

Congress of the United States
Washington, DC 20515

July 21, 2010

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
H-232, US Capitol
Washington, D.C. 20515

The Honorable Steny Hoyer
Majority Leader
U.S. House of Representatives
H-107, US Capitol
Washington, D.C. 20515

Dear Speaker Pelosi and Majority Leader Hoyer:

BP's Deepwater Horizon blowout and oil spill cost the lives of 11 Americans and has caused one of the worst environmental disasters in American history. In the wake of the tragedy in the Gulf of Mexico, Congress must act to hold BP accountable, ensure the compensation of victims, update outdated statutes governing offshore liability and address deficiencies at agencies that have not effectively regulated offshore energy production.

However, as you work to assemble the House of Representative's legislative response to the BP oil spill, we respectfully ask that you craft a bill that specifically responds to the BP disaster and does not become a vehicle for extraneous proposals that would restrict onshore energy development or impose unreasonable limits on future offshore energy production. A knee-jerk reaction by Congress that restricts American energy development would jeopardize the employment of millions of hardworking Americans, deepen our dangerous dependence on foreign oil, and further starve states of substantial revenue from state oil and gas taxes – meaning fewer teachers in the classroom and fewer cops on the beat.

We have specific concerns with the following proposals, among others. We respectfully ask you to reject these provisions or work with us to modify them before legislation reaches the House floor. As they stand, the following proposals would unnecessarily restrict American oil and natural gas production, cost American jobs, and endanger our economic recovery.

- **Increase in oil and gas taxes.** The American oil and natural gas industry is primarily composed of smaller independent producers operating under very narrow margins. These companies struggle in this tight credit market economy to finance the long-term investments required to support the high capital costs of producing these natural resources. As a result, tax hikes or fee increases on the oil and natural gas industry has the direct result of severely restricting American production and reducing the number of jobs associated with that development. The current moratorium in the Gulf is already having a devastating effect on the local communities and an expected loss of 20,000 – 40,000 jobs. To restrict development nationwide would exponentially increase those losses for our districts and our nation.
- **Federal regulation of hydraulic fracturing.** The practice of hydraulic fracturing has been effectively regulated at the state level since its inception; the technique has been used in more than one million wells over the past 60 years without any instance of direct groundwater contamination being confirmed. Authority already exists for regulators to require the disclosure of the chemical components should they choose to utilize it. Additionally,

hydraulic fracturing is not a practice that is typically used in offshore development so efforts to alter the current regime within the context of an oil spill legislative package are completely extraneous.

- **Federal onshore oil and gas leasing reforms.** A broad and far reaching reform of onshore leasing practices is unwarranted and unrelated to the BP Gulf of Mexico disaster. Such major policy shifts, as they have been proposed, would create an unmanageable amount of uncertainty to an already heavily leveraged industry, the result of which would be to effectively end drilling on federal lands and the loss of the American jobs and revenues that come with it.
- **Diligent development language.** The pace of development on an oil or gas lease is dictated by a myriad of factors often outside of the producer's control, not the least of which are the challenges posed by physical geology, the timeframe associated with adhering to regulatory requirements, and sometimes extraneous legal challenges. Current federal leasing requirements already compel leaseholders to show that they are diligently developing each lease. A one-size-fits-all approach enforced with the potential for penalty fees and a loss of lease that was legally acquired undercuts the business of exploration and production on federal lands.
- **Modification to the financial responsibility requirement for offshore production.** Any proposal to raise the requirement of offshore oil and natural gas producers to show financial responsibility has the potential of excluding American independent oil and natural gas producers from offshore operations and leave offshore energy development exclusively to foreign government owned companies and integrated super-major firms. There is only \$1.5 billion in total capacity in insurance markets for energy companies to meet financial responsibility requirements. We would ask that any legislation considered on the floor have a financial responsibility provision that assures the ability to respond to a catastrophic disaster and long-term recovery, but does so in a way that does not discriminate against small and mid-size independent companies.
- **Elimination of the liability limit for offshore oil and natural gas producers.** H.R. 5629, as passed in the Transportation and Infrastructure Committee, eliminates the limitations on liability for offshore oil and natural gas producers. While Congress should act to update liability limits and ensure BP is held accountable, elimination of the liability limitation impairs the ability of independent oil and natural gas producers to operate offshore. A tiered approach to liability coverage that incorporates the industry-funded Oil Spill Liability Trust Fund and/or pooled risk coverage by offshore operators would protect the American taxpayer, hold companies responsible for their spills, and ensure the participation of independents in offshore development.
- **Storm water construction regulations.** Without hearings, legislation has been reported that would alter regulation of oil and natural gas production activities to require different standards to be applied to construction compared to operation. Past analyses of this approach concluded that as much as ten percent of today's American oil production and natural gas production could be lost. EPA has adequate regulatory authority under the Clean Water Act; these changes are unneeded.

Thank you for your attention to our concerns. While Congress must hold BP accountable and address deficiencies in our regulatory system, we must not make hasty decisions that would unnecessarily restrict American oil and natural gas production, cost American jobs, jeopardize our economic recovery, and make us more dependent on foreign oil. We look forward to working with you to craft legislation that directly responds to the BP disaster and avoids harming Americans working in our oil and natural gas industry.

Sincerely,

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