

REMARKS AS PREPARED FOR BSEE DIRECTOR JAMES A. WATSON

CENTER FOR OFFSHORE SAFETY: FIRST ANNUAL FORUM

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Good Afternoon. It's a pleasure to be here today speaking with you. I want to thank the Center for Offshore Safety for putting on this event and allowing me this opportunity. I also want to thank Charlie Williams. Charlie's hard work, collaboration, and overall commitment to safety are making the Outer Continental Shelf a safer place for everyone who works offshore.

This is an exciting time to be working on the OCS. New technologies are being used to explore new frontier areas of the Gulf. Last year we issued 112 Deepwater New Well Permits, the most we have issued in over seven years. At the start of this month there were 49 rigs in the Gulf of Mexico, which is more than pre-Macondo, and we anticipate that number continuing to climb throughout the summer.

The increased activity throughout the OCS has made it more important than ever to strengthen a culture of safety. All of us in this room have the same goal. Safety at all levels, at all times. This isn't just a slogan for BSEE to put on bumper stickers. This is the guiding principal that drives every decision we make. Safety must come first.

The events of three years ago with the Deepwater Horizon explosion and oil spill taught us that we had to fundamentally change the way we approached safety. We had to develop a culture of safety that permeates throughout both BSEE and industry.

The development of this new culture was my highest priority when I took this position 18 months ago, and remains my highest priority today. As many of you know I served more than 33 years in the US Coast Guard before becoming the BSEE Director. I learned a lot of valuable lessons in my time with the Coast Guard, and those same skills and experiences that benefited my growth there have had a profound impact on my approach to managing BSEE.

Chief among those is the understanding that safety is paramount and that industry and government must work together if we are to achieve our goal of zero accidents. I

believe in BSEE pursuing a hybrid approach to safety, one that is both flexible and strategic.

There are times when BSEE needs to be prescriptive, such as the Drilling Safety Rule. However, there are also times when we believe in performance management, which is reflected in a comprehensive safety and environmental management program. The human factor is one of the largest variables in safe offshore operations, and the new SEMS II rule is an important step towards protecting workers and the environment from preventable accidents.

To improve safety and continue the development of a strong safety culture, we can't rely solely on deterrents. Shut-ins, INC's, and civil penalties are only one way to encourage the observance of all rules and regulations, but those things alone are not enough. Ultimately it is in all of our best interest to foster a strong safety culture and push each other to be better.

Our recently released report on Shell's Arctic operations is an example of BSEE working with industry to identify challenges and lessons learned. I hope Shell will use the report to inform decisions related to safety and operational management, and promote our overall goal of developing a culture of safety on the OCS.

I have talked a lot about the importance of a safety culture across the offshore industry. To this end, we published a draft policy statement that many of you commented on. While we are still reviewing comments and finalizing the policy statement, I can tell you that BSEE will always define safety as a core value.

We expect everyone in industry, from top management to workers in the Gulf, to emphasize safety over all other competing priorities. One of our goals with the policy statement is to develop a set of guiding principles that can lead your decision-making.

We looked at other industries while developing these principals, and realized the nuclear industry went through a similar transformation over 30 years ago. In 1979 one of the radioactive cores at Three Mile Island went through a partial meltdown, resulting in the worst nuclear accident in US history. Following Three Mile Island, the Nuclear

Regulatory Commission realized fundamental changes were needed, and they worked with the public and industry to develop NRC's safety culture policy.

We looked at their policy and realized it provides the foundation needed for a similar approach on the OCS. What we learned is that certain values must be present for there to be a positive safety culture. This is a pattern of thinking, feeling and behaving that emphasizes safety above all else. There are nine values that are characteristic of a robust safety culture.

- The first is leadership – The leaders of industry must demonstrate a commitment to safety in their decisions and behaviors.
- Second is problem identification and resolution – safety issues must be promptly identified, evaluated and addressed.
- The third value is personal accountability. Every single person on the OCS must take personal responsibility for safety.
- Work processes are the 4th value. This is implementing a process of planning and controlling work activities so that safety is maintained.
- The 5th value is continuous learning. We work in a very dynamic environment that is pushing into new frontiers, and safety must keep pace with this progress.
- Our 6th value is an environment for raising concerns. We want everyone in your organization to feel empowered to raise safety concerns without fear of retaliation or intimidation.
- Effective communication is another key value – and this is communication not only within your company, but also within industry and with BSEE.
- We believe that trust and respect must permeate throughout the organization, and that is our 8th value.
- Our 9th and final value is an inquiring attitude. This will help to fight off complacency and eliminate the human errors that underlie too many accidents, and I believe this value is at the heart of developing the culture we're looking for. All of our employees should have an inquiring attitude if we are to continually improve offshore safety.

These 9 values are the tenets that we should live by in order to have a culture of safety.

The Safety Culture Policy statement is not a regulatory document. We're not going to quiz your employees to see if they can recite these nine values. Rather, we believe it is

helpful to you to understand how we view safety culture, and it is our hope that you and your employees will adopt these values.

I know there are questions about how to best implement these values into your company. This is where we turn to you, and ask industry to find the best ways to make these values a core part of your operations. Industry must bear the responsibility for safety on the OCS, and it is up to you to find the best ways to implement these principals.

We are moving to an operator driven safety program with BSEE oversight. We will always have inspectors on the OCS who will work to ensure best practices are being followed, but the inspections are only once a month at most. The other 29 days, we are relying on you to implement your safety program.

We expect you to come up with creative ways to provide incentives your workers to prioritize safety. One example of this is stop work authority. One operator in the gulf was telling me that they have set up a system of rewards for implementing stop work. They have gone so far as to track days without incidents down to the individuals, and reward and recognize their employees for taking personal responsibility for their safety. You could possibly involve spouses and family members in such reward programs as well.

The point is we are not going to tell you specifically how you have to do it, because it's going to be different for every company. You have to find what works best to instill these values across your own company. If you empower your employees to stop work when they see a risk, and prioritize safety above all else, accidents will be prevented and lives will be saved.

We want to collaborate with you on the best ways to continue to improve the safety culture on the OCS, and there is no clearer example of how we want to move forward than the new SEMS II rule. SEMS II builds on and enhances the original SEMS rule by calling for:

- Greater employee participation;
- Empowering field level personnel with safety management decisions; and
- Strengthening oversight with audits by accredited third parties.

I know there are questions in the room about these audits, and the audit cycle. We are not going to prescribe how these audits should be completed. We want your companies to be able to figure out the system that works best for you. We also will not be providing checklists. The audits are not pass-fail. They should be performance-based and used to drive continuous improvement.

We do ask that companies not wait until the regulatory deadline to conduct and submit their audits, so that we don't have all the audits turned into us on the same day. The deadline for the first cycle of audit reports is this November. To date, we have received audit reports from less than a quarter of the companies. It's in everyone's best interest to spread out audits, so that the information can be reviewed quickly, enabling us to identify trends and share lessons learned.

The goal of these audits is not to be prescriptive or to punish; rather the goal of the audits is for BSEE to gather, and help the industry learn from, information regarding both failures and successes. Just as we want to learn from our mistakes, we also want to find instances of best practices and share them so that we can all benefit. If we are bogged down with all the audits being turned in on the same day we will all suffer from the delay in processing.

Our goal at BSEE is to be a 21st century organization that is growing and keeping pace with a dynamic industry. In order to do that we need to be an information-based organization and our best source of information will be complete and thorough audits. To that end, I am somewhat disappointed in the minimalist approach taken by some companies in presenting their audit reports, so I recently sent a letter to C-E-Os reminding them of the importance of comprehensive audits and asking them to submit thorough reports to BSEE.

Another way we can collaborate and improve safety is through the development of a system for reporting both equipment failures and the solutions that were developed. We have found that many companies are often dealing with the same issue on the OCS, but they are frequently doing it in a vacuum because we don't have a way to share this information. There could be systematic failures happening all across the OCS, but right now they are all being handled individually.

One example of this is GE's bolts for the H-4 Connectors for Blowout Preventer stacks. This was an issue that affected a number of operators, not just in the Gulf of Mexico, but around the world. In this case, BSEE took action to notify all companies as soon as we were made aware of the issue, but there are going to be times, when it is not as apparent that an equipment problem is system-wide.

I am calling on industry to work together to develop a system of safety alerts. Industry should be collecting and disseminating important information to BSEE and other companies about equipment failures, as well as best practices for responding to and correcting these safety risks.

Training is another element of SEMS II that I have been asked about. BSEE is not going to prescribe a certain type of training that needs to happen, but we do expect operators to fully train everyone working on their operations. This includes contractors and non-English-speaking workers. It isn't enough that your employees are instilled with a safety mindset. We need to make the bridge to contractors you bring in. They too are working in a dynamic environment, and must be focused on safety. All of us are only as strong as our weakest link, and everyone you hire needs to be aligned with the culture of safety.

Another question I have been asked about SEMS II is the role of the Coast Guard, and what the relationship is between BSEE and the Coast Guard. We have been working in close collaboration with them on safety issues throughout the OCS through a Memorandum of Understanding, and we are working to finalize a Memorandum of Agreement specifically on shared responsibilities related to SEMS. I should have more to share with you about that at the Offshore Technology Conference. In fact, Rear Admiral Servidio and I will be sharing the podium next Thursday at OTC for a discussion on SEMS and our collaboration, and I hope you will be able to join us.

The changes we are making in order to develop a culture of safety are not just for industry. We are leading by example at BSEE, with a new internal focus on safety culture. We are revamping our internal safety program to mirror SEMS. We are equipping our inspectors with new equipment and tools, and providing crucial training and certification that will make our inspection process more efficient and effective. We are conducting training in operational leadership. This includes specialized training in leadership, risk assessment and decision-making. We have improved our management systems to ensure our employees are afforded safe and healthful working conditions.

We are making these changes because we know that we have to build the foundation internally to lead the industry toward offshore excellence.

Working offshore involves risk, as everyone in this room knows. At BSEE we aren't measuring our success by how many INC's are issued or the total amounts of civil penalties assessed within a given time, we have to look comprehensively at safety and environmental protection. I will ultimately measure my success as the BSEE Director by how well we prevent accidents and spills - how well we ensure Safety at All Levels, at All Times. I challenge you to do the same.

Thank you for your time and attention.