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How the Minerals Management Service's partnership with industry led to failure

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Two weeks after BP's Macondo well blew out in the Gulf of Mexico, the federal government's Minerals Management Service finalized a regulation intended to control the undersea pressures that threaten deepwater drilling operations.

MMS did not write the rule. As it had dozens of times before, the agency adopted language provided by the oil industry's trade group, the American Petroleum Institute, and incorporated it into the Federal Register.

MMS received two favorable public comments about the regulation: one from the Offshore Operators Committee, an industry group, and the other from BP. The regulation stated: "BP, a large oil and gas company, expressed the importance of this rule and how they have been involved with MMS and industry to develop the industry standard."

The fact that BP - which has come under withering criticism for how it managed mounting pressure in the Macondo well - took partial credit for crafting the rule is not surprising. MMS has adopted at least 78 industry-generated standards as federal regulations, American Petroleum Institute records show.

MMS's acquiescence stemmed from the unusual relationship it had cultivated with industry. Directed by law to "meet the nation's energy needs," the agency pursued that mission by declaring itself publicly and formally as industry's partner.

Top officials and front-line workers routinely referred to the companies under their watch as "clients," "customers" and especially "partners." As the relationship became more intertwined, regulatory intensity subsided. MMS officials waived hundreds of environmental reviews and did not aggressively pursue companies for equipment failures. They also participated in studies financed and dominated by industry, more as collaborator than regulator. In the face of industry opposition, MMS abandoned proposals that would have increased costs but might have improved safety.

The story of how a little-known federal agency became an extension of the industry it oversaw spans three decades and four presidents. It began in 1982 with a major change in the way the nation managed its natural resources, picked up pace with initiatives to streamline bureaucracy in the Clinton and George W. Bush administrations, and ended after the April 20 BP blowout with the Obama administration's abrupt decision to undo the partnership.

Few in positions of power in Washington paid close attention to MMS and the hard-to-understand world it was charged with regulating. When they did, it was often to pressure the agency to increase the money it earned from leases it sold and the production that followed. Over its 28-year history, MMS grew to become one the government's largest revenue collectors, after the Internal Revenue Service.

As oil and gas companies took their drilling operations into deeper and riskier waters, MMS had to rely on its corporate partners' expertise. Along the way were warning signs of the partnership's imbalance, but the industry's track record of no major accidents provided a comfort level that proved deceptive.

Industry innovation, as it often

In this image made from video released by British Petroleum, a saw slices into the blowout preventer to prepare for a capping device to seal off the oil gusher at BP's Macondo well.

does, had outrun and overpowered the government's regulatory prowess, with disastrous results. They were partners, but they were not equals.

On the fly

James G. Watt, the man who created MMS, came to Washington in 1982 with a mission: to alter the way the government managed its natural resources. Coming off the hostage crisis in oil-rich Iran and gas shortages on the home front, he vowed to "mine more" and "drill more."

Nearly three decades later, the lawyer known for his sharp mind and oversized glasses says in an interview from his home in Jackson Hole, Wyo., that he "wouldn't change one decision."

As Ronald Reagan's first interior secretary, Watt wasted little time pursuing his vision. The environment, he believed, contained valuable resources that should be exploited for the good of the nation, particularly at a time of tense relations with the Soviet Union and continuing instability in the Middle East.

"The Reagan administration was for everything," Watt says. "We wanted nuclear, we wanted solar, we wanted conservation, we wanted wind, we wanted coal. We were just doing everything we could to re-arm America, dig us out of a huge financial mess. That required energy at every level."

For years, the U.S. Geological Survey had handled the task of collecting royalties from companies, based on the amount of oil and gas they extracted from federal land and offshore reserves. But allegations of fraud had left the program in a shambles. A panel appointed to examine the problems recommended that a new agency take over those duties as its main mission.

Watt went one step further. The Minerals Management Service he created in 1982 would not only lease tracts for exploration and collect the government's share of oil and gas revenue, it would regulate the industry, too. That built-in conflict would hamstring the agency for decades.

As an early director of MMS, William D. Bettenberg carried out many of Watt's orders. He recalls that the agency was created on the fly.

Bettenberg left his office in Reston one Friday afternoon and returned Monday to learn that Watt was giving MMS oversight of drilling operations in the Outer Continental Shelf, a responsibility that had rested within another Interior Department division, the Bureau of Land Management. A co-worker found a copy of Watt's draft order on a Xerox machine and relayed the news to Bettenberg in a phone call.

As he set up the agency, Bettenberg turned to industry for guidance. "Sometimes we applied industry standards," he says. "Many of the standards are good."

Bettenberg, who retired in 2005 after a 41-year career, wonders whether the agency could have done more to regulate deep-sea drilling.

"This recent spill has prompted me to conclude I didn't ask enough questions," he says. "I suspect people didn't keep up with technology."

Expansion

In the face of Watt's push for more drilling, the Democratic-controlled Congress resisted.

Rep. Les AuCoin, an outspoken Oregon Democrat, had a vision of what an oil spill off California could mean for his state. After major storms, he said, dead cows would wash up on Oregon's beaches, plucked from Northern California coast. Oil from a blown-out well, he reasoned, would be no different.

When Watt suggested opening up the Pacific Outer Continental Shelf and Georges Bank off Massachusetts to drilling in 1981, AuCoin and Republican Rep. Silvio O. Conte of Massachusetts used their posts on the powerful House Appropriations Committee to block him. They put language in a funding bill mandating that no money could be used to lease exploratory tracts in central and Northern California waters or the Georges Bank.

Leasing new tracts to oil and gas companies was MMS's primary objective. Many agency employees spent their days determining which offshore areas would be most productive, and then auctioning those swaths to the highest bidders. Now, lawmakers were saying they had as much of a right to draw the map for drilling as MMS officials did.

Watt backed away from leasing off the California and Massachusetts coasts, but he moved to lease nearby areas, tracts that were even closer to shore. Congress responded with further restrictions, the beginning of what would become a drilling moratorium for certain regions.


James G. Watt, former Secy. of the Interior and the creator of the MMS. (Curtesy of the Univerity of Wyoming).

The one exception: most of the Gulf of Mexico.

After Watt resigned in September 1983, lawmakers expanded the moratorium. From 1982 to 1992, the territory declared off-limits grew from 700,000 acres off the California coast to more than 266 million acres off the Pacific and Atlantic coasts, Alaska's Bering Sea and the gulf's eastern portion.

Again, the rest of the gulf remained open.

Lawmakers who opposed drilling found an ally in George H.W. Bush. During his 1988 presidential bid, he said offshore areas needed protection "until technology moves forward."

In his first year as president, he

canceled a slew of lease sales by executive order and established a marine sanctuary in California's Monterey Bay. The government also bought back leases for tracts off South Florida. The result: More offshore auctions were canceled than held between 1987 and 1992.

The gulf remained the primary place for deepwater ventures, becoming what environmentalists such as Peter Galvin of the Center for Biological Diversity called a "national sacrifice area." Today, it is home to 99 percent of the nation's offshore oil production. Of 911 new wells in the past two years, all but 13 were drilled in the gulf.

Reinvention

Since the BP blowout, Bruce Babbitt has been reevaluating what took place during his tenure as Bill Clinton's interior secretary, and how the nation's oil and gas policy went awry despite his best intentions.

He belongs to an exclusive club, one of four interior secretaries to serve for eight years. In that position, he focused much of his time on preserving the country's wild spaces. Babbitt paid less attention to MMS.

Sitting in the sleek Dupont Circle headquarters of the Environmental Defense Fund, where he now serves as an adviser, Babbitt describes how a relentless drive to reduce the federal bureaucracy in the 1990s solidified the partnership between Washington and the offshore industry. The Interior Department began to emphasize "performance-based regulation" on the assumption that industry was better positioned than the government to determine what practices worked.

"That is a mistake for which I shoulder part of the blame," he says. "It was not a good decision. My belief, with considerable hindsight, is there is no place for performance-based regulation because of the high risk."

Political forces were pushing the department to scale back on regulatory dictates. Clinton was seeking to "reinvent" the government - and by extension, agencies such as MMS. He put Vice President Al Gore in charge of the initiative, which sought to slash the federal workforce, reduce regulation and form "partnerships" between Washington and industry. Profound changes would take place at MMS: It was ordered to do a better job of collecting royalties, while losing nearly 10 percent of its staff during the next five years.

Reinvention also became the agency's mantra. In October 1993, an Interior panel issued findings aimed at future drilling policies. Titled "Moving Beyond Conflict to Consensus," it represented a paradigm shift.

Chaired by an oil drilling company executive, the panel urged a reversal of restrictions championed during the previous decade by George H.W. Bush and many members of Congress. It recommended that Interior lift the moratoriums; share revenue with states whose water would be opened up for leasing; and create incentives to spur exploration, such as royalty relief for industry. The panel called large spills in the gulf "improbable," citing relatively low reservoir pressure that required companies to retrieve the oil and gas through "artificial lifting" in 90 percent of the wells.

Today, Babbitt says he sees how policymakers came to focus more on revenue than on risks. "This kind of partnership stuff, in a way, is an inevitable part of a system in which you are producing the second-largest amount of revenue for the U.S. government," he says.

It turned out that MMS was not capable of navigating its dual relationship as regulator and industry partner, he says.

It took time for him to see the inherent conflict. "The full realization of that came, frankly, after I left office, when I had a chance to think in a more abstract way, when I had a chance to sort this out. It's not an easy sort."

Going deep

Echoes of the Interior Department panel's recommendations were being heard in the halls of Congress. Worried that leases were declining as opportunities in shallow water dwindled, Louisiana Democrat J. Bennett Johnston used his senior position on the Senate Energy and Natural Resources Committee to seek royalty relief for companies willing to explore deeper water.

"Offshore drilling had always been very key to our [state's] economy, and the overall oil production," he now says. "I thought we ought to make a way to make it easier to drill in deeper water. Because if you're not going to get them to drill, that's money you're not going to get."

The Deep Water Royalty Relief Act, written by Johnston and passed in 1995, exempted companies that drilled on certain leases from paying royalties. "It was not like these were a bunch of oilies getting together and deciding, 'How can we rip off the government?' " says Johnston, who left Congress in 1997 and is now an American Petroleum Institute lobbyist. "These were serious policymakers figuring out how to benefit the nation."

With the moratoriums in force, the Gulf of Mexico became a more important place to drill. The move into deeper water did not, however, prompt a discussion about greater oversight. "It was not a big focus of the Congress," Johnston says. "There wasn't any whistle-blower saying, 'They're being unsafe.' "

At the end of the Clinton administration, MMS itself issued a warning. In a little-noticed budget document, the agency reported in 2000 that the burgeoning number of deepwater wells had made overseeing operations in the gulf more complex. The number of companies working there had grown by 30 percent and many employees were new.

MMS cautioned: "The offshore industry significantly downsized in the 1980s. . . . The presence of workers without offshore experience is placing an added burden on the inspection and compliance program."

If the agency was waving a red flag, few saw it.

Acceleration

After the Clinton administration set the table for the partnership, the George W. Bush administration let the industry run it.

On Jan. 29, 2001, nine days after taking office, Bush signed an executive order creating the National Energy Policy Development Group. Within weeks, Vice President Richard B. Cheney, as chairman of the task force, began holding closed-door meetings with industry officials.

Executives from BP, Exxon-Mobil, Conoco, Shell and other companies met with the vice president and his team. Jim Ford, then director of the American Petroleum Institute, sent the panel an e-mail on March 20 outlining the industry's legislative and policy wishes. He called for limiting regulations, reducing the backlog of drilling permits, and making it easier for energy companies to access oil and gas leases.

In its report on May 16, the task force said that drilling in the Outer Continental Shelf had an "impressive environmental record" and that state and federal regulations were interfering with exploration and production. The panel urged Bush to direct Interior Secretary Gale A. Norton to "consider economic incentives" for oil and gas firms and reduce the amount of royalties they had to pay.

Soon after, Bush signed two executive orders that tracked many points in Ford's e-mail and adopted many of the Cheney panel's recommendations.

Norton, and her deputy, J. Steven Griles, embraced the task force's endorsement of more drilling. A Griles memo to the White House's Council on Environmental Quality on Aug. 22, 2001, said Interior was "fully committed to playing a role in this effort" and had a "special interest and expertise" in expanding production.

'Gung ho'

Norton's enthusiasm for industry's desire to go into deeper water was on display at the dedication on Feb. 26, 2005, of BP's Thunder Horse oil platform in the gulf, then the largest in the world.

Accompanied by MMS Director Johnnie Burton, Norton declared on the trip - underwritten by BP, according to government records - that the rig was "created to protect the blue waters that it stands in, no matter how great the storm." With the rig looming behind her, she said, "Many people have an image of offshore oil production that is frozen in time. Thunder Horse is a dramatic embodiment of how far technology has progressed."

George W. Bush's Interior Secretary Gale A. Norton. (Curtesy of Lucas Jackson/Reuters).

Less than five months later, the 13-story structure nearly capsized, the result of equipment failures during Hurricane Dennis. The mishap delayed the start of production until 2008.

During Norton's tenure, the department adopted regulations aimed at spurring deepwater drilling in the western and central Gulf of Mexico. A 2002 rule allowed oil and gas firms to apply for additional royalty relief; two years later, another rule reduced royalty payments for companies drilling for gas in deeper water.

At the time, MMS began receiving reports that raised concerns about underwater blowout preventers, which serve as the primary device for cutting off the flow of oil in an accident. The equipment relies on a brute-force component known as a blind-shear ram to sever and crimp the pipes of a runaway well. These hydraulic-powered rams are the last line of defense against the pressure rising from deepwater reservoirs, which had proved greater than the members of the 1993 Interior panel had stated.

One study suggested requiring a second blind-shear ram for backup, but in 2003, the agency decided against that. Another report questioned whether remotely operated underwater vehicles could generate enough pressure to cut the pipes. The agency did little to address the concern.

Norton declined an interview request, saying she had testified about her tenure last month before Congress.

In 2005, finalizing a policy from the end of the Clinton era, MMS told companies that they did not have to provide detailed blowout and response scenarios for each exploration plan. The agency said the plans were "purely speculative or generic." MMS officials did request modest budget increases for regulation. But greater oversight was not a priority, as David Abraham at the Office of Management and Budget discovered.

Abraham served as OMB's examiner for offshore programs from 2003 to 2005. When he asked MMS officials about their plans for keeping up with expanded drilling, he said they routinely gave the same answer.

"They said, 'Our processes work,' " recalls Abraham, now a fellow at the Council on Foreign Relations. "I said, 'It's like an airplane - everyone always says the wheels will come down, but what happens when they don't?' They should have had people who could say, 'This is what we do when the wheels don't come down.' What they said is, 'Don't worry. Our regulatory regime works. "

Abraham recalls: "They were being pushed by Congress, and they were being pushed by the White House- 'Let's go into this area, let's go into that area,' Nobody asked: Did they have the technology" to handle this?

The pressure to increase production came from both ends of Pennsylvania

Avenue, says Lynn Scarlett, who was Norton's assistant secretary for policy, management and budget and then deputy secretary under Norton's successor, Dirk Kempthorne.

Those in favor of more drilling, she says, were saying " 'let's go 'gung ho' on deepwater. Lots of countries are doing it. There wasn't a parallel focus at the same time of, 'If we do this, let's have a commensurate effort on regulations for safety.' "

Looking back, Scarlett sees the problem not so much as one of complacency but whether MMS "fully focused on the new challenges with deepwater." She wonders: "Was there a failure of imagination of what could happen given the new conditions?"

Scarlett says that question never reached her desk.

"It just didn't come up," she says. "I honestly didn't really think about it. I wish I had."

Easing the way

Interior officials during the Clinton and George W. Bush years also eased the way for more drilling by relaxing one of the most significant safeguards - and obstacles - the agency could impose: an environmental impact statement under the National Environmental Policy Act, which became law in 1970.

The legislation, enacted after a Union Oil blowout that spilled 80,000 to 100,000 barrels of oil into the Santa Barbara Channel, remains one of the nation's toughest environmental laws. Beloved by activists and loathed by industry, it requires an analysis of how regulated activities might affect the environment.

In the case of oil and gas drilling in the gulf, regulators became increasingly willing to give its industry partners exemptions.

The trend took root in 1978, when the White House's Council on Environmental Quality informed agencies that they could make "categorical exclusions" from the law as long as the proposed activity did not have "a significant effect on the human environment." These waivers were critical because they saved companies time and money.

The Interior Department soon made it clear that offshore drilling could qualify for these exemptions. In a letter dated Nov. 20, 1980, firms operating in the central and western gulf were told that they would not have to provide "complete" environmental assessments in some instances.

MMS officials later widened the exemption, seeking in part to avoid duplicate environmental assessments of similar areas. For years, the agency's regional director, Gulf Coast governors or the head of the National Oceanic and Atmospheric Administration could ask for studies. The Bush administration modified the rule in 2005, limiting such requests to the MMS regional director.

Under Clinton, categorical exclusions granted in the central and western gulf rose from three in 1997 to 795 in 2000. During the Bush administration, MMS granted an average of 650 categorical exclusions a year in the region.

The number of categorical exclusions dipped to 220 during the Obama administration's first year. One went to BP's Macondo well.

Last week, Interior officials announced a temporary halt on categorical exclusions and vowed a tighter review before granting waivers in the future.

'Working partners'

In July 2006, someone with knowledge of MMS's inner workings contacted Interior's inspector general with troubling allegations about the agency's office in Lakewood, Colo., which managed the royalty-in-kind program. Under the program, MMS received a portion of the oil and gas collected by companies and sold it on the market. Industry officials preferred the program because it meant less red tape and avoided time-consuming audits.

The informant said MMS employees were accepting free ski trips, football tickets and other gifts from oil and gas firms. Some partied with industry officials and, in a few cases, female MMS employees engaged in sexual relationships with them.

Essentially, the allegations suggested that the partnership in Lakewood had gone beyond consensus. It had crossed into something closer to corruption.

Witness statements from the IG's inquiry, as well as previously unpublished e-mails, provide a more complete portrait of MMS's mindset. Employees said it was part of their job to "partner" with industry. Accepting free trips, meals and gifts was their "way of doing business." Some said MMS employees should be exempted from certain ethics laws because of the agency's unique role.

Industry officials used similar language in their interviews. A Shell oilman called MMS employees "working interest partners." Another Shell representative said he saw the royalty-in-kind division as "just another oil exploration company." He provided gifts for "relationship-building."

Some industry officials built relationships that extended beyond the office. One MMS employee told the agents that she had sex with two oilmen who worked with the program. When IG agents asked whether she had sex with other industry officials, she asked if they had any e-mails to refresh her memory.

"I did date people," she told them.

One Shell official e-mailed two female MMS employees to invite them to stay with him during a retreat in Keystone, Colo., a resort town in the Rockies. "Don't worry about bringing a thing except yourselves," he wrote. "Nobody will say a thing about you being here for the night. As far as I'm concerned, you were in a hotel."

One of the women replied: "You are sooo wonderful. You know how much I totally adore you. I just want to see my best buddies for a few days and unwind in the hot tub."

The investigators provided the basis for several criminal cases involving federal contracting rules and conflict-of-interest laws, resulting in two guilty pleas. Another MMS official resigned amid allegations that he had worked for a private engineering firm and had marketed the company to government clients.

The once-obscure agency had acquired an unwanted prominence when the report became public in September 2008. Barely a week after the Obama administration took office in January 2009, the new Interior secretary, Ken Salazar, burst into the White House press room.

MMS, he announced, would be one of his first targets.

He then flew to Colorado to address agency employees about the Lakewood findings. Wearing his trademark Western cowboy hat and bolo tie, he delivered his message with two symbols of Washington by his side: his chief of staff, Tom Strickland, and Interior's IG, Earl Devaney.

Salazar releases a statement after former MMS director, Elizabeth Birnbaum, is reported to have been forced out. (AP Photo)

"The public knows of what happened here in Lakewood," Salazar told the quiet crowd. "The 'anything goes' will end. And this department, and the Minerals Management Service, will lead the way in ending it."

Salazar promised a new code of conduct for the agency, and he announced the end of the royalty-in-kind program following evidence that millions of dollars in revenue had been lost.

In Washington, Strickland assigned his deputy to stay on top of the IG's investigations. But as Salazar's team pursued other items on its agenda, MMS's problems became less prominent.

More than a year later, in May 2010, a second IG report on the MMS office in Lake Charles, La., which handles inspections in the gulf, showed that the Lakewood problems were not isolated.

The IG agents found that Lake Charles employees had taken industry-paid hunting and fishing trips. Two MMS officials and their families had traveled to Atlanta on a corporate jet to watch Louisiana State University play in the Peach Bowl. Thirteen employees had used government computers to receive or forward pornographic images or links to pornographic Web sites. An MMS inspector had written four evaluations of an offshore drilling company while negotiating for a job with the firm. Earlier, an inspector had pleaded guilty to making false statements about receiving gifts from industry.

One agency employee, who was dating an inspector, said her boyfriend told her that the time he and other inspectors spent on the platforms amounted to mini-vacations. She told the agents that they "eat like kings, they watch porn and they take naps."

The IG agents questioned employees about their views of the industry's generosity, according to interview transcripts that have not been publicly disclosed.

"What, though, do you think that the oil company or the operating company gets for that?" one agent asked a MMS supervisor.

"A relationship," he replied.

"And is that important?" the agent asked

"Yes."

"A relationship with who?"

"With MMS."

Industry financed

For years before the blowout, MMS allowed the oil and gas industry to play a key role in the regulatory process, often accepting recommendations from the American Petroleum Institute. There was logic behind this: The industry had the know-how and the resources to keep abreast of changing technology.

MMS also participated in studies by outside consultants, some underwritten by industry. A recent study by West Engineering Services in Texas examined the reliability of blowout preventers. Among the central questions: Could the blind-shear rams be tested less often without compromising safety?

These tests require downtime of about eight hours, which means $300,000 in lost production and wages - more if complications arise. West Engineering noted on its Web site that the industry could save an estimated $193 million a year by reducing the time and production lost in testing blowout preventers.

The company invited industry members to join the study's steering committee. The price: $100,000 per seat. Seven companies signed on: BP, Diamond, ENI, Marathon, Chevron, Nexen and Seadrill. The American Petroleum Institute also contributed $100,000. (Other firms did not make any payments, but still had a role in the study.)

At MMS, the project raised few concerns. Reflecting the agency's status as an industry partner, three MMS officials participated. One served on the "leadership team" with five industry officials. On the West Engineering Web page for the study, the MMS logo appeared with those of the American Petroleum Institute, the Offshore Operators Committee and the International Association of Drilling Contractors.

West Engineering's 119-page study came out in January, three months before a blind-shear ram failed to stop the BP blowout. One recommendation: extend the testing interval for blind-shear rams from 30 days to 77.

MMS did not act on the proposal before the accident; the blind-shear ram's failure has guaranteed it won't act now.

West Engineering said the industry's financial contributions played no role in its scientific findings. "The results of our work are driven by the science, the data, and our professional interpretation of that data," the company said in a statement.

The breakup

Two weeks after Interior's IG released its report on the Lake Charles office, Michael Bromwich was working at his law firm. He received a call from a friend in the White House legal office.

"Have you been paying attention to what's been happening with the Minerals Management Service?" his friend asked.

"Vaguely," Bromwich replied.

"We'd like you to head that agency."

"What?"

Bromwich, a former Justice Department official known for cleaning up troubled institutions, was eager, but soon had serious reservations. To win him over, the administration began an all-out lobbying campaign. Strickland, Salazar's chief of staff, gave Bromwich a call. Salazar summoned him to his office for a 11/2-hour sit-down.

Bromwich remained unconvinced - until the phone rang in his beach house in Rehoboth, Del., that weekend. It was the White House operator. Was he available to take a call from the president?

"I really want you to do this job," Obama said.

Bromwich told him that the job came with a 90 percent pay cut, and he hadn't fully discussed it with his wife.

"If you want me to talk to her, let me know," Obama said.

The next week, Bromwich began as the director of the newly renamed Bureau of Ocean Energy Management, Regulation and Enforcement. Salazar had already reorganized the agency, dividing oversight from collecting royalties. The House has passed a bill with a similar bent, but a stronger separation between regulation and revenue collection. The Senate will take up the matter this fall.

Michael Bromwich, who now heads the government agency that oversees offshore drilling, the Department of Interior's Bureau of Ocean Energy Management, Regulation and Enforcement, left, with Interior Secretary Ken Salazar, right, on Capitol Hill in June. (Alex Brandon/AP/File)

A presidential commission looking at the lessons of the BP oil spill has set its sights on MMS's culture as well. It will hold a public hearing Wednesday.

As Bromwich has suggested, it will take more than a different name to give the agency a fresh start. "There's a shadow of the past that people in this agency, including me, have to deal with, and we will," he said.

Bromwich also knows it will take time and action to convince his employees and the oil companies that a new era has begun. In July, Marathon Oil chief executive Clarence P. Cazalot Jr. said he continues to think that Washington should defer to his industry.

"There's a role for regulation," he said, "but the regulators shouldn't be out there telling you how to do things."

Senior Interior officials who have spent the past four months trying to manage the ecological and public relations disaster in the gulf said they have run out patience with the partnership.

"That path didn't work, and the public got let down in an enormous way," Strickland says. "There is now agreement - whether everyone in the industry agrees or not, because it's coming, it's happening - we need more oversight, more regulation."

Research editor Lucy Shackelford contributed to this report.