AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

OPPORTUNITIES LOST: CONSTRAINTS ON OIL AND GAS PRODUCTION ON FEDERAL LANDS AND WATERS

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY POLICY, HEALTH CARE AND ENTITLEMENTS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

MAY 16, 2013

Serial No. 113–27

Printed for the use of the Committee on Oversight and Government Reform

Available via the World Wide Web: http://www.fdsys.gov
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

81–279 PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

DARRELL E. ISSA, California, *Chairman*

JOHN L. MICA, Florida
MICHAEL R. TURNER, Ohio
JOHN J. DUNCAN, JR., Tennessee
PATRICK T. MCHENRY, North Carolina
JIM JORDAN, Ohio
JASON CHAFFETZ, Utah
TIM WALBERG, Michigan
JAMES LANKFORD, Oklahoma
JUSTIN AMASH, Michigan
PAUL A. GOSAR, Arizona
PATRICK MEEHAN, Pennsylvania
SCOTT DESJARLAIS, Tennessee
TREY GOWDY, South Carolina
BLAKE FARENTHOLD, Texas
DOC HASTINGS, Washington
CYNTHIA M. LUMMIS, Wyoming
ROB WOODALL, Georgia
THOMAS MASSIE, Kentucky
DOUG COLLINS, Georgia
MARK MEADOWS, North Carolina
KERRY L. BENTIVOLIO, Michigan
RON DESANTIS, Florida

ELIJAH E. CUMMINGS, Maryland, *Ranking Minority Member*
CAROLYN B. MALONEY, New York
ELEANOR HOLMES NORTON, District of Columbia
JOHN F. TIERNEY, Massachusetts
WM. LACY CLAY, Missouri
STEPHEN F. LYNCH, Massachusetts
JIM COOPER, Tennessee
GERALD E. CONNOLLY, Virginia
JACKIE SPEIER, California
MATTHEW A. CARTWRIGHT, Pennsylvania
MARK POCAN, Wisconsin
TAMMY DUCKWORTH, Illinois
ROBIN L. KELLY, Illinois
DANNY K. DAVIS, Illinois
PETER WELCH, Vermont
TONY CARDENAS, California
STEVEN A. HORSFORD, Nevada
MICHELLE LUJAN GRISHAM, New Mexico

LAWRENCE J. BRADY, *Staff Director*
JOHN D. CUADERES, *Deputy Staff Director*
STEPHEN CASTOR, *General Counsel*
LINDA A. GOOD, *Chief Clerk*
DAVID RAPALLO, *Minority Staff Director*

SUBCOMMITTEE ON ENERGY POLICY, HEALTH CARE AND ENTITLEMENTS

JAMES LANKFORD, Oklahoma, *Chairman*

PATRICK T. MCHENRY, North Carolina
PAUL GOSAR, Arizona
JIM JORDAN, Ohio
JASON CHAFFETZ, Utah
TIM WALBERG, Michigan
PATRICK MEEHAN, Pennsylvania
SCOTT DESJARLAIS, Tennessee
BLAKE FARENTHOLD, Texas
DOC HASTINGS, Washington
ROB WOODALL, Georgia
THOMAS MASSIE, Kentucky

JACKIE SPEIER, California, *Ranking Minority Member*
ELEANOR HOLMES NORTON, District of Columbia
JIM COOPER, Tennessee
MATTHEW CARTWRIGHT, Pennsylvania
TAMMY DUCKWORTH, Illinois
DANNY K. DAVIS, Illinois
TONY CARDENAS, California
STEVEN A. HORSFORD, Nevada
MICHELLE LUJAN GRISHAM, New Mexico

CONTENTS

	Page
Hearing held on May 16, 2013	1

WITNESSES

Mr. Tommy P. Beaudreau, Acting Assistant Secretary for Land and Minerals Management, U.S. Department of the Interior	
Oral Statement	5
Written Statement	7
Mr. Frank Rusco, Director, Natural Resources and Environment, U.S. government Accountability Office	
Oral Statement	12
Written Statement	14

OPPORTUNITIES LOST: CONSTRAINTS ON OIL AND GAS PRODUCTION ON FEDERAL LANDS AND WATERS

Thursday, May 16, 2013,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY POLICY, HEALTH CARE & ENTITLEMENTS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:32 a.m., in Room 2154, Rayburn House Office Building, Hon. James Lankford [chairman of the subcommittee] presiding.

Present: Representatives Lankford, Jordan, Chaffetz, Walberg, Farenthold, Hastings, Speier, and Horsford.

Also Present: Representative Lummis.

Staff Present: Molly Boyl, Majority Parliamentarian; Joseph A. Brazauskas, Majority Counsel; Daniel Bucheli, Majority Assistant Clerk; Caitlin Carroll, Majority Deputy Press Secretary; Sharon Casey, Majority Senior Assistant Clerk; Steve Castor, Majority Chief Counsel; Brian Daner, Majority Counsel; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Ryan M. Hambleton, Majority Professional Staff Member; Laura L. Rush, Majority Deputy Chief Clerk; Jaron Bourke, Minority Director of Administration; Nicholas Kamau, Minority Counsel; and Adam Koshkin, Minority Research Assistant.

Mr. LANKFORD. The Subcommittee on Energy Policy, Healthcare and Entitlements come to order.

I would like to begin this hearing by stating the Oversight Committee mission statement. We exist to secure two fundamental principles: first, that Americans have the right to know that the money Washington takes from them is well spent and, second, Americans deserve an efficient, effective Government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold Government accountable to taxpayers, because taxpayers have the right to know what they get from their Government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Oversight and Government Reform Committee.

To the witnesses, thank you. I am going to do a brief opening statement. Our ranking member will do an opening statement. We

will go straight to your testimony after that. I do have to warn you that I have a cold, and for all those who have compassion for me and my cold, about three days from now, if you shook my hand, you will have great compassion for me. So I apologize for that and we will struggle through this together.

The American people, we as taxpayers, we own millions of acres of land for our national benefit. We hike, we camp on it; we boat, fish, and swim in it; we drive through; and we use the resources from it. We protect it for the future and we manage it for today. The minerals underlying our public lands are held in the public trust and the Department of Interior is in charge of managing these materials for the benefit and the profit of the American people.

The Department of the Interior administers 700 million subsurface acres in Federal mineral estate and over 1.7 billion acres in Federal offshore acreage. There are extraordinary quantities of oil and natural gas under these lands and waters. These resources promise to deliver two things unimaginable just a decade ago: American energy independence and a broad economic renaissance.

A recent economic study found that increasing access to Federal resources can generate $127 billion in economic activity and 552,000 jobs annually over the next seven years. Americans are trying to explore energy on American land are facing some roadblocks. At a field hearing last year, this committee heard a story from Mike McDonald, a small producer with 11 employees and four decades of experience in oil and gas production. Mike has a few leases where he has to work with the Bureau of Land Management. He testified that once those wells run dry, he will never again bid on another BLM lease. The reason? He said because he has to interact with the Federal Government's bureaucracy.

Stories like these are all too common. The simple fact is the Department's policies have become sometimes onerous, time-consuming, and costly, so that some producers give up or don't even try. The result is billions of dollars in capital left on the sidelines, hundreds of thousands of good paying jobs foreclosed, and continued dependence on foreign imports. This is especially difficult to understand in areas of the Country that want the economic development and jobs that come with energy exploration.

The committee understands the Department is obligated to manage our oil and gas resources in accordance with acts of Congress. However, there is no question that the Department possesses discretion to facilitate oil and gas production in a timely, responsible, efficient manner, and environmentally sensitive. We know the solutions are out there, noncontroversial policies the Department can begin to implement immediately. We just ask a few questions of today.

Can we modernize and streamline the permitting process? In an electronic world, BLM still relies primarily on hard copies and mail. Real-time interfacing can facilitate complicated negotiations and dramatically reduce permitting delays.

Can we rededicate ourselves to an existing pilot program that concentrates resources on the busiest, most overworked BLM field offices? The program, that was instituted in 2005 to ensure that staff and diverse Federal regulatory agencies, including BLM, the

Fish and Wildlife Service, and EPA, work in the same building for each region. This greatly improves coordination and reduces delays.

Can we open more areas to oil and gas lease sales? At our confirmation hearing in March, Secretary Jewell stated that her goal was to bring balance between conservation and energy development. I couldn't agree more, especially now that only a tiny sliver, about 5.9 percent of our public lands, are open to oil and gas leasing.

Can we complete a long-promised seismic study in the mid-and South Atlantic outer continental shelf? This study is critical if we hope to take off the blindfold and see what is out there.

One more thing: Can we answer the question—let me put a map here on the screen, as well, so everyone can see it. When we look at some areas of energy exploration, this is a section of North Dakota, and I think the witnesses have a copy of this. If you look at the dots, each dot represents a well, and there are many areas where you will see a dot right next to where Federal lands are located, but not crossing the border. Rarely they cross into it. This section of North Dakota has seen a tremendous amount of energy exploration, but rarely actually venturing into Federal lands.

The question is, why? They pay less in royalties if they go into Federal lands, so you would assume the price is less, so why wouldn't they go into Federal lands and explore, because it would be cheaper for them? But instead they don't choose to go into those areas when they have the opportunity. Why?

Ultimately, the goal of this hearing is not to condemn the Department but, rather, to work with all departments, including Secretary Beaudreau, to figure out what is going wrong and to find some common sense solutions.

I now recognize the distinguished ranking member, the gentlelady from California, Ms. Speier, for her opening statement.

Ms. SPEIER. Mr. Chairman, thank you for holding this hearing.

Secretary Beaudreau and Mr. Rusco, thank you for participating in it.

I have a slightly different view on this topic. I think this hearing should focus on the thousands of leases for millions of acres of Federal land and water that oil and gas companies are sitting on, but not producing on. For example, in 2012, nearly 46 million offshore acres were under lease or approved for exploration, while only 6.6 million acres were producing any oil or gas. A full 70 percent of the open leases for offshore oil and gas production are inactive.

These are inactive not because they don't have oil and gas. They are inactive because they are just not drilling on them. It is estimated to contain 17.9 billion barrels of oil and 49.7 trillion cubic feet of natural gas.

Even more importantly, we ought to be examining the Department of Interior's failure, and I underscore failure, to collect the full amount of revenues and royalties that these companies owe the American people for the oil and gas they are producing or not producing from publicly owned lands. This year, the GAO reported to Congress that Government royalty collection for oil and gas drilling operations on Federal lands are at high risk for waste, fraud, and abuse. Let me repeat that: at high risk for waste, fraud, and abuse;

precisely the kinds of issues that this committee should be focused on.

While the total and aggregate revenues lost due to inaccurate oil and gas production reporting has not been determined, it is likely to be a very significant amount. When the GAO looked closely at oil and gas leases in the Gulf of Mexico, they found that about 5.5 percent of the time companies did not submit the necessary royalty reports, potentially resulting in $117 million of uncollected royalties. The GAO also found that some companies reported negative royalty values, potentially costing the Treasury another $41 million in uncollected royalties.

Further, the GAO high risk report to Congress found that the Interior Department allowed consistent errors in company reported data on oil and gas production on public lands and sales data that did not reflect the prevailing market price for oil and gas. Now, why would we be not using prevailing market prices for oil and gas?

The GAO also found that the Interior does not utilize technologies that could dramatically reduce these errors, such as wireless flow meters, similar to the basic smart meter technology currently used in 36 million homes nationwide.

The money we are losing to these reporting errors is significant. But if the American people knew that we in Congress had authorized royalty-free drilling on public lands, they would be throwing more than rotten tomatoes at us.

Interior data shows that the royalty-free drilling has already cost the Treasury nearly $11 billion in lost revenue. Royalty-free drilling is estimated to cost an additional $15.5 billion in foregone revenue over the next 10 years, and may ultimately exceed $40 billion, equal to the federal income tax paid each year by 9.4 million American families.

Then let's add the $7 billion of taxpayer subsidies to the industry and ask ourselves how many more gifts do we have to give to an industry already making record profits.

As the Country struggles with sequestration, budget deficits, and across-the-board cuts, it is truly incredible and unjustifiable that the Department of Interior is leaving money on the table and in pockets of the oil and gas industry, rather than putting it in the people's Treasury.

This is the Oversight Committee, and we should be doing what our mission statement says: securing an efficient and effective Government for the American taxpayer. What could be more deserving a topic than making sure we collect the royalties the oil and gas industry owes the American people? Owes. Not prospective; owes. What could be a better time to do it than now?

I hope Chairman Lankford will join me today in taking the first steps in that direction by asking the GAO to analyze Interior's progress in addressing the challenges GAO identified with respect to revenue collected from oil and gas produced on lands owned by the American people.

I thank the chairman and yield back.

Mr. LANKFORD. Thank you.

Members will have seven days to submit their opening statements for the record.

We will now recognize our first and only panel today.

Mr. Tommy Beaudreau is the Acting Assistant Secretary of Land and Minerals Management at U.S. Department of Interior.

Mr. Frank Rusco is the Director of Natural Resources and the Environment, the U.S. Government Accountability Office.

Thank you both for being here. Pursuant to committee rules, we will swear in all witnesses. If you would please rise and raise your right hand. Thank you.

Do you solemnly swear or affirm the testimony you are about to give will the truth, the whole truth, and nothing but the truth, so help you, God?

[Witnesses respond in the affirmative.]

Mr. LANKFORD. Thank you. Let the record reflect the witnesses answered in the affirmative. You may be seated.

In order to allow time for discussion, both of you have been through this before, you know very well about the five minute rule on that. We will be a little bit flexible on that since this is the only panel, but would enjoy having some time for questions, as well, and some interaction on that.

Mr. Beaudreau, you are first up on this one. Thank you.

STATEMENT OF TOMMY P. BEAUDREAU

Mr. BEAUDREAU. Thank you very much, Chairman Lankford, Ranking Member Speier, and members of the subcommittee.

I thank you for the opportunity to appear today to discuss the Interior Department's work to expand responsible energy development and production on Federal lands and offshore. I am pleased to appear with Mr. Rusco from the Government Accountability Office. We have worked closely with Mr. Rusco and his team on many issues relating to the stewardship of the Nation's energy resources, and I appreciate very much their insight and their recommendations.

Because this is my first appearance before this subcommittee, I would like to take a moment to introduce myself. I grew up in Alaska. My father worked on the Prudhoe Bay oil field, on the North Slope, and he moved our family to Alaska during the boom times in the 1970s. Like a lot of those workers, he was laid off after the boom times went bust in the mid-1980s. So I know firsthand the oil and gas industry's central role in driving the Nation's economy and our energy security. It is important to energy producing States like Alaska, and what the industry means to the men and women who work in it and to the families who depend on it for their livelihoods.

I joined the Interior Department in June 2010, in the midst of the response to the Deepwater Horizon oil spill, to help lead the Department's broad reforms to strengthen offshore oil and gas safety and environmental standards, as well as strengthen Federal oversight, including the sweeping reorganization of the former Minerals Management Service into three separate, independent agencies with clear and focused missions.

Following the completion of the reorganization, I became the head of the newly formed Bureau of Ocean Energy Management, which oversees responsible management of offshore oil and gas, as well as renewable energy resources in U.S. waters. I believe our re-

forms have been successful. Offshore oil and gas activity is now at a pace exceeding that prior to the spill, and is anticipated to increase even further as new exploration and development continues and new discoveries are made. And that work is happening more safely and more responsibly than ever before.

We have successfully stood up the new oversight agencies, and while we will always continue to work to enhance our oversight capability and our regulatory efficiency, GAO has removed the reorganization from its high-risk list.

In March I was formally appointed to be the Acting Assistant Secretary for Land and Minerals Management at DOI, and I now help oversee the stewardship of public lands, as well as our offshore energy and mineral resources. DOI is an important contributor in implementing the President's all-of-the-above energy strategy, which includes expanding safe and responsible production of our domestic oil and gas supplies, both offshore and onshore, and seeking our regulatory and oversight efficiencies so as to create a more efficient and predictable environment for both Government and industry.

Chairman Lankford, I think some of the suggestions you pointed out to in your opening are exactly in line with what our new secretary has in mind and what we have in mind, so I look forward to discussing those.

One of the keys to further unlocking the vast energy resources with which our Nation is blessed is ensuring the American people that development of those resources is being done responsibly and with appropriate protections for the environment. The Natural Petroleum Council, NPC, a Federal advisory committee, recently completed a study requested by the Energy Department, entitled Prudent Development: Realizing the Potential of North America's Abundant Natural Gas and Oil Resources.

I would like to highlight one of the four fundamental conclusions of that study: that "Realizing the benefits of natural gas and oil depends on environmentally responsible development and that the critical path to sustained and expanded resource development in North American includes effective regulation and a commitment of industry and regulators to continuous improvement and practices to eliminate or minimize environmental risk."

This conclusion is premised on a sophisticated and compelling insight into the relationships between industry, Government oversight, and the public trust, and I couldn't agree with it more. And I believe you alluded to these exact same principles in your opening, Chairman. So I look forward to discussing more with the committee and the subcommittee today about what we are doing exactly along these lines and I look forward to your questions. Thank you.

[Prepared statement of Mr. Beaudreau follows:]

Statement of
Tommy P. Beaudreau
Acting Assistant Secretary, Land and Minerals Management
U.S. Department of the Interior

Before the
House Committee on Oversight and Government Reform
Subcommittee on Energy Policy, Health Care and Entitlements

May 16, 2013

Chairman Lankford, Ranking Member Speier, and members of the Subcommittee, I am pleased to appear before you today to discuss the Department of the Interior's work to expand responsible energy development and production on Federal lands and waters.

Consistent with the Administration's *Blueprint for a Secure Energy Future*, DOI is engaged in a broad effort to secure the Nation's energy future by producing more oil and natural gas at home, developing and using clean renewable energy sources, and improving energy efficiency. Since the President took office, America's dependence on foreign oil has decreased every year, and domestic oil and natural gas production has risen every year. In 2012, American oil production reached the highest level in two decades and natural gas production reached an all-time high.

Access to Energy Resources

DOI is an important contributor in implementing the President's all-of-the-above energy strategy, which includes expanding the safe and responsible production of our domestic oil and gas supplies, both offshore and onshore, and seeking out regulatory and oversight efficiencies, so as to create a more efficient and predictable environment for both government and industry.

The Bureau of Ocean Energy Management (BOEM) is implementing the Five Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program for 2012-2017 (Five Year Program). The Five Year Program makes all of the OCS areas with the greatest resource potential available for oil and gas leasing. Together, these areas contain more than 75 percent of the undiscovered, technically recoverable oil and gas resources estimated to exist in federal waters offshore the United States.

To increase access to the Gulf's world-class oil and gas potential, the Administration has negotiated an Agreement between the United States and Mexico concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico. This agreement will make nearly 1.5 million acres of the Outer Continental Shelf, currently subject to a moratorium under the Western Gap Treaty, immediately available for leasing. It will also make the entire transboundary region, which is currently subject to legal uncertainty in the absence of an agreement, more attractive to U.S.-qualified operators. For example, BOEM estimates that the transboundary area currently under moratorium contains as much as 172 million barrels of oil and 304 billion cubic feet of natural gas. We look forward to continuing to work with Congress on legislation to implement this Agreement.

DOI also is moving forward with overseeing safe and responsible offshore oil and gas exploration in frontier areas, including the Arctic. The Arctic holds substantial oil and gas potential, but also presents unique environmental and operational challenges. Offshore exploration in the Arctic must proceed in a way that is safe, responsible, and respectful of the Alaska Native communities that depend on the ocean for subsistence. The Interagency Working Group on Coordination of Domestic Energy Development and Planning in Alaska, established by Executive Order in July 2011 and chaired by the Department's Deputy Secretary David Hayes, has taken the lead in coordinating and rationalizing the permitting of energy projects across the relevant federal agencies. Last summer saw the first significant offshore exploration activity in the Alaska OCS since the 1990s. This activity was closely overseen by DOI, the U.S. Coast Guard, the National Oceanic and Atmospheric Administration and other federal agencies.

The Department also is pursuing a specific strategy to evaluate potential future offshore oil and gas leasing in new areas, such as the Mid and South Atlantic. BOEM is working to complete a Programmatic Environmental Impact Statement (PEIS) evaluating the potential environmental impacts of proposed geological and geophysical activities in the Mid and South Atlantic. The completion of this PEIS is part of a region-specific strategy to responsibly develop modern information about the significance and location of oil and gas resources to inform future decisions about whether leasing in the Atlantic would be appropriate, and if so, where such leasing should take place. The PEIS is expected to be completed later this year. Further, early in the process BOEM also is actively working to identify and evaluate potential conflicts with existing uses in these areas, including with the military.

Onshore, the Bureau of Land Management (BLM), which has about 37.8 million acres under lease for oil and gas development, is scheduled to hold more than 30 oil and gas lease sales this year. At the end of Fiscal Year 2012, there were approximately 49,000 oil and gas leases on Federal public lands, of which over 23,000, covering 12.5 million acres of Federal mineral estate, were producing oil and gas. The amount of producing acreage has increased by about 200,000 acres since 2011. Over 3,000 new oil and gas wells were started in 2012, and oil production from the Federal onshore is up 18 percent since 2008 – reaching its highest level in over a decade. Indeed, at the end of the last fiscal year, industry held almost 7,000 approved drilling permits that had not yet been drilled.

Harnessing our Nation's coal resources is also an important part of our all-of-the-above energy strategy. The BLM is responsible for leasing the Federal coal mineral estate on approximately 570 million acres, and the BLM's coal program supports production that provides important energy for the Nation, as well as revenue for the Treasury. Currently, about one-fifth of all electricity generated in the country comes from coal mined on Federal lands.

A true all-of-the above energy strategy includes the development of the new, renewable energy resources that are vital to our Nation's long-term economic development and energy security. Securing clean sources of energy not only is positive for the environment, but also creates American jobs and promotes innovation in the United States.

The BLM has focused on an accelerated, but environmentally responsible, permitting process for the development of renewable energy on public lands that ensures the protection of signature

landscapes, wildlife habitats, and cultural resources. The BLM's 2012 Solar Energy Plan identified almost 20 million acres of land as potentially suitable for utility-scale solar energy development. Working cooperatively with other resource agencies, the BLM has developed a 2013-2014 active priority project list that includes wind, solar, and geothermal projects. The BLM further expects to propose rules that would establish a competitive process for issuing rights-of-way leases for solar and wind energy development on public lands.

Offshore renewable energy also holds great potential, and DOI is working closely with other Federal agencies, coastal States, industry, tribes and a broad range of stakeholders under the *Smart From the Start* strategy to lease offshore wind projects in the right places. BOEM has established renewable energy task forces with a total of 12 coastal states, including recent task forces in the states of Hawaii and South Carolina. BOEM has also issued two commercial leases for offshore wind energy areas and expects to hold two competitive lease sales for areas offshore Rhode Island and Massachusetts and Virginia this year, with lease sales in additional areas offshore New Jersey, Maryland and Massachusetts to follow.

The Results

The first two sales of the 2012-2017 Five Year Program were held in the Gulf of Mexico in November 2012 and March 2013, and resulted in over $1.3 billion dollars in industry investment and government revenue through bidding on 436 new leases. A third lease sale, scheduled for this August, will offer 21 million acres offshore Texas, making all unleased acreage in the Western Gulf of Mexico available for leasing.

The BOEM has achieved substantial efficiencies in its review process for offshore oil and gas exploration and development plans, while requiring compliance with the heightened safety and environmental protection standards promulgated following the *Deepwater Horizon* blowout and oil spill. For example, exploration and development plans for deepwater drilling in the Gulf of Mexico submitted between October 2010 and October 2011 averaged 190 days from submission to approval. In contrast, since October 2011 these plans have averaged 125 days for approval. The President's Budget request for 2014 includes funding for the ePlans initiative, which is projected to reduce plan processing times significantly.

Similarly, the Bureau of Safety and Environmental Enforcement (BSEE) achieved an average review time of 52 days for deepwater permits in 2012, down from 83 days in 2011, all while requiring compliance with the heightened safety standards. Finally, as many floating deepwater drilling rigs are working in the Gulf of Mexico today as prior to the *Deepwater Horizon* spill, with drilling activity expected to steadily increase over the coming year.

Onshore, from FY 2006 to FY 2012, the amount of time it took for all BLM field offices to process and approve complete drilling applications fell by 40% – from 127 to 77 days. The number of inspections completed by all BLM offices rose 73 percent from FY 2006 to FY 2012, from 19,974 to 34,571.

The BLM has also completed a new comprehensive plan – the first ever – for the 23-million acre National Petroleum Reserve – Alaska, or NPR-A. The plan provides access to 72% of that area's estimated oil potential and prevents conflicting land uses in an important east-west corridor that

could be needed for pipeline infrastructure to eventually carry Chukchi Sea oil or gas production to the Trans-Alaska pipeline.

The Federal coal program has generated over $9 billion in revenue over the past decade. The Administration is making more coal available as well, with the number of producing acres rising 4 percent from 464,380 in Fiscal Year 2009 to 484,017 in Fiscal Year 2012. The amount of coal the agency leased last fiscal year is the highest since FY 2003.

In the Energy Policy Act of 2005, the Congress set a goal of approving at least 10,000 MW of non-hydro renewable energy on the public lands by 2015. The BLM achieved the lower limits of that goal in December 2012, three years ahead of schedule.

Since issuance of a March 2009 Secretarial Order prioritizing the consideration of environmentally responsible renewable energy projects, the BLM has approved 41 renewable energy projects, including 23 utility-scale solar facilities, 8 wind farms, and 10 geothermal plants, with associated transmission corridors and infrastructure to connect to established power grids. If fully built, these projects would provide more than 12,000 MW of power, or enough electricity to power more than 4.2 million homes, and support an estimated 17,000 plus construction and operations jobs.

Renewable energy approvals continue to be a focus area for the BLM. Former Secretary Ken Salazar signed a Record of Decision in October 2012 that designated 285,000 acres within 17 Solar Energy Zones for solar development, as well as some 19 million acres of variance land potentially available for development. The Department is moving forward on the 2013-14 active priority list, which includes 23 renewable energy projects (14 solar, 6 wind, and 3 geothermal) with a potential capacity to generate about 5,300 MW.

BOEM has taken a number of major steps to advance offshore wind development, including: approving the construction and operations plan for the Cape Wind project offshore Massachusetts, which has power purchase agreements for 75 percent of generation capacity; issuing a commercial wind energy lease offshore Delaware; completing steps to hold competitive wind energy lease sales in areas offshore Rhode Island, Massachusetts, and Virginia in 2013, with additional competitive lease sales to follow for wind energy areas offshore Maryland, New Jersey, and Massachusetts; and issuing formal requests to gauge interest in the areas offshore New York, North Carolina, and Maine. BOEM is also overseeing progress in the planning of a potential Mid-Atlantic Wind Energy Transmission Line, which would enable up to 6,000 MW of wind turbine capacity to be delivered to the electric grid along the East Coast.

Conclusion

The Obama Administration and the Department of the Interior are working to secure our energy future by ensuring that our domestic energy resources are safely and responsibly developed, and that the potential for clean energy development on our public lands and waters is realized. The Department, through its policies, priorities, and project work, has taken a balanced approach, and it is an approach that works.

Again, thank you for the opportunity to discuss the Department of the Interior's policies and programs on energy production from Federal lands and the OCS. I will be pleased to answer any questions that you or the Committee may have.

Mr. LANKFORD. Thank you.
Mr. Rusco.

STATEMENT OF FRANK RUSCO

Mr. RUSCO. Thank you, Chairman Lankford, Ranking Member Speier, and members of the subcommittee. I am pleased to speak with you today about the Department of the Interior's management of oil and gas produced on public lands and waters.

Interior manages the leasing of public lands and waters for oil and gas exploration development and production. These activities provide an important domestic source of energy, create jobs in the oil and gas industry, and raise revenues that are shared between Federal, State, and tribal governments.

Revenue generated from oil and gas produced from Federal leases is one of the largest non-tax sources of Federal Government funds, accounting for about $10 billion in revenues annually in recent years.

It is important that Interior strikes the right balance between providing access to oil and gas resources, while also making the Nation's lands and waters available for multiple other uses, including recreation, agriculture, fishing, mining, and forestry. In addition, Interior is responsible for protecting the environment and for enforcing Federal laws and regulations on public lands and waters.

In recent years, GAO has undertaken many evaluations of Interior's management of Federal oil and gas activities and found numerous material weaknesses. These weaknesses hamper the agency's ability to strike the right balance between encouraging domestic oil and gas production on the one hand and, on the other, maintaining operational and environmental safety while providing reasonable assurance that the public is getting the revenues to which it is entitled.

I will focus the remainder of my remarks on these areas of concern.

In 2012, we reported on changes to Interior's oversight of offshore oil and gas activities in the Gulf of Mexico. These changes were brought about, in part, as a result of findings of inadequate environmental and safety oversight in the Gulf, as well as the need to better oversee drilling plans and evaluate the performance of offshore oil and gas operators. In that report we found that these changes to oversight had initially led to increased permitting time frames. At the time, we reported these time frames had begun to fall as oil and gas industry and Interior became more familiar with the new processes.

We also found that Interior was not collecting data needed to identify and evaluate safety and other violations its inspectors encountered on offshore drilling rigs and production platforms. We made a number of recommendations aimed at improving Interior's oversight and permitting processes. Interior generally agreed with our recommendations and is taking steps to implement them.

In a 2010 report to Chairman Issa of the full Committee on Oversight and Government Reform, we found that Interior has been unable to complete production inspections, maintain reliable royalty and production data, and provide reasonable assurance that the public is receiving its fair share of oil and gas revenues. Specifi-

cally, in the 2010 report we found that Interior has had long-standing challenges in hiring, training, and retaining staff in key skilled positions.

For example, we reported that Interior experienced high turnover rates in key oil and gas inspection and engineering jobs. In addition to hampering production verification efforts, these human capital challenges resulted in delays in issuing leases and permits, and have caused Interior to miss its statutory and agency goals for performing safety and environmental inspections of oil and gas on Federal leases.

In a 2009 report we found that Interior lacked consistent and reliable data on the production and sale of oil and gas from public lands and, therefore, cannot provide reasonable assurance that it was appropriately assessing and collecting royalties.

In 2008 we found that Interior had not comprehensively evaluated its revenue collection structure in over 25 years, despite many important changes in the oil and gas industry during that time.

Based on this body of work, we have made numerous recommendations to Interior to improve its oversight of oil and gas produced on Federal leases. Interior generally agreed with our recommendations and has made good progress in implementing many of them. However, its management challenges are great and we have ongoing work looking at revenue collection efforts, as well as Interior's persistent human capital challenges.

In closing, it is essential that Interior continue to improve its management of oil and gas produced on Federal leases and address its material weaknesses. The agency must be able to provide Congress and the public with reasonable assurance that billions of dollars of revenues owed the public are being properly assessed and collected. Also, Interior must maintain an appropriate balance between efficiency and timeliness in leasing and permitting on one hand, and protection of the environment and operational safety on the other.

Thank you for the opportunity to speak about these issues. I will be happy to respond to any questions you may have.

[Prepared statement of Mr. Rusco follows:]

United States Government Accountability Office

Testimony

Before the Subcommittee on Energy Policy, Health Care, and Entitlements, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:30 a.m. EDT
Thursday, May 16, 2013

OIL AND GAS MANAGEMENT

Continued Attention to Interior's Revenue Collection and Human Capital Challenges Is Needed

Statement of Frank Rusco, Director
Natural Resources and Environment

GAO-13-647T

May 2013

GAO Highlights

OIL AND GAS MANAGEMENT

Continued Attention to Interior's Revenue Collection and Human Capital Challenges Is Needed

Highlights of GAO-13-647T, a testimony before the Subcommittee on Energy Policy, Health Care, and Entitlements, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Interior issues permits for the development of new oil and gas wells on federal lands and waters; inspects wells to ensure compliance with environmental, safety, and other regulations; and collects royalties from companies that sell the oil and gas produced from those wells. In recent years, onshore and offshore federal leases produced a substantial portion of the oil and gas produced in the United States. In fiscal year 2012, Interior collected almost $12 billion in mineral revenues including those from oil and gas development, making it one of the largest nontax sources of federal government funds. Previous GAO work has raised concerns about Interior's management and oversight of federal oil and gas resources.

This testimony focuses on (1) Interior's oversight of offshore oil and gas resources, (2) Interior's collection of oil and gas revenues, and (3) Interior's progress to address concerns that resulted in its inclusion on GAO's High Risk List in 2011. This statement is based on prior GAO reports issued from September 2008 through February 2013.

GAO is making no new recommendations. Interior continues to act on the recommendations that GAO has made to improve the management of oil and gas resources. GAO continues to monitor Interior's implementation of these recommendations.

View GAO-13-647T. For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

What GAO Found

Interior's oversight of offshore resources. In July 2012, GAO reported on changes to the Department of the Interior's oversight of offshore oil and gas activities in the Gulf of Mexico following the *Deepwater Horizon* incident. Specifically, GAO reported that Interior had established two new bureaus, separating resource management oversight activities from safety and environmental oversight activities. GAO also reported that new requirements and policy changes designed to mitigate risk of a well blowout or spill had initially required additional resources and increased permit approval times, but that approval times decreased as Interior staff and oil and gas companies became more familiar with the new requirements. GAO also found that Interior's inspections of offshore Gulf of Mexico drilling rigs and production platforms routinely identified violations, but that Interior's database was missing data on when violations were identified and corrected. GAO made 11 recommendations aimed at improving Interior's oversight activities. Interior generally agreed with the recommendations and plans to implement them.

Interior's collection of oil and gas revenues. In September 2008, GAO reported that Interior collected lower levels of revenues for oil and gas production in the deep water of the U.S. Gulf of Mexico than all but 11 of 104 oil and gas resource owners in other countries and some states. In July 2009, GAO reported on problems with Interior's efforts to collect data on oil and gas produced on federal lands, including missing and erroneous data. In March 2010, GAO reported that Interior was not taking needed steps to ensure that oil and gas produced from federal lands was accurately measured and was not consistently meeting its goals for oil and gas production verification inspections. GAO made numerous recommendations aimed at improving Interior's revenue collection policies, including oversight of production verification activities and controls on the accuracy and reliability of royalty data. Interior generally agreed with these recommendations and has implemented many of them.

Interior's oil and gas management on GAO's high risk list. In February 2011, GAO added Interior's management of federal oil and gas resources to its list of federal programs and operations at high risk for waste, fraud, abuse, and mismanagement or needing broad-based transformation. GAO added this high risk area because Interior (1) did not have reasonable assurance that it was collecting its share of revenues; (2) continued to experience problems hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations; and (3) was engaged in a broad agency reorganization that could adversely impact its ability to effectively manage oil and gas during the crisis following the *Deepwater Horizon* incident. In February 2013, after Interior completed its reorganization, GAO narrowed the oil and gas high-risk area to focus on revenue collection and human capital challenges and is currently examining these issues. While Interior has begun to implement many of GAO's recommendations, it has yet to fully implement a number of others, including recommendations intended to (1) provide reasonable assurance that oil and gas is accurately measured, and that the public is getting an appropriate share of revenues, and (2) address its long-standing human capital issues.

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Chairman Lankford, Ranking Member Speier, and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of the Interior's management and oversight of federal oil and gas resources and collection of associated mineral revenues. Interior plays an important role in permitting the development of new oil and gas wells on federal lands and waters; inspecting those wells to ensure compliance with environmental, safety and other regulations; and collecting royalties from the companies that sell the oil and gas produced from those wells.

In recent years federal leases onshore and in offshore federal waters produced a substantial portion of the natural gas and oil produced in the United States. In 2012, onshore federal leases produced 13 percent of domestic natural gas and 5 percent of domestic oil, while in 2011—the most recent year for which data are available—offshore federal leases produced almost 24 percent of domestic natural gas and over 6 percent of domestic oil. In fiscal year 2012, the federal government collected almost $12 billion in mineral revenues, including those from oil and gas produced from federal lands and waters, bonus bids for new oil and gas leases, and annual rents on existing leases.[1] Revenues from federal oil and gas are one of the largest nontax sources of federal government funds—and, as we have previously reported, improvements in the management of federal oil and gas resources could provide an important source of potential revenue enhancements as the government faces fiscal challenges.[2]

Several Interior bureaus are responsible for regulating the processes that oil and gas companies must follow when leasing, drilling, and producing oil and gas from federal leases. The bureaus are also responsible for ensuring that companies comply with all applicable requirements. Historically, Interior's Bureau of Land Management (BLM) managed onshore federal oil and gas activities, while the Minerals Management Service (MMS) managed offshore activities and collected royalties on

[1]Readily available data from Interior for nonroyalty revenue—such as rents and bonus bids—include revenue from all minerals, including oil and gas, coal, and other resources.

[2]GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: March 2011).

federal leases.[3] In May 2010, in the aftermath of the *Deepwater Horizon* incident, the Secretary of the Interior announced plans to reorganize MMS and divide its responsibilities among separate bureaus. The Secretary stated that this division of responsibilities would help ensure that each of the newly established bureaus would have a distinct and independent mission. Since the reorganization, BLM continues to oversee onshore federal oil and gas activities, the Bureau of Ocean Energy Management oversees offshore oil and gas leasing, the Bureau of Safety and Environmental Enforcement reviews drilling permits and conducts inspections, and the Office of Natural Resources Revenue is responsible for collecting royalties on oil and gas produced from both onshore and offshore federal leases.

Interior's management of federal oil and gas activities has been a focus of a large body of our work over the past several years. In our resulting reports, we noted numerous weaknesses and challenges, and we made specific recommendations to Interior for addressing them. In February 2011, we added Interior's management of federal oil and gas resources to our list of federal programs and operations at high risk for waste, fraud, abuse, and mismanagement or needing broad-based transformation.[4] Since that time, Interior has taken significant steps to address identified weaknesses and modify its practices for managing oil and gas resources but, as of May 2013, many of our recommendations remained unimplemented.

In this context, my testimony today discusses findings from our past work on three broad areas: (1) Interior's oversight of offshore oil and gas resources, (2) Interior's collection of oil and gas revenues, and (3) Interior's progress to address concerns that resulted in its inclusion on our High Risk List in 2011. This statement is based on our extensive body of work on Interior's oil and gas leasing and royalty collection programs, including reports issued from September 2008 through February 2013. We conducted the performance audit work that supports this statement in accordance with generally accepted government auditing standards.

[3]MMS's Offshore Energy and Minerals Management oversaw offshore oil and gas activities, while its Minerals Revenue Management was responsible for royalty collections from both onshore and offshore federal leases.

[4]GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

Additional information on our scope and methodology is available in each issued product.

Interior's Oversight of Offshore Oil and Gas Resources

In July 2012, we reported on changes Interior made to its oversight of offshore oil and gas activities in the Gulf of Mexico in the aftermath of the *Deepwater Horizon* incident.[5] Specifically, we reported that

- On October 1, 2011, Interior officially established two new bureaus, separating offshore resource management oversight activities, such as reviewing oil and gas exploration and development plans, from safety and environmental oversight activities, such as reviewing drilling permits and inspecting drilling rigs. Because the responsibilities of these new bureaus are closely interconnected, and carrying them out will depend on effective coordination, Interior developed memoranda and standard operating procedures to define roles and responsibilities and facilitate and formalize coordination.
- New safety and environmental requirements and policy changes designed to mitigate the risk of a well blowout or spill initially required Interior to devote additional resources and time to reviewing certain oil and gas exploration and development plans and drilling permits for oil and gas activities in the Gulf of Mexico. Specifically, these policy changes affected Interior's (1) environmental analyses, (2) reviews of oil and gas exploration and development plans, and (3) reviews of oil and gas drilling permits. Our analysis of drilling permit approval time frames found that approval times initially increased after the new requirements went into effect, but as both Interior staff and oil and gas companies became more familiar with these requirements, the review times decreased.
- Interior's inspections of offshore Gulf of Mexico oil and gas drilling rigs and production platforms from January 1, 2000, through September 30, 2011, routinely identified violations. However, Interior's database was missing data on when violations were identified, as well as when they were corrected for about half of the violations issued. As a result, Interior did not know on a real-time basis whether or when all violations were identified and corrected, potentially allowing unsafe conditions to continue for extended periods. During this same period,

[5]GAO, *Oil and Gas Management: Interior's Reorganization Complete but Challenges Remain in Implementing New Requirements*, GAO-12-423 (Washington, D.C.: July 30, 2012).

Interior issued approximately $18 million in civil penalty assessments. At the time of our report, Interior had begun implementing a number of policy changes to improve both its inspection and civil penalty programs—but had not assessed how these changes would affect its ability to conduct monthly drilling rig inspections.

- Interior continued to face challenges following its reorganization that may affect its ability to oversee oil and gas activities in the Gulf of Mexico. Specifically, Interior's capacity to identify and evaluate risks associated with drilling remained limited, raising questions about the effectiveness with which it allocated its oversight resources. Interior also experienced difficulties in implementing effective information technology systems, such as those that aid its reviews of oil and gas companies' exploration and development plans. It also continued to face workforce planning challenges, including hiring, retaining, and training staff. Moreover, Interior did not have current strategic plans to guide its information technology or workforce planning efforts.

Our July 2012 report resulted in 11 recommendations for specific improvements to Interior's oversight of offshore oil and gas activities, including those intended to improve its drilling inspection program and human capital planning. Interior generally agreed with our recommendations and has committed to implementing them.

Interior's Collection of Oil and Gas Revenues

Federal oil and gas resources generate billions of dollars annually in revenues that are shared among federal, state, and tribal governments; however, in several reviews over the past 5 years we found Interior may not be properly assessing and collecting these revenues.

In September 2008, we reported that Interior collected lower levels of revenues for oil and gas production in the deepwater of the U.S. Gulf of Mexico than all but 11 of 104 oil and gas resource owners in other countries, as well as in some states whose revenue collection systems were evaluated in a comprehensive industry study.[6] In addition, despite significant changes in the oil and gas industry over the past several decades, we found that Interior had not systematically reexamined how the U.S. government is compensated for extraction of oil and gas in over 25 years. We recommended Interior conduct a comprehensive review of

[6]GAO, *Oil and Gas Royalties: The Federal System for Collecting Oil and Gas Revenues Needs Comprehensive Reassessment*, GAO-08-691 (Washington, D.C.: Sept. 3, 2008).

the federal oil and gas fiscal system using an independent panel. After Interior initially disagreed with our recommendations, we recommended that Congress consider directing the Secretary of the Interior to convene an independent panel to perform a comprehensive review of the federal oil and gas fiscal system and establish procedures to periodically evaluate the state of the fiscal system. In response to that recommendation, Interior commissioned a study that compared the U.S. government's fiscal system with that of other resource owners. We are currently conducting work to assess how Interior plans to use the results of this study to inform decisions about its fiscal system.

Furthermore, we reported, in July 2009, on numerous problems with Interior's efforts to collect data on oil and gas produced on federal lands, including missing data, errors in company-reported data on oil and gas production, and sales data that did not reflect prevailing market prices for oil and gas.[7] As a result of its lack of consistent and reliable data on the production and sale of oil and gas from federal lands, Interior could not provide reasonable assurance that it was assessing and collecting the appropriate amount of royalties on this production. We made a number of recommendations to Interior to improve controls on the accuracy and reliability of royalty data. Interior generally agreed with our recommendations and has implemented the majority of them.

We also reported, in March 2010, that Interior was not taking the steps needed to ensure that oil and gas produced from federal lands was accurately measured.[8] For example, we found that neither BLM nor MMS had consistently met their agency goals for oil and gas production verification inspections, intended to examine, among other things, whether lessees were taking steps to ensure that the amount of oil and gas produced from federal lands and waters was being accurately measured. Without such verification, Interior cannot provide reasonable assurance that the public is collecting its share of revenue from oil and gas development. We also raised concerns over Interior's efforts to develop software to allow inspection staff to remotely monitor gas

[7]GAO, *Mineral Revenues: MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties*, GAO-09-549 (Washington, D.C.: July 15, 2009).

[8]GAO, *Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes*, GAO-10-313 (Washington, D.C.: Mar. 15, 2010).

production. Specifically, we found that BLM's Remote Data Acquisition for Well Production program—a program designed to provide industry and government with common tools to validate production and to view production data in near real-time—had shown few results, despite 10 years of development and costs of over $1.5 million. Our March 2010 report identified 19 recommendations for specific improvements to oversight of production verification activities, including recommendations intended to strengthen BLM's production inspection program and its ability to obtain near real-time gas production data. Interior generally agreed with our recommendations; it has already implemented many of them and continues to work on the remainder.

Additionally, we reported, in October 2010, that Interior's data likely understated the amount of natural gas produced on federal leases, because the data did not quantify the amount of gas released directly to the atmosphere (vented) or burned (flared) during the production process.[9] This vented and flared gas represents lost royalties to the government and contributes to greenhouse gases. We recommended that Interior improve its data and address limitations in its regulations and guidance to reduce this lost gas. Interior generally agreed with our recommendations and is taking steps to implement them.

Interior's Oil and Gas Management on the High Risk List

In February 2011, we added Interior's management of federal oil and gas resources to our list of federal programs and operations at high risk for waste, fraud, abuse, and mismanagement or needing broad-based transformation.[10] We added Interior to the list because the department: (1) did not have reasonable assurance that it was collecting its share of revenue from oil and gas produced on federal lands; (2) continued to experience problems in hiring, training, and retaining sufficient staff to provide oversight and management of oil and gas operations on federal lands and waters; and (3) was engaged in a broad reorganization of both its offshore oil and gas management and revenue collection functions, leading to concerns about whether Interior could provide effective program oversight while undergoing such a broad reorganization.

[9]GAO, *Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases*, GAO-11-34 (Washington, D.C.: Oct. 29, 2010).

[10]GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February, 2011).

In the February 2013 update to our High Risk list,[11] we narrowed the federal oil and gas management high-risk area to focus on revenue collection and human capital challenges because Interior had completed its reorganization.

In order for GAO to remove the high-risk designation, Interior must successfully address the challenges we have identified, implement open recommendations, and meet its responsibilities to manage federal oil and gas resources in the public interest. While Interior recently began implementing a number of GAO recommendations, including those intended to improve the reliability of data necessary for determining royalties, the agency has yet to implement a number of other recommendations, including those intended to help the agency (1) provide reasonable assurance that oil and gas produced from federal leases is accurately measured and that the public is getting an appropriate share of oil and gas revenues and (2) address its long-standing human capital issues.

We are currently engaged in two reviews examining the remaining two high-risk issues. First, we are conducting a follow up review of Interior's collection of revenues from the production of oil and gas on federal lands and waters. As part of this review, we will examine Interior's progress, if any, in (1) ensuring the government is getting a fair return for federal oil and gas resources, (2) meeting agency targets for conducting oil and gas production verification inspections, and (3) providing greater assurance that oil and gas production and royalty data are consistent and reliable. Second, we are reviewing the extent to which Interior continues to face problems hiring, training, and retaining staff, and how any remaining problems affect Interior's ability to oversee oil and gas activities on federal lands and waters. As part of this effort, we will focus on the causes of Interior's human capital challenges, actions taken, and Interior's plans for measuring the effectiveness of corrective actions. In addition, while we have narrowed the focus of the high-risk area to revenue collection and human capital issues, we will, in the course of ongoing work on these issues, continue to consider Interior's reorganization and its affect on the agency's ability to oversee federal lands and waters.

[11]GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: February, 2013).

In conclusion, Interior's management of federal oil and gas resources is in transition. Our past work has found a wide range of weaknesses in Interior's oversight of federal oil and gas resources, ultimately resulting in its inclusion on our High Risk List in 2011. Since then, Interior has successfully implemented many recommendations and resolved one of the three concerns that led to its inclusion on the high risk list—the challenges associated with its reorganization. We remain hopeful that Interior will continue to implement the many remaining recommendations we have made, thereby providing greater assurance of effective oversight of federal oil and gas resources.

Chairman Lankford, Ranking Member Speier and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions that you or other Members of the Subcommittee may have at this time.

GAO Contact and Staff Acknowledgments

If you have any questions concerning this testimony, please contact me at (202) 512-3841 or ruscof@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Other individuals who made key contributions include Jon Ludwigson, Assistant Director; Christine Kehr, Assistant Director; Janice Ceperich; Glenn Fischer; Cindy Gilbert; Alison O'Neill; and Barbara Timmerman.

Mr. LANKFORD. Thank you.

I will recognize myself for five minutes for the first round of questioning.

Mr. Beaudreau, I am sure you are hearing all of this from Mr. Rusco as well on some of the recommendations, and I know that some of the recommendations have already been implemented and there is a process going on, but let me talk to you specifically on some of the Federal permitting issues.

Can you point to a State right now that is not doing a good job regulating oil and gas? Do you know of a State that is having an issue with that in their regulatory system?

Mr. BEAUDREAU. My concern is not with criticizing any particular State's regulatory and oversight regime with respect to oil and gas. My concern is with ensuring that the Interior Department, BLM specifically, fulfill its obligations under its statutes for Mineral Leasing Act and our broad responsibility for stewardship of Federal lands, which includes reconciling a host of multiple uses. It is embedded in our mission.

Mr. LANKFORD. Sure.

Mr. BEAUDREAU. So that is what we are focused on, is fulfilling our responsibilities under Federal law, not to criticize any particular State. That said, there are a lot of examples within States, Wyoming, Colorado, just to name two, that have best practices that we can draw on in utilizing our oversight as well.

Mr. LANKFORD. So the question is, from what Mr. Rusco is mentioning, there are serious issues right now with human capital, I think was the term that you used, of just managing what we have now, and then the concern is that Interior is looking to then add also an additional fracking rule on top of that, what we already have. We already can't keep up with the permitting time periods, there are dramatic delays to try to get a basic permit; there are all kinds of human capital that is a problem managing now; and then we are talking about adding another layer on it from there.

I am trying to look for an issue here. They already receive a State permit to do exploration for energy; they already have standards they have to abide by. I am trying to figure out why add an additional responsibility when we are having a tough time keeping up with the previous responsibilities. Does that make sense?

Mr. BEAUDREAU. Yes. And there are a couple components to it.

Mr. LANKFORD. Okay.

Mr. BEAUDREAU. One is fulfilling our underlying responsibilities.

Mr. LANKFORD. But can that be delegated to a group? Do you have the authority to be able to say, okay, I am going to designate this person or certify this State or recognize a State that is doing a good job like you mentioned, Colorado or Wyoming or other areas, and say, okay, they are doing a great job, they are certified, they have it?

Mr. BEAUDREAU. To frame it slightly differently, we can't delegate that authority, but we can draw from best practices being used by States like Colorado, like Wyoming. So I think there is something to that and, frankly, that is something we are considering in the context of our re-proposed hydrofracking rule.

The second issue, and you alluded to it in your opening, is a resource allocation issue. We need greater flexibility to be able to di-

rect BLM's permitting resources to areas with demand. Your map shows it. North Dakota: tremendous demand, tremendous opportunity. BLM's resources aren't properly aligned to meet that opportunity and that demand. And part of what we would like, and part of what Secretary Jewell has already talked about, is greater flexibility to match up with a very nimble industry in the oil and gas industry.

Mr. LANKFORD. Is that something that is explainable when you look at that map of North Dakota, to try to figure out why there is so much energy exploration around Federal lands, rather than on Federal lands, I mean, literally stationing wells on the border on private lands all the way around it at times?

Mr. BEAUDREAU. I think there are a couple dimensions to it. I think there is the resource issue that we have discussed. I also think there is, in general, because of this multiple use mission that we have on Federal lands and because the American people have a lot of different interests in how Federal lands are used, we have to manage those potential conflicts and do our best to, very early in the process, de-conflict those areas so that they don't get tied up in litigation.

Mr. LANKFORD. So how do States manage that and we don't? Is there something that we can fix legislatively to be able to repair that, or is it some new authority you need, or just a reorganization within the structure itself?

Mr. BEAUDREAU. I think we have undertaken substantial reforms of our leasing process. We brought protest rates way down over recent years because of the reforms. So part of it is public engagement; part of it is the reforms that we have put in; and part of it, and I do think Congress can help with this, is additional flexibility in providing us resources and with how we use those resources.

Mr. LANKFORD. Okay. We will follow up on that in a moment, then, and come back from there.

Let me yield to the ranking member, Ms. Speier.

Ms. SPEIER. Thank you, Mr. Chairman.

Secretary Beaudreau, 76 percent of the offshore acres leased for development already are not being used for oil extraction. How many acres has the Department actually leased out of the total Federal estate?

Mr. BEAUDREAU. I don't have that precise number. What I can speak to is some of the reasons why that happens and some of the reforms we put in place to encourage diligent development of leases acreage.

Ms. SPEIER. Well, let me just ask the questions and see where we go from there, and maybe you can incorporate that answer.

I am trying to find out whether this is a anti-competitive action that we are allowing to take place under our watch, where some companies are buying up leases, not actually drilling on them, but setting it up so at some future time they have access to them and no one else can. So I want to know about whether or not we should create some kind of rule around use it or lose it, because these leases go on for how long?

Mr. BEAUDREAU. It depends. There is variability under OCSLA and how long the leases can be issued for. The maximum is 10 years. So we are quite concerned with diligence, with operators

using drilling, the lease holdings that they have. It is for those reasons that, with respect to offshore leasing, we have implemented a number of reforms in that area as well, including increasing the minimum bid that an operator has to put on the table to acquire an acre of OCS property or lease. We have increased that minimum bid from $35 historically to $100 today, and I think what we have seen over the last couple lease sales in the Gulf of Mexico is the impact of this focus on diligence.

We are not seeing broad acquisition of acreage; we are seeing much more focus on highly prospective areas, and that is encouraging because we want to see investment in areas that are prospective and we want to see operators drill those areas and bring it into production.

Ms. SPEIER. Okay, in 1996 Congress attempted to encourage deepwater drilling. Do we need to encourage deepwater drilling today?

Mr. BEAUDREAU. If the reference is to royalty relief, I don't believe any form of royalty relief with respect to offshore oil and gas is appropriate. Our current leases do not include royalty relief.

Ms. SPEIER. Okay. I want to talk about the 24 companies that pay no royalties for the leases they have. Who are they?

Mr. BEAUDREAU. I can't list for you the companies, but they are the companies who purchase leases under a regime that provided royalty relief. Some of those leases are in production now.

Ms. SPEIER. Are these big companies?

Mr. BEAUDREAU. Some of them are, yes.

Ms. SPEIER. Are they the Exxons, the Mobils, the Standard Oils? Are these big companies that have these oil-free leases?

Mr. BEAUDREAU. Some of them are, yes.

Ms. SPEIER. I mean these royalty-free leases?

Mr. BEAUDREAU. Royalty-free. Some of them are. Some of them have lease contracts that provide for royalty relief under their leases, and that is a legal obligation that we are stuck with.

Ms. SPEIER. And how long are those leases good for?

Mr. BEAUDREAU. Again, variability. Once those leases are brought into production, the term is indefinite as long as the lease is producing.

Ms. SPEIER. So they have an indefinite lease to drill oil and pay no royalties to the taxpayers of this Country?

Mr. BEAUDREAU. Under their lease contract, under those legal terms that were in effect at the time they acquired their lease, yes, as long as they are producing from that lease, those terms apply including, the royalty relief.

Ms. SPEIER. Am I the only one who thinks that is a little outrageous?

Mr. HASTINGS. Would the gentlelady yield?

Ms. SPEIER. Yes. I would be happy to.

Mr. HASTINGS. Well, the question you ought to ask is why did the administration in charge then let those leases out. I mean, a contract is a contract.

Ms. SPEIER. I understand that.

Mr. HASTINGS. And while there may be some concerns about that, I think that the question is why were the leases let out in the first place.

Ms. SPEIER. Evidently, the leases were made at that point in time to encourage this deepwater drilling, I am assuming. Is that correct?

Mr. BEAUDREAU. I wasn't here then, and that is not the policy that I would favor today, let me put it that way.

Ms. SPEIER. All right, so my time is about to expire, but when these leases are granted and then they don't act upon them, is there any cost to the Department?

Mr. BEAUDREAU. So, in general, again, our policy is to encourage diligence, because we want to see acreage that we lease brought into production. We do collect rentals during the period, during the term of the lease prior to production, but I think there is an opportunity cost when we see investment in acreage that isn't drilled, isn't brought into production, as opposed to acreage that is more prospective. So in that sense I think there is an opportunity cost to the American people there.

Ms. SPEIER. I yield back.

Mr. LANKFORD. Thank you.

Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman.

Mr. Beaudreau, in the current law there is a use it or lose it provision, correct? The Secretary of Interior has the power to cancel a lease if they don't produce within 10 years?

Mr. BEAUDREAU. There are diligence requirements within the lease. You have to drill a well under the lease within the lease term or the lease expires.

Mr. CHAFFETZ. So there are use it or lose it. A hundred percent of everything that is leased does not actually get into production, right, because there isn't necessarily the assets below the ground that we thought there were going to be, correct?

Mr. BEAUDREAU. That is a geologically true statement, yes.

Mr. CHAFFETZ. And getting into production, I mean, it is not as if, once you get the lease, you can just flip on the switch, right? These things can take years, up to 10 years, to actually get into production, correct?

Mr. BEAUDREAU. That is correct. And in some of the high-value prospective areas that are emerging in the Gulf of Mexico, for example, there is a lot of assessment and work a company has to do before those areas can be brought into production. That is true.

Mr. CHAFFETZ. Secretary Jewell has testified in her confirmation hearing that there was a need for "balance between conservation and energy development on public lands." My understanding is that less than 6 percent of all land actually has oil and gas production on it. Is that number correct, less than 6 percent?

Mr. BEAUDREAU. To talk about sort of areas, sort of broadly is difficult; different areas have different resources.

Mr. CHAFFETZ. Statistically, though, we are able to look at the acres that are open for drilling. I mean, it is a fairly easy statistical thing. I will take your word for it if you don't have that number right in front of you, but the point I guess I would like to make is that less than 6 percent of the land in this so-called balanced approach is actually open to oil and gas drilling.

Let me move on, because my time is eroding here. I really would like to explore the personnel challenges that Mr. Rusco highlighted.

I don't know if I have time to go deep into this, but one of the concerns here is the number of new leases. Let me kind of read some statistics and see if you think there is any problem.

Between the fiscal years of 2009 and 2011, the number of new leases offered by the Department of Interior fell by 42 percent. In Utah we had a drop of nearly 64 percent, and you can see the concern because these numbers really bear out over the next 10 years, they don't necessarily show up in the immediate time. So why is the number of leases dropping so dramatically at the time that our Country needs so much energy production?

Mr. BEAUDREAU. So there are currently 49,000 oil and gas leases on Federal land. Twenty-three thousand of those leases are producing. So again, on the issue of leasing reform to try to encourage onshore development, reduce conflict, we have focused very intensely on de-conflicting those areas so that, when leases occur, when we issue leases, operators have a much easier time, much more straightforward without objection, without lawsuits, to operating those leases.

Mr. CHAFFETZ. Okay, well, if that is true, then why, in 2007, of the approved 7,124 permits had an average time of 196 days to get through the process. In 2012 you only approved 4,256 permits, with an average time of 228 days. So States will take 10 to 15 days to go through this approval process, but you are actually approving a lot less permits and it is taking more time.

Mr. BEAUDREAU. So on the general point of improving the process, trying to reduce times within recognition of our responsibilities for stewardship of Federal lands, I agree with you, I think there is an opportunity, and I think BLM embraces this, I think there is an opportunity to bring greater efficiency to the permitting process. There are dimensions to that; resources is part of it, aligning ourselves with industry on what the opportunities are part of it, bringing greater efficiency——

Mr. CHAFFETZ. Help with the resources, because I am going to run out of time here. If you are going from 7,000 permits down to 4,200 permits and you are taking an extra 30 days to do it, explain to me the personnel changes between 2007 and 2012. Do you have less personnel? Do you have more personnel? Is there a turnover problem?

Mr. BEAUDREAU. Well, GAO has been very helpful in pointing this out. We do have challenges recruiting petroleum engineers, for example, the people involved in permitting that activity; there is a lot of competition for those folks, including with industry. That is a general problem. There are opportunities for greater efficiencies. Introducing an electronic system, a straightforward system could shave weeks off of permitting times. We are open to that, we want that to happen, and it is something Secretary Jewell has already focused quite specifically on.

Mr. CHAFFETZ. Do you know do you have less people or more people?

My time has expired, I yield back, but if the gentleman could answer do we have more personnel or less personnel than we did in 2007.

Mr. BEAUDREAU. I can't answer that specifically, but I know personnel challenges are a persistent issue, well documented by us and by the GAO.

Mr. CHAFFETZ. If you could help get back to us, that would be great.

Thanks, chairman. Appreciate everybody's indulgence.

Mr. LANKFORD. Thank you.

Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much, Mr. Chairman.

I would like to turn just for a couple seconds to offshore. As I hear from some of our Texans involved in offshore drilling, there was, in the past, back when it was MMS and BOEMRE, there was a much more cooperative attitude between the regulators and the drillers. Oftentimes, when a drilling rig would become available on short notice, permits could be pushed through rapidly. Now the permitting process is taking much longer and, in fact, sometimes permits aren't being issued until one or two days before the proposed drilling date, and the reports that I have heard anecdotally are the Government is actually sitting on these permits until right before because they are thinking there might be a change in the law. Doesn't it seem like you ought to issue the permits when they are done under current law, and deal with changes in regulations when and if they actually happen?

Mr. BEAUDREAU. So following the Deepwater Horizon spill, part of what we did is we introduced very strong, heightened standards around drilling safety and environmental protection. It is true that for a period of time after the introduction of those standards there was uncertainty around the permitting process and permits did take a long time to issue. We are three years removed from that. I met with oil and gas CEOs, along with Secretary Jewell, just last week in Houston, at OTC, and I think what we have seen, and this has not been by accident, has been the product of a lot of hard work and close engagement with industry is a much more predictable permitting time frame, and time lines for issuing permits have dropped dramatically over time. So to answer sort of the last point you made about whether we are intentionally sitting on permits in anticipation of regulatory changes, I will tell you that is absolutely not true.

Mr. FARENTHOLD. Great. That is reassuring to hear. As a result of the Deepwater Horizon, BSEE is also looking at new regulations with respect to blowout preventers. Do we have any idea how that is coming along and when we can expect to see something?

Mr. BEAUDREAU. The BOP rule, obviously coming out of McConda, one of the central issues was the performance of the Deepwater Horizon blowout preventer. That was a focus of the President's commission review, as well as DOIs investigation, and there is substantial need for continued improvement with respect to BOPs. We put in some rules already. The BOP rule is a high priority for BSEE. I would expect the draft rule to be published sometime this year.

Mr. FARENTHOLD. I know the producers are looking forward to knowing what they have to deal with, so the sooner that comes down——

Mr. BEAUDREAU. And we look forward to engaging on it. Part of what we need to do is continue engagement with industry around these rules.

Mr. FARENTHOLD. All right. I want to get to some of the things that some of the other questions have dealt with, specifically dealing with the allegation that oil and gas producers are sitting on their Federal leases. What I tend to hear is there is a permitting issue and it takes them a real long time to get a permit. Now, I also hear that there are reports that there are 6,000 approved, but unused drilling permits. Are you aware of the reporting of that number of unused permits, we are counting ones that have gone beyond the two year deadline in the permit and actually aren't still under an active permit?

Mr. BEAUDREAU. I am aware that there are a substantial number of APDs that BLM has approved that have not been drilled on. That is part of what we are focused on, is how are we using our resources. Are we lining up our resources with opportunities that industry wants to pursue? They are waiting for permits in those areas while, in the meantime, we are approving permits that don't get drilled. That doesn't make sense.

Mr. FARENTHOLD. I want to get to that number again, because I think there is an issue there. Are you all counting, in that 6,000 number, coal bed methane that nobody is really doing anymore?

Mr. BEAUDREAU. I can look into that for you.

Mr. FARENTHOLD. I would appreciate it. Now, are you aware of a problem with unused, undrilled leases and unused permits on State land, as opposed to Federal land?

Mr. BEAUDREAU. I am not familiar with that issue, no.

Mr. FARENTHOLD. I think you will find that you don't have nearly the problem on State land that we do on Federal land.

I see my time has expired. I yield back.

Mr. LANKFORD. Thank you.

Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman, and thank you for having this hearing.

Mr. Beaudreau, good seeing you again.

Mr. Rusco, I know you have been very quiet. I don't have a question for you, either.

Mr. BEAUDREAU. I was just thinking he needs more questions.

Mr. HASTINGS. Mr. Beaudreau, I noticed in your testimony, which, of course, is much longer, your written testimony, which is much longer than your oral testimony, you made no mention of the impending rule on hydraulic fracking. You mentioned it just briefly in reference to Mr. Lankford. Why didn't you mention that in your testimony?

Mr. BEAUDREAU. My understanding of the purpose of the hearing was to talk about resource access, so I wanted to address that in my written testimony. I am happy to talk about where things stand with hydrofracking.

Mr. HASTINGS. Where does it stand?

Mr. BEAUDREAU. The publication of the revised proposed rule is imminent; not a matter of months, a matter of days.

Mr. HASTINGS. We heard it is going to be this afternoon.

Mr. BEAUDREAU. That may be true. I don't know.

Mr. HASTINGS. Well, if it is, would you convey to Secretary Jewell that, as chairman of the Natural Resources Committee, we would very much like her to be there to discuss the rule and the potential impacts of that rule?

Mr. BEAUDREAU. I will convey that, yes.

Mr. HASTINGS. If you will.

Now, were you personally involved at all in that writing of that regulation, the fracking rule?

Mr. BEAUDREAU. I, in my capacity as acting ASLM, have reviewed the rule. I didn't personally draft any of it, but I have reviewed it.

Mr. HASTINGS. You say you personally drafted part of it?

Mr. BEAUDREAU. No, I have not personally drafted it; I have reviewed it.

Mr. HASTINGS. Okay.

Mr. BEAUDREAU. It will be published soon. As far as I know, it is not final yet, but it will be published soon and I have reviewed it.

Mr. HASTINGS. Well, we have heard 3:00.

One issue, though, in that that I do want to ask you regarding, and that is there have been different costs of what the rule would cost an individual well. Your Department has at least made public said that they thought that cost would be about $11,000 a well, yet other analysts, independent analysts, have looked at that and they say that the cost could be $200,000 and maybe as high as $375,000 per well. Why would you think that, within the industry, there would be that big of a discrepancy?

Mr. BEAUDREAU. I think part of what we are asking for comment on in republishing the rule is on the economic impacts of the rule. So I think there probably is a range of potential costs associated with compliance of the rule depending on the complexity of the well, depending on the technology being used, depending on the overall drilling program.

Mr. HASTINGS. Not to get ahead of the game, but going through that analysis, your $11,000 figure could rise, is that correct?

Mr. BEAUDREAU. Part of what we want is we want an understanding of industry's reaction to the cost analysis, the economic analysis that is in the report, and I look forward to getting that.

Mr. HASTINGS. I always say because what has been sent out thus far was your $11,000 and independent analysts 20 times that.

Mr. BEAUDREAU. There is some economic analysis in the revised proposed rule.

Mr. HASTINGS. All right. I only have a minute here. I want to talk about the national petroleum reserve in Alaska. As you know, with your new regulations that came out, there is overwhelming opposition to that, and, yet, you state or imply in your testimony that there be more access to NPRA. Keep in mind, NPRA was put in place in the 1920s as a reserve. Your new rule, it looks to me like, restricts the use of NPRA in particularly those areas in the eastern part of NPRA, where the most potential resources exist. Would you comment on that?

Mr. BEAUDREAU. Based on our current understanding of the geology, the areas available for potential oil and gas leasing in NPRA cover 70 percent of the resource potential.

Mr. HASTINGS. Wasn't NPRA designed to have 100 percent?

Mr. BEAUDREAU. NPRA includes, among other things, extremely sensitive——

Mr. HASTINGS. Wait, wait. I didn't ask you that question. One could debate that question, because that debate goes on with ANWR forever. Was not NPR set aside 100 percent as the potential reserve?

Mr. BEAUDREAU. NPRA includes reserve around oil and gas, that is potential development that is included in the plan.

Mr. HASTINGS. Right.

Mr. BEAUDREAU. We also, under the law, have responsibility, consistent with our general resource management, land management responsibility, to conserve those sensitive resources, and other interests as well.

Mr. HASTINGS. My time has expired, but just briefly, if I may, Mr. Chairman.

Why do you suppose there is so much opposition from the people in Alaska on your rule on NPRA?

Mr. BEAUDREAU. As an Alaskan myself, I understand and I appreciate the concern for resource development; it is the life blood of the economy of that state, it is what I grew up with. I also appreciate concern for the conservation of resources and habitat. Among the Alaska natives, for example, on the North Slope, there is substantial concern about caribou herd, about migratory animals, and the potential impact of oil or gas activity on those uses as well.

Mr. HASTINGS. My time has expired. I could go on, but thank you very much, Mr. Beaudreau.

Mr. LANKFORD. Thank you.

Mr. Walberg.

Mr. WALBERG. Thank you, Mr. Chairman.

I thank the panel for being here. Issue of great importance.

Mr. Beaudreau, there appears to be at least 20 projects on Federal lands that have been undergoing the NEPA process for two, three, even five years. These projects would have created, according to a study commissioned by the Western Energy Alliance, would have created hundreds of thousands of jobs, billions in wages, and billions more in economic activity. In fact, it is indicated by 2020 that the resources that would have been developed from these projects would have produced as much oil and natural gas potentially as what the U.S. imports from Russia, Iraq, Kuwait, Saudi Arabia, Venezuela, Algeria, Nigeria, and Colombia combined.

Now, if they are off by one country, it is still an awful lot. So let me ask you, with these 20 projects on Federal lands that have been undergoing NEPAs process for a significant number of years, why is it taking so long for the Department of Interior to perform this analysis?

Mr. BEAUDREAU. So I am not positive the specific 20 projects you are talking about, but, in general, part of our responsibility under our operating statutes is to analyze thoroughly the multitude of uses that are available on public lands. That includes energy development, oil and gas development, it includes other uses, and it includes responsibility for the protection of habitat, as well. So those

are complex issues. There is also a lot of potential for litigation and conflict. So that sets the stage for all of these analyses.

That said, I agree with you that for NEPA processes, as well as leasing or permitting processes, they should be efficient. And if there are ways to improve the efficiency to bring closure to those reviews, that is something that we are quite interested in doing.

Mr. WALBERG. Well, I would suggest that we may have some answers to that and the efficiencies if we look at what States do themselves, even in the length of permitting. For instance, North Dakota takes 10 days to get an oil and gas permit, 27 days in Colorado, 14 in my neighboring State of Ohio; whereas, it takes, on average, 228 days to get a Federal permit. Wouldn't it be far more efficient for the Federal Government to take on the best practices of the States in order to reduce the time?

Mr. BEAUDREAU. I agree that there are opportunities to consider and incorporate best practices from the States. Again, we have to do that within our broad responsibilities as stewards of Federal lands, so we have issues that we are responsible for that we have to fulfill. But there is opportunity to look at States for best practices, I agree.

Mr. WALBERG. Well, I would hope that that would be pushed up in a fast track, because, again, the States certainly have a concern about what goes on in their State. They want to make sure that all of the related issues, including animals, that the environment protection, the uses by humans for various recreational purposes, they are concerned about that as well; in fact, maybe more so individually as States than the Federal Government should be. So I question the fact that it takes significantly longer, inordinately long times for getting these permits to get in place resources that we have.

Could you tell us of any specific efforts moving toward?

Mr. BEAUDREAU. A couple I have mentioned already. We want to align better resources, align our resources better with the opportunities. We want to bring additional people onboard, and that is included in our budget request for 2014, a way to bring additional people onboard to help manage the workload. And I think there are a lot of opportunities modernizing our regulatory process, moving towards a more electronic system that, if implemented, can shave weeks off of the permitting process. So there is ample opportunity there.

Mr. WALBERG. Mr. Chairman, I yield back.

Mr. LANKFORD. Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

I want to go through some of the comments that have been made in the testimony from Mr. Beaudreau and make some comments on those.

One of the remarks that you made, Mr. Beaudreau, is that the amount of producing acreages and new wells is up and oil production rose by 18 percent since 2008, reaching its highest levels in a decade. You know, I would point out that it takes about five years after a lease has been issued to get wells in full production, so most of those wells were issued on Federal lands during the Bush era. The average number of new leases under the Obama Ad-

ministration represents a 35 percent decline compared to the Bush era, and a 52 percent decline compared to the Clinton era.

I would also point out that oil production on Federal lands is down 7 percent; natural gas production in Federal lands is down 23 percent; coal production on Federal lands is down 7.7 percent; uranium is stymied by BLM regulations; huge reserves of uranium have been locked away in Arizona.

I would also point out that your thoughts about approval of APDs that have not been filled represent a misunderstanding, I believe, of how this works. Industry pays the entire cost of acquiring an APD, so they don't really have an incentive to get an APD and not use it. You have to keep a steady stream of APDs in the pipeline, so to speak, to ensure future production, and I would point out that, in Wyoming, about 2400 of undrilled APDs exist; they are all in coal bed methane wells. The economics of drilling for coal bed methane have collapsed, so these wells are economically unviable. Hence, using the argument that industry held almost 7,000 approved APDs that had not been filled, thereby providing them with sufficient inventory into the future is simply economically erroneously.

Also, I would add my concern that while, even if BLM is using 77 days to complete an APD, the law requires that the BLM complete its APDs in 30 days. So 77 days is still in violation of the law. As has been pointed out previously, most States are able to do it in less than 30 days themselves, leaving one to ponder why BLM continues to violate the law in that regard.

Mr. Chairman, given all these facts and the fact that I see, in my State, where the vast majority of minerals are produced on Federal lands and that the Federal Government is, by far, the largest single landowner in the State, and that I see part of the reason that our unemployment remains low is that dozens and, in fact, hundreds of people that I know personally have pulled up stakes and gone to the Balkan in North Dakota to work in the oil and gas fields up there because that is their area of expertise, and that is where the production is and it is all on private land.

So can you really tell them that the Department of the Interior is doing all it can to produce domestic energy from public lands?

Mr. BEAUDREAU. So, as I have said during the course of my testimony, we are quite interested and quite committed to doing even more to encourage production from Federal lands, oil and gas production, coal production from Federal lands.

Mrs. LUMMIS. Sir, what specifically?

Mr. BEAUDREAU. As I have described, so, for example, talk about unused APDs. From my perspective, and I don't take issue with your description that companies need to make their own sort of capital decisions about when and where to drill and they want to have APDs in their pocket to give them flexibility, but from the standpoint of overseeing an agency that is resource constrained, I do have concerns. Why are we putting time and effort into or are we using our resources properly?

Mrs. LUMMIS. Sir, then why are we using BLM resources to designate things like blueways, which are not authorized by statute, as new, contrived ways to gain control over lands that are adjacent to waterways? Why are there BLM guidance on wildlands manage-

ment practices when the wildlands designation was never put into place, yet you are managing by those?

The problem here is that the Department of the Interior, I believe, is misallocating its resources.

Mr. Chairman, I yield back.

Mr. LANKFORD. Mr. Beaudreau, did you want to respond to that? I will let you respond.

Mr. BEAUDREAU. Only broadly to sort of reemphasize the point that I do believe there is substantial opportunity to better align the BLMs resources to be responsive to opportunities from industry, so that is something that we are very focused on. We want to bring resources into BLM for a host of reasons, including to be responsive to observations and recommendations from GAO. So I take your point. I don't want to argue it, only to say I do think there is opportunity to align our resources in a better way.

Mr. LANKFORD. There was a statement made earlier that it takes about 228 days to get a permit, on average. Is that you think is a typical permit for oil and gas wells? Is that the new number?

Mr. BEAUDREAU. I think there is variability in that, depending on what time points you look at and what region you look at.

Mr. LANKFORD. So it differs from office to office?

Mr. BEAUDREAU. Yes.

Mr. LANKFORD. Is it possible for this committee to get a copy, then, of the different time periods that it takes for each office? I am sure you have a master breakdown of all the offices, the time period it takes for each. To come up with an average of 228 days, there has to be a compilation of all of those somewhere. Can we get a copy of that by office?

Mr. BEAUDREAU. We can look into that. I am not sure what state the data is in right now, but we can provide something responsive to your request.

Mr. LANKFORD. Yes. We want to get something specifically by office so that we will know. My understanding is some offices are as short as 90 days. If that is so, then that means some offices are closer to 400 days.

Mr. BEAUDREAU. Without getting into the numbers, I am sure there is variability.

Mr. LANKFORD. Okay, great. We will look forward to getting a chance to get that.

Let's talk a little bit about the frac rule. Mr. Hastings brought that up as well. Talk me through the science behind that. There seems to be something that is working its way through the process. Why now, on creating a new frac rule on Federal lands?

Mr. BEAUDREAU. So, again, we have our responsibilities with respect to oversight of Federal lands, and some of the key areas that we are concerned with, that were reflected in the original proposed rule, will be carried through to the revised proposed rule, are basically three areas: one, disclosure of fracking fluids. And, again, there is a lot of good work being done in different States on this issue, and part of the reason why we took a step back to re-propose is to do further evaluation of those issues.

Mr. LANKFORD. Right. Something like FracFocus.

Mr. BEAUDREAU. Something like FracFocus, exactly. And whether that would sort of be useful and fit in a way to address the issue.

Second, well integrity issues to ensure and provide public confidence that there is not comingling between fracking fluids and aquifers and drinking water, again, within the theme of giving the public assurance that this activity can be done safely and responsibly.

And the third big area is managing and dealing with flowback, how that is managed and how that is contained.

So, again, the rule will be put out soon. Mr. Hastings suggests this afternoon. I knew it was imminent. That is when the Department is doing it.

Mr. LANKFORD. But is there a specific State that raises this to the top? That is what I am trying to figure out. It is obvious there has been a repetitive theme here: you are short of staff; you are short of resources; you are having difficulty keeping staff that are qualified to do this. So now we are expanding into a new area. Is there a State in particular that is driving this, that you would say because of this, they are not overseeing what is happening in their State, well, we need to step in and add another layer of something?

Mr. BEAUDREAU. Again, the perspective here isn't criticism of any particular State or any particular——

Mr. LANKFORD. But States all do that already, is that correct? So they are going to go through a State permitting process and State requirements to be able to drill, and then now there is going to be another layer of the Federal process as well?

Mr. BEAUDREAU. We want to have a process that is familiar to operators, that takes best practices from States in which operators work, but to have it apply uniformly across Federal lands. That is our responsibility and I think what you will see in the fracking rule is very commonsense, straightforward measures that address those three issues that I described that are primary concerns, but also are ways to address those concerns that are familiar to industry and that industry can comply with.

Mr. LANKFORD. So consistent fracking rules that would go all the way from Pennsylvania to New Mexico to Oklahoma to wherever?

Mr. BEAUDREAU. On Federal land.

Mr. LANKFORD. Okay. I am still struggling with one of the big issues here. Well, let me get into a separate issue, because if we have time we will mention this one last thing.

In California there seems to be an issue going on with some of the leasing. And my question is did BLM violate the Mineral Leasing Act of 1920 when they cancelled the sale in California?

Mr. BEAUDREAU. So those lease sale cancellations I think, was BLM, and this was a decision that came from the State office in California, and it was based on resources. It was, let's try to focus, in budget-constrained times, focus on permitting and issues under existing leases.

Mr. LANKFORD. Right. But the law actually states that you have to do that four times a year. Is there still a plan to catch up on that, to try to fulfill the requirements of the law as well?

Mr. BEAUDREAU. So I believe the office intends to have a lease sale before the end of the year. We are talking with the office about

ensuring that their leasing program and where they are in the leasing program is consistent with the requirements under the Mineral Leasing Act.

Mr. LANKFORD. But in your testimony you have a statement that you have accelerated some of the renewable processes in leasing. By the way, great, all that. I want to see all the permits and I want all the above coming out as well. All these need to be fixed on this. But I am a little confused on where we have resource issues where one that is a consistent sales process is now cancelled, saying we don't have enough money, and at the same time we are accelerating other permits. Can you help me balance those two out?

Mr. BEAUDREAU. Part of it is just different areas of expertise. In order to go through a permitting process with respect to oil and gas APDs and drilling permits, you need petroleum engineers. Those are people who are in high demand.

Mr. LANKFORD. So this is not necessarily a we don't have money because of sequestration or whatever it is, it is the people that you are lacking to be able to fulfill this.

Mr. BEAUDREAU. It is a combination of those things; it is resources where demand is from industry and it is also human capital and expertise. There are a lot of dimensions to this issue.

Mr. LANKFORD. Obvious requirement to fulfill the law in this as well.

Mr. BEAUDREAU. Yes.

Mr. LANKFORD. Ms. Speier.

Ms. SPEIER. Mr. Chairman, thank you.

On that issue, since it is California and I represent parts of California, those two leases were two small, I underscore small lease sales, and the importance here is to note that the two delayed lease sales would have auctioned off approximately 33,000 acres of public land. But what the industry has declined to say in their consternation about that was that over the last month the Bureau of Land Management auctioned off 132,941 acres of public lands in other States. So let's keep all of this in perspective.

And to follow up in terms of perspective, Mr. Chaffetz had asked a question on the amount of time it took to process APDs, and I can actually give you the data, secretary. BLM processing time has decreased. In fact, in 2006 it took 127 days; in 2011 it now takes 71 days. You now have the lowest number of pending APDs since 2004. So let's kind of stay focused on what is really going on.

Mr. Rusco, we have just ignored you, and it is time to ask you some questions. You stated that in September 2008 we reported that Interior collected lower levels of revenue for oil and gas production in the U.S. Gulf of Mexico than all but 11 of 104 oil and gas resource owners in the Country. So you are basically saying that our collection rate was lousy, if I am not mistaken.

Mr. RUSCO. We looked at a number of studies that had compared how much revenue was collected by other countries, by some States, and some private entities, and the Gulf of Mexico was definitely in the low end of that spectrum. It is important to say that since that report, the royalty rates in the Gulf of Mexico have been raised twice, so I am not sure what the current state would be if we looked at that.

Ms. SPEIER. So what is the cost of potential waste, fraud, and abuse in drilling of oil and gas and collection of royalties for those activities on Federal lands and water?

Mr. RUSCO. We can't make an estimate of that. What we found is that a number of processes, in particular data processes and clarity of data elements are lacking, and because of that you can't tell sometimes when there is something missing. We found that, systematically, Interior has missed inspection requirements for reviewing production verification and, therefore, you don't have assurance that oil and gas is being measured correctly and you also don't know whether it is being reported correctly.

We have made recommendations to fix a lot of those problems and Interior is taking steps to do so, but we are still in the process of looking at that.

Ms. SPEIER. So can GAO tell us how much additional revenue would have been paid if Interior had been utilizing the new technologies to locate and prevent venting and flaring of natural gas on Federal lands?

Mr. RUSCO. Not precisely, but we did find that the amount of methane that is vented in the process of gas production and oil production far exceeded what was reported by several percentage points difference, and if that were counted, then royalties would be due on that amount.

Ms. SPEIER. So you have now placed Interior and this particular revenue collecting function on your high-risk list for three years. It seems like they have been dragging their feet a lot in terms of implementing your recommendations. What additional recommendations do you think they should be embracing that they haven't, and what can we do as the chair and ranking member on this committee to assist you in making sure that the taxpayers in this Country get their money's worth from these leases?

Mr. RUSCO. I think that Interior has been very diligently addressing recommendations. What we are looking for is an overall strategic and high management level approach to addressing these problems. We want to see Interior taking a set of problems associated, say, with their IT systems and their data, and we want them to say this is strategically how we are going to deal with this, not addressing one recommendation here and one recommendation there.

We need the same thing in terms of a workforce plan, a strategic plan for addressing human capital issues. It has been mentioned that the resources aren't always where they are needed. There has been a big revolution in shale production, and a lot of production in the United States has moved from one area to the next. We have talked about coal bed methane. That is not economic, so a lot of staff are in offices that were addressing issues related to coal bed methane development, and now they are in the wrong place.

So there are some issues that Interior can address, and some of them are strategic and some of them are some flexibility to move people around, move resources.

Ms. SPEIER. All right. Thank you.

Mr. LANKFORD. Mr. Horsford.

Mr. HORSFORD. Thank you, Mr. Chairman. Happy belated anniversary, by the way. Hope you had a good time.

I just came from my Natural Resources Committee and this is a topic that we have had several hearings on in that committee as well, and I do want to indicate that although the title of this hearing is Opportunities Lost, I really feel like there is a bit of a misnomer on what has been done, and we have covered, again, this topic many times in our Natural Resources Committee.

Some say that the Obama Administration is against the oil and gas industry and has erected artificial barriers to fossil fuel energy production and generation, but that is simply not what the facts bear out. In 2011, the U.S. exported more gasoline, diesel, and other oil-based fuels than it had imported. This was the first time since 1949 that the U.S. was a net exporter of oil products. And according to the International Energy Agency, by 2020 U.S. oil production will rise to 11.1 million barrels per day, making the U.S. the largest crude oil producing nation.

So, Mr. Beaudreau, is it fair to say the record high oil and gas production seen in recent years is the result of the Obama Administration's all of the above energy strategy?

Mr. BEAUDREAU. Some of the statistics you described I am not familiar with, but, in general, yes. This Administration, this Department is committed to an all-of-the-above energy strategy that includes oil and gas production on Federal lands and waters, includes coal production, includes standing up and developing renewable energy resources. So the Interior Department is truly where all of the above happens, and I think we have seen results from that.

Ten years ago nobody would have thought you were sane if you were talking in realistic terms about the potential for energy independence. That kind of conversation is happening now. The natural gas boom has the potential to be truly transformative not only with the energy industry, but with manufacturing, transportation, and other industries. So it is an exciting time and we do embrace all of the above.

Mr. HORSFORD. Thank you. Just to follow up, some would say that the Administration should not take credit for the high record of high levels of domestic natural gas production because most of it was produced on non-Federal lands. I come from Nevada, where over 80 percent of our lands are controlled by the Federal Government but, again, according to the White House, natural gas production from public lands increased by 6 percent during the first three years of the Obama Administration, compared to the last three years of the previous administration. Would this be considered a significant increase, in your opinion?

Mr. BEAUDREAU. I think it is a reflection of our commitment to the development of energy resources. So taking credit or avoiding blame is not really my interest. My interest is providing for the Nation's energy security, making resources available in a responsible and safe way. And as you pointed out, I think our record bears out that commitment and that strategy.

Mr. HORSFORD. Just briefly, Mr. Rusco. Over the past five years you have found that the Department of the Interior may not be properly assessing or collecting revenues owed to the American people. Can you elaborate further on that?

Mr. RUSCO. There are a number of facets to that. One is that, as we talked about, human capital challenges and not having enough people to go out and do production verification inspections, so in some cases there are problems with that that are unresolved.

We have also seen issues with data collection and data management, where incorrect data elements have been entered in terms of production or royalties owed or prices, and Interior is taking steps to sort of improve their IT systems, but there are still challenges.

Mr. LANKFORD. I want to do a quick follow up on this as well. Mr. Horsford's question was an excellent question, but the wording was important here.

Mr. Beaudreau, he asked you the increased production of oil and gas in the United States, is that a result of Obama Administration policy decisions. It almost sounded like you said yes on it. For instance, the first three years of increased production of natural gas, those leases were not done during the Obama Administration time, they were done during the previous administration time. I am trying to figure out which policies in particular from the Administration have increased the production of oil and gas in the United States.

Mr. BEAUDREAU. Our broad strategy and our broad policies to promote responsible energy development I think are the right ones.

Mr. LANKFORD. So you are saying without those policies we would not have had increased production of oil and gas in America?

Mr. BEAUDREAU. I think the suggestion that this Administration is somehow opposed to or seeks to obstruct energy production isn't borne out by the facts.

Mr. LANKFORD. No, no, that wasn't the question. The question was the increased production is a result of. That is different than saying it is opposition, because there is obviously a lot of oil and gas exploration happening. But the question was an excellent question: Is it a result of Obama Administration policies that we have increased oil and gas?

Mr. BEAUDREAU. I think it is completely consistent with the Obama Administration policies to promote responsible and safe energy development, and I think we have seen that borne out and I think this Administration's record is very good on all of that.

Mr. LANKFORD. I think there would be a few studies that would disagree with that, just in process, and just based on length of time and process and leases that happened on Federal lands when the Administration came in and inherited those leases and the production, versus new leases now. We have gotten three years previous on the listing, about a 55 percent decrease of new leases that are happening on Federal lands and, as I mentioned on the map to you before, in North Dakota it is interesting to look at and see you have all this production everywhere but Federal lands, and it seems to me even though they pay fewer royalties, they tend to go everywhere else but to try to get away from Federal policies and Federal implementation of that to go to State or private entities for that.

So that is the only challenge here, is to say if the Administration wants to take credit and say what we have done has led to this is different than this has happened on our watch and we haven't opposed it. So that is all I am trying to clarify.

Mr. BEAUDREAU. And the only point I am making is what is happening with energy development and the opportunities that we are seeing as a result of energy development are things that this Administration supports. We have implemented reforms to try to promote energy development, reduce conflict, with the ultimate goal of increasing the economic opportunity offered by energy, providing for greater energy security and providing for the economic opportunity that comes with all of that, and to do it safely and responsibly.

So to talk about credit or blame I think is beside the point in a lot of respects. I think we do support what is happening on the energy front; it is good for the Country for all the reasons we talked about, and we are going to continue to pursue it.

Ms. SPEIER. Mr. Chairman, will you yield?

Mr. LANKFORD. Sure.

Ms. SPEIER. To give yet another perspective, there is plenty that the Administration could have done to impede energy development, you could argue. They did not do that. And whether these leases originated during the Bush Administration or the Obama Administration, the fact is it is a good news story and the Administration hasn't done anything to impede those leases.

Mr. LANKFORD. I would suggest that there are a lot of producers around the Country that would argue with that statement, that there hasn't been something to impede the production of energy, not just from Interior, but from EPA and other regulations, and slow-walking permits. There would be some dispute, I would say, if we had some producers here, whether there hasn't been a difficulty going after some of those things.

Ms. SPEIER. Well, would you admit that we actually have seen an increase in production? I mean, that is what we are talking about, who are we going to give credit to for the increase in production.

Mr. LANKFORD. We have absolutely seen an increase in production, and that is based on new technology dealing with horizontal drilling and fracking. When you do directional drilling and the fracking in new areas, as has been mentioned by Mr. Rusco as well, trying to move and shift people into the correct places to actually do the permitting does a significant shift to us in the Federal side and trying to permit that. So they have moved to State and private lands to try to go after energy that is plentiful there.

Just 20 years ago we thought we were running out of natural gas and the Federal Government was telling us to only use coal because we were running out of natural gas. Now there is a dramatic shift to come back and say we have so much natural gas, we are seriously looking at exporting and, quite frankly, I believe we should be exporting.

Ms. SPEIER. So, Mr. Chairman, would you yield again?

Mr. LANKFORD. Absolutely.

Ms. SPEIER. Let me just say that it is not an asset that is wasted. The asset of oil or gas being drilled on Federal lands, it does not dissipate because it is not permitted and oil or gas is not being drilled. One could argue that we are sitting on a gold mine, and if we wait to permit, we are going to make more money for the tax-

payers of this Country. So there are lots of different ways to look at this.

I yield back.

Mr. LANKFORD. Sure. Well, the challenge of that is, in the days ahead, we need to find every way that we can to be energy independent as quickly as we can. All the geopolitical reasons, all the military reasons, everything that we would see as a super power that we can provide our own energy as fast as we can, as efficiently as we can, safely, and clean for the environment as we can.

One last statement, then I am going to close out as well, and that is that the statement again about States and whether States can handle overseeing fracking and permitting. The question just about memorandums of understanding that Interior commonly does with States that is a common practice, in fact, around the Federal Government with States, is there a way to be able to allow States to be able to oversee what happens on Federal lands to accelerate the permitting process on this and to have clear guidelines, and then the limited staff that you have is able to then make sure that those guidelines are being kept?

Mr. BEAUDREAU. So, again, we have our authorities; it is our responsibility to fulfill and to meet those authorities under Federal law. So we can't delegate any of that to the States or anybody else. That said, and I think you will see some reflection of this in the revised proposed fracking rule, for example, we are quite interested in taking best practices, looking at what States are doing; not causing duplication for operators, so that if they can demonstrate compliance with our standards, because that is what they are doing on State land, that should make it much more straightforward for operators.

Mr. LANKFORD. Okay, thank you.

Ms. Speier, do you have any other questions, thoughts?

Ms. SPEIER. No.

Mr. LANKFORD. Thank you.

With that, this committee is closed.

[Whereupon, at 11:57 a.m., the subcommittee was adjourned.]

○