

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

May 17, 2010

Via Electronic Transmission

The Honorable Kenneth L. Salazar
Secretary
U.S. Department of the Interior
1849 C Street, NW
Washington, DC 20240

Dear Secretary Salazar:

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 to ask about the work of the Minerals Management Service (MMS/agency), a bureau in the Department of the Interior (DOI/Interior), which has jurisdiction over the British Petroleum (BP) lease of a Transocean Deepwater Horizon rig in the Gulf of Mexico and exempted BP from a safety review.

MMS manages the nation's natural gas, oil and other mineral resources on the outer continental shelf (OCS) and is in charge of collecting and disbursing approximately \$13.7 billion per year in revenues from Federal offshore mineral leases. MMS has been involved in damaging scandals before with the most significant documented in the May 2008 Department of the Interior Office of Inspector General (OIG) report on the Royalty-In-Kind program (C-EV-MMS-0001-2008) which found that MMS employees were trading sex, drugs, and financial favors with oil-company executives for special consideration of sales, leases, and contracts. In that same report, the OIG found that factors other than price may have influenced contract awards, that MMS allowed certain companies to access to electronic bid information, and that MMS allowed certain companies to revise their bids.

Following the oil spill in the Gulf of Mexico, a better understanding is needed regarding MMS's role in regulating offshore oil development. Based on publicly available information, it's my understanding that Transocean Ltd. leased the Deepwater Horizon rig in the Gulf of Mexico to British Petroleum (BP), and that Halliburton provide services including: cementing, mud logging, and directional drilling. Cameron provided equipment used in the drilling process. I also am aware that MMS awarded Transocean, Ltd. the "a 2009 District SAFE award for 'outstanding drilling operations' and a 'perfect

performance period' in the Lafayette District of the U.S. Gulf of Mexico."¹ According to a May 3, 2010 statement from the Project on Government Oversight², 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.
- 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.

Furthermore, *The Washington Post* reported that DOI had put together a board of experts to examine safety procedures for offshore oil drilling.³ As part of this inquiry, I would like to learn more about the steps that DOI has taken to guard against conflicts of interest with these board members.

Finally, news reports in *The Times-Picayune* indicate that MMS has ignored its own safety regulations.⁴ According to news accounts, 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, 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. Other MMS inspectors stated that they do not document the results of rig safety tests when performing rig inspections.

¹ Beacon Magazine; "GoM Rig Teams Win MMS District SAFE Award, Transocean Nominated for

² 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.

³ Eilperin, Juliet "U.S. Exempted BP's Gulf of Mexico Drilling," *The Washington Post*, May 5, 2010.

⁴ Hammer, David "Minerals Management Service oversight questioned during Kenner hearing into Gulf of Mexico oil leak," *The Times-Picayune*, May 11, 2010.

Because of the devastating consequences of the recent oil rig explosion and subsequent oil spill, I am requesting answers to the following:

- 1) What steps have been taken to implement the OIG recommendations included in the May 2008 report on the Royalty-In-Kind program? Please respond to each of the OIG recommendations.
- 2) Please provide the names and titles of all individuals on the Interior Department's board to examine safety procedures for offshore drilling. For each individual, provide a relevant CV or biography, and a conflict of interest statement filed with Interior.
- 3) Provide all documents and communications regarding the District Safety Award for Excellence (SAFE) in 2009 that was given to Transocean.
- 4) Please provide an accounting of all royalties paid for by BP for oil from the Transocean Deepwater Horizon rig in the Gulf of Mexico.
- 5) Please explain why MMS regulators are failing to follow MMS regulation 250.416(e).
- 6) For every well in the Gulf of Mexico, please provide proof that the blowout preventers used to shut off the well will have enough power to shear a drill pipe in case of an emergency.

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.

Please provide the requested information for electronically in PDF format to Brian_Downey@finance-rep.senate.gov by June 4, 2010. Your prompt attention to this request is greatly appreciated. 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