

**Testimony of Erik Milito, Upstream Director
American Petroleum Institute
Before the National Commission on BP Deepwater Horizon
Oil Spill and Offshore Drilling
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Good afternoon Chairman Graham, Chairman Reilly and members of the commission. Thank you for the opportunity to address safety in the oil and natural gas industry.

My name is Erik Milito. I am the upstream director for the American Petroleum Institute. API has about 400 member companies, which represent all sectors of America's oil and natural gas industry. Our industry supports 9.2 million American jobs – including 170,000 in the Gulf of Mexico related to the offshore development business – and provides most of the energy our nation needs to power our economy and way of life.

Our industry's top priority has always been to provide energy in a safe, technologically sound and environmentally responsible manner. We support the commission's work, and we will do all we can to reduce the risks of an accident like this from ever happening again. Our thoughts and prayers have always been with the families, the workers, and our neighbors in the Gulf who are affected by this unprecedented and tragic accident. The men and women of the oil and gas industry recognize our responsibility to understand what happened and why and to work in cooperation with the government to come up with ways to improve industry equipment, procedures and operations and how we are regulated.

It is important to understand the full range of what the oil and natural gas industry is doing to enhance safety and environmental performance. I will talk about what our industry has done and plans to do in response to the accident. My colleague John Modine will then discuss existing industry safety programs.

The fact that such a terrible accident happened has encouraged some to think that safe operations and equipment were unimportant to the industry and that the risks of more disasters were and are high. I do not believe a fair look at the facts supports that conclusion. The safety culture in the industry is strong. Our offshore companies work cooperatively among themselves and with regulators to minimize risks, including through their participation in API's standards program. The safety record supports this. The incident and volume spilled trend lines have generally gone steadily down. As we consider the possibility of creating an industry self-regulation program, we want to keep in mind the safety context in which any such a program would be created. John will provide that background.

Since the accident, the industry has looked at every aspect of safety and taken significant steps to improve operations.

We have assembled the world's leading experts to conduct a top-to-bottom review of offshore drilling procedures, from operations to emergency response. Two industry task forces that are addressing short- and long-term issues related to offshore equipment and offshore

operating practices delivered recommendations to the Interior Department in May, just a few weeks after the accident occurred. While the task forces are not involved in the review of the incident, they brought together industry experts to identify best practices in offshore drilling equipment and operations. Their objective was to immediately move industry standards to a higher level of safety and operational performance. The final report from the Interior Department, dated May 27, 2010 and submitted to the President, incorporated many of their recommendations.

One of the primary recommendations of the task forces is the development and integration of safety systems and critical documents for the lease operator and the drilling contractor. I believe the Commission heard some testimony about this during this morning's discussion on offshore drilling. The task forces recommended the adoption of a safety case, which is a comprehensive and structured set of safety documents to ensure the safety of a specific vessel or piece of equipment. The safety case will be integrated, or bridged, with the lease operator's safety management system through a Well Construction Interfacing Document, or WCID. The task forces have developed a draft WCID for consideration by the Bureau of Ocean Energy Management, Regulation and Enforcement. I believe the Commission has received a copy as well.

Most operators already have a safety management system in place, and the safety case is already used around the world by the drilling community. Interior has agreed to mandate these programs, and we expect them to release new rules to implement them. The integration or bridging of these programs addresses several critical factors, including well design; identification of hazards related to the geographical location of the well; identification of hazards related to the location of the wellbore, pore pressure and fracture gradients; casing design; well execution; well activity risk assessments; management structure, responsibilities and accountabilities; management of change; personnel management, including competencies, training, experience and certification requirements; and risk management processes.

Working with other energy trade associations, API also has assembled experts for two additional task forces to review oil spill and blowout response capabilities. One task force will focus on stopping and containing an oil leak at the wellhead. The other will focus on oil spill response at the surface and shoreline. We expect the recommendations of those task forces to be issued in a week or two.

Another example of industry's ongoing leadership and commitment to safe operations is the soon-to-be formed Marine Well Containment Company. Through this \$1 billion effort, engineers will design, develop and implement state-of-the-art containment systems that go beyond the capabilities employed during the Deepwater Horizon incident. The system will consist of a new subsea containment assembly, which will prevent oil from escaping into the water in the event of future deepwater accidents. It will be deployable within 24 hours.

Our industry's commitment to learn from this experience and to make offshore oil and natural gas exploration and production safer continues. In the long-term, we intend to use any

findings from the investigations to improve the technologies and practices that will promote safe and environmentally sound operations. As part of this process, we will continue to develop new API standards and revise and adapt existing API standards to raise the bar on safety performance.

While the industry collectively is working to find ways to enhance safety, individual companies are also closely reviewing their own equipment and procedures. The accident was a shocking reminder, unprecedented or not, that terrible events are possible. This was powerful incentive to the operators out on the water to redouble their efforts to prevent future possible injury or loss of life, serious environmental damage, or massive economic liability.

Finally, we are currently studying the potential for enhancing safety through the creation of a new industry safety oversight program. The Institute for Nuclear Power Operations (INPO) is an example of such an organization for the nuclear industry. Other examples are “Responsible Care” for the chemical industry and “Step Change in Safety,” a UK-based program for oil exploration and production.

These programs have helped elevate safety and environmental performance, and they may suggest approaches for our own industry. However, a program for the U.S. offshore industry would have to take into account its unique characteristics. Compared to the nuclear industry, it involves a large number of tremendously diverse businesses, some very large and some far smaller, often doing very different kinds of work. The offshore industry also operates under a wide range of existing industry safety programs, and many federal agencies monitor and regulate its activities. All of this would have to be considered in evaluating the viability of a new industry oversight program.

All of what I have discussed, of course, will be affected by what the root cause analysis of the incident tells us and by changes in the regulatory framework that ultimately are made.

We are striving to improve because we all wish to protect human life and the environment. There is no higher objective. The initial safety and operational response has made us safer, and we intend to build on that. But we also must continue the business of supplying the nation with the energy it needs to stay strong, secure and competitive, including energy from the rich resources in the deepwater Gulf. That will put people back to work now affected by the moratorium while creating new jobs for Americans and supplying our government with much needed tax and other revenues.

This concludes my statement. My colleague John Modine will now outline for you the safety programs our industry had in place before the accident. Thank you.