

**Statement of
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Subcommittee on Energy and Mineral Resources**

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Chairman Lamborn, Ranking Member Lowenthal and members of the Subcommittee, I am pleased to appear before you today to discuss the President's fiscal year (FY) 2017 budget request for the Bureau of Ocean Energy Management (BOEM). Thank you for inviting me to appear here today with my counterparts from the Bureau of Safety and Environmental Enforcement (BSEE), and the Bureau of Land Management. BOEM coordinates and collaborates with BSEE in a variety of ways on a daily basis to ensure effective management of offshore energy activities. Through the sharing of applicable data and collaboration on cross-cutting topics, BOEM and BSEE work efficiently to ensure that the offshore energy resources belonging to the American public are managed in a safe and responsible manner that brings maximum benefit to the United States taxpayer.

BOEM is responsible for managing the development of U.S. offshore energy and mineral resources in a balanced way that promotes efficient and environmentally responsible development. BOEM's functions include offshore oil and gas leasing, resource evaluation, review and administration of oil and gas exploration plans and development and production plans, renewable energy development, National Environmental Policy Act analyses, and environmental studies. The Bureau is committed to applying the best available science to decision-making, using research and rigorous analysis to balance the Nation's need for offshore energy resources with the protection of the human, marine and coastal environments.

The FY2017 budget request is designed to provide the resources necessary to advance BOEM's commitment to effective and efficient management and oversight of the Nation's offshore resources, including safe and responsible domestic oil and gas exploration and development, as well as development of clean and abundant renewable energy resources. Through the President's energy strategy, the United States is safely and responsibly developing our traditional energy resources while advancing cleaner forms of energy, such as natural gas and renewables. Roughly two years ago, America hit a milestone of energy independence: For the first time in nearly two decades, the U.S. produced more oil domestically than it imported from foreign sources. The U.S. is now the number-one natural gas producer in the world. Thanks in part to these initiatives, America's dependence on foreign oil is at a 40-year low — and declining.

Furthermore, renewable electricity generation from wind, solar, and geothermal sources has doubled since 2009.

The FY 2017 Budget Request

The FY 2017 budget requests \$175.1 million for BOEM operations, which includes \$94.9 million in offsetting collections (approximately \$88.5 million from rental receipts and over \$6 million from cost recovery fees). The President's request includes a \$6 million increase in direct appropriations, which is partially offset by a projected decrease in offsetting collections, for a net increase in BOEM's total budget authority of \$4.3 million. BOEM's FY 2017 request reflects a careful analysis of the resources needed to further develop the Bureau's capacity and to execute its functions carefully, responsibly, and efficiently. It also reflects modest increases that will support high priority offshore oil and gas activities, including those outlined in the 2012-2017 OCS Oil and Gas Leasing Program and the 2017-2022 Program currently in preparation. Specifically, BOEM is requesting additional resources for its risk management program (discussed further below), for the workload primarily associated with deepwater activity in the Gulf of Mexico, and to fund the special salary rate for hard-to-fill geoscientist and petroleum engineer positions.

The FY 2017 budget will support ongoing efforts and important initiatives that are vital to BOEM's mission and critical to advancing Administration priorities. BOEM's FY 2017 request reflects a careful analysis of the resources needed to develop the Bureau's capacity and to execute its functions carefully, responsibly, and efficiently.

Key Priorities and Accomplishments

BOEM's FY 2017 request builds upon recent accomplishments and supports critical ongoing efforts.

Conventional Energy

BOEM manages access to, and ensures fair return for, the energy and mineral resources of the OCS to help meet the energy demands and mineral needs of the Nation, while also balancing such access with the protection of the human, marine, and coastal environments. As the offshore energy and mineral resource manager, BOEM administers comprehensive analyses to provide the key information necessary for decisions about whether, where, and when offshore energy and mineral development can or should occur. BOEM's responsibilities are broad, beginning with identifying and calculating appropriate boundaries and legal descriptions; identifying, inventorying, and assessing offshore energy and mineral endowment; developing a transparent, systematic, and comprehensive schedule for OCS oil and gas resource offerings; developing appropriate financial terms to ensure the public receives fair market value for OCS resources; carefully reviewing requests for approval of comprehensive, detailed industry plans to explore, develop, and produce leased resources; and finally, ensuring OCS lessees have the financial capacity to fulfill decommissioning obligations.

As of January 2016, BOEM administers more than 5,000 active oil and gas leases on nearly 27 million OCS acres. In FY 2015, production from these leases generated \$4.4 billion of dollars in leasing revenue for the Federal Treasury, Land and Water Conservation Fund, Historic Preservation Fund and state governments. The overall level of activity on the OCS related to this production, drilling, and development of new projects is estimated to support employment associated with approximately 650,000 direct, indirect, and induced jobs. In FY 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, almost all of which is produced in the Gulf of Mexico.

The Bureau is currently implementing the 2012-2017 OCS Oil and Gas Leasing Program. The 2012-2017 Program focuses on making OCS areas with the greatest resource potential available for oil and gas leasing. Together, the lease areas included in the 2012-2017 Program contain more than 75 percent of the undiscovered, technically recoverable oil and gas resources estimated to exist in Federal waters offshore the United States. The Program includes 12 potential lease sales in the Gulf of Mexico, of which eight have been held, and three off the coast of Alaska, of which two have been cancelled due to market conditions and lack of industry interest. During calendar year 2015, BOEM held two lease sales and issued 194 leases, which generated more than \$561 million in bonus bids. Three lease sales are planned for calendar year 2016, and two lease sales are planned for calendar year 2017 before the 2012-2017 Program expires.

BOEM is continuing efforts in the Atlantic to facilitate updated resource evaluation information. During FY 2014, BOEM developed a framework for the acquisition and management of geological & geophysical (G&G) data within the Mid-Atlantic and South Atlantic Planning Areas. BOEM also issued a Record of Decision (ROD) for the PEIS for Atlantic G&G activities that establishes the highest practicable mitigation measures while allowing for potential G&G survey activities off the Mid-Atlantic and South Atlantic coast. Since issuance of the ROD, BOEM has received twelve applications for G&G permits. One permit (that did not require an Incidental Harassment Authorization (IHA) from National Marine Fisheries Service (NMFS)) was issued in July 2014, and three other permit applications have been withdrawn. Of the remaining eight permits, six are awaiting a decision from the NMFS on an IHA. One of the remaining two applications has not yet been submitted to NMFS, and the other application does not require review by NMFS. It was, however, only recently submitted to BOEM for its review.

BOEM is moving forward with the development of the 2017-2022 Program that will lay out the schedule of oil and gas lease sales that the Secretary of the Interior determines will best meet national energy needs and address energy security for that five-year period. The Department released the Draft Proposed Program (DPP) for the 2017-2022 OCS Oil and Gas Leasing Program on January 27, 2015. The DPP is the first of three proposals to create an oil and gas leasing program that identifies offshore areas for potential lease sales during the 2017-2022 timeframe. The DPP continues the regionally-tailored planning employed in the current 2012-2017 Program, which aims to achieve the dual goals of promoting prompt development of the offshore oil and gas resources while protecting the marine, coastal, and human environments. The DPP includes 14 potential lease sales in 8 planning areas—10 sales in the Gulf of Mexico, three off the coast of Alaska (in 2020, 2021, and 2022), and one in portions of the Mid-Atlantic

and South Atlantic Planning Areas (2021). The DPP would make areas containing nearly 80 percent of undiscovered technically recoverable oil and gas resources in the OCS available for exploration and development. Following the release of the DPP, BOEM held 23 public meetings along the coasts and conducted extensive outreach with states, stakeholders and the public. FY 2016 will be a critical year for the Program, with the publication of the Proposed Program and Draft Programmatic Environmental Impact Statement (PEIS) anticipated in the first quarter of calendar year 2016, followed by a public comment period and public meetings. The Proposed Final Program and final PEIS are expected to be published in late 2016 with the Program to take effect in July 2017.

In order to better align regulatory requirements with the realities of aging offshore infrastructure, as well as to ensure that lease obligations, such as decommissioning, do not fall to the taxpayer, BOEM is proactively implementing a comprehensive Risk Management and Financial Assurance Program to modernize our regulatory regime. BOEM's efforts in this regard will continue throughout FY 2016 and FY 2017. The Risk Management Program will provide essential financial risk protection to the U.S. government through use of a flexible, comprehensive mitigation effort to decrease risk to taxpayers. It will also develop risk governance structures, including revised bonding and financial assurance regulations, as well as general and project-specific risk management strategies and procedures. Finally, it will monitor and track the financial strength of lessees for offshore activities and infrastructure to ensure that BOEM is requiring the proper level of bonding or other acceptable financial risk mitigation measures to protect taxpayers. The requested funds will allow us to fully implement the recommendation of the Government Accountability Office to "ensure that BOEM completes its plan to revise its financial assurance procedures" (Offshore Oil and Gas Resources: Actions Needed to Better Protect Against Billions of Dollars in Federal Exposure to Decommissioning Liabilities (GAO-16-40)).

The requested FY 2017 funds, which will be fully offset by cost recovery fees, combined with funding received in FY 2016, should bring the Risk Management Program to full staffing capacity and allow it to become fully operational. A total investment of less than \$6 million (for both FY 16 and FY 17), partially offset by industry fees, has the potential to save the American taxpayers from *billions* in contingent liabilities that could result from industry bankruptcies and associated decommissioning costs. (Estimated total liabilities in the Gulf could be as high as \$50 billion.)

Marine Minerals

In carrying out its mission to manage the responsible development of offshore resources, BOEM considers resources other than conventional or renewable energy. Pursuant to the OCS Lands Act, BOEM is the steward of OCS sand, gravel, and shell resources. Through its Marine Minerals Program, BOEM manages the responsible use of these resources, which are critical for the long-term success and cost-effectiveness of many shore protection, beach nourishment, and wetlands restoration projects along the Gulf and Atlantic coasts. The Marine Minerals Program provides the Bureau with the capability to provide sand and gravel resources to protect and improve coastal resources and the environment locally, regionally and nationally. To date, BOEM (and its predecessor the Minerals Management Service) has conveyed the rights to more

than 112 million cubic yards of OCS sediment by executing 48 leases for projects that have restored 269 miles of coastline in seven states.

Looking forward, BOEM's conventional energy and marine mineral activities will continue to meet the high standards set by the Administration, Congress, and the public through appropriate planning, development and protection of the Nation's offshore resources in response to the Nation's energy and coastal resilience needs.

Renewable Energy Development

The President's energy strategy includes the development of the readily-available renewable energy resources that are vital to our Nation's long-term economic development and energy security. Securing clean sources of energy not only benefits the environment, but also creates American jobs and promotes innovation in the United States.

BOEM continues to work diligently to oversee responsible renewable energy development. BOEM facilitates environmentally responsible offshore wind development along the OCS by identifying wind energy areas using a coordinated approach with extensive environmental analysis, public review, and large-scale planning. As of February 2016, BOEM has issued eleven commercial offshore wind energy leases, including two issued through the non-competitive lease negotiation process (one for the Cape Wind project proposed for Nantucket Sound, Massachusetts, and another for a potential project offshore Delaware) and nine through the competitive lease sale process (two offshore Rhode Island-Massachusetts, two offshore Maryland, one offshore Virginia, two offshore Massachusetts, and two offshore New Jersey). Competitive lease sales have generated more than \$16.4 million in bonus bids for more than 1.18 million acres in Federal waters. If fully developed, these eleven leases could generate enough energy to power over 4 million homes. BOEM has also executed 6 limited/research leases (three offshore New Jersey, one offshore Delaware, one offshore Florida, and one offshore Virginia). BOEM has received three commercial wind lease requests from two different companies for offshore Hawaii, as well as one unsolicited lease request for a commercial wind lease offshore California. In FY 2015, \$2.2 million in rent payments were collected on OCS renewable energy leases, and BOEM estimates annual rent payments of more than \$3.5 million in FY 2016 and \$4.7 million in FY 2017. BOEM is currently engaged in renewable energy planning efforts for areas offshore North Carolina, South Carolina, New York, Oregon, and Hawaii. BOEM is also making progress on siting demonstration and technology testing projects for wind and marine hydrokinetic energy offshore both the Atlantic and Pacific coasts.

Through detailed planning and analysis, and partnerships with states, other governmental agencies and stakeholders, BOEM has advanced the Renewable Energy Program nationwide and will continue to do so in FY 2017. Offshore wind leasing activities, including both commercial and research leases, have increased, contributing to the Administration's goal of promoting clean energy development. BOEM continues to demonstrate science-based decision-making by initiating and funding research. The studies directly benefit BOEM, other energy and mineral programs, renewable energy stakeholders and individual states. State interest in pursuing offshore renewable energy development is readily apparent in the increased involvement of the states through BOEM's intergovernmental renewable energy task forces – there are now 13 such

task forces consisting of representatives from Federal, state, local and tribal governments. BOEM anticipates the Renewable Energy Program will continue to grow and is prepared to support this valuable effort in response to the Nation's energy needs.

Environmental Programs

BOEM, in coordination with BSEE, is responsible for assessing the impacts of and providing effective environmental safeguards for the exploration and development of energy and mineral resources on the OCS. Utilizing science as the foundation for sound policy decisions, and managing offshore energy and mineral resources in an environmentally and economically responsible way, BOEM facilitates top-quality research by talented scientists from a range of disciplines that is targeted to support policy needs and priorities.

These responsibilities require BOEM to assess the environmental impacts of planned and proposed OCS development and to provide guidance to developers and other stakeholders concerning the place, time, and nature of activities to be authorized. BOEM's environmental programs provide information for decision-makers and the public about potential environmental impacts of OCS energy and mineral resource development, how to prevent or mitigate those impacts, and how to monitor impacts. This information supports and guides decision-making not just within BOEM, but also by BSEE and other government authorities.

BOEM will continue environmental reviews of mission-critical activities and lease sales included in the current Five Year OCS Oil and Gas Leasing Program (2012-2017). Within the past year, BOEM has published five draft and final Environmental Impact Statements (EIS) related to Gulf of Mexico oil and gas lease sales. In addition, BOEM completed almost 700 NEPA analyses during FY 2015 related to oil and gas plans and permits, renewable energy leasing, and marine minerals leasing activities across all OCS regions. In FY 2016 and early FY 2017, BOEM plans to finalize the Programmatic EIS in support of the next Five Year OCS Oil and Gas Leasing Program (2017-2022). In FY 2016, BOEM plans to publish the Draft Programmatic EIS for Gulf of Mexico Geophysical & Geological (G&G) Activities, support environmental reviews for potential G&G permits in the Atlantic OCS, continue preparing an EIS for the Liberty Development and Production Plan in the Beaufort Sea, and continue working with BSEE on the programmatic assessment of well stimulation treatments in the Pacific OCS.

Because of its quality, scale, and duration, BOEM's Environmental Studies Program is a leading contributor to the growing body of scientific knowledge about the nation's marine and coastal environment. In its applied research program, BOEM has leveraged partnerships with academic institutions and other Federal agencies to extend its allocated research budget, and will continue to advance those partnerships and produce top-tier scientific work in the coming year. The FY 2017 budget builds on the work done on landscape-level and ecosystem-wide conservation, oceans policy, and climate adaptation and resilience, and moves toward institutionalizing these Administration priorities.

BOEM's management of the Nation's OCS oil and gas, marine minerals and renewable energy resources will continue to be informed through the environmental assessments, studies and partnerships conducted under the Environmental Program. These efforts are vital to ensuring that

the impacts of OCS activities on the environment are understood and that effective protective measures are put in place.

Conclusion

BOEM plays a vital role in advancing safe and responsible offshore energy development and in helping to secure our energy future. In a time when serious fiscal constraints demand difficult tradeoffs, we appreciate the critical resources provided this fiscal year – including investment in robust science to inform decisions relating to ocean energy policy and management and appropriate environmental safeguards. It is important to sustain this level of investment moving into the next fiscal year, and the FY 2017 request reflects a careful analysis of the resources needed for the Bureau to carry out the important mission with which we are charged.

Thank you once again for the opportunity to testify here today, and for your consistent support for BOEM's programs. I look forward to our continued work together and to answering your questions today.