**STATEMENT OF BRIAN SALERNO**
**DIRECTOR, BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT**
**UNITED STATES DEPARTMENT OF THE INTERIOR**
**BEFORE THE**
**COMMITTEE ON NATURAL RESOURCES**
**SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES**
**U.S. HOUSE OF REPRESENTATIVES**
**MARCH 2, 2016**

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today to discuss the President's Fiscal Year (FY) 2017 Budget request for the Bureau of Safety and Environmental Enforcement (BSEE).

As the Administration works to support domestic energy production, BSEE is taking the necessary steps to provide effective oversight of oil and gas development on the U.S. Outer Continental Shelf (OCS), promoting a culture of safety and environmental protection while also promoting compliance with Federal regulations within the offshore oil and gas industry.

The energy resources and activities under BSEE's jurisdiction are as vast as the OCS itself and will continue to be a major source of energy for the U.S. In fiscal year 2015, OCS leases provided more than 550 million barrels of oil and 1.35 trillion cubic feet of natural gas, accounting for about sixteen percent of the Nation's oil production and about five percent of domestic natural gas production. During that same time period, losses of well control, fatalities, injuries, spills, and total reportable incidents all decreased over the previous year's totals. Going forward, BSEE will play a critical role in helping to ensure that, as the price of oil remains low, the standard of safety on the OCS remains uncompromised.

According to the Energy Information Administration (EIA), production levels on the OCS are predicted to increase in 2017.[1] The 2017 BSEE Request will allow the Bureau to continue to strengthen and improve its regulatory, research, and oversight capabilities. Continued outreach and dialogue with stakeholders from academia, industry, non-governmental organizations, and other governmental agencies will enhance the knowledge base of technical personnel related to new technologies, regulatory gaps, real-time monitoring capabilities, and risk-based decision making for safety and environmental enforcement.

The 2017 BSEE Request fully supports the Secretary's and the Administration's efforts to sustain domestic energy production while holding companies accountable for the safe and environmentally responsible development of our Nation's vast offshore energy resources. BSEE will continue to foster a robust culture of safety, with a strong focus on risk reduction. The Bureau will bolster its capacity for analyzing data gained through incident reporting requirements, near-miss reporting, and real-time monitoring. The Bureau will also continue to work with industry to better understand their safety processes, with a view towards mitigating

[1] Short-Term Energy Outlook, Energy Information Administration (EIA) (February 25, 2016). https://www.eia.gov/forecasts/steo/report/us_oil.cfm.

and reducing risk. Through these initiatives and others, the Bureau will continue to pursue its objective of safe and environmentally responsible offshore development.

The Bureau considers risk throughout the lifecycle of offshore exploration and production projects. This includes all operations leading up to drilling and throughout development, including late-in-life assets as they decline in production and are finally decommissioned. This lifecycle approach to risk mitigation continues to guide our approach to strategic planning.

## STRATEGIC GOALS

The Bureau's efforts are supported by six strategic goals described below and identified in the BSEE FY 2016-19 Strategic Plan: three operational excellence goals and three organizational excellence goals. These strategic goals guide BSEE's decision-making and investment strategies.

**Operational Excellence Goals:** The foundation of BSEE's work includes permitting, inspections, investigations, enforcement, and preparedness – all of which support safety and environmental protection.

- **Promote Safety:** BSEE reduces risk to those working offshore by advancing a culture of safety that encourages industry to go beyond baseline regulatory compliance.

- **Protect the Environment:** BSEE promotes environmental stewardship through integrated prevention, compliance, and preparedness activities

- **Conservation:** BSEE actively identifies and pursues opportunities to improve oil and gas recovery and to ensure accurate production measurement.

**Organizational Excellence Goals:** BSEE's organizational excellence goals support the Bureau's ability to execute its operational goals.

- **People:** BSEE is an employer of choice and values, engages, and supports its people so they can excel.

- **Information:** BSEE consistently collects, analyzes, and uses quality information to drive decision making.

- **Transparency:** BSEE promotes transparency through processes that ensure consistency, efficiency, accountability, and collaboration.

## FY 2017 BUDGET OVERVIEW

The 2017 BSEE Request is $204.9 million, including $96.3 million in current appropriations and $108.5 million in offsetting collections from rental receipts, cost recoveries, and inspection fees. The 2017 BSEE Request is a net $196,000 increase above the FY 2016 enacted level, reflecting

an increase of $7.9 million in current appropriations and a $7.7 million decrease in offsetting collections. The total FY 2017 estimate of $108.5 million in offsetting collections assumes a decrease of $11.5 million from the FY 2016 enacted level for rental receipts, a decrease of $2.2 million for cost recoveries, and a $6.0 million increase for inspection fee collections. The proposed 2017 budget request will support the following Bureau priorities.

## FY 2017 BUREAU PRIORITIES

### Assessing and Mitigating Risk

Risk management is the underlying philosophy of a safety culture. It is the lens through which BSEE views the interaction between technology, processes, and the human element. It provides the foundation for how BSEE achieves its mission and is reflected throughout the full complement of Bureau operations including regulation, compliance, enforcement, and both industry and interagency cooperation.

Risk management begins with capturing data – and, more importantly, the right data. In May 2015, BSEE launched the SafeOCS program, an initiative aimed at collecting and analyzing near-miss data. SafeOCS is a voluntary, anonymous, and completely confidential system in which the Bureau of Transportation Statistics will collect and analyze near-miss reports. The aggregated data will be shared with the general public and industry to assist in the identification of safety trends and potential safety issues.

BSEE's new regulatory initiatives also mandate the sharing of key data within industry to ensure that equipment reliability issues can be quickly identified and addressed before an incident occurs. BSEE's FY 17 budget continues previous year investments in information management. BSEE continues to work to update the quality and accessibility of its data and to enhance industry's ability to submit information and requests electronically to reduce transaction times. BSEE also continues to use its own data – such as incident and enforcement action statistics – to perform analyses to guide activities and resource allocation. Combined with future uses of other sources of data, such as industry real-time monitoring data, BSEE will continue to seek out better ways to inform Bureau decision making and drive risk-based operations.

BSEE also employs a risk management approach to offshore oversight through its Safety and Environmental Management System (SEMS) program. The SEMS program encourages the offshore oil and gas industry to adopt an approach to safety that looks beyond baseline compliance with regulations toward a holistic approach to safety that promotes risk identification and continuous improvement in operational safety and environmental stewardship. The SEMS program represents a hybrid regulatory approach which combines prescriptive and performance-based rules to encourage offshore operators to effectively identify, manage, and improve safety performance related to human behavior, organizational structure, leadership, monitoring of critical equipment and processes, and adoption of standards, processes, and procedures – not simply become a compilation of required documentation.

The Bureau is also piloting a new, risk-based approach to offshore inspections that will allow BSEE to focus its limited inspection resources in the areas of operations that pose the greatest

risk to safety and the environment. The pilot, which began in the first quarter of FY 2016, employs a risk analysis methodology for selecting production facilities to guide an inspection strategy that focuses on the most likely sources of failure in well operations.

BSEE also collaborates extensively with other Federal entities with expertise in risk management methodologies. For example, BSEE signed a five-year agreement with NASA in January 2016 that will allow the Bureau to tap into NASA's extensive experience assessing and managing risks associated with humans and technology. NASA will determine how BSEE can build on its current expertise and capability to assess risk, evaluate engineering-test designs, and conduct failure analyses. The Bureau also mitigates risk through its research and evaluation of emerging technologies and critical equipment through its Best Available and Safest Technology program, which assesses the performance of current equipment to identify the best available technology for critical operations. Coordination of this activity is helped by the Offshore Energy Safety Institute (OESI), which provides an independent forum for dialogue, shared learning, and cooperative research among academia, government, industry, and other stakeholders. The OESI is a neutral ground for the exploration of issues of offshore risk that are of common concern to industry and regulators.

Finally, the Bureau codifies risk mitigation measures by promulgating new regulations, such as the Well Control Rule. Bureau staff, working with stakeholders, have developed a comprehensive rule that addresses myriad systems and processes, including blowout preventers (BOP) involved in well control operations. As you know, offshore oil and gas development operations are highly complex and technical in nature; with that complexity comes the potential for many difficult points of failure that, if realized, can lead to catastrophic results. For example, the Bureau recently identified an industry-wide problem with faulty connector bolts in critical well control safety equipment. The Well Control Rule will address the overarching issue that created this problem by enhancing reporting requirements between the operator, the equipment manufacturer and BSEE. This will allow the Bureau to identify safety trends and near-misses before they become systemic. In the interim, Bureau leadership and staff are addressing this problem through non-regulatory means and working with industry to understand the underlying cause

The Well Control Rule is intended to account for all aspects of drilling operations in order to reduce risks that could lead to technical and operational failures such as those that resulted in the loss of well control and explosion aboard the *Deepwater Horizon*. The Bureau conducted an extensive engagement campaign throughout the development of the rule, including a review of over 5,000 pages of technical comments received during the extended 90-day comment period and over 60 individual meetings and over 20 workshops or public forums with stakeholders from industry, trade associations, and environmental groups, among others. The Bureau anticipates publishing the final rule in FY 2016 following completion of and formal interagency consultation and final internal reviews.

A similarly broad engagement effort was conducted in developing the Arctic Rule, which aims to reduce the risks to safety and the sensitive marine environment of the Alaskan OCS that any future exploration in the Arctic would pose. The proposed regulations seek to ensure that any exploratory drilling and production activities on the Alaskan OCS are carried out responsibly and

subject to the highest safety standards consistent with the Administration's coordinated and deliberative approach to the Arctic.

BSEE is also working to finalize a rule that will reduce risk in production operations by codifying best practices for equipment and systems that protect over 2,500 facilities currently producing oil and gas on the OCS. This rule will provide the first updates to regulations for production safety systems since the late 1980s.

**Environmental Stewardship and Collaboration**
Protection of the environment is a cross-cutting objective of all of BSEE functions, including permitting and inspections. The Bureau actively monitors, verifies, improves, and enforces industry's compliance with environmental standards during OCS operations. These standards include, but are not limited to, environmental laws, regulations, and relevant provisions, stipulations, and conditions placed on OCS leases, plans, and permits. The standards and stipulations that BSEE enforces cover topics ranging from air and water quality, marine ecology, species protection, and ocean trash and debris.

**Investigation and Enforcement**
The investigation of incidents is an important function that the Bureau fulfills and provides essential data and analysis to assist in the reduction of risk on the OCS. The investigations component of BSEE's responsibilities are designed to provide critical analysis of incidents to identify root causes and patterns that in turn will inform updates to the safety program and regulations. The Bureau has developed a tiered-approach to investigations that will ensure that the level of resources dedicated to an investigation matches the severity of the incident. This represents a reformed strategy for resource allocation, as the tier to which a reportable injury is assigned will not be based solely on the severity of the injury.

The Bureau's investigative function informs its enforcement function by providing detailed findings and recommendations, which may include enforcement actions. BSEE's use of a graduated enforcement continuum ensures that operators return to compliance in the quickest and most efficient manner. In those rare cases where the operator is unable or unwilling to comply, the Bureau will take appropriate actions to protect workers and the environment. BSEE's goal is to ensure compliance with all applicable safety and environmental protection requirements and to improve safety and environmental stewardship on an operator, company, and industry-wide basis.

**Decommissioning**
In the lifecycle of activities that BSEE oversees on the OCS, the "end of life" or decommissioning activities are critical to the continued protection of the environment and the underlying natural resources. BSEE also works diligently to protect the American taxpayer from the financial liabilities of offshore operators who are unable to fulfill their removal and remediation obligations. To that end, a final BSEE decommissioning rule was published in the Federal Register on December 4, 2015 that requires lessees and owners of operating rights to submit summaries of actual decommissioning expenditures incurred after completion of certain decommissioning activities for oil, gas, and sulfur operations on the OCS. This information will help the Bureau better estimate future decommissioning costs and allow the Bureau of Ocean

Energy Management to ensure that adequate financial assurance is in place to protect the Federal government from being left with the significant costs of structure removal if a lessee later ends up in bankruptcy and is unable to cover the cost of decommissioning. Operators have an obligation to see their assets through final decommissioning and well abandonment at the end of the asset's life.

**Developing and Supporting Our Workforce**

Our people continue to be our greatest asset and are the most essential component of our operations. The Bureau's ability to successfully accomplish its mission is dependent on our ability to recruit and retain specialized technical expertise, and we have taken a number of actions to address long-term hiring and retention challenges. BSEE has also implemented a comprehensive training program to ensure that our engineers and inspectors receive the best training currently available and are able to fully assess the latest technological advances in the industry.

Every BSEE employee plays a role in risk reduction and environmental stewardship offshore, which is why human capital will continue to be an emphasis in the Bureau's strategic planning efforts going forward. BSEE estimates staffing will equal 881 full time equivalents in FY 2017, including 125 FTE that are fully reimbursed from other accounts, to provide Department-wide shared services. FY 2017 funds will be used to recruit, train, and support expert technicians, engineers, scientists, and oil spill planning, prevention, and response specialists to support the development of strong scientific information and the timely and thorough review of permits.

## CONCLUSION

The achievements and improvements discussed herein represent important milestones in BSEE's efforts to promote offshore safety, and to protect life, property, and the environment. These efforts have led to improvements in offshore performance demonstrated by the decrease in offshore incidents we observed in 2015. However, despite these achievements, activity on the OCS still poses significant challenges to safety and environmental protection. Deepwater operations are not only expected to grow in number, but also in complexity. This will increase both the number of hours and technical capabilities required to conduct our oversight operations. Decommissioning of offshore facilities also represents a new challenge to the Bureau and a new set of safety and environmental risks to address.

We acknowledge that the industry is under stress due to the decline in oil prices, but BSEE will continue to advocate for the primacy of safety and environmental stewardship throughout the lifecycle of offshore operations. The Bureau is committed to working with industry to resolve systemic problems which affect all operators, and which could further exacerbate industry stress if left unattended.

As we pursue our efforts to strengthen core OCS safety standards, we have also accounted for the impacts of regulation on companies undertaking activities that have different inherent levels of risk. Many of the provisions of the Well Control Rule are aimed at higher risk activities, more complex geologic settings, and the utilization of more complex drilling systems. Higher-risk

drilling activities tend to be undertaken by larger companies, especially in the current low oil price environment. For lower-risk drilling activities, the requirements of the rule are scaled appropriately to the associated level of risk. As such, there are fewer economic impacts to smaller operators and companies conducting lower-risk operations.

In closing, the 2017 BSEE Request will continue to support the safe and responsible production of energy from our Nation's offshore resources. I thank the Committee for inviting me to appear today. I would be pleased to answer any questions.