil and Gas Association, the Louisiana Mid-Continent Oil and Gas Association, the Mid-Continent Oil and Gas Association of Oklahoma and the US Oil & Gas Association Mississippi/Alabama Division.

During my career I was a civil servant in the Department of Energy and in the Department of the Interior, Minerals Management Service (MMS) working on energy and oil and natural gas policy. At MMS, I first served as Director of the Office of Policy and then as the MMS Deputy between the years 1989 and 1993.

The Chairman has drafted an important discussion document on how Congress should reorganize MMS and delegate its authority to the President and Secretary of the Interior to undertake the nation's business of federal leasing, approving development activity, safety, environmental review, sustained federal workforce competency and collecting the revenues associated with such activities.

Reorganization should be guided by several fundamental principles. The new organization should have clear lines of authority, it should be given the budget and staffing that it needs to do its mission, and it should be given the means and opportunity to discharge its responsibilities as efficiently as possible.

The USOGA shares and supports the need to establish clear lines of authority for oil and natural gas operations on federal lands and the Outer Continental Shelf and the collection of federal royalties. The discussion draft draws new lines of clear authority by establishing a new organization chart and adopting this organization by an act of Congress. With these clear lines of authority, it strengthens the Department of the Interior's ability to undertake resource development, facility inspection, workplace safety and environmental stewardship.

The Chairman's reorganization plan defines new institutional reporting responsibilities (with new supporting organizations and programs) and new Bureaus with focused and circumscribed priorities in a way that makes their role and mission understandable and accessible to all.

The Chairman's discussion draft moves beyond the reorganization steps taken by Department of the Interior over the past year. It proposes an organic act for the new organization. It establishes a new Under Secretary and Assistant Secretaries. The two new Bureaus reporting to the Under Secretary, Energy and Land Minerals, are: the Assistant Secretary Ocean Energy Safety (comprised of the Bureau of Ocean Energy and Ocean Energy Safety Service) and an Assistant Secretary Land and Minerals Management (comprised of the Bureau of Land Management Office of Surface Mining, reclamation and Enforcement). It also moves the existing Bureau of Land Management and the Bureau of Reclamation under the new Under Secretary. A new Under Secretary with direct congressional authority helps to make Department's resource development activities and policies more transparent and accountable to the public and Congress.

By proposing an organic Act establishing the Under Secretary, Assistant Secretaries and Bureaus in place of MMS, the discussion draft recognizes that Congress should have an important role

through its power of advice and consent in approving the President's appointees nominated to lead and manage these activities. Senate confirmation of the President's appointments to the Department of the Interior's Under Secretary and Assistant Secretaries for Energy Lands and Minerals is an important part of checks and balances. Senate confirmation hearings often spark additional congressional and public discussion of national priorities and goals. The country's federal oil and natural and gas development policies would likely also benefit from such confirmation hearings.

The discussion draft also codifies that the Assistant Secretary for Policy, Management, and Budget manage the Office of Natural Resources Revenue responsible for collecting all federal royalties and revenues for onshore and offshore energy production. It makes clear that royalty collection operations must be separated from leasing, safety and environmental responsibilities. However, a closer look if this action establishes clearer lines of authority, or not, should continue to be reviewed in greater depth.

Collecting federal royalty payments it is a question of rules, accounting and accuracy.

The rules for such payments, accounting, auditing report records, and enforcement remains today, fundamentally, the same as the origin of the word "royalty" implies– the King's collection of a share of the purse gained from any use and bounty obtained on the royal hunting grounds. A royalty payment for the value at the site of the catch is owed to the King. Americans expect no less from the use of its commonwealth. When the public, through the Department, awards a federal lease contract for oil or natural gas production, it expects to be paid its royalty share of the value of this resource taken at the point of its production.

This committee and the Chairman should consider whether, or not, the royalty collection and enforcement mission is really separated enough from the general policy and budget operations of the Department of Interior if it is housed in the policy and budget office. Just as the intermingling, threat of intermingling, or perceived opportunity for intermingling of priorities at odds with one another, was a concern when it was under the MMS roof, some might argue that unless this operation truly stands alone these concerns remain unaddressed.

Given all of the above, the Chairman's draft does provide greater clarity, competency, efficiency, and accountability to responsible resource development.

In addition to drawing clear lines of authority and accountability, providing adequate resources are critical for success. The new Under Secretary for Land and Resource Management and Bureaus must receive the necessary funds needed to succeed.

Congress ultimately determines funding.

Much of the impetus for reorganization came from concerns over royalty collection, safety and environmental review practices.

In addressing safety, you cannot organize your way out of accidents, but you can help all participants understand and adopt operating practices to bring the risk as close to zero as humanly possible. Many of the Chairman's proposals to address safety issues will mean authorizing and appropriating money to develop these programs. Safety evaluation and improvement never ends, it is a continuing priority year in year out. Congress should provide the necessary funds to keep these programs robust and moving forward.

Environmental stewardship is akin to safety. Studies, reviews and scientific analyses take resources of staff and money.

Following the organizing principles of establishing clear lines of authority and a commitment to funding it is also important to review reorganization plans as to whether or not the new organization is also given the means to discharge its responsibilities as efficiently as possible.

The industry agrees with the goals of reorganization, but it is important to note that there is some concern about whether, or not, some parts of the plan provides the most efficient means to discharge its various missions.

The question asked is does adopting an organic act help or distract from the goals of the proposed reorganization? Does creating a new bureaucracy help the Department of the Interior better manage its offshore agencies? In the end, is efficiency really improved?

In this case, some express concern that by reforming MMS (and adding some new missions) under an organic legislative mandate, Congress has created a new bureaucracy and a new energy monarch that might be less efficient, prone to mission creep, and lead to unintended consequences. The wiles of organizations and their development over time can be erratic and institutionalizing congressional power and authority at a single point, is a step that should be taken with serious review and scrutiny.

However, consolidation also has many merits, and creating an Under Secretary, as stated before could be a very efficient way to organize. In addition, an Under Secretary also creates a champion for the Department's energy portfolio bringing both clearer and greater authority to the management, of its offshore energy activities. An Under Secretary could be champion for budget and staff, and give undivided management attention to keeping the trains on time. An Under Secretary could help increase the pace of energy development and highlight its importance. On the other hand, some are skeptical that separating under different entities the review of exploration plans and drilling permits could slow everything down and in the end not

be efficient government. That is certainly a potential outcome, unless, again, there are adequate resources and staff assigned to these activities.

Of particular importance to the industry is the emerging and future role of the Center for Offshore Safety that the industry has established in Houston, Texas. The President's panel that studied the BP accident recommended the creation of an independent safety body to review all phases of drilling operations so as to assure that industry meets the highest international standards. The industry took the recommendation to heart by establishing and funding just such an institution. This safety institute is designed to address many of the same safety concerns expressed by the current administration and by the Chairman – as demonstrated by the programs and organization proposed. The industry's Center for Offshore Safety is modeled on similar organizations established by foreign oil companies and the nuclear power and chemical industries. The goal is to improve the offshore safety through better and more efficient management and operations. The Committee should continue to study the draft's proposal to establish an Ocean Energy Safety Service --- so that the shared goal of safety is coordinated among government, industry and others so that it does not, unintentionally, become a forum only for academic debate, at the expense of adopting and deploying the latest, best safety scenarios.

The effort to reorganize and redirect the work of the former Minerals Management Service addresses many of the concerns about real or perceived conflicts by partitioning the mission across three new agencies. The Chairman's draft proposes steps and establishes organic congressional approval. The industry hopes that these changes provide the means to discharge these responsibilities as efficiently as possible so that operational and regulatory programs regarding onshore and offshore exploration, leasing, plan approval and permitting continue to be undertaken in as timely, certain, efficient and seamless manner as possible.

Again, a review of the Chairman's discussion draft in terms of it establishing clear lines of authority, a commitment to adequate budget and staffing to do its mission, and providing the means to discharge its responsibilities as efficiently as possible finds that these organizing principles are embedded in the reorganization proposal. In the end, however, the most important measure of a reorganization's success is if it works as intended – and as the industry relies so much on the actions of the Department for access, leasing and permit review it is critical that a new bureaucracy make things better, not worse.