

# BusinessWeek

## Drilling's Sheriff Salazar Under Scrutiny After Spill

By Jim Efstathiou Jr.

Interior Secretary Ken Salazar, who promised to be the “new sheriff in town” when he took over the agency that regulates offshore drilling, faces increased scrutiny of his leadership before the explosion at a BP Plc well set off the worst U.S. oil spill.

“The pace of reform was just too slow” in Salazar’s efforts to root out corruption and reverse “a philosophy that says corporations should be allowed to play by their own rules and police themselves,” President Barack Obama said in a speech from the Oval Office last week. It was the president’s most critical public comment on Salazar’s performance.

Salazar, 55, will be questioned on steps to bolster oversight of the oil industry at Senate hearings today and tomorrow, his sixth and seventh appearances before Congress since the spill began in April. He ultimately may quit or lose his job for not moving faster to revamp regulation of deepwater drilling, said Bill Snape, senior counsel for the Center for Biological Diversity.

“At some point you’ve got to think that he’s in some trouble,” Snape said in an interview yesterday. “The odds are greater than 50-50 that Salazar does say goodbye after the elections.”

The Tucson-based center, which opposes offshore drilling, says on its website that it took “swift, decisive action” in response to the spill and uncovered government mismanagement.

### Support Retained

The Interior secretary, a former Democratic senator from Colorado, retains the support of former colleagues such as Senator Byron Dorgan.

“Ken inherited an agency that I think required a lot of work,” Dorgan, a Democrat from North Dakota, said in an interview yesterday. “I really think he’s done a good job,” and there’s no sign that Obama has “lost faith in Ken,” he said.

“The secretary is devoting 100 percent of his time to the fight to protect the Gulf Coast from BP’s oil spill and will not rest until the leak is stopped, the affected communities are made whole, and the Gulf Coast is restored,” Salazar spokeswoman Kendra Barkoff said in an e-mail.

Salazar’s support in Congress is being tested by his May 27 recommendation for a six-month ban on deepwater drilling while the spill is investigated. Obama agreed and imposed the ban, angering Republicans and Gulf Coast Democrats who said it’s too broad and jeopardizes tens of thousands of jobs.

### Moratorium Lifted

U.S. District Judge Martin Feldman lifted the moratorium yesterday, a decision that the U.S. said it would appeal. In his ruling, the judge said a section of Salazar’s report, which stated the recommendations were “peer-reviewed by seven experts identified by the National Academy of Engineering,” was “misleading” and member of the group said it was a “misrepresentation.”

Five of the experts said the recommendation for a six-month ban was added after their final review of the report, Feldman said in his decision. Kenneth Arnold, an oil-industry consultant in Houston and a contributor to the report, said it was wrong to “use us as justification for the moratorium.”

The ban requires drillers to temporarily abandon wells, which can increase risks, Arnold said. It will also increase U.S. dependence on foreign supplies, which are transported by tankers that have greater risk of a spill than oil carried by pipeline from Gulf platforms, he said.

“The Department of Interior has apologized,” Arnold said in an interview. “We are working with them at the moment to see if there’s a way to modify the moratorium in a way that makes sense from a safety standpoint.”

## Revamp Pledge

Salazar promised days after taking office last year to revamp the Minerals Management Service, the agency within his department that oversees oil and gas drilling on federal lands and offshore tracts. In 2008, Interior Department Inspector General Earl Devaney found that MMS employees in a division that collects fees had accepted gifts and engaged in sex with industry contacts while failing to collect almost \$200 million due from energy companies.

MMS employees are now required to receive annual ethics training and meet new standards issued under Salazar in March 2009. Salazar also ended a program that let companies pay royalty fees in oil instead of cash.

After taking those steps, the Interior secretary concentrated much of his efforts last year on pushing for development of offshore wind turbines. On April 28 he approved a \$1 billion wind farm off the Massachusetts coast, the first in U.S. waters.

### 'Flagging Concerns'

"The priority was traction for offshore wind initiatives," Tyson Slocum, director of the energy program for Public Citizen, a Washington advocacy group, said in an interview. "No one with authority was coming up to Salazar and the president flagging concerns with MMS regulatory

oversight of oil and gas drilling."

After the Deepwater Horizon drilling rig leased by BP from Transocean Ltd., exploded and sank about 40 miles (64 kilometers) off Louisiana's coast, Obama vowed to end the "cozy relationship" between companies and the MMS. The agency and its 1,700 employees are responsible for enforcing safety rules and collecting about \$13 billion a year in drilling fees, a dual task that suggests "inherent internal conflicts of interest," Senator Robert Menendez, a New Jersey Democrat, said on May 11.

### 'Let Companies Regulate'

Before the blast, Salazar initiated a study of MMS offshore safety inspections by the National Academies, which provide research on science and technology. Arnold, who heads the study group, said one of Salazar's biggest challenges is to turn around a culture fostered in part by former President Ronald Reagan's view that "government is the problem."

"From a culture that says let the companies regulate themselves to a culture that says you can make a difference and we will back you up, that's the biggest change that needed to be made," Arnold said.

Salazar describes his agenda as a work in progress. "There's a lot more to go," he said in a May 18 appearance before a Senate panel.

The next day, he announced that the MMS would be replaced by three new offices to oversee leases, drilling safety and fee collection.

The changes won't "be the last that we undertake in the Department of the Interior," Salazar said.

Last week, Obama named former Justice Department official Michael Bromwich to lead the effort to overhaul the Minerals Management Service, focusing on the relationship between the agency and the oil companies it oversees. Former MMS director Elizabeth Birnbaum resigned on May 27.

### 'Agency With Teeth'

Until the oil spill, "I don't think anybody expected the MMS to be a regulatory agency with teeth," said Mike McKenna, president of MWR Strategies, a consulting firm in Washington. "They were expected to run a royalty program efficiently. I don't think they ever really had the resources, financial or human, to do an adequate job."

Now, Salazar "feels the weight of getting this right," Senator Mark Udall, a fellow Colorado Democrat, said in an interview last month.

"Ken's never been flashy," said Udall. "He's never demanded that everybody pay attention to him. He's always been about getting the job done."