

Subcommittee on Energy and Mineral Resources

Doug Lamborn, Chairman

Hearing Memo

March 13, 2015

To: Natural Resource Committee Members

From: Majority Committee Staff

Hearing: Oversight Hearing entitled: *“Examining the Spending Priorities and Missions of the Bureau of Ocean Energy Management (BOEM), the Bureau of Safety and Environmental Enforcement (BSEE) and the Office of Natural Resources Revenue (ONRR) in the President’s FY 2016 Budget Proposals.”*

The subcommittee hearing will take place on **Tuesday, March 17th at 10:00a.m. in Room 1324 Longworth House Office Building**. This hearing will focus on the budget proposals put forward by the BOEM and BSEE, which are charged with overseeing the safe and expedient exploration and production of our domestic resources on the outer Continental Shelf (OCS), as well as ONRR, which is charged with the collection of revenue on federal and tribal land.

Main Messages

- Despite an uptick in oil production from 2013 to 2014, offshore oil and gas production has still declined since 2009.
- Unfortunately, the Obama Administration has consistently restricted access to American energy resources by preventing energy development in new areas offshore – most recently proposing a draft 5-year plan with the lowest number of lease sales in the history of the program (14) and pushing back the potential for an Atlantic sale to 2021.
- President Obama’s budget reflects stagnant offshore activity – expecting the number of exploration plan approvals to remain the same, if not reduced, in the next fiscal year.
- The best way to reinvigorate growth on our nation’s OCS is to put forward an aggressive leasing agenda that broadly opens new areas while ensuring a predictable regulatory environment that successfully balances safe operations without compromising growth due to an expensive and unpredictable regulatory environment.

Witnesses Invited

Abby Hopper

Director, Bureau of Ocean Energy Management

Vice Admiral Brian Salerno (USCG, Ret.)

Director, Bureau of Safety and Environmental Enforcement

Gregory Gould

Director, Office of Natural Resource Revenue

Hearing Focus

This hearing will focus on the spending priorities outlined in the President's FY2016 budget for BOEM, BSEE, and ONRR; and how their projected activities will impact the safe and efficient development of both oil and gas and renewable energy on our nation's OCS.

While energy production surges forward on state and private lands, the lands belonging to the citizens of the United States are being held back by the current Administration. Public lands, entrusted to the federal government in order to ensure and preserve the concept of multiple-use, are not being utilized to their full and intended potential. The benefits of surging domestic production from shale plays on state and private lands, as we have seen in the Eagle Ford and Bakken, are undeniable: U.S. production is approaching a 45-year high¹, dependence on foreign oil is the lowest we have seen in decades,² and perhaps most importantly, our boost to the world supply means that American families are paying less at the pump and spending less to pay their energy bills. There are some detractors who have claimed that our nation cannot simply drill our way out of our energy dependence; statistical evidence currently dictates otherwise – and federal lands must be a part of this equation.

Our nation's OCS resources are a critical component of our domestic energy portfolio - unfortunately, this production is in a state of decline. Since 2009, crude oil production on the OCS has decreased by nearly **11%**; natural gas production has decreased by **56%**³. While new production is expected to come online from leases granted years ago, this Administration has done little to reinvigorate investment in our offshore industry by increasing access to new areas of the OCS – most recently issuing a Draft Proposed 5-year plan that proposes the lowest number of lease sales in history – and that is assuming all of the proposed lease sales are included in the

¹ <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRFPUS2&f=M>

² <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=p&s=mtntus2&f=a>

³ http://www.data.bsee.gov/homepg/data_center/production/ocsprod.asp

final plan.

Additionally, costly regulations such as the Arctic Rule and the forthcoming well-containment rule threaten to saddle industry with billions in additional expenses on top of an already costly process, at a time when oil prices have plummeted. BSEE’s own estimated cost of the Arctic Rule for one company alone is \$1.2 billion – though industry estimates these figures to be much higher. Finally, recent rig data compiled by Baker Hughes reveals that offshore rigs are leaving our shores: the number of offshore rigs in the Gulf of Mexico as of March 2015 is 49, down from 53 at this same time last year, and down from 89 ten years ago (see chart).

BAKER HUGHES NORTH AMERICA ROTARY RIG COUNT	
Gulf of Mexico Rigs - Historical Data	
Year	Average
2004	93
2005	89
2006	86
2007	71
2008	63
2009	42
2010	31
2011	32
2012	46
2013	54

Rather than demonstrating a commitment to reversing this trend in the FY16 budget, the budget put forward by BOEM and BSEE show a commitment towards maintaining the status quo, or worse. This hearing will provide Members with an opportunity to ensure that BOEM and BSEE are held accountable for their funding requests they have made and that this funding is allocated in such a way that addresses the efficient processing of exploration plans and permits, the failure to invigorate leasing by providing access to new areas of the OCS, and the ability to ensure safe operations without duplicative and overly bureaucratic new regulations.

Bureau of Ocean Energy Management (BOEM)

FY15 President’s Request	\$170 million
FY15 Enacted	\$170 million
FY16 President’s Request	\$171 million

BOEM is charged with overseeing the planning for development of our nation’s OCS resources. Its duties include: leasing activities, review and approval of exploration and development plans, seismic permitting, environmental studies including NEPA analysis, and resource evaluation. As of February 2015, BOEM oversees 5,961 active leases in the OCS - 5,311 in the Gulf of Mexico, 43 in the Pacific, and 607 in Alaska. This total leased acreage represents less than 2% of our nation’s 1.71 billion OCS acreage.

BOEM has requested \$170.9 million for FY16, an increase of \$1.1 million over FY15's enacted amount; \$97 million of this request is from offsetting collections from rental receipts and cost recovery fees. This includes:

- \$500,000 (+2 FTEs) for collaborative efforts on ecosystem science to support engagement in the Arctic Council and to increase expertise on climate change resilience and adaptation.
- \$1.1 million (+7 FTEs) for increased OCS activity, citing a 36% increase in deepwater rigs since 2010; however recent rig count reports from Baker Hughes cite a loss of four offshore rigs since February 2014.
- \$2.5 million (+13 FTEs) for development of a Risk Management Program and to acquire subject matter expertise in insurance risk, legal, and credit analysis areas.

Lower Forecasts for OCS Exploration.

Despite the agency calling for increases in hiring and funding to prepare for increased OCS activity, its expecting its workload in the Gulf of Mexico, the only area where new drilling may occur, to stay roughly the same.⁴ In fact, the bureau's budget forecasts that the number of Exploration Plans or Development Operation Coordination Documents will dip slightly below 2014 levels (see chart).

Calendar Year	# EPs	# DOCDs
2008	516	444
2009	619	350
2010	408	431
2011*	907	837
2012	170	327
2013	504	616
2014	509	601
2015**	500	600
2016**	500	600

Increased Spending for Renewable Energy; No Wind Yet in Federal OCS

BOEM also requests a net increase of \$1.2 million for its renewable energy programs. Since 2009, BOEM has issued seven offshore commercial wind energy leases. While promoting renewable energy has been a fixed priority of this Administration, six years later taxpayers have yet to see a commercial wind installation in the federal OCS.

FY14 offshore energy leasing activities by BOEM generated revenue to the federal treasury in the form of bonus bids, with oil and gas leasing activities generating \$967,365,328 and wind leasing activities generating \$4,689,461.

Bureau of Safety and Environmental Enforcement (BSEE)

FY15 President's Request	\$204.6 million
FY15 Enacted	\$204.6 million
FY16 President's Request	\$204.7 million

BSEE is charged with enforcing the safety and environmental regulations which govern production of resources from the OCS. Its duties include permitting review and approvals, research, inspections, and oil spill response. In 2014, BSEE approved 65 applications for permits to drill new wells in shallow water and 68 in deepwater in the Gulf of Mexico.⁵ Existing

⁴ FY2016 Bureau of Ocean Energy Management Budget Justification, page 71.

⁵ <http://www.bsee.gov/Exploration-and-Production/Permits/Status-of-Gulf-of-Mexico-Well-Permits/>

production from the 5,961 active leases in our nation's OCS accounts for 18% of total U.S. crude oil production and 5% of total U.S. natural gas production.⁶

The BSEE request reflects a net increase of \$47,000 over FY15 levels. This nominal increase is offset, in part, by rental receipts and \$65 million from inspection fees, which are expected to generate \$122 million in FY16. Funding priorities include: \$1.7 million (+9 FTEs) to establish an Engineering Technology Assessment Center in Houston to both recruit and retain appropriate engineering skills needed to facilitate its safety mission; \$750,000 (+3 FTEs) to establish a Renewable Energy Inspection Program to prepare for potential offshore wind installations in the future, primarily off the Atlantic Coast, and \$15 million for continued oil spill research conducted at the National Oil Spill Response Research and Renewable Energy Test Facility in New Jersey, which is appropriated from the Oil Spill Liability Trust Fund.

Technical Expertise for National Ocean Council and Climate Change Implementation

To respond to the Department's overall goal of Climate Change Adaptation, BSEE notes that it will continue to support this initiative through the National Ocean Council, Climate Change Taskforce and other related panels to further the Department-wide strategy but fails to include specific figures that account for BSEE expenditures on these efforts.⁷

New Regulations on Future Offshore Drilling, Proposals to Eliminate Gulf Revenue Sharing

BSEE continues to promulgate new rules and regulations related to offshore energy production (such as the Arctic Rule and Well-Containment Rule.) However, little in the budget explains how this agency intends to appropriately plan for costs associated with these added regulatory layers for future offshore drilling and how such regulation could potentially contribute to continuing offshore production declines. Additionally, the overall Department budget includes onerous legislative reforms that would eliminate revenue sharing currently provided to four Gulf states under the Gulf of Mexico Energy Security Act.

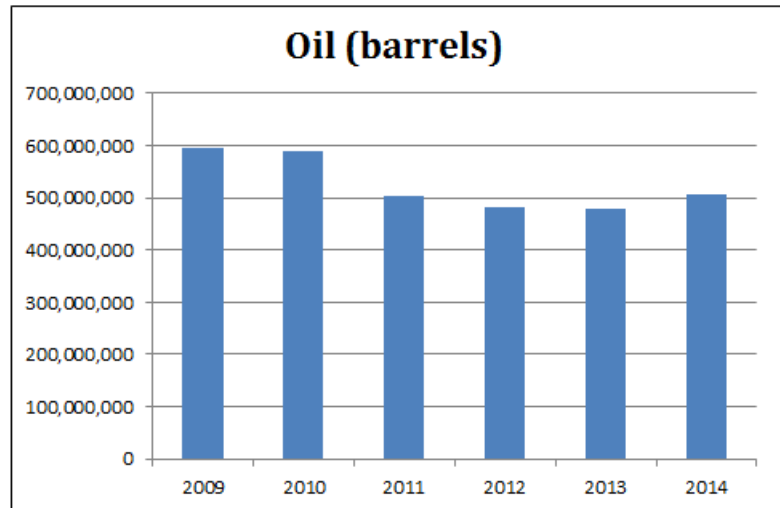
⁶ FY16 Bureau of Safety and Environmental Enforcement Budget Justification, page 3.

⁷ p. 21, BSEE FY 2016 Budget Justification

Yearly Outer Continental Shelf Oil and Gas Production

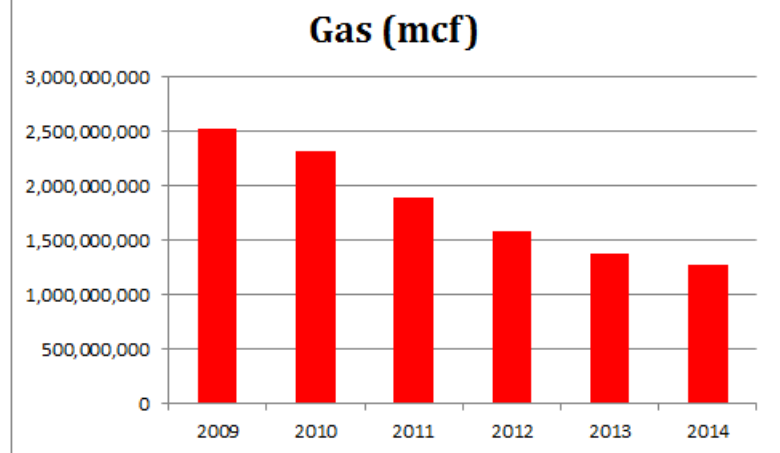
Offshore Oil (barrels)

2009	594,431,824
2010	589,670,007
2011	502,558,676
2012	483,343,025
2013	478,134,718
2014	507,941,128



Offshore gas (mcf)

2009	2,521,921,734
2010	2,321,158,802
2011	1,894,533,272
2012	1,585,052,099
2013	1,384,538,507
2014	1,271,806,900



Source:

http://www.data.bsee.gov/homepg/data_center/production/ocsprod.asp

Office of Natural Resources Revenue (ONRR)

FY15 President's Request	\$122.9 million
FY15 Enacted	\$121.6 million
FY 16 President's Request	\$128.7 million

The Office of Natural Resources Revenue (ONRR) is the primary agency under the Department's Office of Policy, Management and Budget charged with the collection of revenue on federal and tribal land. ONRR generates the second largest level of revenue for the U.S. Treasury, behind only the IRS. In FY 2014, ONRR disbursed over \$13.4 billion to the U.S. Treasury, various state and tribal accounts, and to special use accounts, such as the Land and Water Conservation Fund. Of the over **\$13 billion** generated by resource development on federal lands in FY2014, production on the OCS generated over half of the revenue: **\$7.4 billion**. (Federal onshore generated \$4.7 billion).

The FY 16 request seeks program increases for three areas totaling \$5.856 million: \$3.568 million for the Osage Trust Accounting program, \$1 million for the Geospatial Information System, and \$1.288 million for the Onshore Production Meter Verification Pilot. The Osage Trust Accounting increase is sought to help implement the results of an October 14, 2011 settlement between the Department and the Osage Nation. The increase in Geospatial Information System ("GIS") is sought to expand ONRR's current GIS capabilities for compliance, auditing, and enforcement functions. Finally, the increased funds for the Onshore Production Meter Verification program would expand "production verification efforts to include onshore high-risk facilities on Federal and Indian leases" and would encourage enforcement activities by the BLM.