

# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

May 17, 2010

Via Electronic Transmission

Lamar McKay  
Chairman and President  
BP America, Inc  
501 Westlake Park Boulevard  
Houston, TX 77079

Dear Mr. McKay:

As the ranking member of the Committee on Finance, I have a constitutional duty to conduct oversight into U.S. government regulated programs that directly impact the safety, security, and economic livelihood of American citizens. Additionally, the oil spill liability trust fund and related taxes are included in the Internal Revenue Code, as are tax incentives directed at deep water drilling. I am writing about the concerns I have regarding the recent explosion and subsequent oil spill at the Deepwater Horizon oil rig in the Gulf of Mexico.

It is my understanding that British Petroleum (BP) leased the Deepwater Horizon rig in the Gulf of Mexico from Transocean Ltd., and that Halliburton provided services including: cementing, mud logging, and directional drilling. Cameron provided equipment used in the drilling process. I also am aware that the Minerals Management Service (MMS) within the Department of the Interior (DOI/ Interior) exempted BP from environmental safety restrictions that may have prevented this catastrophe. According to a May 3, 2010 statement from the Project on Government Oversight<sup>1</sup>, MMS:

- Red-flagged potential violations of government safety standards in five out of 20 accident investigations it completed at BP offshore operations since 2005, according to the Houston Chronicle, but only one incident resulted in a fine.
- Failed to bolster safety requirements for a vital piece of drilling safety equipment involved in the disaster, shear rams, after a 2004 study questioned whether the equipment would function in deep-water seas.

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<sup>1</sup> Project on Government Oversight; "Taxpayers Shouldn't Let Interior Off the Hook When it Comes to Deepwater Horizon"; <http://www.pogo.org/pogo-files/alerts/natural-resources/nr-doi-20100503.html>; accessed May 5, 2010.

- Was slow to develop better practices for “cementing,” or installing casing to secure the walls of a well. In 2006, MMS determined that the percentage of well blowouts due to cementing was on the rise. The agency began to work with the American Petroleum Institute to develop new standards for cementing practices, but has not completed its work on the standards after four years. Workers on the Deepwater Horizon rig were conducting cementing procedures at the time of the accident.

Also, I have learned that BP sent a letter dated April 9, 2010 to the White House Council on Environmental Quality regarding offshore oil drilling. I would like to more information about BP’s contact with the White House on this matter.

Further, an Associated Press review shows that there have been questions about the reliability of blowout preventers for a number of years including:

- Accident reports from the U.S. Minerals Management Service, a branch of the Interior Department, show that the devices have failed or otherwise played a role in at least 14 accidents, mostly since 2005.
- Government and industry reports have raised questions about the reliability of blowout preventers for more than a decade. A 2003 report by Transocean, the owner of the destroyed rig, said: "Floating drilling rig downtime due to poor blowout preventer reliability is a common and very costly issue confronting all offshore drilling contractors."<sup>2</sup>

Furthermore, *The Times-Picayune* reported that MMS regulation 250.416(e) requires drillers to submit proof that the blowout preventer they are using to shut off the well will have enough power to shear a drill pipe in case of an emergency. However, the MMS drilling inspector, who examined the BP Deepwater Horizon rig application, has stated that he was not aware of any such requirement. He added that he has never demanded such proof from any of the more than 100 applications his office reviews each year. The paper also reported that the Deepwater Horizon rig is operating under the flag of the Marshall Islands. I would like to understand if this shelters BP from rigorous oversight.

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<sup>2</sup> Jeff Donn and Seth Borenstein; Associated Press; “AP INVESTIGATION: Blowout preventers known to fail”; <http://www.wtop.com/?nid=111&sid=1952199>, accessed May 11, 2010.

Finally, my investigators have learned that oil rigs maintain transcripts of ongoing actions taking place on a rig. Because of the devastating consequences of the recent oil rig explosion and subsequent oil spill, I am requesting the following:

- 1) A copy of all transcripts regarding the operation of the Deepwater Horizon rig in the Gulf of Mexico. The time span of this begins five days before the explosion until the present.
- 2) All communications between BP and the Executive Office of the President regarding offshore oil drilling. The time span of this request covers January 2008 to the present.
- 3) The total costs projected by BP for the cleanup of the Deepwater Horizon rig explosion and subsequent oil spill.
- 4) Please provide an accounting of all tax breaks and/or subsidies that BP received from the Federal Government for the Deepwater Horizon rig in the Gulf of Mexico. The time span of this request covers January 2005 to the present.
- 5) Please provide an accounting of royalty relief that BP has received for offshore oil drilling in the Gulf of Mexico. The time span of this request covers January 2005 to the present.
- 6) Please provide documentation of all safety violations issued against BP and the total amount of fines paid by BP for the Deepwater Horizon rig in the Gulf of Mexico. The time span of this request covers January 2005 to the present.
- 7) Please provide documentation that BP is in compliance with MMS regulation 250.416(e) for all oil rigs owned/leased/operated by BP in the Gulf of Mexico.
- 8) Please explain the benefits/drawbacks of having an oil rig off the coast of the United States flying under the flag of a foreign country. Specifically, how does this affect safety inspections, taxes, and royalty payments.
- 9) Please provide a list of all BP oil rigs operating in the Gulf of Mexico and flying under the flag of a foreign country. Please provide the name of the oil rig, its distance from the United States coast, and the name of the country under which the rig operates.
- 10) Please explain, in detail, who made the decision to replace the mud in the drill hole with seawater. Provide any pertinent documents and/or communications.
- 11) Please provide documents and communications on the amount and/or rate of oil leaking from the Deepwater Horizon oil rig.

In cooperating with the Committee's review, no documents, records, data or information related to these matters shall be destroyed, modified, removed or otherwise made inaccessible to the Committee.

I look forward to hearing from you by no later than June 4, 2010. All documents responsive to this request should be sent electronically in PDF format to [Brian\\_Downey@finance-rep.senate.gov](mailto:Brian_Downey@finance-rep.senate.gov). If you have any questions, please do not hesitate to contact Janet Drew or Paul Thacker at (202) 224-4515.

Sincerely,



Charles E. Grassley  
Ranking Member