



Institute for Environmental
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Case Study: Minerals Management Service

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This case study tells the story of offshore oil regulation by the Minerals Management Service (MMS) leading up to the Deepwater Horizon disaster. It is late May 2010. As an advisor to Secretary of Interior, Ken Salazar, you have been called upon to propose and frame reform initiatives that meet the problem and political environment at hand.



*Left two images: National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling.
Right image: Associated Press*

Disclaimer: This case has been prepared as the basis for discussion and collective learning rather than to illustrate either effective or ineffective handling of an administrative situation.

The Author

James Mulligan is an interdisciplinary environmental professional with a specialty in political, institutional, and economic analysis. He holds a Master of Science in Natural Resources & Environment (Environmental Policy) and a Master of Applied Economics (Public Finance and Natural Resource Economics) from the University of Michigan. He has interned for numerous public and private organizations such as the World Resources Institute, the Michigan Department of Natural Resources and the Inter-American Foundation on a range of issues including outcome-based performance measurement, collaboration, market-based conservation programs, and strategic transmission planning for renewable energy.

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Introduction

Secretary Salazar hung his signature cowboy hat, sat down at his desk, and gazed up at the story running on CNN. It was the same story for a couple of weeks now. He had known since before his appointment to the Department of Interior that there were long-standing problems at the Minerals Management Service, but he never expected a catastrophe like the one playing out before his eyes.

The President expected him to take leadership in the aftermath. Secretary Salazar knew he would need to make major reforms over the coming weeks and months to shield the administration from criticism and to prove to Congress and the American public that they were serious about preventing something like this from ever happening again. The press was incessant. The clock was ticking. Secretary Salazar muted the television and leaned back in his chair, letting his mind drift...

The Minerals Management Service

Background

The Minerals Management Service (MMS) was created in the Department of Interior in 1982 at the initiative of newly elected President Ronald Reagan and his Secretary of Interior, James Watt. Although its mission statement has varied in emphasis over time, its most recent iteration is to “manage the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefits, promote responsible use, and realize fair value.” Its creation consolidated offshore mineral resource leasing and royalty management functions that had been fragmented within the Department of Interior. Headquartered in Washington D.C., MMS has regional offices in Anchorage, AK, Camarillo, CA, and New Orleans, LA—reflecting the importance of Alaska, the Pacific, and (in particular) the Gulf of Mexico to offshore oil and gas development. As part of its duties, MMS auctions off federal offshore lands for energy development, reviews permit applications for new wells, enforces safety and environmental regulations through inspections of offshore rigs, and collects both lease payments and royalties.

Since its creation, MMS has seen the rapid expansion of offshore oil and gas development as deepwater extraction technology has advanced. In 2010, the agency administered over 40 million acres of offshore leases (an area larger than the state of Georgia) and collected \$13 billion in revenues annually (95 percent of all revenue collected by the Department of Interior). Leases administered by MMS account for about 15 percent of domestic natural gas production and 27 percent of domestic oil production.¹

Organizational Structure

Leasing, permitting, and enforcement activities within MMS are all housed within the Offshore Energy and Minerals Management program (OEMM). The program is overseen by the Associate Director for OEMM, and primarily operates through the agency's regional offices in Alaska, California, and Louisiana. OEMM is comprised of about 900 staff—primarily engineers, environmental scientists, geologists, and inspectors. Two-thirds of program staff are involved in operations in the Gulf of Mexico, and a fifth of Gulf staff are distributed among district offices throughout region.

Revenue collection activities are housed under the Minerals Revenue Management program (MRM). While MRM is headquartered in Washington D.C., the program operates primarily out of Lakewood, Colorado. In addition to collecting lease payments, MRM generates revenue by collecting “royalties in kind” (i.e. a portion of the product, rather than direct cash) and then selling the commodity competitively. Associate Directors for both OEMM and MRM report to the agency's Director and Deputy Directors. See Appendix for an organizational chart.

Organizational Culture

The Minerals Management Service was born in a political era characterized by the push to unburden industry from government regulation and to achieve energy independence in the wake of the Arab oil embargo. Reagan-appointed founding Secretary of Interior, James Watt, won notoriety with the environmental community for his aggressive endorsement of development of federal lands by commercial interests. One conservation group described Wyoming-born Watt as one of the most “intensely controversial and blatantly anti-environmental political appointees” in American history. Soon after his appointment as Secretary of the Interior, Watt declared his intentions to lease a billion acres of the Outer Continental Shelf (OCS)—nearly the entire area—for oil and gas exploration over the first five years after MMS's creation. This mission to expedite oil and gas production is alive and well today in MMS, reinforced by the culture in which the agency operates.

Where the oil and gas industry has taken root, it plays a central role in local economy, culture, and politics as a much-needed source of economic investment, state revenue, and employment—and as a way of life for those and their families directly employed by the industry. Rejoiced as the “economic lifeblood” of the community, the industry has won a deeply-rooted allegiance from the social and political institutions in “oil country,” despite historic impacts and continued threats to the region's natural resources. The cultural significance of the oil and gas industry is a long time coming in Louisiana, where offshore oil drilling began in the 1930s. Today, the industry is formally celebrated with events like the Shrimp and Petroleum Festival, orchestrated to “prove that oil and water really do mix.”

As members of these communities, MMS regulators share this cultural connection to the industry. “Obviously, we’re all oil industry,” says Larry Williamson, MMS Lake Charles District Manager. “We’re all from the same part of the country. Almost all of our inspectors have worked for oil companies out on these same platforms. They grew up in the same towns. Some of these people, they’ve been friends with all their life. They’ve been with these people since they were kids. They’ve hunted together. They fish together. They skeet shoot together...They do this all the time.”²

The connection extends beyond childhood relationships. Meet Chris Oynes, a long-standing staff member at MMS. Oynes held several top positions in MMS’s Gulf office (including Regional Director) over the nearly two decades preceding 2007, when he was promoted to Associate Director of the OEMM program—a position based in Washington, DC. Unlike many of his Gulf office colleagues, Oynes is not from Louisiana. However, Oynes has lived and breathed Gulf coast culture for many years. At church, which he frequently attended, a fifth of the men in his congregation worked for the oil industry. His best friend, a drilling engineer, he met at his son’s swim meets. His wife, a teacher, received a teaching award from the American Petroleum Institute. “It’s subtle, but it’s everywhere,” Oynes says, in reference to the importance of the oil and gas industry in Louisiana culture. For Oynes, producing the nation’s energy—creating jobs, strengthening national defense, keeping the lights on—is a “noble mission” in which he has been personally invested.³

At MMS’s Gulf office, many of the staff (typically the engineers) are locals. The office also employs a number of biologists and environmental scientists, typically from out-of-state. Engineers frequently butt heads with environmental staff in the office—or, as they refer to them, the “free thinkers down on the third floor.”⁴ Ultimate authority to approve drilling plans rests with the Regional Supervisor for Field Operations—the lead engineer.

Hammond Eve, who served as Regional Supervisor for Leasing & Environment until 2004, describes office leadership—including then Regional Director Chris Oynes (a lawyer, not an engineer)—as “pro-industry to the point of being blind” to potential catastrophic environmental consequences of offshore drilling.⁵ While there are a number of laws that provide the framework for comprehensive environmental assessment of offshore oil and gas drilling, a number of loopholes effectively enable MMS officials to determine the appropriate levels of environmental study and safeguards. In the past, MMS managers have reportedly altered the scientists’ potential environmental impact findings in documents to expedite plan approvals. Additionally, several MMS scientists have complained that employee performance assessments, based in part on meeting deadlines for leasing or development approvals, “distort balanced decision-making.”⁶

Gulf office leadership, meanwhile, contends with a statutory requirement to process permit applications within 30 days (although it typically uses only half that time), limited resources for environmental reviews, and ongoing pressures from

Washington and Gulf states to harness revenues, create jobs, and produce domestic oil. The agency very plainly lacks the funding it would need to conduct individual environmental assessments for the literally hundreds of drilling applications and exploration, development, and production plans submitted to MMS. Nor has any President or Congress ever sought to provide that funding. Frustration for the agency is compounded by its historic inability to issue formal regulations. One particular regulation took years to get through Washington.

Revenue maximization, on the other hand, has been a central focus of the agency since its creation. In fact, every MMS Director over at least the past 15 years has freely admitted that revenue generation and collection has dominated the Director's attention.⁷ MMS officials like Oynes preside over lease auctions in bright red auctioneer blazers and rake in millions for the government in lease payments alone. In 1997, Oynes presided over an auction that brought \$824 million in lease payments for a record 1,032 tracts.⁸ The following year, Oynes received a presidential award for distinguished government service. According to Oynes, the feeling that MMS's D.C. headquarters cares more about leasing than anything else is pervasive among MMS staff. "It's almost a given with a director that they don't know anything about drilling," says Oynes. "We [...] turn to each other and say, 'Headquarters isn't paying attention.'"⁹

Scandals

A number of incidents of misbehavior by MMS staff surfaced in 2007, when an Inspector General's report revealed that staff in the Colorado and Louisiana offices had accepted gifts, including meals and sporting trips, from industry representatives. One rig inspector in the Gulf office flew on a private jet to the Peach Bowl in 2005, courtesy of Production Management Incorporated. The inspector could not refuse the tickets, he explained, because he is a "big LSU fan."¹⁰ The Inspector General also discovered inappropriate material, including pornography, in the email accounts of 13 employees in the Gulf office. One inspector admitted to having been under the influence of crystal methamphetamine during an inspection.

In addition to having accepted gifts, Colorado office staff members were further found to have engaged in drug use and sexual relations with industry employees. In response to the Inspector General's charges of a "culture of substance abuse and promiscuity," the MMS Director at the time noted that the small number of staff implicated (among the 1,700 at the agency) "does not represent a culture."¹¹ The Colorado office is tasked with collecting royalties from industry.

It is unclear whether industry gained anything from these ethics rules violations as part of a quid pro quo arrangement. However, there were reports that some inspectors had on rare occasion allowed drilling companies to fill out their own inspection checklists in pencil, to be traced over in pen by the inspector. The Inspector General's office discovered a small number of checklists that appeared to have writing in pencil traced over in pen.

These events received substantial attention from the press and cast a shadow over MMS staff. Leadership initiated several ethics reform measures that continue today. The Inspector General reports that ethics rules violations like those discovered in 2007 have declined significantly since then—likely a result of “example-setting” disciplinary actions and new ethics training. The only apparent exception is one inspector in the Gulf office, who inspected the rigs of a company with which he was simultaneously negotiating a job offer. Records indicate that the inspector had found several points of non-compliance in prior inspections, but none in the four inspections he conducted while in negotiations with the company. He later resigned and now works for the company in question. Other reports indicate that inspectors frequently notify a company in advance of an inspection—although it is unclear whether these notifications are part of a quid pro quo arrangement or simply adherence to an office policy written in 2007 (by an official who was since prosecuted for ethics violations of his own).

Regulatory Capacity

An ongoing struggle at MMS has been to accomplish its increasingly complex mission with the limited resources it is provided by Congress. The agency’s enacted budget (in real dollars) steadily declined over the first fifteen years of its operation, and increased only modestly in the decade since. In 1982, the OEMM program was appropriated nearly \$250 million to complete its duties. Its appropriation for 2010 is less than \$180 million.¹²

In contrast, the amount of crude oil extracted from MMS leases in the Gulf of Mexico over that timeframe increased dramatically from less than 200 million barrels to nearly 600 million barrels per year. Increasingly complex technology has allowed oil to be extracted from increasingly deeper waters. In 2010, the vast majority of oil extracted from the gulf came from waters more than 1,000 feet deep—waters that had accounted for only 4.4 percent of oil extraction when MMS was created. More than a third of the gulf oil extracted in 2010 came from “ultra deep” waters (more than a mile deep)—depths that had not been reached only five years prior.¹³ The advance of the offshore oil industry into deepwater (some rigs are operating in waters nearly two miles deep) has drawn comparisons from some to space exploration. Indeed, Shell began production from its “Mars” platform (depth of about half a mile) in 1996, six months before NASA launched its Pathfinder probe to the planet Mars. The deepwater operation was three times more expensive and arguably more sophisticated than the space operation.

Given the growing complexity of offshore oil and gas extraction and its new safety and environmental risks, a limited budget has meant that MMS has lagged industry advancements. Most glaringly, the agency’s regulations for offshore oil and gas drilling apply uniformly to all operations regardless of depth—despite differences in technology and overall risk. In a recent survey, some inspectors noted that they rely on industry representatives to explain new technology.

Despite these issues, however, MMS has remained comfortable with the industry it oversees. Chris Oynes, for one, has told associates for years that an oil spill is “all but impossible.”¹⁴ Indeed, it had been decades since the last big spill.

According to environmental staff at MMS, the ability to conduct adequate environmental assessments has also been among the casualties of a tight budget. Agency officials say the sheer volume of drilling permits issued each year (around 1,000) leaves little alternative to exercising “categorical exclusions”—a loophole in the National Environmental Policy Act (NEPA) that precludes the requirement to prepare an environmental impact statement. Categorical exclusions are reserved for those minor federal actions that can reasonably be assumed in advance not to have significant environmental impacts. Rather than conduct detailed assessments of the safety and environmental risks posed by individual drilling plans, the agency makes a wholesale assessment before the annual lease auction.

After the wholesale assessment, review of individual permit applications is limited. The New Orleans District office reviews 25-30 percent of all permits submitted to the Gulf of Mexico—several hundred each year.¹⁵ The office has one drilling engineer designated for permit reviews. MMS staff often approve permit applications without reviewing all submitted data (predicted pore pressure and fracture gradient charts, for example), and rarely question statements made by industry in applications.

The agency is also constrained in its ability to hire and retain quality staff. The agency’s best employees, including its leadership, are often hired away by industry, where they can sometimes double or triple their salaries. For example, Chris Oynes’s lost his deputy director, chief of staff, and two regional supervisors to industry during his tenure as Regional Director of the Gulf office. While some other agencies like NASA have attempted to match industry pay scales in order to boost retention, MMS lacks the necessary resources. The agency has occasionally used retention bonuses to keep valuable employees, but its ability to do so is limited.

The agency’s inspection program also suffers. The Gulf office employs 55 inspectors for over 3,000 facilities (a ratio of 1 to 54)—although the ratio in the Pacific region is 5 to 23 (1 to 5).¹⁶ Management promotes inspections by single inspectors in order to increase the number of inspections. Inspectors, meanwhile, believe that tandem inspections would increase efficiency and thoroughness, eliminate reliance on the operator for observations on safety tests, and reduce the susceptibility of an inspector to pressure from an operator not to issue a citation.

Inspector training is also lacking. Unlike the Bureau of Land Management (which inspects onshore oil and gas operations), MMS does not have a certification program for inspectors, does not provide formal training specific to the inspection process, and does not provide a handbook addressing inspector roles and responsibilities or a formal, bureau-wide compilation of rules, regulations, policies, and practices pertinent to inspections. Concurrent with the lack of formal training

is a lag in inspectors' understanding of the constantly changing technology aboard offshore drilling platforms. A recent survey indicates that nearly half of MMS inspectors feel that they have not received sufficient training to do their jobs. Indeed, most of the budget for the inspection program is spent on helicopters to get inspectors to offshore platforms.

Performance

For all of its shortcomings, the MMS has been successful in expediting offshore oil and gas production. The leases it grants and the activities it oversees are responsible for 15 percent of the nation's natural gas and 27 percent of its oil. The royalties it collects—roughly \$13 billion every year—comprise the second largest source of government revenue, next to taxes.¹⁷ The agency can also boast several individual success stories. For example, after learning that Shell was burning large quantities of natural gas it considered too costly to bring to shore, Chris Oynes initiated a federal prosecution that won \$49 million for cutting the government out of royalties and wasting energy.¹⁸ The agency also on occasion rejects low-ball bids from industry for leases—including one from Chevron for a tract that brought in five times as much the next year.

Though the agency has been criticized for its lack of concern for environmental risks, the Fish & Wildlife Service (FWS) frequently concurred with its environmental risk assessments. While agencies like FWS do not have authority to prevent drilling from proceeding, they can request amendments to environmental assessments they consider to be inadequate, or to conduct their own assessments. In 2007, FWS simply wrote an informal letter of concurrence with MMS's finding that risk of drilling to critical habitat was "low."¹⁹

On the other hand, industry accidents—blowouts, helicopter crashes, diving accidents, routine injuries on platforms—are all too common. The accident rate in the United States is several times higher than in Australia, Canada, Norway, and the United Kingdom, where regulators use a different model to ensure safety. The "risk-based" model used in these countries (in each case, implemented in the wake of a major accident) places the onus on the operator to demonstrate safety through development of their own proactive safety and environmental risk management plans. In contrast, MMS uses a "prescribe and inspect" model, whereby the agency prescribes required safety precautions (hundreds of pages of technical requirements) and then inspects for compliance. This model requires that regulators keep safety requirements abreast with rapidly advancing technology—a real challenge, as acknowledged even by the likes of Chris Oynes. Yet, MMS has still not made the shift to a risk-based model, despite having proposed the idea almost 20 years ago. The initiative has been consistently blocked either by industry or by the agency's political appointees.

In addition to safety and environmental concerns, MMS has in the past failed to collect royalties to which the government was entitled. For example, Congress passed the Deep Water Royalty Relief Act in 1995, exempting new offshore production from royalty payments—subject to an oil price threshold—in an effort to spur production in a time of low oil prices. However, lease sales in 1998 and 1999 (signed by Chris Oynes) failed to include the price threshold stipulation. Government analysts calculate that the mistake cost the government \$10-80 billion in lost royalties.²⁰

In a much smaller case, an MMS auditor raised a concern with his superiors that Kerr-McGee, an oil company, had submitted false royalty claims. His bosses disagreed. The auditor was subsequently fired and, according to the auditor, “ostracized and threatened.” The whistleblower brought suit and, seven years later, a judge ordered Kerr-McGee to pay more than \$22 million in damages to the government for submitting false royalty claims.²¹ The whistleblower was awarded a quarter of the settlement.

Catastrophe

The Blowout

In April 2010, Transocean Ltd.’s Deepwater Horizon exploratory drilling rig in the Gulf of Mexico discovered an oil reservoir in BP’s Macondo well. On April 20, the Deepwater Horizon attempted to disconnect from the well to make way for a production rig. In doing so, the crew missed key signs that the well had not been properly sealed. In the process of disconnecting, gas escaped from the well and rocketed up toward the rig—described by one industry representative as “like a 500-ton freight train hitting the rig floor.” An explosion followed and the rig caught fire. Within a couple of hours, the rig was engulfed in flames and more than 100 of its workers had evacuated. Eleven workers were dead, another sixteen injured.

The well is equipped with a “blowout preventer,” designed to seal off the well in case of emergency. The preventer failed—either because the flow rate was too high by the time it was engaged, or because the explosion had damaged the cables to the preventer. The preventer is equipped with an autopilot function in case its cable connections are damaged; however, this function also failed, perhaps due to poor maintenance.

As of May 2010, the Macondo well was spewing approximately 50 thousand gallons of oil every day into the Gulf of Mexico—a rate that officials initially substantially underestimated.¹ BP and Federal officials were desperately trying to cap the well, unsuccessfully. The oil was reaching a substantial portion of the 2,600 km Gulf coastline, inundating critical estuarine and riparian habitat. Government biologists were collecting thousands of dead and injured birds, sea turtles, and sea mammals—including several endangered species. Long-term environmental

impacts may never be known fully. The Gulf coast economy suffered enormous losses from the fishing and tourism industries. While the extent of economic damage was not yet known, expectations were in the tens of billions of dollars and escalating every day the well went unsealed.

The Role of MMS

While BP is legally responsible for the spill and its impacts, MMS played a role through permitting and oversight of BP's drilling activities. MMS never assessed the environmental risks specific to BP's Macondo well, choosing instead to exercise a "categorical exclusion" under NEPA. Although MMS considered the possible environmental impacts of a modest spill, the agency never addressed in its environmental assessments the possibility of a spill nearly as large as BP's—such a large spill should never have occurred had the well's blowout preventer functioned properly.

Several years prior, the head of the Gulf office's environmental division raised the concern that the increasing depths of new wells might increase the chances of a catastrophic blowout. The office's director, Chris Oynes, deferred to the lead engineer, who insisted that a catastrophic blowout was "impossible, because the blowout preventer would take care of it."²² Since the spill, investigators have discovered a "strictly confidential" study commissioned by Transocean (the actual owner of the Deepwater Horizon rig) that found blowout preventers on deepwater rigs to have a 45 percent failure rate.

MMS regulations require blowout preventers to undergo disassembly and inspection every three to five years in order to be recertified. The Deepwater Horizon's blowout preventer had not been inspected in almost ten years—a fact overlooked during an April 1, 2010 MMS inspection (blowout preventer certification does not appear on the inspector's checklist). MMS also granted several requests from BP to test elements of the blowout preventer at lower pressures than regulations require.

BP also requested to set the well's cement plug deeper in the seafloor than regulations allow. MMS approved the request within 90 minutes of its submission. The engineer who made the decision explained that he did so after speaking with BP and learning that a deeper plug would facilitate the setting of BP's lockdown sleeve. The individual has no training or expertise in lockdown sleeve procedures or best practices. Meanwhile, a study conducted by MMS in 2007 identified cement failure as a leading cause of blowouts. The depth of the cement plug increased stress on the cement job and may have—in combination with other factors—lead to the blowout in the Macondo well.

In addition, BP's permit applications contained several obvious calculation errors. While these errors were ultimately inconsequential, most of them went unnoticed by MMS staff. In one case, BP submitted and resubmitted a permit application three times—the second and third times to correct recurring errors related to the specifications of its production casing. Each submission was approved by MMS staff despite its errors.

BP's Oil Spill Response Plan for the Gulf of Mexico, approved by MMS, lacks serious attention to detail. For example, the plan identifies three different scenarios for an oil spill but uses identical language to “analyze” environmental impacts under each scenario. The wildlife expert listed in the plan had died several years before the plan was even submitted. The plan also references sea lions, sea otters, and walrus in the biological resource identification section of its plan. Of course, these species do not exist in the Gulf of Mexico.

BP is a willing participant in cleanup-up efforts and readily paid for those efforts—although BP's CEO Tony Hayward reportedly asked his board members, “what the hell did we do to deserve this?” In general, oil companies have sparsely invested in planning to control or clean up a significant spill. When efforts to trigger the blowout preventer failed, BP scrambled to create containment options, as it had no available, tested technique to stop a deepwater blowout. What ensued was a series of failed containment attempts before the well would be finally sealed.

Nor was MMS prepared to handle such a spill. The agency has only four or five staff in Houston trying to oversee BP's efforts to seal the well and clean up the spill. One of those staff likens the experience to “standing in a hurricane.” Asked by Secretary Salazar what he would do if the government assumed control of containment efforts, one MMS official said he would hire BP or another major oil company.

Political Environment

The Deepwater Horizon catastrophe put the Obama administration in a precarious position politically. Only a month prior, President Obama had announced a proposal to expand offshore oil drilling not only in the Gulf of Mexico but also along the Atlantic coast, declaring, “the bottom line is this: given our energy needs, in order to sustain economic growth and produce jobs, and keep our businesses competitive, we are going to need to harness traditional sources of fuel even as we ramp up production of new sources of renewable, homegrown energy.”

The Obama administration responded to the Gulf spill by placing a moratorium on offshore oil drilling until the causes of the spill were understood—a move that roiled the industry and its supporters in Congress and elsewhere. Industry proponents are emboldened by the saliency of their message at a time when both gas prices and unemployment are running high. Louisiana alone has 330,000 jobs directly or indirectly related to the oil and gas industry.

For environmentalists, on the other hand, the scale and visibility of the oil spill breathes new life into the push against oil & gas drilling. Until the disaster and the reversal of President Obama's position, this fight seemed a losing battle in mainstream politics—relegated to activists like Tim DeChristopher, a college student who earned two years in prison for sabotaging an oil & gas lease auction in 2008. With renewed traction, mainstream environmental groups are gearing up to continue the fight long after the spill disappears from the news headlines.

Going forward, the administration treads a line between the industry and oil workers on the one hand, and environmentalists and the devastated fishing and tourism industries on the other. Alongside spill response performance and the drilling moratorium, reforming MMS has been elevated as a key issue for the administration going forward. Indeed, President Obama has already indicated that “cleaning house” at MMS is a top priority.

The Solution?

“We want to have safe drilling and oil and gas production in the nation's oceans,” thought Secretary Salazar, “but in order to do that, we're going to have to have a robust agency to undertake those functions...” A knock at his office door returned Secretary Salazar from his thoughts. It was his assistant. His advisors were waiting outside for their scheduled MMS strategy meeting...

Appendix: Supporting Documentation

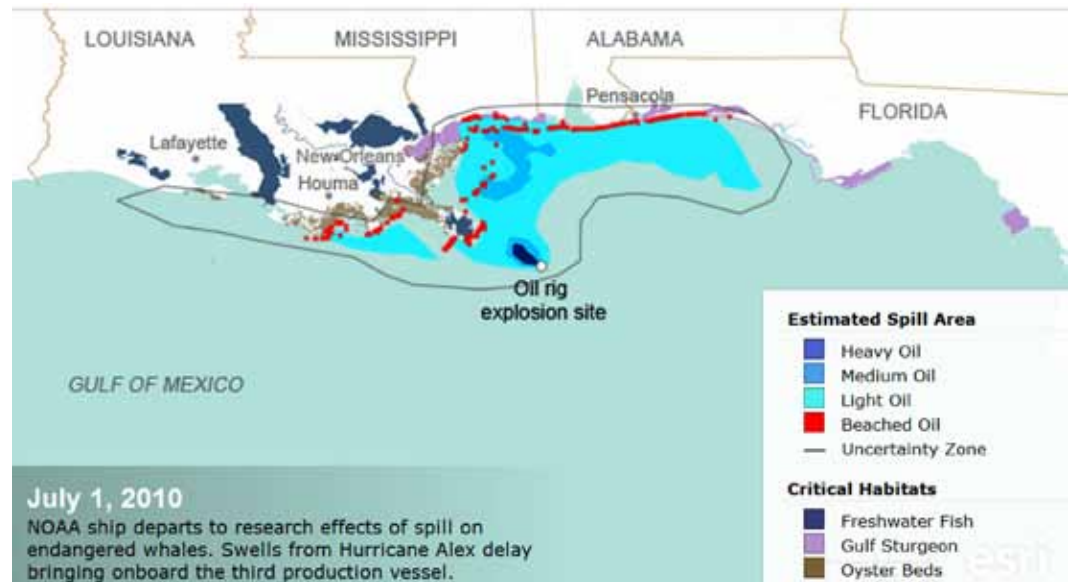
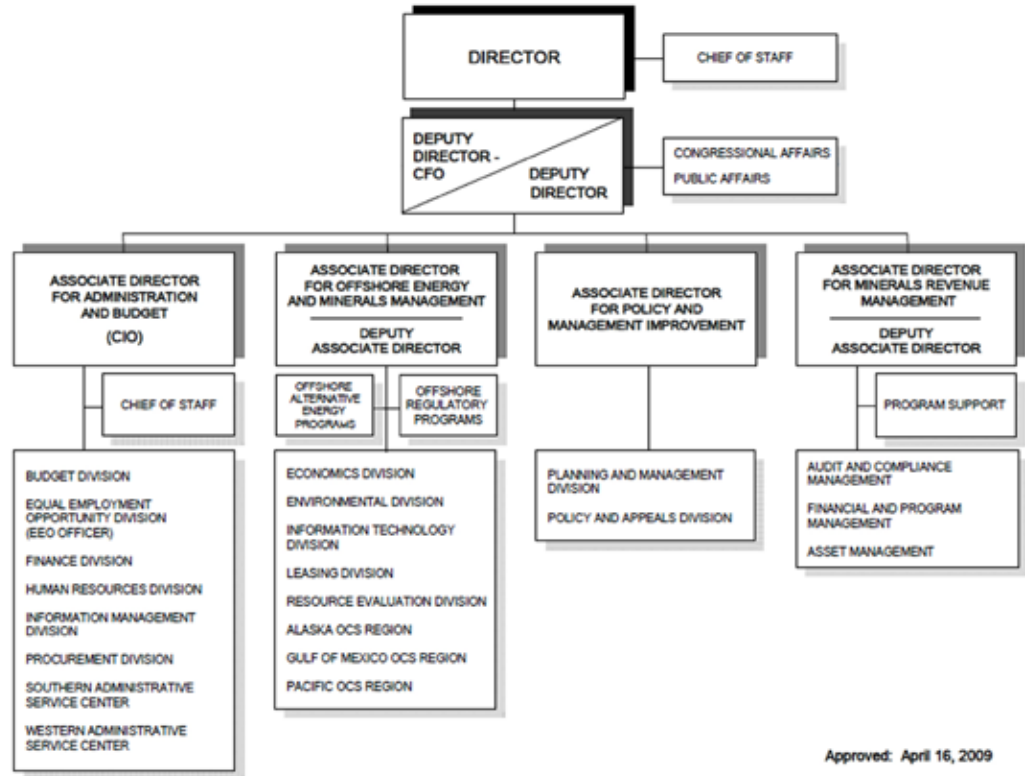


Figure 1: Oil Spill by July 1, 2010 (Source: ESRI)

Decision	Was There A Less Risky Alternative Available?	Less Time Than Alternative?	Decision-maker
Not Waiting for More Centralizers of Preferred Design	Yes	Saved Time	BP on Shore
Not Waiting for Foam Stability Test Results and/or Redesigning Slurry	Yes	Saved Time	Halliburton (and Perhaps BP) on Shore
Not Running Cement Evaluation Log	Yes	Saved Time	BP on Shore
Using Spacer Made from Combined Lost Circulation Materials to Avoid Disposal Issues	Yes	Saved Time	BP on Shore
Displacing Mud from Riser Before Setting Surface Cement Plug	Yes	Unclear	BP on Shore
Setting Surface Cement Plug 3,000 Feet Below Mud Line in Seawater	Yes	Unclear	BP on Shore (Approved by MMS)
Not Installing Additional Physical Barriers During Temporary Abandonment Procedure	Yes	Saved Time	BP on Shore
Not Performing Further Well Integrity Diagnostics in Light of Troubling and Unexplained Negative Pressure Test Results	Yes	Saved Time	BP (and Perhaps Transocean) on Rig
Bypassing Pits and Conducting Other Simultaneous Operations During Displacement	Yes	Saved Time	Transocean (and Perhaps BP) on Rig

Figure 2: Examples of Decisions that Increased Risk at Macondo while Potentially Saving Time (Source: National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling)

MINERALS MANAGEMENT SERVICE



Approved: April 16, 2009

Figure 3: MMS Organizational Chart

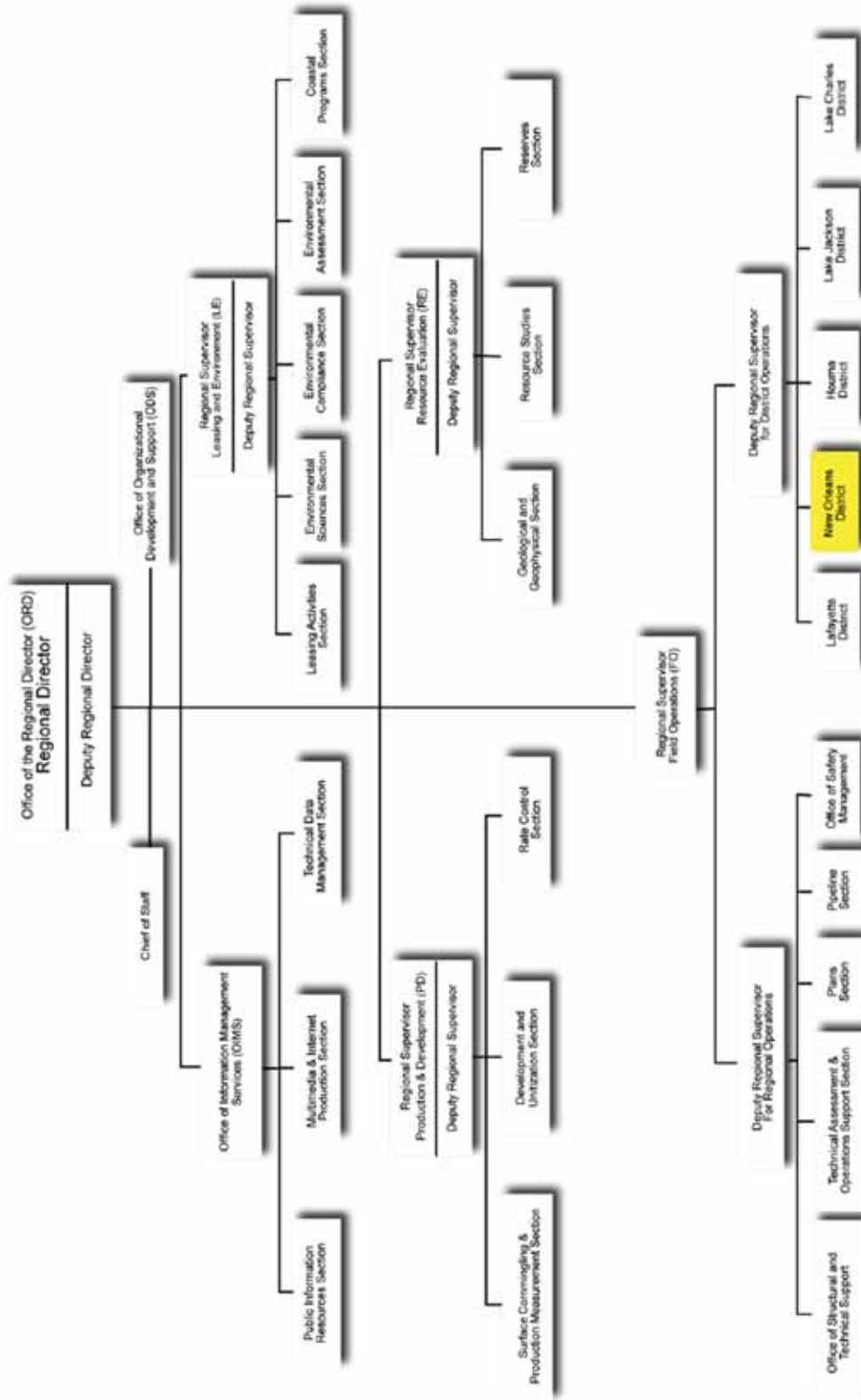



Figure 4: MMS Gulf Regional Office Organizational Chart



United States Department of the Interior
OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

MAY 24 2010

Memorandum

To: Secretary Salazar
From: Mary L. Kendall 
Acting Inspector General
Subject: Investigative Report – Island Operating Company, et. al.

With this memorandum, I am forwarding our investigative report entitled “Island Operating Company, et. al” which addresses a number of allegations that Minerals Management Service (MMS) employees at the Lake Charles District Office had accepted gifts from oil and gas production companies.

At the outset, I want to note that all of the conduct chronicled in this report occurred prior to 2007, and pre-dating your tenure as Secretary and your January 2009 Ethics Guide. While this conduct is dated, it is more evidence that there was, indeed, a much-needed change to the ethical culture of MMS.

Initially, the Office of Inspector General issued this investigative report according to our routine protocol, providing a copy to MMS and requesting a formal response in 90 days; upon receipt of that response, we would then provide copies of the report to cognizant committees, and post it to our website. Unfortunately, given the events of April 20 of this year, this report had become anything but routine, and I feel compelled to release it now. We have, however, already received a preliminary response from MMS to this report.

Of greatest concern to me is the environment in which these inspectors operate – particularly the ease with which they move between industry and government. While not included in our report, we discovered that the individuals involved in the fraternizing and gift exchange – both government and industry – have often known one another since childhood. Their relationships were formed well before they took their jobs with industry or government. MMS relies on the ability to hire employees with industry experience. I am pleased that MMS has advised us that it will enhance ethics training specifically for its inspectors to address this unique industry/government dilemma, and will establish controls, like a two year waiting period, to minimize the potential for conflicts of interest.

We appreciate MMS’ prompt and thoughtful response to our report even as it responds to the *Deepwater Horizon* disaster in the Gulf of Mexico, and your announcement to reorganize MMS into three distinct bureaus.

If you have any questions or wish to discuss this report further, please do not hesitate to contact me.

Figure 5: Inspector General Memo to Secretary Salazar

References

This case study draws heavily on the final report of the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling and reporting by the New York Times.

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