

Monday, June 07, 2010

The Honorable Barbara Boxer, Chair
Environment & Public Works Committee
410 Dirksen Senate Building
Washington, DC 20510

The Honorable Jim Inhofe, Ranking Member
Environment & Public Works Committee
456 Dirksen Senate Building
Washington, DC 20510

Dear Senators Boxer and Inhofe,

This Wednesday, the Environment and Public Works Committee will hold a hearing on S. 3305, the “Big Oil Bailout Prevention Liability Act,” in response to the current oil spill crisis in the Gulf of Mexico (GOM). The Independent Petroleum Association of America (IPAA) is opposed to the proposal in its current form.

It is important to note that the tragic events surrounding the Deepwater Horizon incident in the GOM will have a significant impact on American offshore oil and gas exploration and production for years to come. Our thoughts and prayers go out to the families and communities affected by the tragedy in the Gulf of Mexico and we stand ready to help them as we move forward.

Independent producers have operated responsibly in the GOM for decades and hold roughly 90 percent of the leases, producing about 30 percent of GOM oil and more than 60 percent of GOM natural gas. GOM production represents a significant amount of energy supply for consumers all across America, and it remains an essential component of America’s energy portfolio. The entire industry is dedicated to working together to protect the environment and to contain the damage from the spill. Many of our member companies have offered supplies and services; others are directly helping with the clean-up efforts.

Controlling the well and protecting the environment are the main priority of the industry today. We support President Obama’s independent commission investigating the Deepwater Horizon incident. It is important that a thoughtful, thorough and timely investigation and analysis of the incident is conducted to fully understand what caused the accident and to ensure the proper, improved safety measures are identified and put into practice to prevent incidents in the future. IPAA supports the following principles to address this important issue:

1. Any company operating offshore or onshore should be fully responsible (financial and otherwise) for all clean-up efforts.
2. There must be a fund to ensure that those affected by such incidents (i.e., fishermen, tourism, local businesses, etc.) will be able to fairly recoup lost costs without being caught in fierce litigation with large corporations.
3. The oil industry, collectively, should contribute to this fund and ensure its long-term viability.

These principles are already a part of federal law in the Oil Pollution Act of 1990 (OPA 90) and the Oil Spill Liability Trust Fund (OSLTF). Changes may be needed to update out-of-date OSLTF limits with additional industry funding. However, we are strongly opposed to S. 3305 and other legislative proposals being discussed in Congress that would have negative consequences for independent producers. These changes include increasing offshore liability limits to unrealistic levels that will preclude nearly every company operating in the U.S. offshore from getting insurance to cover their operations. Without the proper insurance coverage, there will not be independent producers with offshore exploration and production – it is that simple. These consequences are not justified based on the performance of independent producers operating in the offshore, who have an outstanding safety and environmental record.

The Congress should not make hasty decisions and advocate legislative and regulatory initiatives that will result in severe limitations to offshore drilling in the United States – consequences that can further harm the Gulf Coast economy. IPAA looks forward to working with the Committee and the entire Congress to find solutions that will allow American producers to continue to operate in the U.S. offshore and explore for the oil and natural gas that is vital to our nation's energy security.

A significant aspect of OPA 90 was the creation of a trust fund filled by crude oil taxes that is intended to be used by injured parties to compensate them for economic damages instead of requiring lengthy litigation. We support the expansion of this industry-wide fund to ensure that future costs and claims are covered and urge the Committee to work within the framework of OPA 90 before taking other actions that will impact American energy production.

The Obama Administration also recently announced a six month moratorium on any offshore drilling in water depths greater than 500 feet. The moratorium includes wellbore sidetracks and bypasses; spudding of any new deepwater wells and is designed to allow the presidential commission investigating the spill to prepare its recommendations. While we understand that many Americans are rightfully concerned about the environmental risks and the safety of offshore drilling, the federal government should methodically review this matter and follow the facts in the incident before taking actions that could impact oil and natural gas production from the offshore for years to come.

A recent analysis conducted by Wood MacKenzie predicted that the moratorium and new regulations will push back into later years 80,000 barrels a day of production scheduled for 2011. The impact of the spill becomes harder to ignore further into the decade. By 2015, Wood MacKenzie predicts stiffer federal offshore permitting and safety regulations will result in more than 350,000 barrels a day of production forecast for that year to be delayed. It is important to note, however, that these predictions assume available capacity for production in the GOM after the current moratorium is lifted. That is an issue that could be in serious jeopardy if rigs currently in the GOM are sent to various parts of the world to begin operations on other projects, and then are not available to return once the moratorium is lifted.

Congress must continue to recognize the importance of energy development in the United States. Rather than enacting legislation such as S. 3305 that will destroy the ability of independent, American oil and gas companies from exploring for energy resources in our nation's offshore areas, we need Congress to create a forward-looking, balanced energy policy that recognizes the role oil and natural gas will continue to play in our nation for years to come. Offshore oil and natural gas production creates jobs, revenues and helps stabilize energy prices for American consumers and helps reduce our reliance on energy supplies from unstable regimes across the globe.

As the facts and information surrounding the Deepwater Horizon incident come forward, our nation must develop a reasonable regulatory program that will allow further offshore oil and gas exploration and

production in the United States. Offshore oil and gas production must continue to be an integral part of America's energy portfolio and IPAA is dedicated to finding answers that will help us achieve that goal.

Unfortunately, the implementation of S. 3305 into law would dramatically hinder American production of oil and gas. Thank you for your attention to this matter.

Sincerely,

Bruce Vincent
Chairman