

Under the GUN

Minerals Management Service

BY VAL K. HATLEY, SR/WA

On April 20, 2010, while working on an exploratory well approximately 50 miles off the coast of Louisiana, the semi-submersible drilling rig Deepwater Horizon experienced an explosion and fire. The accident resulted in the tragic loss of eleven workers, and the initial cause of the incident is still under investigation. The resulting release of oil (which had not yet been contained as of the date this article was written) has been declared an environmental disaster of national significance, with oil threatening sensitive coastlines and resources in the Gulf of Mexico. This has led to a number of changes at the Minerals Management Service (MMS), the Agency who issued the permit for the work.

The MMS is a bureau in the U.S. Department of the Interior. It was established in 1982 as the administrative agency that is responsible for management of the natural gas, oil and other mineral resources of the submerged Outer Continental Shelf (OCS) and for the supervision of offshore operations after the lease has been issued. The agency also collects, accounts for and disburses an average of \$13.7 billion each year in revenues from federal offshore mineral leases and from onshore mineral leases on both Federal and American Indian lands.

The OCS is a significant source of oil and gas for the United States' energy supply. The roughly 43 million leased OCS acres generally account for about 15 percent of America's domestic natural gas production and 27 percent of America's domestic oil production. The stated goal of the MMS is to provide oversight and a regulatory framework to ensure production and drilling are performed safely and in an environmentally responsible manner. Although the industry has a good environmental and safety record, the significant loss of life, magnitude of the spill and the inability of the driller to stop the release has raised questions about

how effectively the MMS has done its job and whether the regulatory framework is sufficient to keep up with the technical challenges of drilling in the deepwater. As a result, a number of changes have been, or are in the process of being implemented.

First, several top level employees of the MMS resigned or retired under pressure. Secondly, the Obama administration has alleged that the close relationship between the MMS and the oil and gas industry has resulted in a conflict of interest and lax regulation, and consequently has proposed that the responsibilities of the MMS be reassigned to separate revenue collection from regulatory and enforcement activities. In this vein, the Secretary of the Interior issued Order No. 3299 on May 19th, to establish a new management structure comprised of the Bureau of Ocean Energy Management, the Bureau of Safety and Environmental Enforcement, and the Office of Natural Resources Revenue, to handle the various activities formerly handled by the MMS.

In addition, the Secretary halted shallow-water drilling, pending the issuance of new rules, and issued a six month moratorium on deepwater offshore drilling. The administration directed that all deepwater drilling in the Gulf be halted and that efforts be made to secure the wells. The pending lease sales for the Gulf of Mexico and off the coast of Virginia were cancelled, and proposed exploratory drilling in the Arctic was suspended. New safety measures have been issued, including the re-inspection and recertification of equipment (such as the blowout preventer mechanism) as a prerequisite to resuming offshore drilling in waters shallower than 500 feet. Additional offshore oil and gas safety measures are expected to be issued to the industry via Notices of Lessees to be implemented on an interim basis pending completion of the investigations to identify the root cause of the oil spill disaster.

To keep this in context, deepwater wells generate 80% of the Gulf's oil production and nearly half of its natural gas, yet in a typical year, spills account for only a few hundred barrels. The fear is that the accident will be used by opponents of fossil fuels to ban all offshore drilling, and these actions will only serve to worsen the region's economic problems. Although the root cause of the Deepwater Horizon accident may not be known for some time, some believe it resulted from a unique convergence of events, including equipment failures and human errors that are unlikely to be repeated. Yet, this tragedy will seemingly be used for political purposes to reduce offshore domestic oil and gas production and make us more reliant on foreign energy sources.

Hopefully the changes at the MMS will result in safer and more environmentally responsible oil and gas operations. However, at a time Congress is considering sweeping new regulations to address climate change and limit emissions, any changes should be balanced against the reality that production of carbon-based fuels will continue to be critical to our energy future and national security for some time.



Val K. Hatley, SR/WA

During his 32-year career with Shell Pipeline Company, Val managed pipeline land acquisition projects and negotiated partnerships with government agencies and utility companies. Val is currently a land and right of way consultant and can be reached at valhatley@yahoo.com.