

The New York Times

Front Page, A1

Monday, August 16, 2010

DRILLING PERMITS FOR DEEP WATERS FACE NEW REVIEW



Aaron M. Sprecher/Bloomberg News

Permits for offshore drilling rigs will be subjected to new environmental, safety, technical and financial requirements.

By JOHN M. BRODER

WASHINGTON — The Obama administration said Monday that it would require significantly more environmental review before approving new offshore drilling permits, ending a practice in which government regulators essentially rubber-stamped potentially hazardous deep-water projects like BP's out-of-control well.

The administration has come under sharp criticism for granting BP an exemption from environmental oversight for the Macondo well, which blew out on April 20, killing 11 workers and spewing nearly five million barrels of oil into the Gulf of Mexico.

The more stringent environmental reviews are part of a wave of new regulation and legislation that promises to fundamentally remake an industry that has operated hand-in-glove with its government overseers for decades.

Many oil industry officials worry that the new

environmental, safety, technical and financial requirements will drive some companies out of business, discourage future exploration and worsen the nation's dependence on imported oil. The highly competitive oil industry has always operated under tremendous cost and time pressures; the new rules will most likely slow the development of new wells while raising costs.

Bruce H. Vincent, chairman of the Independent Petroleum Association of America, said the industry feared that the BP accident would be a turning point for oil exploration the way the Three Mile Island nuclear plant accident in 1979 contributed to a virtual 30-year moratorium on nuclear plant construction.

"Let's hope it's not our Three Mile Island," said Mr. Vincent, who is also president of Swift Energy, a midsize oil company based in Houston. "It all depends on whether government adopts the wrong policies in

response. The country can't afford that."

Drillers are already chafing under a moratorium on deep-water drilling in the gulf and strict new rules on shallow-water wells. The new environmental rules provide a foretaste of what the regulatory climate will be once the moratorium is lifted later this year. The House and Senate are moving legislation that will tighten regulatory standards for offshore drilling and put a higher multibillion-dollar limit on liability for damages from any future oil spill.

The administration is moving on a parallel track. After three months of review of federal environmental law, the White House Council on Environmental Quality on Monday recommended that the Interior Department suspend use of so-called categorical exclusions, which allow oil companies to sink offshore wells based on environmental impact statements for supposedly similar areas, while the department reviews the environmental impact. Permits for the Macondo well were based on exemptions written in 1981 and 1986. The waiver granted to BP in April 2009, as part of the permitting process for the doomed well, was based on the company's claim that a blowout was unlikely and that if a spill did occur, it would cause minimal damage.

The Interior Department's Minerals Management Service, recently renamed the Bureau of Ocean Energy Management, Regulation and Enforcement, issued hundreds of these exemptions in recent years to reduce the paperwork burden for oil companies seeking new wells and for government workers. As a result, there was no meaningful plan in place to cope with the BP spill and its impact on aquatic life and gulf shorelines.

The White House and the Interior Department announced in mid-May that they would review all actions taken by the minerals agency under the National Environmental Policy Act, known as NEPA. The law, a foundation of environmental policy enacted after a 1969 oil spill off Santa Barbara, Calif., requires federal agencies to complete a detailed environmental assessment before approving any potentially damaging project like an offshore oil well.

Ken Salazar, the interior secretary, and Michael R. Bromwich, director of the offshore energy service, said Monday that they would conduct a thorough environmental review of all future drilling in the Gulf of Mexico and elsewhere on the Outer Continental Shelf. The moratorium on most deep-water drilling in the gulf will continue as the study proceeds, they said.

The new policy will require much more extensive environmental scrutiny once the moratorium is lifted and will lengthen the process of granting new drilling permits. Under current policy, the agency has only 30 days to decide whether to approve a drilling application, and few are denied. The new policy will also suspend the issuing of automatic exemptions from environmental review for

virtually all new wells in the gulf. Such waivers have become common in recent years.

"In light of the increasing levels of complexity and risk — and the consequent potential environmental impacts — associated with deep-water drilling, we are taking a fresh look at the NEPA process and the types of environmental reviews that should be required for offshore activity," Mr. Salazar said.

An Interior Department spokesman said the agency would not grant environmental waivers for potentially risky wells while the environmental policy was being reviewed, a process that he said would take several months. It was not clear how much time the new policy, when completed, would add to the permit process for new wells.

Mr. Salazar and Mr. Bromwich said drilling in shallow waters would be allowed to continue if operators met certain new safety and environmental standards, like certifying that the blowout protectors in use had been recently inspected and tested.

The Center for Biological Diversity, an environmental group that has drawn attention to the use of categorical exclusions for offshore oil wells, called the new Interior Department policy a step in the right direction.

Bill Snape, senior counsel for the center, said in an e-mail that it should be broadened to include shallow-water wells and wells that have already been granted permits but have yet to be started. Mr. Snape also said that in many instances, the government should produce an environmental impact statement, which is more detailed than the environmental assessment the new policy requires.

Erik Milito of the American Petroleum Institute, the lobby for big oil companies, said the new rules could slow approval of new wells and cost jobs. "We're concerned the change could add significantly to the department's workload, stretching the timeline for approval of important energy development projects with no clear return in environmental protection," Mr. Milito said.

Representative Nick J. Rahall II, Democrat of West Virginia and chairman of the House Natural Resources Committee, said the White House report highlighted one of many problems with the Interior Department's regulation of offshore drilling.

He called for enactment of his bill, the Consolidated Land, Energy and Aquatic Resources Act, to change the agency and tighten oversight of oil operations. It would eliminate the use of categorical exclusions for all exploration and development wells.

"I applaud Secretary Salazar for the steps he is taking," Mr. Rahall said, "but permanent reform requires passage of my Clear Act, which would put the last nail in the coffin to the practice of allowing Big Oil to jam through offshore drilling projects with minimal review."