



News from the
Committee on Natural Resources
Rep. Nick J. Rahall, II - Chairman

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Statement of U.S. Rep. Nick J. Rahall, II
Chairman, Committee on Natural Resources
Oversight Hearing on the
“Recent Interior Department Inspector General Investigations on
Federal Oil and Gas Royalty Collections”
September 18, 2008

Mr. Secretary, Inspector General Devaney, thank you for taking the time to appear before this Committee today.

Let me state that I called this hearing, not to rehash the sordid details of the jaw-dropping antics of certain employees of the Minerals Management Service revealed last week in three IG reports.

What I will focus on during this hearing are three matters. First is, whether the “culture of ethical failure” the IG found within the Royalty-In-Kind program represents just the tip of the iceberg. Are we faced with a burgeoning scandal in terms of ethical lapses within the MMS, or were the instances set forth in the three IG reports issued last week the extent of it.

Second, to what extent can we determine how much those ethical lapses have cost the American taxpayer. We certainly know from both IG and GAO investigations and hearings conducted by this Committee last year that programmatic failures are costing taxpayers.

Just last week, for instance, GAO reports found that the United States receives one of the smallest shares of oil and gas revenue in the world. That federal oil and gas leases are not being diligently developed. Production is only occurring on 12 percent of offshore leases and five percent of onshore leases. And that the Interior Department is unable to provide certainty that companies are paying the royalties owed to the American people.

So I think it is now appropriate to see if we can get some inkling as to the extent that the cronyism between MMS employees and the oil and gas companies has cost the Treasury, in terms of royalty underpayments, lack of royalty payments, and shortcomings in Royalty-In-Kind transactions.

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Third, from what I can tell, to date, only two MMS employees have been prosecuted: Jimmy Mayberry who pleaded guilty in July to conflict of interest and Milton Dial, who entered a guilty plea just this past Monday for rigging bids. I am curious as to whether the IG has sought further prosecutions from the Justice Department and what the response has been.

These are serious issues, but they are more serious now as we face the certain prospect that vast swaths of Federal waters will become open to oil and gas leasing in the very near future. These issues are serious within the context of onshore oil and gas leasing, and leasing within the Gulf of Mexico, but they will become amplified when we expand leasing off the Atlantic and Pacific Coasts.

Mr. Devaney, I want to thank you for your diligence on these matters. I have also been at this for a long time, longer than I care to mention. I was on this Committee when we crafted the Federal Onshore Oil and Gas Royalty Management Act of 1982. We thought we solved it then. I was the Chairman of what was then the Energy Subcommittee in 1987, when George Miller and I championed the Federal Onshore Oil and Gas Reform Act. I have to say that the only issue before this Committee that has been more vexing is reforming the Mining Law of 1872.

Mr. Secretary, I just want to state here and now that I greatly respect you. You are a person of courage and conviction, and I am aware of your attempts to emphasize ethics and stewardship within the department. Certainly, the ethical failures that were the subject of the IG's reports issued last week took place between 2002 and 2006, and I would note that you were confirmed by the Senate on May 26, 2006. I am also aware that you are taking action, presumably with respect to certain civil servant employees named in those investigations, and as such, would not be able to delve into details on those actions during this hearing.

Gentlemen, thank you again for appearing before this Committee and I recognize the Ranking Member for any remarks he may care to make.