

OCS Advisory Board
Summer Seminar
July 19, 2012



The New OCS Regulatory and Compliance Landscape



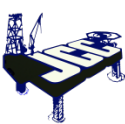
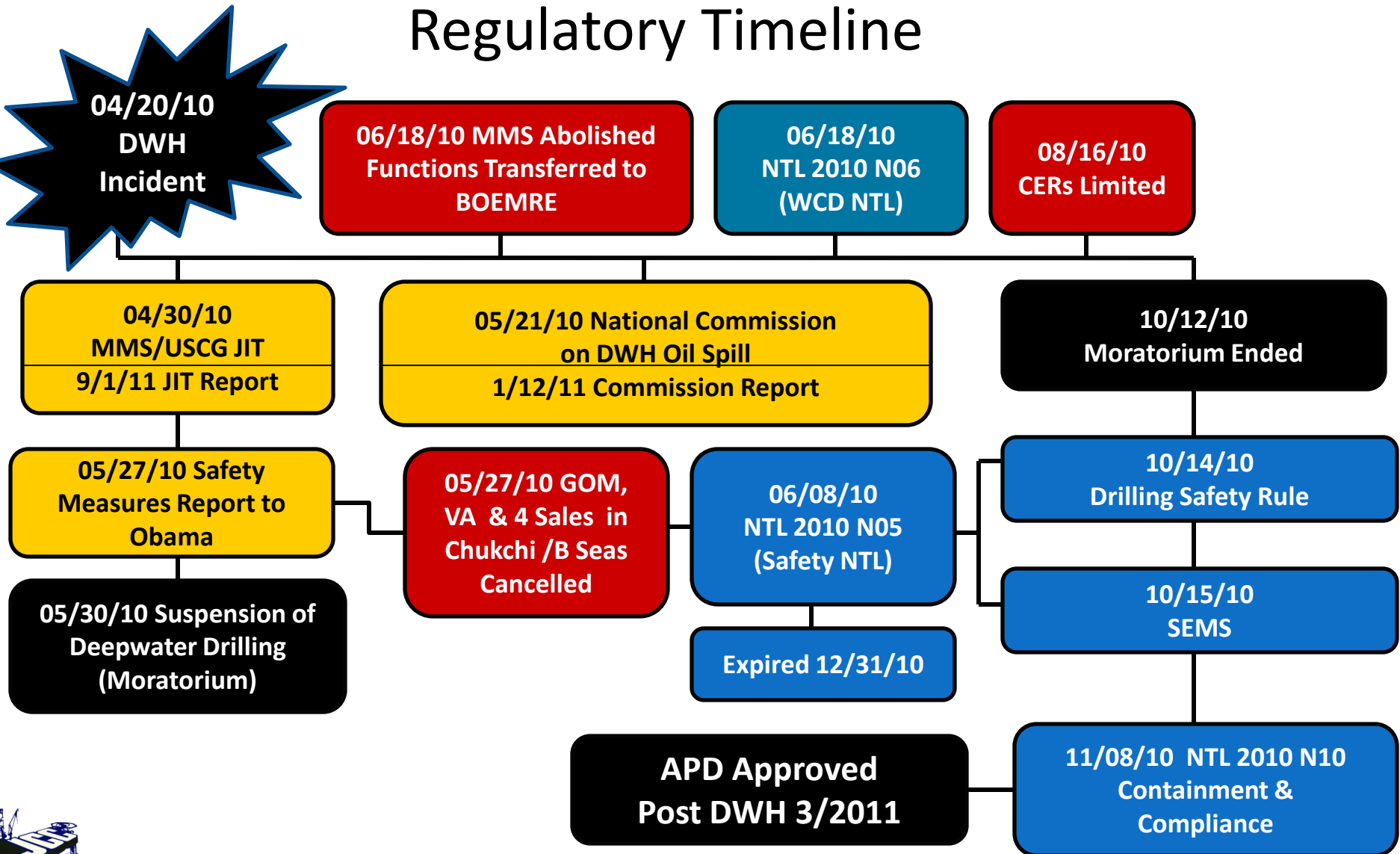
Jodie Connor
J. Connor Consulting, Inc.

Key Topics

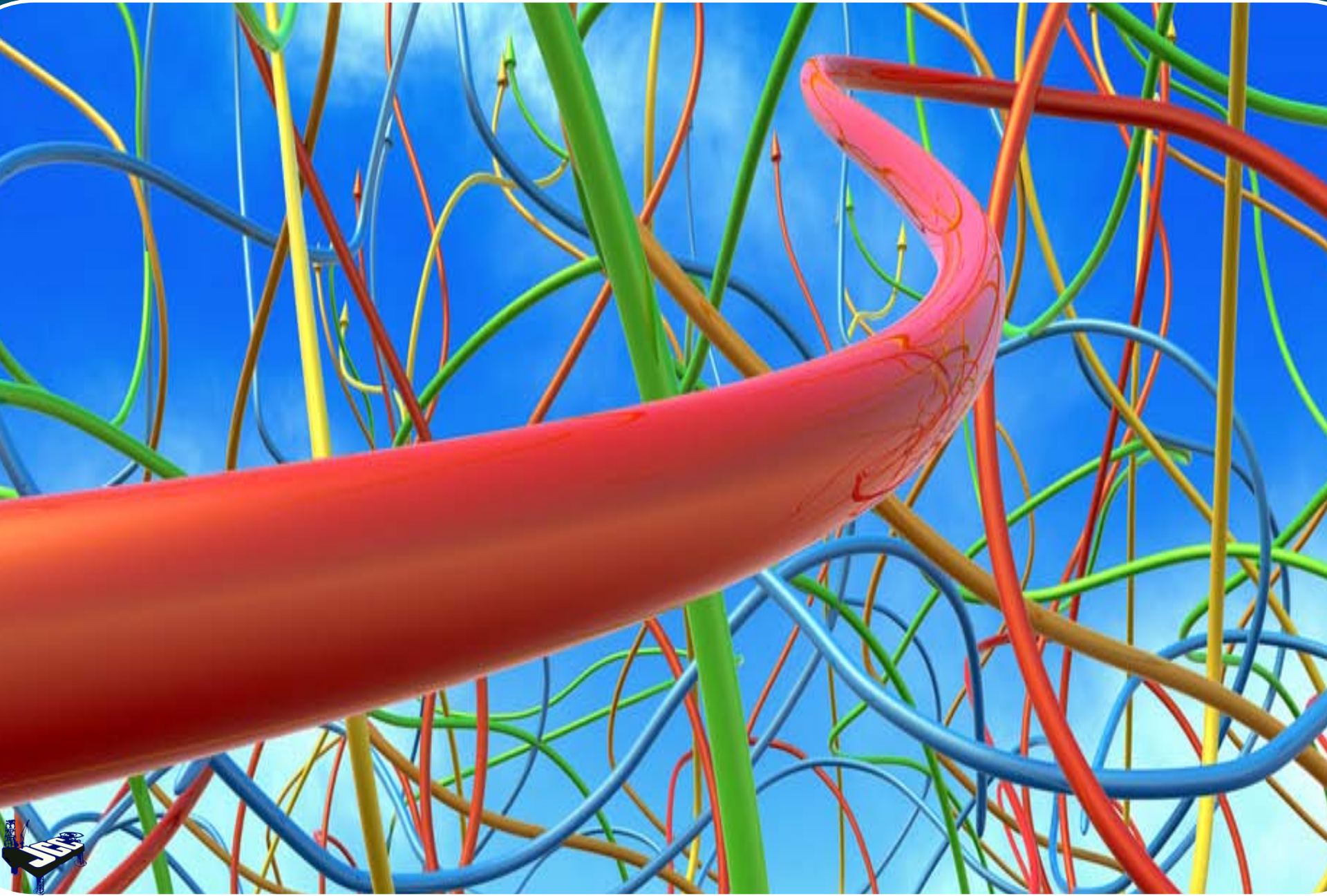
- **Agency Reorganization and Staffing**
 - Staffing and Training
- **Challenges for OCS Operators**
 - Receiving Timely Approvals of Plans and Permits
 - Will there be more fees associated with operations?
 - Uncertainty of current and future legislation and regulation
 - Inspection and audit strategies for SEMS
 - Emergency Response Preparedness
 - Additional New Regulation

Government Initiated Actions

Regulatory Timeline



Offshore Industry 2010-2012



Industry and DOI Accomplishments

- ✓ DOI Agencies Re-organized and Functional
- ✓ SEMS Implemented
- ✓ Enhanced drilling safety and blowout preventer standards
- ✓ Subsea Containment Systems in Place
- ✓ Spill Response Capabilities Increased
- ✓ Timing for Plan and Permit Approvals Improving

Critical Factors – Regulators

Agency
Staffing

Enforcement

Challenges

Plans &
Permits

Implementation of
New Regulations

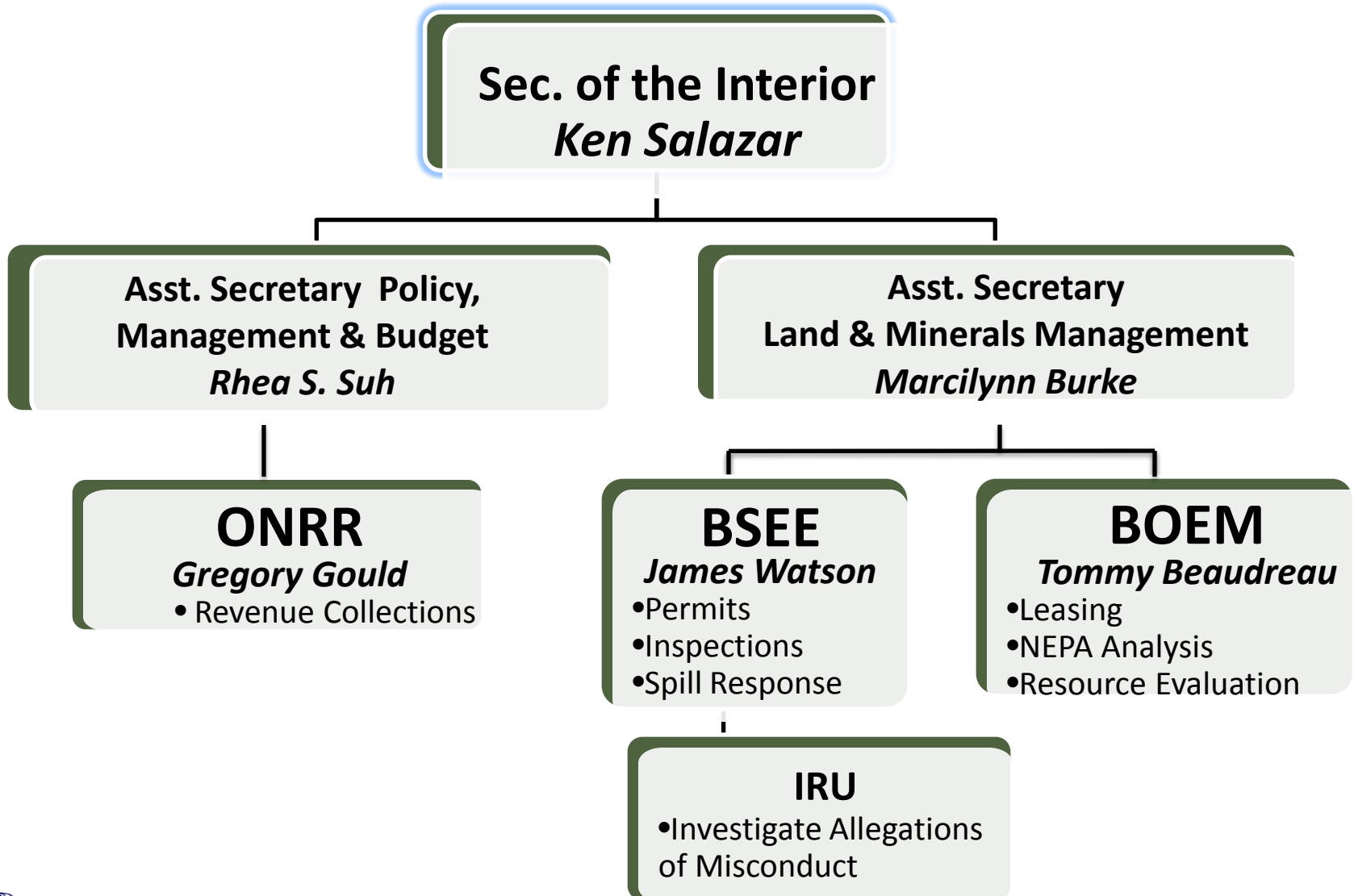


Reorganization of MMS

- The re-organization from MMS to BOEMRE to BOEM and BSEE



Reorganization



Office of Natural Resource Revenue (ONRR)

- ONRR has replaced Minerals Royalty Management
 - Revenue collection from energy production
 - Asset management
 - Auditing and compliance
 - Investigation and enforcement



Bureau of Ocean Energy Management



- Manage Exploration and Development
- Leasing
- Environmental Science
- Environmental Analysis and Assessment
- Resource Evaluation
- **Plan Administration (EPs/DOCDs)**



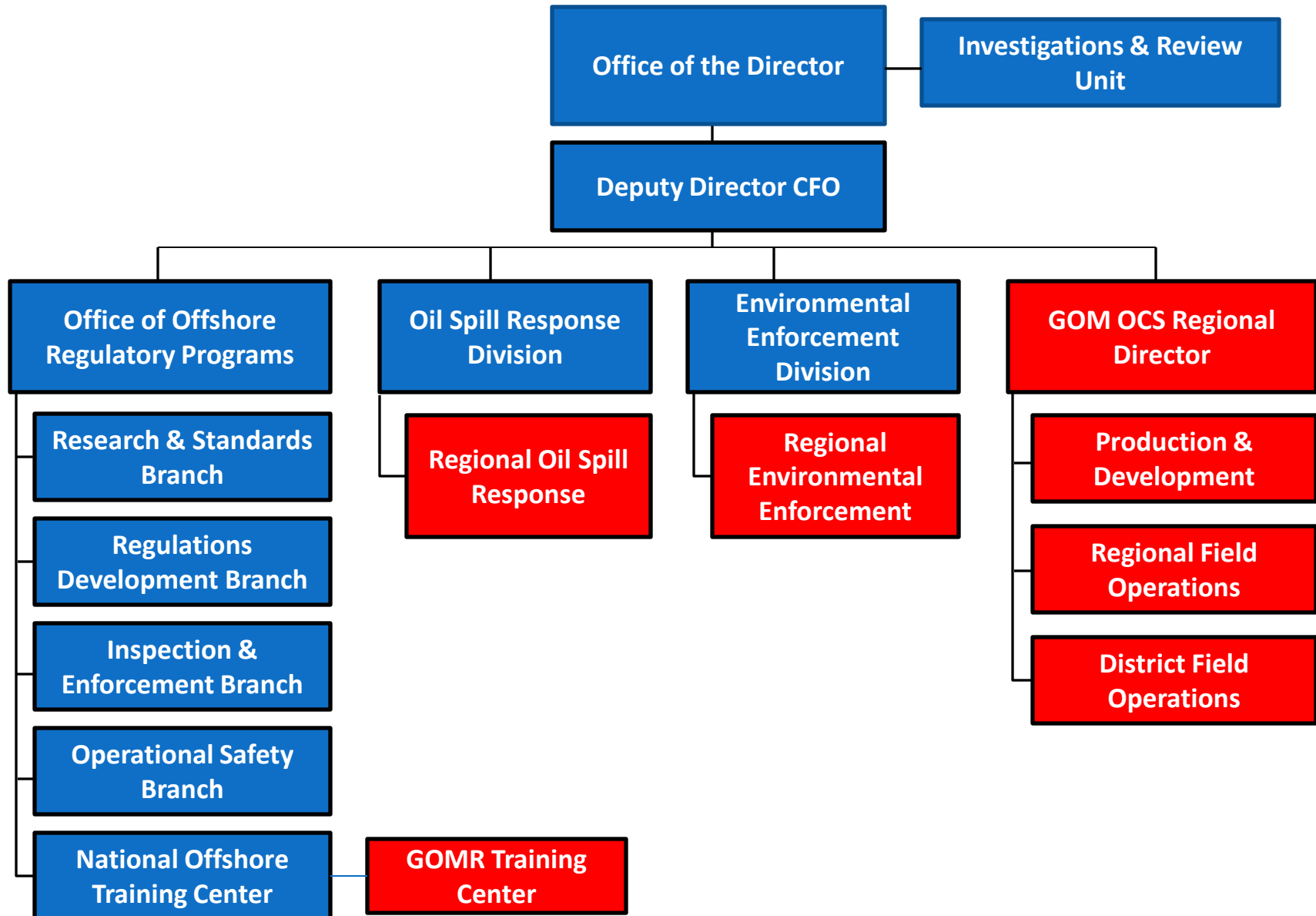
Bureau of Safety and Environmental Enforcement



- Inspections - Enforcement
- Permitting - Environmental Compliance
- Safety Management - **Oil Spill Response Plans**



Bureau of Safety and Environmental Enforcement (BSEE)



BSEE Personnel Resources

- Turnover (Retirement, Public Sector)
- Hiring (Industry, Universities)

| Personnel | Pre-DWH | Current | Budgeted |
|---|----------------|----------------|-----------------|
| Engineers | 69 | 97 | 228 |
| Inspectors | 36 | 82 | 155 |
| Oil Spill Response Division | 5 | 10 | 22 |
| Environmental Enforcement (may assist BOEM also) | 0 | 9 | 38 |

BSEE Personnel Resources

- Training
 - National Offshore Training and Learning Center
 - Develop formal courses for engineers and inspectors
 - Develop qualification/certification processes



Critical Factors - Operators

**PLANS &
PERMITS**

Enforcement

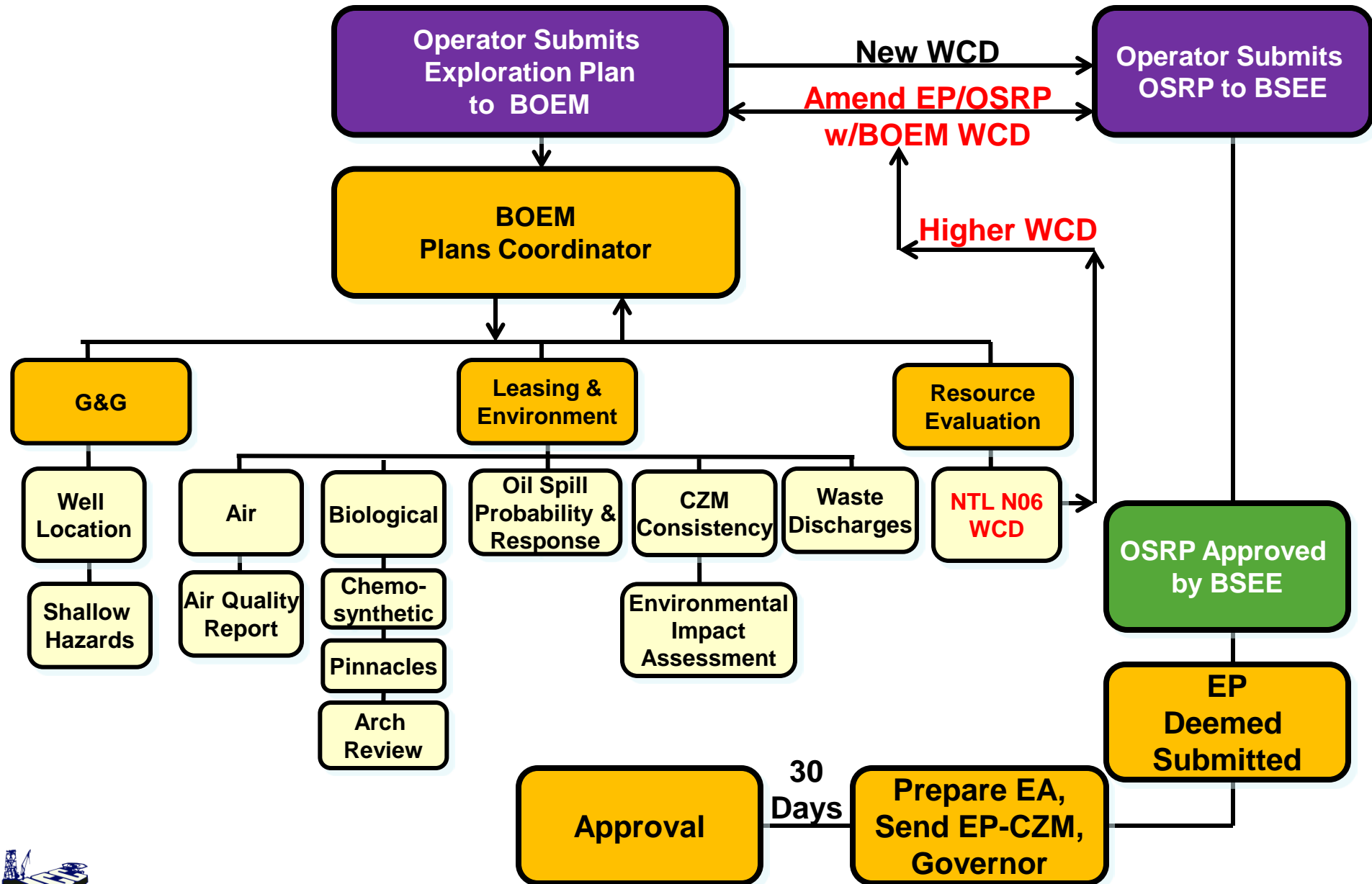
Uncertainty!

Increased
Fees

Future
Regulation

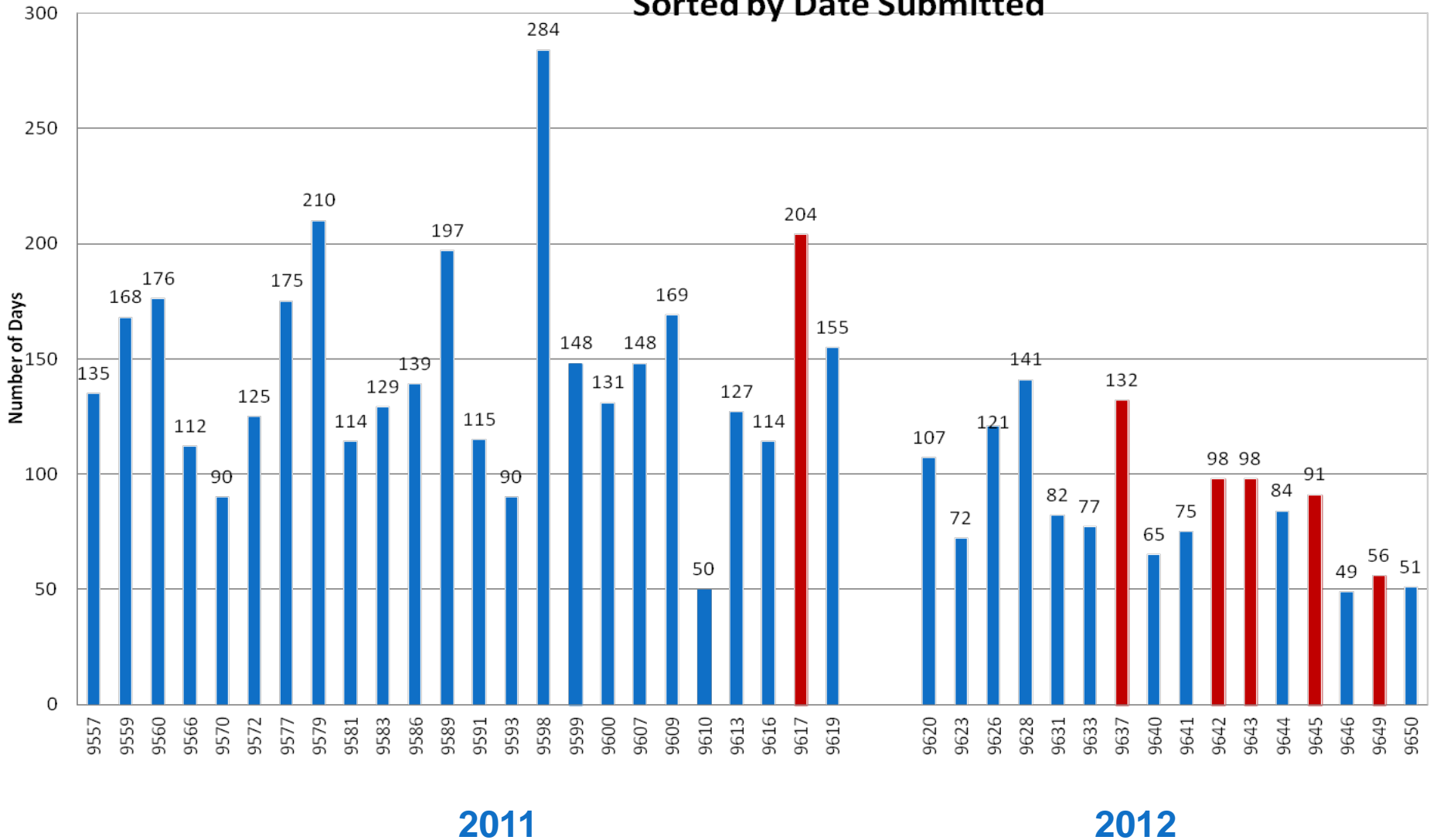


BOEM Exploration Plan Process



Deepwater Exploration Plans

New Deepwater Exploration Plans: Timing from Submission to Approval
Sorted by Date Submitted



Deepwater Exploration Plans

Average Approval Time for New Deepwater EPs submitted to BOEM since the 2nd half of 2009:

| Time Period | Average Approval Time (days) | Longest Approval Time (days) |
|------------------------------|-------------------------------------|-------------------------------------|
| 2nd half 2009/2010 (Pre-DWH) | 52 | 107 |
| 2010 (Post-DWH) | 234 | 325 |
| 2011 | 141 | 284 |
| 2012 (To Date) | 88 | 141 |

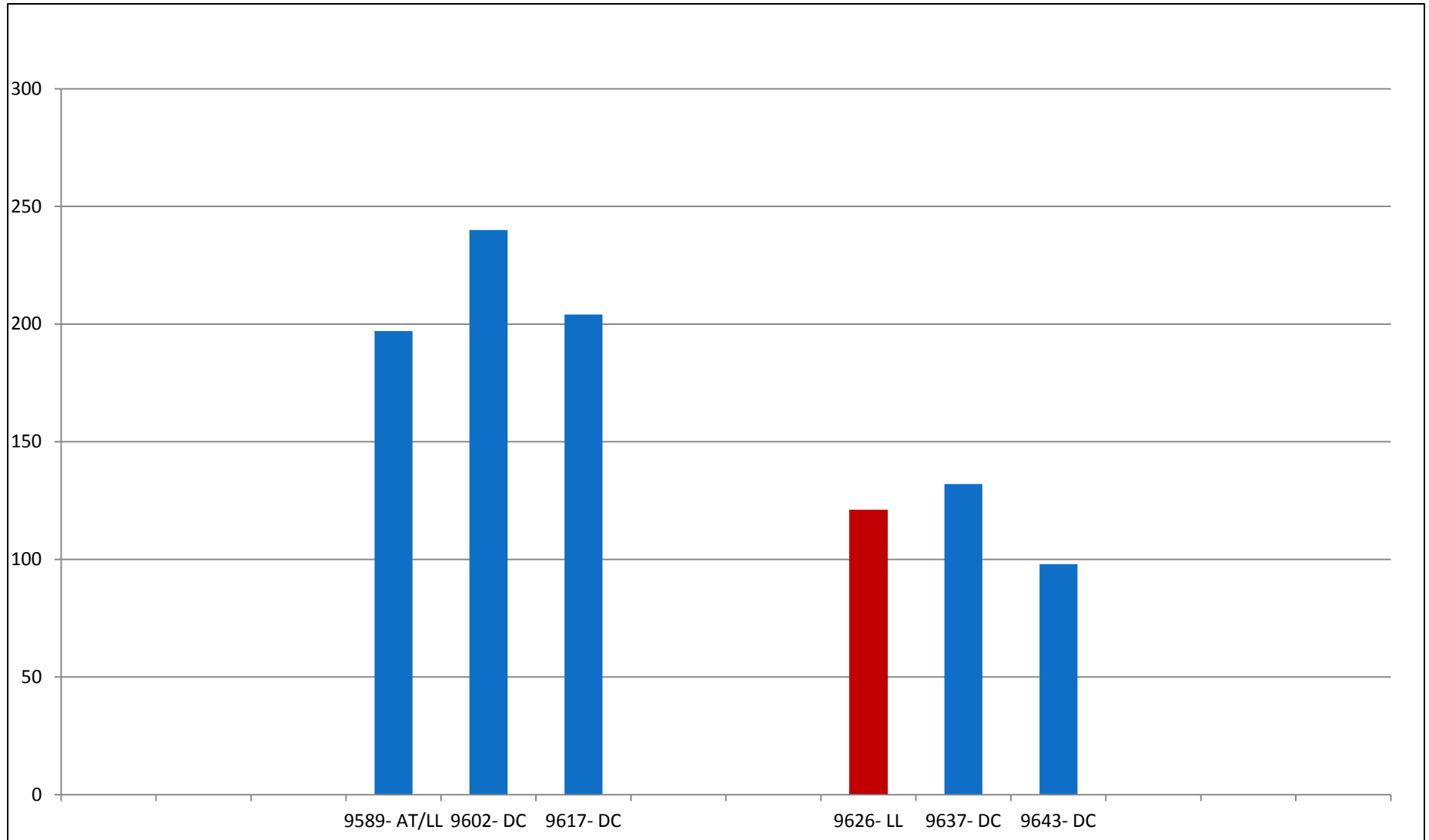


Deepwater DOCDs

Average Approval Time for New Deepwater DOCDs submitted to BOEM since the 2nd half of 2009:

| Time Period | Average Approval Time (days) | Longest Approval Time (days) |
|------------------------------|-------------------------------------|-------------------------------------|
| 2nd half 2009/2010 (Pre-DWH) | 77 | 167 |
| 2010 (Post-DWH) | 216 | 314 |
| 2011 | 198 | 320 |
| 2012 | Pending | Pending |

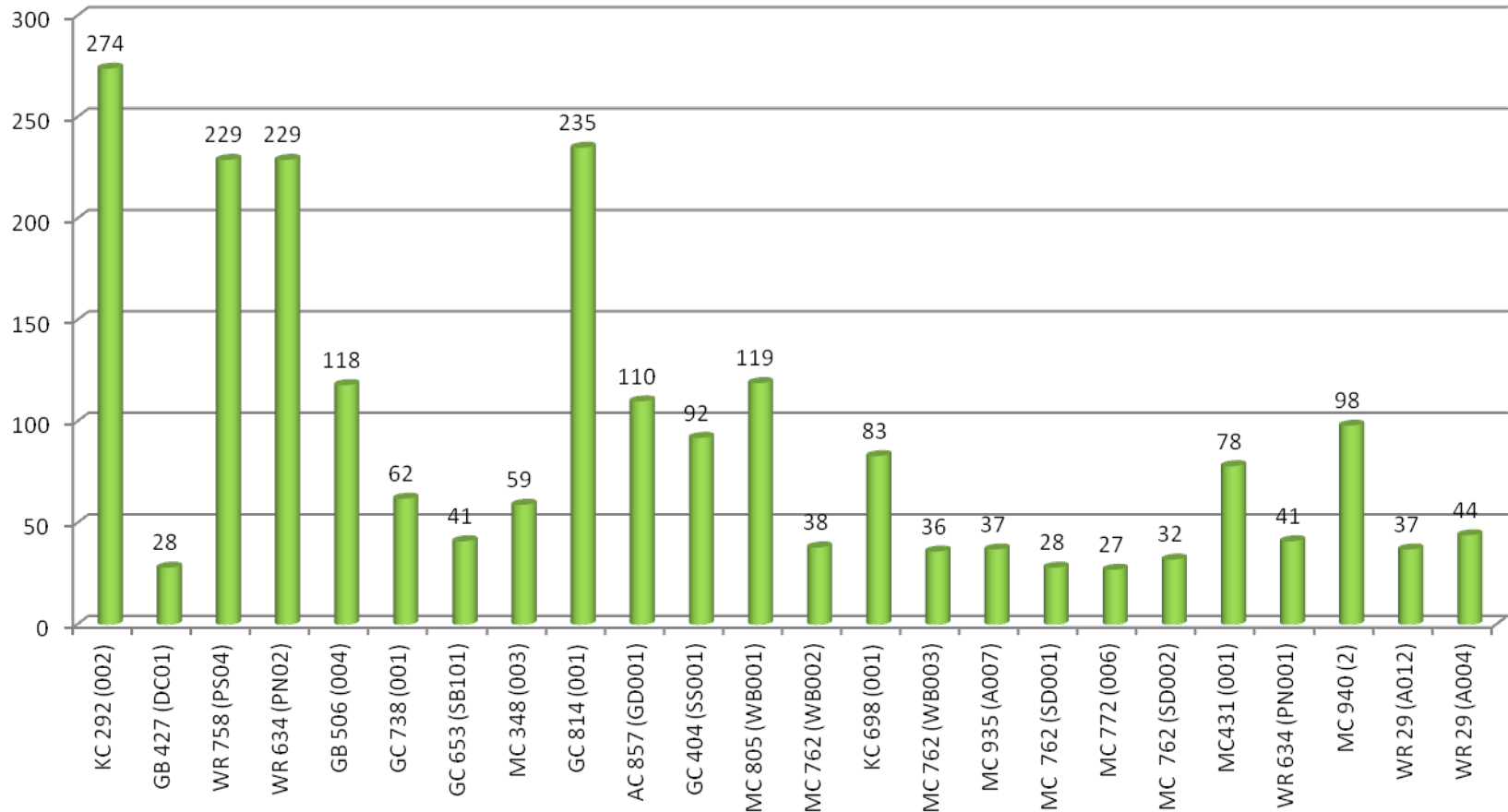
Development and Production Plans



2011

2012

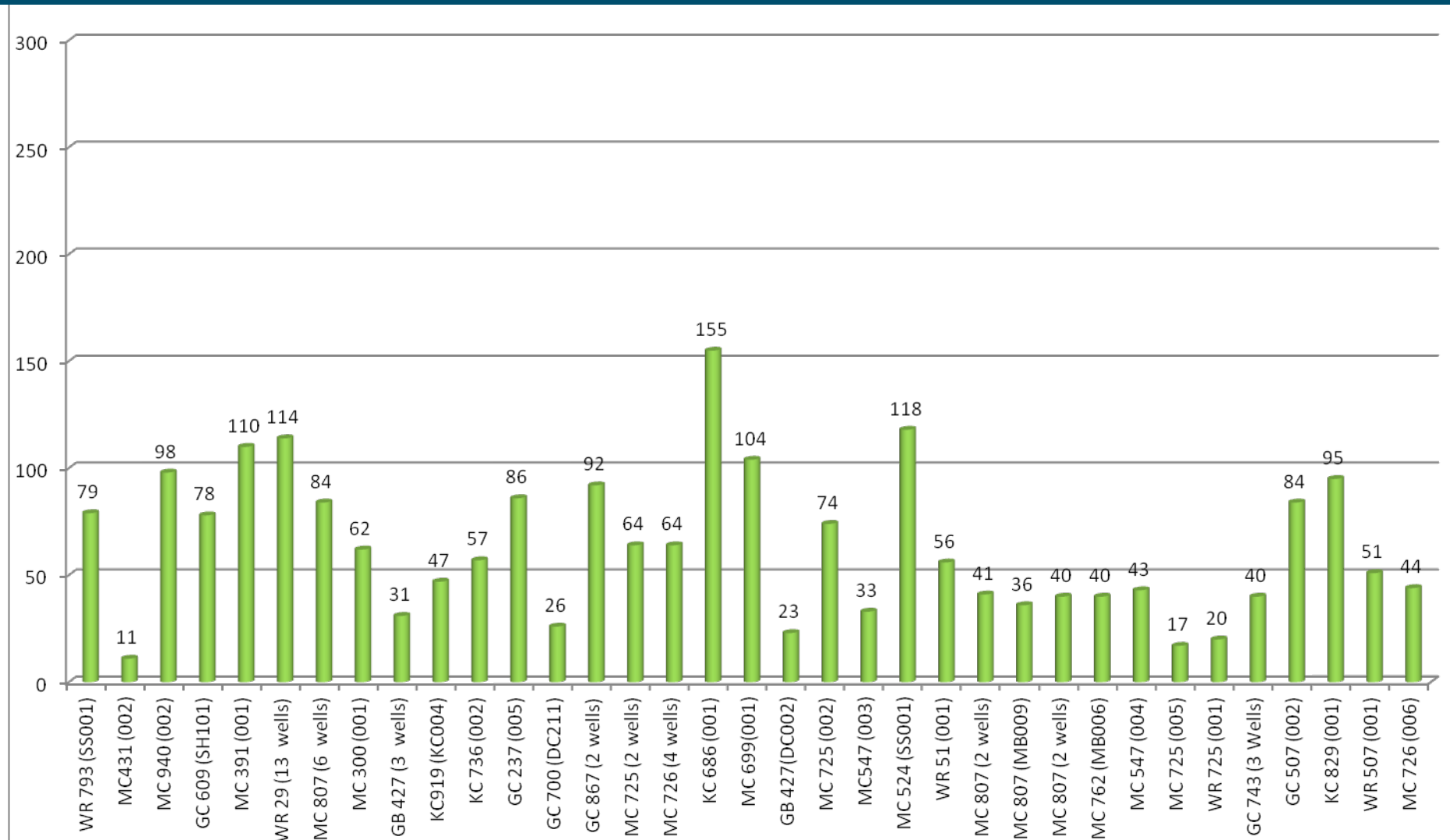
New Deepwater Well Permits with SS BOPs Approved by BSEE



2011 Approvals



New Deepwater Well Permits with SS BOPs Approved By BSEE



2012 Approvals

Deepwater Permits to Drill

Average Approval Time for New Deepwater APDs submitted to BOEM since the 2nd half of 2009:

| Time Period | Average Approval Time (days) | Longest Approval Time (days) |
|------------------------------|-------------------------------------|-------------------------------------|
| 2nd half 2009/2010 (Pre-DWH) | 26 | 107 |
| 2010 (Post-DWH) | 64 | 139 |
| 2011 | 90 | 274 |
| 2012 (To Date) | 63 | 155 |



Critical Factors - Operators

Plans &
Permits

Enforcement

Uncertainty!

**INCREASED
FEES**

Future
Regulation



FY 2012 Inspection Fees

- DOI 2012 Appropriations Act increased inspection fees from \$10 million in 2011 to \$65 million in 2012
- Inspection fees collected for:
 - Production facilities in place on Oct. 1, 2011
 - Drilling rigs for all inspections conducted from Oct. 1, 2011 to Sept. 30, 2012



FY 2012 Inspection Fees

| Type Facility/Drilling Rig | Fee 2012 | Fee 2011 | Fee 2010 |
|---|-------------|-------------|-------------|
| Facility - No wells - Processing equipment or gathering lines | \$10,500 | \$2,000 | \$2,000 |
| Facilities 1-10 active or inactive wells | \$17,000 | \$3,250 | \$3,250 |
| Facilities > 10 active or inactive wells | \$31,500 | \$6,000 | \$6,000 |
| Drilling rigs in WD < 500 feet | \$16,700* | 0 | 0 |
| Drilling rigs in WD 500 ' or more | \$30,500* | 0 | 0 |

* Per Inspection



FY 2012 Inspection Fees

- ▶ Definition of *Inspection*: A visit by a BSEE inspector to witness operations or to verify compliance with applicable laws, regulations, orders, standards, and applications and permit approvals
- ▶ Problematic rationale:

| Inspection Scenario | Caisson | 4-Pile Structure |
|---|---|----------------------|
| Inspection Fee for Facility 1-10 wells ● Per Facility \$17,000 | 1 Caisson \$17,000 50 Caissons \$850,000 | 1 Structure \$17,000 |



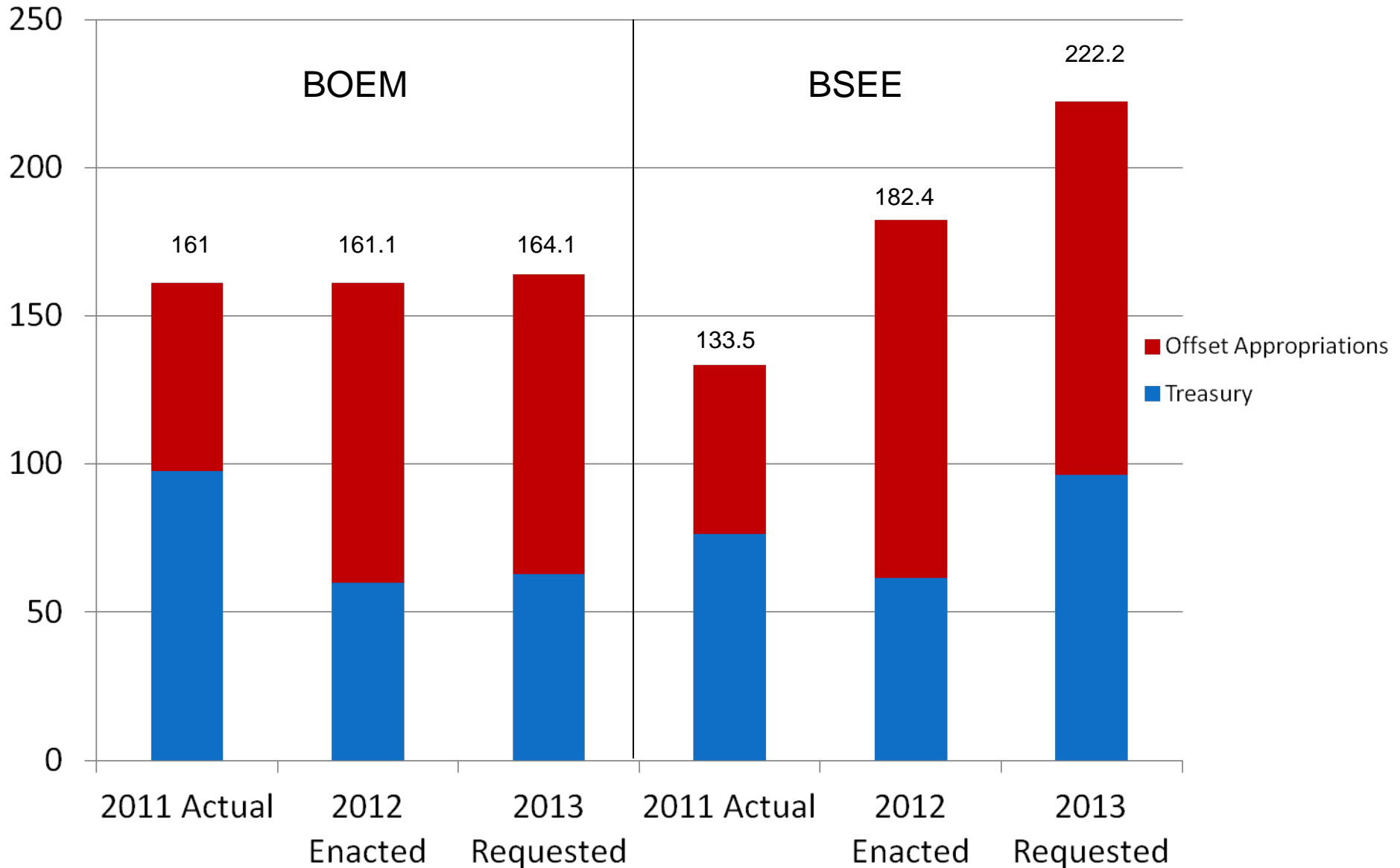
FACILITY INSPECTIONS

| Category | No. of Facilities | Fee |
|------------------------|--------------------------|---------------------|
| No wells | 210 | \$2,205,000 |
| 1-10 wells | 1935 | \$32,895,000 |
| >10 wells | 303 | \$9,544,500 |
| TOTAL COLLECTED | | \$44,644,500 |

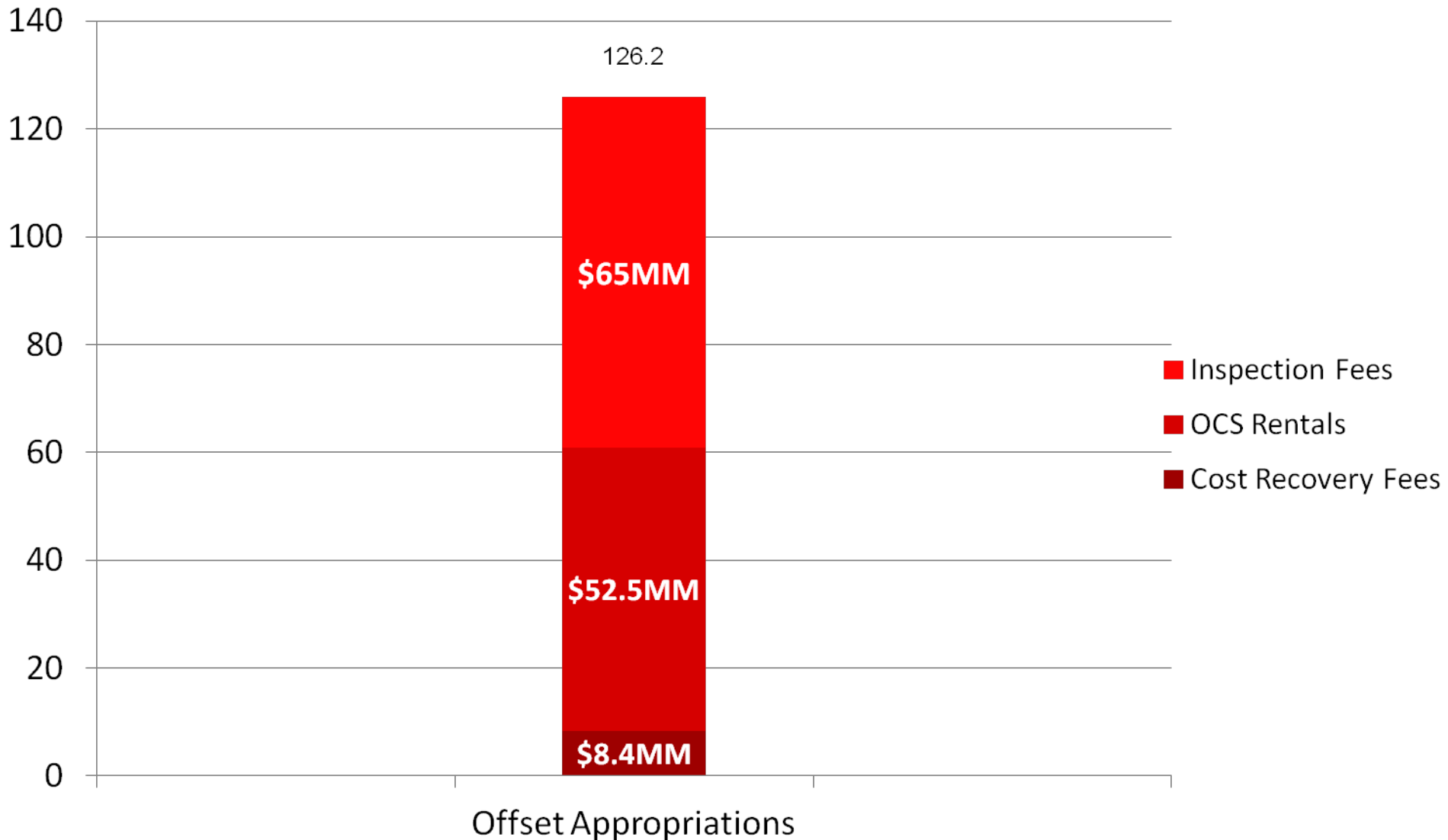
RIG INSPECTIONS GOM 2012

| Month | Fiscal Year | Fee | Rig Inspections |
|-------------------|--------------------|--------------------|------------------------|
| 01 | FY 12 | \$1,566,300 | 69 |
| 02 | FY 12 | \$1,143,700 | 47 |
| 03 | FY 12 | \$1,585,200 | 66 |
| 04 | FY 12 | \$1,869,100 | 83 |
| YR to Date | | \$6,164,300 | 265 |

BOEM & BSEE Budgets



BSEE 2013 Budget Request



Critical Factors - Operators

Plans &
Permits

ENFORCEMENT

Uncertainty!

Increased
Fees

Future
Regulation



BSEE Enforcement Program

- Environmental Compliance Inspections
- Enforce relevant laws and regulations including the CAA, CWA and NEPA
- Evaluate the effectiveness of environmental monitoring programs and mitigation measures
- Take enforcement actions to ensure industry compliance with applicable laws and regulations
- 2012 budget provided for a total of 33 new employees in Environmental Compliance Program

BSEE Enforcement Program

- Oil Spill Response Division
 - Unannounced Exercises
 - Three Spill Drills to date – Deepwater
- Increased quantity and intensity of drills



Evaluating Effectiveness of SEMS

- October 2010 – SEMS Final Rule
- Implementation Date – November 15, 2011
- BOEMRE requested the Transportation Research Board examine methods for assessing the effectiveness of an operator's SEMS program
- June, 2012, Transportation Research Board Special Report 309: *Evaluating the Effectiveness of Offshore Safety and Environmental Management Systems*

Evaluating Effectiveness of SEMS

- Holistic approach
- Assess attitudes and actions rather than documentation and paperwork
- Include:
 - Inspections
 - Audits - Operator
 - Audits - BSEE
 - Key performance indicators
 - Whistleblower program



Evaluating Effectiveness of SEMS

- BSEE need:
 - Qualified Inspectors
 - Trained Auditors
- Funding for BSEE Audits
 - Utilize Operator provided transportation
 - Utilize Operator provided accommodations
 - Increase Inspection Fees



Evaluating Effectiveness of SEMS

- Identify both high and low risk facilities
- Maximize involvement of the operator
- Identify best practices and common trends and share with regulated community



Critical Factors - Operators

Plans &
Permits

Enforcement

Uncertainty!

Increased
Fees

**FUTURE
REGULATIONS**



Oil Spill Financial Responsibility and Liability for Cleanup and Damages

- Current requirements:
 - Financial Responsibility \$35MM to \$150MM
 - Liability = Total cost of clean up + \$75MM in damages
- Uncertainty:
 - New Legislation for Increasing Oil Spill Financial Responsibility and Liability
 - When, how much, risk-ranked?

Spill Response Preparedness

- Oil Spill Response NTL soon
- New OSRP Regulations forthcoming
- Questions:
 - Changes to OSRPs?
 - WCD vs. Contracts for equipment?
 - Increased number of unannounced drills?



Spill Response Preparedness


- **65 plans approved** (for 52 operators) for different reasons:
 - Initial plans
 - Significant change updates
 - Biennial submissions
- **14 are deepwater plans**

Preparedness

- Oil Spill Response Equipment
 - Clean Gulf Associates
 - Marine Spill Response Corporation
 - National Response Corporation

| Asset | Pre-DWH | Post-DWH |
|--|----------------|-----------------|
| Skimming – Recovery Capacity (Barrels per Day) | 445,000 | 900,000 |
| Dispersant (Gallons) | 74,190 | 158,000 |
| In-Situ Burn Boom (Feet) | 6,000 | 24,000 |

Upcoming Regulations

- Final Drilling Safety Rule
- Final SEMS 2 Rule 
- Proposed Rule to enhance the requirements for BOPs
- Proposed Rule on Production Safety Systems and Lifecycle Analysis

JSA
(modifications)

Only I3P
conducts audits

Stop Work
Authority

Ultimate Work
Authority

Employee
Participation
Program

Reporting
Unsafe Working
Conditions

On the Radar

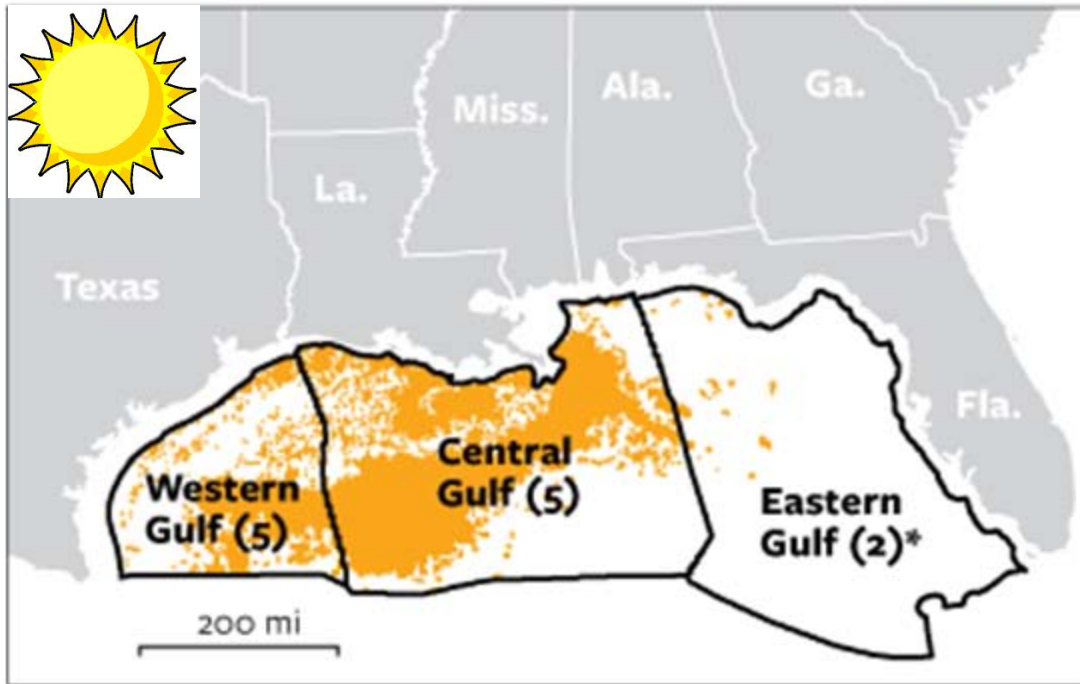
- **Potential Rules**

- Add Annual Performance Review into regulations
- Require submittal of a *Performance Improvement Plan* for poor performing operators
- MODUs and Floating Production Facilities – equip with tracking beacons and black boxes
- Clear timeframes of when wells must be abandoned and platforms decommissioned



5 Year Leasing Program 2012 – 2017

Areas in proposed program (number of leases) ● Currently active leases



*In areas of the Eastern Gulf that are not currently under congressional moratorium.

Source: Interior Department

Thank you!

