

Congress of the United States
Washington, DC 20515

December 14, 2016

The Honorable Sally Jewell
Secretary
U.S. Department of Interior
1849 C Street, NW
Washington, D.C. 20240

Dear Secretary Jewell:

We write to request your prompt engagement on a matter of vital importance to the offshore oil and gas industry. As you are aware, the Bureau of Ocean Energy Management (“BOEM”) announced in July 2016 a new policy that overhauls the way in which the Agency manages financial assurance for oil and gas infrastructure on the Outer Continental Shelf (“OCS”). Without undertaking a formal rulemaking, BOEM unilaterally replaced its prior risk management process with Notice to Lessees 2016-N01 (the “NTL”). Effective September 12, 2016, the NTL completely revamps the process by which BOEM evaluates the financial ability of operators to carry out their obligations to decommission wells, platforms and other facilities in the OCS and, consequently, will unduly burden without justification lessees and operators who are already covering decommissioning obligations.

There is broad consensus that the NTL, if fully implemented and enforced, poses a very serious threat to the sustainability and viability of independent producers in the offshore oil and gas industry. Indeed, we understand that the requirements of the NTL may be so burdensome as to drive some operators out of business by creating artificial stress in these markets. In addition to the troubling impact of the NTL, the undersigned Members are concerned with BOEM’s lack of transparency in developing this new policy. Specifically, BOEM did not engage in notice and comment rulemaking, which would have provided stakeholders an opportunity to raise concerns with any number of the problematic aspects of the new policy and recommend alternative approaches in an open and transparent way. Further, BOEM’s reliance on estimates for decommissioning liability recently issued by the Bureau of Safety and Environmental Enforcement (“BSEE”) exacerbates the problems with the new financial assurance requirements. It is our understanding that BSEE’s estimates significantly inflate actual decommissioning costs, particularly for facilities in the shallow water Gulf of Mexico. In some cases, in fact, BSEE’s decommissioning estimates are over 100% higher than previous estimates from as recently as a few months ago.

Additionally, we understand that offshore oil and gas producers have repeatedly reached out to both BOEM and BSEE seeking clarity on the methodologies used to reach the revised decommissioning cost estimates and to gain insight as to how BOEM intends to apply its new framework to calculate a company’s financial strength and reliability. We, too, would like a better understanding of both agencies’ methodologies and their underlying assumptions. Yet, information central to the rationale of the NTL has not been released to the public or to operators attempting to understand and to meet the new financial assurance requirements. This is disappointing.

To be sure, the undersigned Members of the U.S. House of Representatives share BOEM and BSEE’s commitment to ensuring that there are adequate risk management measures in place to protect U.S. taxpayers. Offshore bonding requirements, however, must be tied to realistic risk forecasts and must not be unduly burdensome or unnecessarily punitive. Moreover, offshore

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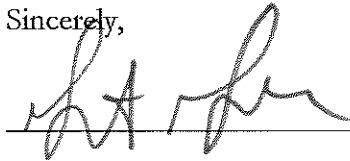
operators have made significant investments based on the existing regulatory framework, and BOEM has now changed the rules in a manner that threatens to trigger the very risk it is trying to prevent, as these new requirements will tie up capital that would otherwise be available for exploration, development, jobs, revenues to states and the federal government – and most ironically – for actual plugging and abandonment work.

For these reasons, we strongly oppose the NTL in its current form and request that BOEM suspend implementation. We further request that BOEM and BSEE make the methodologies upon which decommissioning estimates and the NTL are based available to stakeholders without further delay. Robust and responsible oil and gas development in the OCS – including in those areas being targeted for leasing in BOEM’s 2017-2022 OCS Oil and Gas Leasing Program – generates royalties, severance tax revenues to the state and federal government, jobs and additional capital investment for the benefit of all Americans. The development of accurate and reliable decommissioning liability estimates and a reasonable regulatory framework for financial assurance requirements is critically important, and the assumptions underpinning BSEE and BOEM’s work on these issues to date must be thoroughly vetted and verified to ensure a viable future for OCS operators.

We intend to encourage the 115th Congress to engage more deeply on the financial assurance issues raised in BOEM’s NTL. In the interim, we would appreciate your feedback on the concerns outlined herein, both with regard to the substance of the NTL and also the process by which it was developed and implemented. For this reason, we respectfully request that BOEM stay further enforcement of the NTL and provide the information requested herein to the public without delay.

We thank you for time and look forward to your response on this matter.

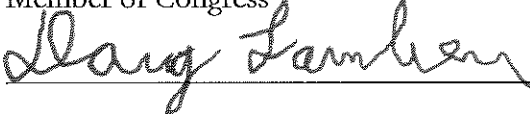
Sincerely,



Member of Congress



Member of Congress



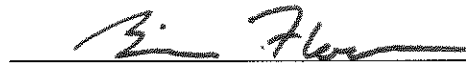
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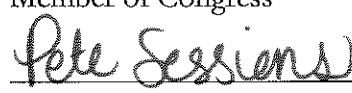
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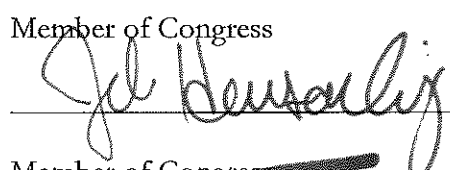
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