ROYALTY RELIEF AND PRICE THRESHOLDS III

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND RESOURCES

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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ROYALTY RELIEF AND PRICE THRESHOLDS III

THURSDAY, JULY 27, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Darrell Issa (chairman of the committee) presiding.

Present: Representatives Issa and Watson.

Staff present: Larry Brady, staff director; Lori Gavaghan, legislative clerk; Thomas Alexander, counsel; Dave Solan, Ph.D. and Ray Robbins, professional staff members; Joe Thompson, GAO detailee; Shaun Garrison, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. ISSA. Good morning. I will now call the meeting to order.

The Chair will make a couple of short announcements. One is that with the consent of the ranking member, we will begin and she will be arriving momentarily. Second, there are a number of votes, both on the floor potentially and also in one of the judiciary committees. So we may have to recess very briefly for those votes, but we will continue until the completion of both panels.

Additionally, I am going to take the extraordinary measure of asking unanimous consent, and we will ratify it when the ranking member is here, to have all opening statements placed in the record, and I will include my own. As many of you know, this is the third in a series, really almost fourth in a series of hearings including this one. I want to minimize for those who have already heard the history of the Deepwater Relief Threshold hearing exactly the same thing. So that will be ratified when the ranking member arrives.

[The prepared statement of Hon. Darrell E. Issa follows:]

COMMITTEE ON GOVERNMENT REFORM
Subcommittee on Energy and Resources
DARRELL ISSA, CHAIRMAN

Oversight Hearing:

Royalty Relief and Price Thresholds III

July 27, 2006, 2:00pm
Rayburn House Office Building
Room 2154

OPENING STATEMENT

Good afternoon and welcome to today's hearing.

Over the past five months, this Subcommittee has investigated the absence of price thresholds in deepwater leases signed in 1998 and 1999. GAO estimates that the lack of price thresholds will cost the American people nearly ten billion dollars. As of today, we have lost nearly two billion dollars. This is a financial disaster.

In 1995, Congress enacted the Deep Water Royalty Relief Act to provide financial incentives to companies to produce oil and natural gas from our deep coastal waters. This came at a time when oil and natural gas prices were low and the interest in deepwater drilling was lacking.

As an incentive, the Act allows oil and gas companies to forego paying royalties to the Department of Interior for a specific volume of oil or gas produced. This allows companies to recoup their capital investment before having to pay royalties on federal leases.

To ensure that companies do not receive windfall profits, the Act also provides for price thresholds. In other words, a company is allowed to operate royalty-free until either a certain volume of production was achieved, or the market price for oil or gas reached a specified ceiling. These two provisions are known as volume suspensions and price thresholds, respectively.

These volume suspensions and price thresholds were legislated by Congress to avoid the situation we find ourselves in today. At nearly $74 per barrel, these price thresholds have long been exceeded. Because of the missing price thresholds in 1998 and 1999 leases, oil

companies are unduly profiting on resources that belong to the American people. I repeat: these resources belong to the American people, not the oil companies. They are leased to the oil companies.

The Subcommittee staff has obtained critical information from witness interviews and an extensive document review. We have also learned a lot from our two previous hearings. In fact, testimony from our June 21st hearing provides the foundation for today's hearing.

At the last hearing, Paul Siegele of Chevron Corporation testified that Chevron employees discussed missing price thresholds with Interior Department officials in 1998. Upon that revelation, I asked him to provide additional information to Subcommittee staff. He did. I received a letter from Chevron. I ask unanimous consent that the letter submitted by Chevron be included in the record.

This letter details how two Chevron executives met with Chris Oynes and his staff on multiple occasions. Mr. Oynes is the Director of MMS' Gulf of Mexico regional office. At these meetings, they purportedly informed Mr. Oynes that deepwater leases in 1998 and 1999 did not contain price thresholds.

This latest development is deeply disturbing because Mr. Oynes told the Subcommittee staff in May that neither he nor his staff had learned of the missing price thresholds until the year 2000. Furthermore, his written testimony states that he does not recall any such conversations with Chevron employees. We must resolve this discrepancy.

Before us today, we have the two Chevron employees who say they notified Mr. Oynes of the missing price thresholds in 1998 and 1999. They are Mr. Keith Couvillion and Mr. Gordon Cain. They will testify first.

I would like to take this opportunity to commend Chevron Corporation for coming forward with this critical information and agreeing to testify. Your contributions are invaluable to this investigation. But Chevron wasn't the only company present at those quarterly meetings. Apparently, officials from ExxonMobil and ConocoPhillips were also at these meetings, yet they have not come forth. Only Chevron comes forward today, and I thank Chevron for that.

We also have Mr. Chris Oynes and his deputy, Mr. Charles Shoennagel. They will comprise our second panel.

I intend to resolve these conflicting accounts today. If Mr. Oynes and his staff knew about this problem in 1998, and had taken corrective measures, the Subcommittee estimates that Mr. Oynes could have saved the American people at least five billion dollars.

With that, I yield to the Ranking Member, Ms. Watson, for her opening remarks.

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SUBCOMMITTEE ON ENERGY AND RESOURCES

Will Hold an Oversight Hearing on:

"Royalty Relief and Price Thresholds III"

2:00 PM, Thursday, June 27, 2006
Room 2154, Rayburn House Office Building

WITNESSES

Panel 1:

- J. Keith Couvillion, Deepwater Land Manager, Chevron North America Exploration and Production Company, a Division of Chevron U.S.A., Inc.; and
- Gordon R. Cain, Deepwater Land Manager, Chevron North America Exploration and Production Company, a Division of Chevron U.S.A., Inc.;

Panel 2:

- Chris Oynes, Regional Director, Gulf of Mexico, Minerals Management Service; and
- Charles Shoennagel, Deputy Regional Director, Gulf of Mexico, Minerals Management Service.

Mr. ISSA. With that, I would like to ask both our first and second panel to stand and be recognized for the oath, which is required by the committee's rules, also the second panel and anyone who is going to assist any panelist.

[Witnesses sworn.]

Mr. ISSA. And the record will reflect that all answered in the affirmative.

Briefly, and again, we will place the entire statement in the record, this hearing today is the result of earlier hearings, including one that brought about the awareness by this committee of communications between Chevron, which volunteered the information that we will hear more about today, and the Department of Interior. We followed up, received the record of that, and today we will try to get more detail for the committee to make the record complete.

With that, our first panel today starts with Mr. Keith Couvillion, Deepwater Land Management, Chevron North America Exploration and Production Co., a Division of Chevron USA; and Mr. Gordon Cain, deepwater land manager, Chevron North American Exploration and Production Co., a Division of Chevron.

I want to thank you both for being here. Once again, your entire statements will be placed into the record, and you are free to use it or, to be quite candid, if you want to add, embellish or change, that would be very much appreciated. We would like you to please try to keep your opening remarks to about 5 minutes to leave time for questions.

With that, Mr. Couvillion.

STATEMENTS OF J. KEITH COUVILLION, DEEPWATER LAND MANAGER, CHEVRON NORTH AMERICA EXPLORATION AND PRODUCTION CO., A DIVISION OF CHEVRON U.S.A., INC.; GORDON R. CAIN, DEEPWATER LAND MANAGER, CHEVRON NORTH AMERICA EXPLORATION AND PRODUCTION CO., A DIVISION OF CHEVRON U.S.A., INC.

STATEMENT OF J. KEITH COUVILLION

Mr. COUVILLION. Thank you, Mr. Chairman. I do have a brief statement that I would like to make.

Mr. Chairman, on behalf of Chevron, I wish to express our appreciation for this opportunity to appear before this subcommittee to discuss the Department of Interior's deepwater royalty relief program. As requested in your invitation to testify, my testimony addresses discussions with Mr. Chris Oynes, MMS regional director for the Gulf of Mexico, and his staff, regarding deepwater royalty relief and the omission of price thresholds in the 1998 and 1999 deepwater leases.

I am a member of the American Association of Professional Landmen's Outer Continental Shelf Committee, which is known now as the OCS Advisory Board. This committee meets several times per year to discuss the most important OCS issues. For many years, members of the OCS committee have also met periodically with MMS to discuss a variety of offshore topics. I participated in a number of these meetings with MMS in the period from 1998 through 2000.

In 1998, after a review of the deepwater leases purchased that year, we discovered that the addendum detailing the terms of royalty relief was not included in those leases. This issue was briefly raised during a portion of a fall 1998 AAPL OCS committee meeting attended by representatives of MMS' Gulf of Mexico regional office. Mr. Oynes advised that the addendum was no longer necessary because MMS had finalized its royalty relief regulations, which were now incorporated by reference in the 1998 leases.

Until a meeting with MMS in 2000, when they advised us that the 1998 and 1999 deepwater leases did not contain price thresholds, we were under the impression price thresholds applied to all those leases.

It is important to understand that the price threshold issue was only briefly discussed with MMS during the late 1990's. Because oil and gas prices were low, price thresholds were never a major topic of discussion in this era. From my perspective, the most important royalty relief issue at the time was whether or not MMS would extend the deepwater royalty relief program beyond the year 2000.

Consistent with Chevron's previous commitment to meet with MMS to discuss the price threshold issue, we are scheduled to meet with MMS tomorrow. We look forward to working with them to achieve a fair and equitable outcome for all concerned.

Thank you for the opportunity to be here to testify. I am happy to answer any questions you may have.

[The prepared statement of Mr. Couvillion follows:]

STATEMENT OF
J. KEITH COUVILLION,
DEEPWATER LAND MANAGER,
CHEVRON NORTH AMERICA EXPLORATION AND PRODUCTION COMPANY,
A DIVISION OF CHEVRON U.S.A. INC.,
BEFORE THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY AND RESOURCES,
UNITED STATES HOUSE OF REPRESENTATIVES,
JULY 27, 2006, HEARING

Mr. Chairman and Members of the Subcommittee, on behalf of Chevron, I wish to express our appreciation for the opportunity to appear before the Subcommittee to discuss the Department of the Interior's deepwater royalty relief program.

As requested in your invitation to testify, my testimony will address various meetings with MMS during which the omission of price threshold language in certain deepwater leases was raised with Mr. Chris Oynes, the MMS Regional Director for the Gulf of Mexico. In addition, you asked that I provide my recollection of Mr. Oynes' reaction to the discussion, as well as to provide you with any other correspondence I may have had with the Interior Department during the 1995-2000 timeframe regarding price thresholds or related issues.

As stated in our letter to the Chairman on July 10, 2006, I came to the present Chevron organization from the legacy Texaco company, and participated in meetings with the MMS in which the 1998 and 1999 lease royalty relief issues were discussed. (In 1998, Chevron U.S.A. Inc. (Chevron), Texaco Exploration and Production Inc. (Texaco), and Union Oil Company of California (Unocal) were separate companies. Through a series of mergers and acquisitions, Texaco and Unocal are now owned by certain Chevron subsidiaries and affiliates.) In 1998 and 1999, I held the Land Manager's position at Texaco. Currently, I am Chevron's Gulf of Mexico Deepwater Land Manager. In that capacity, I am responsible for land related activities associated with the leasing, exploration, and major capital projects associated with Chevron's deepwater leases. In the period relevant to your inquiry, I was the Land Manager for the Gulf of Mexico at Texaco.

I am currently a member of the American Association of Professional Landmen's (AAPL) Outer Continental Shelf (OCS) Committee (the AAPL Committee). The AAPL Committee varies in size from year to year, but normally consists of representatives of 20 or more companies engaged in oil and gas exploration and production on the United States OCS. For many years, members of the AAPL Committee have met once per quarter with the MMS, generally with the Gulf of Mexico Regional Director Chris Oynes and his staff, to discuss a variety of issues related to the MMS's administration of offshore oil and gas leases. I participated in most of the quarterly meetings with MMS in 1998, 1999, and 2000.

I recall an AAPL Committee meeting with Mr. Oynes and his staff that took place in the fall of 1998 where the price threshold issue first was raised. During that meeting, I and others inquired about a change in deepwater royalty relief lease provisions in the leases issued as a result of the

OCS Lease Sale 169, which was held in March 1998. As you know, 1996 and 1997 deepwater leases included an addendum specifically detailing the terms and conditions of royalty relief applicable to each lease. The 1998 leases, however, had no such addendum. In the fall 1998 meeting, I and others questioned Mr. Oynes and his staff as to why royalty relief volume suspensions, price thresholds, and other matters were no longer detailed in addenda to the leases. Mr. Oynes and his staff indicated that they believed the addenda were no longer necessary because the MMS had finalized its royalty relief regulations. They further indicated that they believed the appropriate deepwater royalty relief terms and conditions were incorporated in the 1998 leases by language included in the leases making the leases subject to the new royalty relief regulations. That explanation was acceptable to me, and I did not pursue the issue further during the fall 1998 meeting.

After the fall 1998 meeting, I reviewed the Deepwater Royalty Relief Act and the MMS regulations implementing the Act. However, I concluded that neither the Act nor the regulations explicitly contained price threshold provisions applicable to leases issued in 1995 through 2000. In a 1999 meeting with Mr. Oynes, AAPL Committee members, including me, raised the fact we were unable to locate the provisions in both the Deepwater Royalty Relief Act nor the new implementing regulations addressing pricing thresholds. Mr. Oynes indicated his staff would review the issue.

After Texaco received leases purchased in OCS Lease Sale 175 (held in March of 2000), I and others noticed that the leases included an addendum addressing deepwater royalty relief. The new addendum referenced the royalty relief regulations and detailed the price thresholds to be applicable to the leases. These price thresholds were similar to the thresholds stipulated in the 1996 and 1997 deepwater leases. In an AAPL Committee meeting with MMS in 2000, I asked Mr. Oynes and his staff about the decision to revert to using an addendum containing the deepwater royalty relief provisions. The MMS representatives indicated that they believed the addendum was necessary to ensure that lessees understood the royalty relief terms and conditions applicable to their deepwater leases. In subsequent discussions with Mr. Oynes later in 2000, and again in 2001, Mr. Oynes indicated the MMS had concluded price thresholds would not apply to deepwater leases issued in 1998 and 1999 because neither the leases nor the regulations referenced in the leases contained price thresholds.

Unfortunately, I have no notes or written correspondence detailing my discussions with the MMS regarding the omission of price thresholds from 1998 and 1999 leases. I normally retain work files covering AAPL Committee activity for only a few years following any given meeting. Further, I should emphasize that in the late 1990s, the inclusion or absence of price thresholds in deepwater leases was not a significant issue for Texaco. In the late 1990s, Texaco did not anticipate the threshold prices established in the 1996 and 1997 leases would be exceeded in the near or even distant future. In that era, the most significant royalty relief issues for Texaco were MMS's implementation of royalty relief on a field basis, instead of by lease, and the complex royalty relief application process created by MMS for deepwater leases in existence prior to passage of the Deepwater Royalty Relief Act. These issues, rather than price thresholds, dominated discussions of royalty relief in the late 1990s.

Chevron continues to meet periodically with the MMS Regional office personnel both through the AAPL Committee and individually to address issues related to new regulations, notices issued to lessees, offshore operations, and other topics important to Chevron in the OCS. While we do not always agree with the MMS, we consider the job they do to be careful and conscientious particularly given the scope and magnitude of the OCS program and its detailed leases.

Chevron appreciates your continuing interest in deepwater royalty relief issues. Chevron believes that the Deepwater Royalty Relief Act has been a true success in that it has provided incentive for companies to purchase deepwater leases and to explore for oil and gas on the leases at a time of historically low prices. The magnitude of the investments in deepwater exploration would not have been made in that unfavorable price environment without the incentive of royalty relief. These investments will soon generate new supplies of oil and gas that are vitally needed in the current constricted and unstable energy market. In addition, the bonuses and rental payments for these deepwater leases have already generated considerable revenue for the federal government.

With 20-20 hindsight on price performance, it is easy to question how thresholds could have been omitted from leases sold in the 1998 and 1999 lease sales. However, at the time it seemed most unlikely the established thresholds would be exceeded or, indeed, have any relevance at all. Moreover, in today's environment when setting new price thresholds for royalty relief with respect to deepwater leases Chevron believes the recent increases in exploration and production costs should be an important consideration. As oil and gas prices have risen across the globe, it has become dramatically more expensive to procure the services and equipment necessary to explore for and produce oil and gas in the domestic deepwater as well as elsewhere in the world. One major example is the runaway cost for deepwater drilling rigs, which has doubled in the past year and can now run well in excess of $500,000 per day.

In closing, I would like to reiterate that, as Mr. Siegele indicated at the June 21 hearing, Chevron is more than willing to meet with the MMS to discuss the issue of the omission of price thresholds in 1998 and 1999 deepwater leases. Indeed, we are pleased to inform you that we are scheduled to meet with MMS tomorrow to address the best way to resolve this issue in a way which is fair and equitable to all concerned parties.

Mr. ISSA. Thank you.
Mr. Cain.

STATEMENT OF GORDON R. CAIN

Mr. COUVILLION. Mr. Chairman, on behalf of Chevron, I wish to express our appreciation at having the opportunity to appear before the subcommittee to discuss certain aspects of the Department of Interior's deepwater royalty relief program.

I am not currently a member of the American Association of Professional Landmen's Outer Continental Shelf Committee. Mr. Couvillion is now the Chevron representative on the committee.

However, in 1998, 1999 and 2000, Mr. Couvillion was the Texaco representative and I was the Chevron representative. My recollection of what transpired at the AAPL OCS committee meetings is consistent with Mr. Couvillion's. In 1998 through 2000, a time of low oil and gas prices, price thresholds were a non-issue.

I note that when Chevron acquired leases in 1998 and 1999, we were under the impression that price thresholds applied. However, we made significant investment decisions after 2000, following MMS' clarification that price thresholds did not apply.

As Chevron has committed, and Mr. Couvillion has told you today, we look forward to meeting with the MMS tomorrow.

Thank you for the opportunity to be here to testify. I am happy to answer any questions you may have.

[The prepared statement of Mr. Cain follows:]

STATEMENT OF
GORDON CAIN,
DEEPWATER LAND MANAGER,
CHEVRON NORTH AMERICA EXPLORATION AND PRODUCTION COMPANY,
A DIVISION OF CHEVRON U.S.A. INC.,
BEFORE THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY AND RESOURCES,
UNITED STATES HOUSE OF REPRESENTATIVES,
JULY 27, 2006, HEARING

Mr. Chairman and Members of the Subcommittee, on behalf of Chevron, I wish to express our appreciation at having the opportunity to appear before the Subcommittee to discuss the Department of the Interior's deepwater royalty relief program.

As requested in your invitation to testify, my testimony will discuss the quarterly American Association of Professional Landmen meetings during which the absence of price threshold language in specific deepwater leases was raised with Mr. Chris Oynes, the MMS regional director for the Gulf of Mexico. In addition, you have asked me to discuss my recollection of Mr. Oynes' reaction, as well as to provide you with any other correspondence I may have had with the Interior Department during the 1995 to 2000 time period regarding price thresholds or related issues.

As stated in our letter to the Chairman on July 10, 2006, I came to the present Chevron organization from the legacy Chevron Company and participated in meetings with the MMS in the course of which 1998 and 1999 lease royalty relief issues were raised. (In 1998, Chevron U.S.A. Inc. (Chevron), Texaco Exploration and Production Inc. (Texaco), and Union Oil Company of California (Unocal) were separate companies. Through a series of mergers and acquisitions, Texaco and Unocal are now owned by certain Chevron subsidiaries and affiliates.) In 1998 and 1999, I was Chevron's Gulf of Mexico Land Manager. I continue to hold that position today, except my duties no longer include certain activities involving deepwater exploration. As land manager, I am responsible for all leasing activities in the shallow waters of the Gulf and for Chevron's producing operations throughout the Gulf.

I am not currently a member of the American Association of Professional Landmen's (AAPL) Outer Continental Shelf (OCS) Committee (the AAPL Committee). Mr. Couvillion is now the Chevron representative on the Committee. The AAPL Committee varies in size from year to year, but normally consists of representatives of 20 or more companies engaged in oil and gas exploration and production on the United States OCS. For many years, members of the AAPL Committee have met once per quarter with the MMS, generally with the Gulf of Mexico Regional Director Chris Oynes and his staff, to discuss a variety of issues related to the MMS's administration of offshore oil and gas leasing. I participated in most of the quarterly and annual meetings with MMS in 1998, 1999, and 2000.

I recall an AAPL Committee meeting with Mr. Oynes and his staff that took place in the fall of 1998 where the price threshold issue first was raised. During that meeting, an inquiry arose

about a change in deepwater royalty relief lease provisions in the leases issued as a result of the OCS Lease Sale 169, which was held in March 1998. As you know, the 1996 and 1997 deepwater leases included an addendum specifically detailing the terms and conditions of royalty relief applicable to each lease. The 1998 leases, however, had no such addendum. In the fall 1998 meeting, Mr. Oynes and his staff were questioned as to why royalty relief volume suspensions, price thresholds, and other matters were no longer detailed in addenda to the leases. Mr. Oynes and his staff indicated that they believed the omitted provisions were no longer necessary because the MMS had finalized its royalty relief regulations. They further indicated that they believed the appropriate deepwater royalty relief terms and conditions were incorporated in the 1998 leases by language making the leases subject to the new royalty relief regulations. That explanation was accepted by the AAPL Committee members, and the issue was not further pursued at the fall 1998 meeting.

After the fall 1998 meeting, members of the AAPL Committee reviewed the Deepwater Royalty Relief Act and the MMS regulations implementing the Act. However, they concluded that neither the Act nor the regulations explicitly contained price threshold provisions applicable to leases issued in 1995 through 2000. In a 1999 meeting, several AAPL Committee members mentioned this to Mr. Oynes. Mr. Oynes indicated that his staff would review the issue.

After Chevron received its leases purchased in OCS Lease Sale 175 (held in March of 2000), it was noted that the leases included an addendum addressing deepwater royalty relief. Like the addendum used in 1996 and 1997, the new addendum detailed the royalty suspension volumes, price thresholds, and other related matters. In an AAPL Committee meeting with MMS in 2000, Mr. Oynes and his staff were asked about the apparent decision to revert to using an addendum containing specific deepwater royalty relief provisions. The MMS representatives indicated that in their view the addendum was necessary to ensure that lessees understood the royalty relief terms and conditions applicable to their deepwater leases. In subsequent discussions with Mr. Oynes later in 2000, and again in 2001, Mr. Oynes indicated that the MMS had concluded that price thresholds would not apply to deepwater leases issued in 1998 and 1999 because neither the leases nor the regulations cited in the leases contained price thresholds.

I do not have notes or written correspondence detailing any discussions with the MMS regarding the omission of price thresholds from the 1998 and 1999 leases. Our normal practice is to retain work files covering AAPL Committee activity for only a few years. Further, I should note that in the late 1990s the inclusion or absence of price thresholds in deepwater leases was not a significant issue for Chevron or any other participant in the OCS program. In the late 1990s, the companies did not anticipate the threshold prices established in the 1996 and 1997 leases would be exceeded in the near or even distant future. In that era, the most significant royalty relief issues for the companies were MMS's implementation of royalty relief on a field basis, instead of by lease, and the complex royalty relief application process created by MMS for deepwater leases in existence prior to passage of the Deepwater Royalty Relief Act. These issues, rather than price thresholds, dominated discussions of royalty relief in the late 1990s.

Chevron continues to meet periodically with the MMS Regional office personnel both through the vehicle of the AAPL Committee as well as individually to address issues related to new regulations, notices issued to lessees, offshore operations, and other topics important to

Chevron's participation in the OCS leasing program. While we do not always agree with the MMS, we believe they do a highly conscientious job, particularly when one considers the magnitude and scope of the OCS program.

Chevron appreciates your continuing interest in deepwater royalty relief issues. Chevron believes that the Deepwater Royalty Relief Act has been a national success in that it has provided incentive for domestic energy companies to purchase deepwater leases and to explore for oil and gas on the leases at a time of historically low prices. Investments in deepwater exploration would not have been made in that unfavorable price environment without the incentive of royalty relief. However, these investments will now begin producing in the near term. These investments will soon generate much needed new supplies of oil and gas that are essential in the current unstable and highly constricted market. In addition, bonuses and rental payments for deepwater leases have already generated considerable revenue for the federal government.

It is easy in 20-20 hindsight to second guess the omission of language specifically dealing with thresholds from leases sold in the 1998 and 1999 lease sales. However, at the time these leases were entered into, it seemed most unlikely that the established thresholds would be exceeded or, indeed, would have any relevance. Further, in contemplating new thresholds for deepwater leases in today's environment, Chevron believes that the recent drastic increases in exploration and production costs should be considered. As oil and gas prices have risen across the world, it has become dramatically more expensive to procure the services and equipment necessary to explore for oil and gas in our domestic deepwater as well as in other parts of the world. One clear example is the massive increase in cost for deepwater drilling rigs, which have doubled in the past year and can now run well in excess of $500,000 per day. Another example is our recent attempt to drill an exploratory well at our North Bob prospect. Chevron and its partners have spent approximately $95 million in an unsuccessful attempt to evaluate that prospect.

In closing, I would like to reiterate that, as Mr. Siegele indicated at the June 21 hearing, Chevron is more than willing to meet with the MMS to discuss the issue of the omission of thresholds in the 1998 and 1999 deepwater leases. In fact, we are pleased to inform you that we are scheduled to meet with the MMS tomorrow to determine the best way to resolve this issue in a fair and equitable manner.

Mr. ISSA. Thank you. I want to thank both of you and your common company, previously two companies. Because I do think that often in the public arena we don't see companies, knowing that they could tie something up in court, knowing that in fact they might even prevail and not have to pay an amount because of a technicality, come forward and say, as you have said here today, that you bid on these contracts understanding that there was a threshold, you made investments after being told there weren't, but you are still willing to negotiate an amicable middle ground in order to maximize the fairness to the Government, in addition to obviously being responsible to your stockholders. The ranking member, when she arrives, I am sure will say the same thing she did in the last hearing, it does our hearts good to see that kind of proactive corporate behavior.

With that, I would like to go to a series of questions. I guess a lot of it is basically, for today's hearing between the two panels. When you met with Mr. Oynes, what was his reaction when you told him that only you could sort of give us, you and the others in the room, when you said, "Look, we have a problem, we have discovered that you don't have price thresholds, effectively a will of Congress that we were all aware of?"

Mr. COUVILLION. Well, the meetings that we had were all through that AAPL OCS committee. The committee, as I said in my testimony, we meet periodically to discuss major offshore issues and have for years. We also meet periodically with the MMS.

At one of the MMS meetings, the 1998 meeting, is the first time this issue came up. The reason it was brought up is, we normally talk about a lot of topics. This one was a fairly insignificant topic, and it was posed as a question to Mr. Oynes and his staff. The question was, in the 1996 and 1997 leases, there was an addendum attached to the leases that detailed the pricing thresholds, the volume suspensions and the field application of royalty relief. Those are the three major components of the deepwater royalty relief program.

In the 1998 leases, the addendums were gone. So we questioned, why were the addendums left off. And the response from Mr. Oynes and his staff was, it was no longer necessary. They had completed their finalization, they had completed their rewrite of the regulations or actually the writing of the regulations for deepwater royalty relief, and now they were referencing those regulations in the leases. And they were referencing also the Deepwater Royalty Relief Act itself. So they didn't see the need for it.

That was a very acceptable offer and answer for us.

Mr. ISSA. And perhaps more of an impression, this was said with conviction, I know this to be true, got it handled, it wasn't one of those, "Well, it may be as high as it is tall and as broad as it is wide?" It was, "No, you don't have to because of this, next question?"

Mr. COUVILLION. No, no. It was just a general question, the conversation maybe lasted, as I recall, a couple of minutes. It was insignificant and it wasn't something that was—it was more of a matter of fact, and we said fine. Agreed.

Mr. ISSA. Sure. I realize that if the price remained low, we wouldn't be having this hearing today, even though it had been left out.

When was your next meeting? Or can you describe some of the subsequent meetings in which anyone from MMS or Interior was there but particularly Mr. Oynes?

Mr. COUVILLION. Well, we have, with the AAPL OCS committee, we have subcommittees. The subcommittees tend to meet with AAPL periodically, or excuse me, with MMS, more than the big whole AAPL OCS committee. Normally the OCS committee itself, the big committee, only meets once a year with the regional office and once a year with the Washington office. But we do try to meet as a smaller subcommittee, and we call that the liaison committee, maybe three to four times a year. It varies, but normally at least three times a year. That is made up of a smaller group of people.

I don't recall if it was the larger committee meeting or one of the smaller committee meetings, that in 1999, the next year, when after going back through the leases in 1998 and some of the 1999 leases, we still noticed that there was no addendum, and we were puzzled. And we brought up to the MMS a question. We reviewed the Deepwater Royalty Relief Act, we reviewed the regulations under Title 30 Part 260, that apply to this vintage of leases, and we were struggling with where the pricing thresholds were.

We saw that the pricing thresholds were embedded in Title 30 of Part 203, which was the other regulations that had been written, but we couldn't find it in 260. So again, we posed a brief question to Mr. Oynes and his staff, that, "Can you help us, show us where the royalty relief pricing threshold language is?" We still think it applies, we just don't know where.

Mr. ISSA. OK. Do you remember anyone other than the second panelists that were in those meetings? You said "and their staff." Were there two or three or four or more?

Mr. COUVILLION. Well, on the first meeting, in the 1998 meeting, we did, I did find some minutes from that particular meeting. They were in November, I think November 13, 1998. And in that set of minutes, it lists the members of the AAPL OCS committee that participated and it also listed the MMS personnel that participated in that meeting.

Mr. ISSA. OK. So that was a pretty large meeting?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. So you are being as clear as can be, but the nature of the beast, I am going to reflect it back to make sure that I get it and the record gets it. In 1998, you bring up the fact that the addendums are gone, you get told, "Don't worry, it is in this other part." In 1999, you bring it up and say, "We are sure it is in the other part, but can you show us, because we can't find it?" Is that roughly it?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. OK. Did you or anyone to your knowledge do the sort of the natural correspondence with other companies besides the two of you that are now one about this particular area, whether directly or through your trade association?

Mr. COUVILLION. No, sir, I don't remember discussing it in great detail with the committee. But we did, at our committee meetings

without MMS, talk about the pricing threshold issue. It was not just a Texaco, at the time, Chevron issue. This is one of the matter that we would have talked about briefly and debated. Because I had asked the question to the other people, too, "Can you help me with finding the price thresholds?"

Part of the reason it is, I am the one that was signing a lot of these leases for Texaco. So I was very concerned about the provisions of the lease and any differences for year. We are signing a standard form lease and the addendums are the changes to those leases. So when we change the addendums, I am concerned.

Mr. ISSA. What you are saying is that when on behalf of your company you signed on something that affects hundreds of millions or even billions of dollars, you take it seriously?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. I am not surprised that in the private sector that occurs. It is probably why you still have your job.

Mr. COUVILLION. I hope. [Laughter.]

Mr. ISSA. I am sure.

Obviously we have talked about 1998, and I asked about the reaction. In 1999, when this was brought up, same sort of thing, only this time you are saying, "Where is it, what was the reaction?"

Mr. COUVILLION. Well, the same thing happened, the staff said, "Well, we will look at it and check into it." It was a very brief conversation. If I had to guess, well, I hate to speculate about capturing it in the minutes, because in 1998, it wasn't captured because it was insignificant. And I would know, I was the secretary of the committee in 1998. That is why I have a copy of those minutes. And it wasn't in those minutes.

So in 1999, again, it was an insignificant thing and we were waiting to hear back from MMS.

Mr. ISSA. And it was fairly insignificant, but you remember it and your staff that were present remember it?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. And this is conjecture, but I think it is appropriate, although insignificant, would you expect staff that were there on behalf of MMS remembered it, too?

Mr. COUVILLION. I can't speak for MMS.

Mr. ISSA. Let me ask you another question in a different way, because I want to be fair. In the past, when you have mentioned things like this, but in other examples, anecdotally, does the staff generally followup, even though it is not in the minutes, to questions that come up? Do you typically get followup and response from things that would be similar but not this example?

Mr. COUVILLION. As an example, when we have meetings with the MMS, at the committee level, we normally talk about, and I am just going to speculate here, from 8 to 20 topics. Some of those topics are extremely important to us.

In the 1998 timeframe, we had very important issues in the OCS that we were dealing with. And this was not one of them. On things that are not that significant, when MMS gets back to us, they get back to us. It is not that important. On those issues that are of major concern to us, especially at the time, Texaco, then there is followup questions, followup meetings.

Mr. ISSA. Thank you. In 1998, 1999, level one, I don't see it in the addendum, level two in 1999, I don't see it in all the places that you said it was going to be, or at least in the place it would need to be. How about beyond that? What was the next opportunity that you remembered this being brought up?

Mr. COUVILLION. Well, in the year 2000, after the first 2000 lease sale in early 2000, we noticed when we were issued our leases, that the addendum was attached again. I thought that was kind of strange. But I looked at the addendum, and it was a little bit different from the addendum that was attached to the 1996 and 1997 leases. It now referenced the Code of Federal Regulations, Title 30 Part 260, which is where the volumetric thresholds are and where the field application piece is. But that didn't have pricing thresholds in it.

But in that addendum, it did list now the specifics of the pricing thresholds. So at a meeting with MMS, and again, I don't have any notes that say when, I don't have my day planner any more from that year, we discussed that, we asked, OK, what happened. Now we have 1998, 1999, we didn't have the addendums. Now we have the addendums, but the addendum references the regulations, references the Deepwater Royalty Relief Act, and now it has pricing thresholds. That is when we first learned that the 1998 and 1999 leases, the pricing thresholds, it was an oversight in the way the regulations were written, and pricing thresholds did not apply to those leases.

Mr. ISSA. I am not responsible for trying to make the private sector work. So as much as I appreciate a lot of the things we are learning here, I have to focus on what makes Government work. That is why we get the title Government Reform.

So I will ask you a question as somebody who works with Government, just intimately. Would it surprise you that MMS didn't know and that they never talked between the two parties, the solicitor on the other side that was doing this work, so that the statement made that, it is in the other document, was not based on checking or an actual conversation, or reading the document, but rather an assumption? And then the people who didn't put it in who knew they weren't putting it in, who made a decision not to put it in even though it was clear that they could and perhaps should, never talked? Would that surprise you, knowing the Department of Interior?

Mr. COUVILLION. Mr. Chairman, I have dealt with the various offices of the MMS here in Washington and in Virginia. I have dealt extensively with the office in New Orleans. I can believe with the size of the operation that is conducted in New Orleans, with over 8,000 leases, and oh, by the way, Chevron and its affiliates own over 1,000 of those leases——

Mr. ISSA. Congratulations.

Mr. COUVILLION. I can almost guarantee you that there is some breakdowns in communications. There just has to be. The operation running this business for the Government is tremendous. It is large. And something like this could slip under the radar screen until it became an issue.

Mr. ISSA. Let me ask you just a couple more questions. I want to note that the ranking member has arrived, and we will look forward to her round of questioning in just a moment.

How many people viewed and initialed or in some other way signed off on these leases besides yourself?

Mr. COUVILLION. Mr. Chairman, OCS leases are not negotiable. They are a form. If we are fortunate enough to be awarded a lease after we are the high bidder, then by specific regulation and by the final sale notice, we are required to sign the lease and return it within 11 working days. If we don't, we lose the lease and we forfeit our deposit of one-fifth of the bonus. So I am the one that signs the leases. There is no one else that initials off on it.

Mr. ISSA. But how about the checking of the form itself, particularly when there is a change? Because you mentioned that it was brought to your attention that this addendum was gone and so on.

Mr. COUVILLION. Normally we just review a lease and make sure it complies with what the final sale notice said.

Mr. ISSA. OK. So I want to paraphrase you one last time. One person looking at the lease, yourself, perhaps checking for whether the grid coordinates that are in there that describe the section that you have leased, makes a decision that this is good to go on this non-negotiable contract and signs it. And yet, one person, without anyone else double-checking, so to speak, discovered and brought multiple times to the attention of MMS that there was a problem relative to the price thresholds?

Mr. COUVILLION. Mr. Chairman, let me address this. Because——

Mr. ISSA. I am not doubting you, I am complimenting you.

Mr. COUVILLION. When you said initial off, in our process of approving contracts that we create, in the Chevron organization, in the Texaco organization, we had a whole series of people that would sign off on the leases, initial, as you termed, before it was executed by an officer of the company or someone with power of attorney. In my world, we check to ensure, I have staff that do just this, they check to ensure that the lease that has been awarded to us is properly fill out, that all the description is correct, that the addendums are on there.

Now, as to substance of the addendums, no. But they check to make sure that the lease is complete before they present it to me for execution.

Mr. ISSA. The reason I asked the question is that we discovered, and you have looked at these leases when you get your executed copy back, there are signatures and initials just endlessly on these pieces of paper by various Department of Interior employees. It might or might not surprise you to know that in testimony we discovered that everyone was only dealing with a tabbed insert that they would be told to look at, and only if it was there, that in fact we were told that they initialed simply to say, it passed by my desk.

And even more interesting, since they sometimes can be a foot deep, they may have only gotten the cover page they signed. So that is why I wanted to sort of see how it happens in the private sector, since you have the private sector and the Government, and

it appears as though you have two different standards of check to make sure this is real money.

Mr. COUVILLION. Mr. Chairman, like I said earlier, the issue with the Federal leases, since they are non-negotiable, it is a take it or leave it, if we don't sign it, we lose our one-fifth, we don't get the lease. So that is the reality of it.

Mr. ISSA. OK. And I might note for your edification and the record, a little reminder is up on the board of just how many signatures the Government managed to have and only have apparently one person reading it and knowing what wasn't there on the Government side. Just in case you have ever been intimidated by all those signatures in Government, basically, and I will close off here, those signatures don't mean much, is what we have discovered.

But thank you for your signature mattering, and for your bringing this to the attention of the Government, even if they failed to act.

With that, I would like to recognize the gentlelady from California for her opening statement and a round of questions.

Ms. WATSON. Thank you, Mr. Chairman. Let me be excused for being late.

I know this is the third in a series of hearings on this matter that you have called for. I do appreciate the opportunity to discover the root causes of the problem at hand and address workable solutions. I would like to thank the witness that again have come from Chevron and Minerals Management Services for appearing today. We can put you on the hot seat.

I hope that with your help we can move forward in finding concrete answers and solutions to the oil and gas royalty leases during the years 1998, 1999. Energy use has become a huge issue in this Congress. And Americans depend on oil and natural gas in our workplaces and in our homes. They are among our most valuable natural resources, and efficient management of these resources by both the public and private sectors is critically importantly to society.

Today, the American consumer is facing record prices for oil and gas while the oil and gas industries are making record profits. I saw on TV, did you see it this morning, that ExxonMobil's profit was almost over $400 billion.

Mr. ISSA. And to think I sold my stock to come to Congress.

Ms. WATSON. Something was wrong with you, sir. [Laughter.]

Adding insult to injury, the U.S. Government cannot collect the royalties due for leasing public land to the private oil and gas companies. Errors in the 1998 and 1999 lease contracts could cost our taxpayers close to $20 billion over the next 25 years. Already the lack of price thresholds in these leases has reduced $2 billion in lost royalties owed to the American public. The American people deserve an explanation for this costly error and maybe a reduction at the pump, since the profit is so great, and since you made an error that has not been filled in some time ago. I think you could give the relief to the American people.

So during this subcommittee's last hearing, it was alleged that employees of the Minerals Management Services were made aware of the error in the 1998 and 1999 leases, yet failed to formally report the problem or take corrective action. So I am sure that those

who are testifying today will give us some insight on how we can implement reform. And hopefully, I hope that you can shed light on how such a fundamental element of the royalty relief program could be overlooked for so long, and why it took 2 years to address this problem.

Whether our work is managing public assets, distributing vital products or overseeing the services they depend upon, the American public has the right to expect each of us to perform our duties responsibly. The parties responsible for the faulty leases in 1998 and 1999 have committed a gross injustice to the American people. This expensive mismanagement of public lands and public money is unacceptable. We must work together to uncover the origin of this event, rectify the situation and make sure that this never happens again.

So with that said, I hope that seat doesn't get too hot for you. But now that these mistakes have been brought to your attention, what are your companies doing and what is the Management Institute doing to rectify and to set a limit? And what are you doing for the American people?

Now, I know that in the kind of industry that is represented here that the bottom line is the most important thing. But our responsibility is good public policy. So I would like both of you to speak to what we can do to rectify 1998 and 1999, and what we can do to go forward.

[The prepared statement of Hon. Diane E. Watson follows:]

Opening Statement
Congresswoman Diane E. Watson
Government Reform Committee
Subcommittee on Energy and Natural Resources
Hearing: "Deep Water Royalty Relief; Mismanagement and Cover-ups III"
July 27, 2006

Mr. Chairman, thank you for convening today's hearing on Deep Water Royalty Relief. As the third in a series of hearings on this matter, today's inquiry provides us with the opportunity to discover the root causes of the problem at hand and address workable solutions. I'd like to thank our witnesses from Chevron and the Minerals Management Services for appearing today. I hope that, with their help, we can move forward in finding concrete answers and solutions to the oil and gas royalty leases during 1998 and 1999.

Energy use has become a huge issue in this Congress. Americans depend on oil and natural gas in our workplaces and homes. They are among our most valuable natural resources, and efficient management of those resources by both

the public and private sectors are critically important to society.

Today, the American consumer is paying record prices for oil and gas while the oil and gas industry are making record profits. Adding insult to injury, the U.S. Government cannot collect the royalties due from leasing public land to private oil and gas companies. Errors in the 1998 and 1999 lease contracts could cost our taxpayers close to $20 billion over the next 25 years. Already, the lack of price thresholds in these leases has produced $2 billion in lost royalties owed to the American public. The American people deserve an explanation for this costly error.

During this subcommittee's last hearing on this topic, it was alleged that employees of the Minerals Management Services were made aware of the errors in the 1998 and 1999 leases, yet failed to formally report the problem or take corrective action. Today we will speak with several of the individuals involved directly in the implementation of these

leases. Hopefully, our witnesses can help shed light on how such a fundamental element of the royalty relief program overlooked and why it took two years to address this problem?

Whether our work is managing public assets, distributing vital products, or overseeing the services they depend upon, the American public has the right to expect each of us to perform our duties responsibly. The parties responsible for the faulty leases of 1998 and 1999 have committed a gross injustice to the American people. This expensive mismanagement of public lands and public money is unacceptable. We must work to uncover the origin of this event, rectify the situation, and make sure that this never happens again.

Mr. Chairman, thank you again for calling this important hearing and I want to thank our witnesses for their willingness to testify. It is critical that we represent the interests of the American people and resolve these royalty relief issues quickly and effectively.

I yield back.

Mr. CAIN. Congresswoman, we are scheduled to have our first meeting with MMS tomorrow morning on this issue. We are hopeful that a satisfactory resolution for al parties can be arrived at.

Ms. WATSON. Would you let them know tomorrow that you have two concerned Members of Congress, and others, too, they are just not here today, that are going to be watching and listening. We hope you can become a good corporate citizen and relieve American people, American drivers, American families somewhat.

Mr. Couvillion.

Mr. COUVILLION. Similar to Mr. Cain, we are looking forward to meeting with MMS to try to resolve this issue and work toward and equitable and fair resolution. We have not talked with MMS about this issue yet, so we don't know what the MMS has to propose.

Like I had mentioned earlier, since the lease is a take it or leave it proposition, we are assuming that the Government has something to offer, and we are looking forward to seeing what that is.

Ms. WATSON. Also, would you discuss a threshold, should you put into the provision, some kind of threshold?

Mr. COUVILLION. Ms. Watson, again, we don't know what the Government yet is going to propose.

Ms. WATSON. Just bring it up, would you?

Mr. COUVILLION. Oh, yes, ma'am. That is the main reason for the meeting. We just don't know what else.

Ms. WATSON. Thank you, Mr. Chairman.

Mr. ISSA. Thank you.

I will just do a quick second round. Because the gentlelady wasn't here for the one part, and it is very important that I think all of us understand that there is kind of an oddity in business, in that although you assumed that there were price thresholds and planned on it in your bidding process, Chevron, Chevron-Texaco, has now made investments and partnerships in some cases where you have extended dollars based on the assumption there were none because of that period 2000 until some time more or less when we began the inquiries.

Is that roughly accurate?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. And I don't expect you to be a walking green-shaded budgeteer, but you haven't drilled yet, at least you haven't come up with yielding wells yet. Do you have an estimate of just how significant those post-2000 investments and partnerships, based on not having a price level, might be? Do you have a feel for the scope of that?

Mr. COUVILLION. No, sir, I don't have a feel, but we have approximately 100 leases between Chevron and Union Oil Co. of California, which is now an affiliate of Chevron in the Gulf of Mexico right now. We have 8 discoveries on those leases, 8 projects, 14 leases, that are involved with the 1998 and 1999 leases.

So the value to us is significant in the Gulf of Mexico. And we are going to talk about that with the MMS tomorrow. But I cannot give you a number. I just don't have that number.

Mr. ISSA. But $20 million or more have been expended in researching, drilling, exploring, putting platforms out, or is that too low, and it is much greater?

Mr. COUVILLION. It would be a lot greater.

Mr. ISSA. Give me a number.

Mr. COUVILLION. I hate to speculate, Mr. Chairman.

Mr. ISSA. Curiosity killed the cat, but satisfaction brought him back.

Mr. COUVILLION. But I hate to speculate. What I can tell you is that one of our projects that has been sanctioned by our corporation, we are moving forward, it is a multi-billion project. And it is only one. And we have eight of them with discoveries.

Mr. ISSA. I can certainly understand why you are so sensitive to the investment you made at a time in which the Government chose to tell you that they had made a mistake, but they weren't going to ask you to correct it, even though they had discovered it. I want to close with just that sort of a question. Since you bid based on the assumption that there were price thresholds, and then when you discovered suddenly the document you had complained about multiple times for not appearing to have those thresholds had the thresholds, suddenly it is back in there with this language that makes it very clear, when that happened, the Government basically told you, MMS told you, you don't owe for thresholds over here. That was more or less what they said?

Mr. COUVILLION. More or less. It just said the pricing thresholds do not apply to the 1998 and 1999 leases.

Mr. ISSA. If at that time the kind of meeting you are having tomorrow had occurred, if I understand correctly, if in 2000 when you saw this new lease, had occurred, at that time, would you have in fact had made no real investment based on the assumption it wasn't in there, because until that day you thought it was in there?

Mr. COUVILLION. That is going back in history and speculating, Mr. Chairman. But we would have to have talked about it with MMS. Since I am not aware, at least in my tenure in Offshore, I am not aware of any leases being amended.

Mr. ISSA. No, I wasn't speaking to the amending. And I apologize. Between 1998 and 2000, you acted in good faith and bid based on price thresholds being assumed by your company because you kept asking and they kept saying, they are in there. It was like the Prego where you are looking for the meat but you can never find it in that tomato sauce. But they say it is in there.

In 2000, they came to you and said, it is not in there. On that day, you had made no investments, on that day you had made no investments which were assuming that there were no price thresholds, because that was the day they told you, well, the reason this thing is there is that there are no price thresholds for those 2 years.

So if I can recap sort of the logical thinking, the change in investment occurred when the Government said, we made a mistake for 2 years, they may not have called it that, and we are not going to try and do anything about it, just wanted to let you know from now on it will be there. That is basically what they said, because they didn't say, oh, by the way, we need to talk about this 2-year error.

Mr. COUVILLION. I can't be that specific. Because we have, like I said earlier, a thousand leases. The way we explore is normally

by multiple leases together with different vintages. We look at all the leases.

Not having pricing thresholds in some of these leases was not a major issue for Texaco at the time, because we never thought the thresholds would be reached. We thought we would enjoy royalty relief. We were surprised when they were, and very pleased when the price of oil started to go up, because we were really struggling in 1998 and 1999 with the price of oil.

So it is a little more complicated than trying to say, just for 1998 or 1999, because very rarely do we drill just one lease. It is normally a lease within what we call a prospect.

Mr. ISSA. Sure. I certainly understand that.

And before we go to the next panel, Mr. Cain, you have been very fortunate, contrary to the ranking member's statement, you probably have a very cool seat there. But can you illuminate us any further on particular subjects? Particularly, do you know, and this is for both of you, do you know of any other contacts made by your companies or other companies during any of this period that might have caused someone else at the Department of Interior at any level to be aware that there was a potential problem?

Mr. CAIN. I am not aware of any other contacts.

Mr. COUVILLION. Mr. Chairman, as far as I know, Texaco didn't make an other contacts, but to the regional office. I can't speak for my colleagues, because I haven't quizzed them about this.

Mr. ISSA. OK. And the gentlelady would like do a second round also. Thank you.

Ms. WATSON. Thank you, Mr. Chairman.

I don't know if the Markey bill was mentioned earlier. But there is a bill that has been introduced and you might want to take that proposal to your meetings tomorrow. The bill would suspend royalty relief when oil and natural gas prices exceed a threshold price: $34.71 per barrel of oil, or $4.34 per thousand cubic fee of natural gas.

With respect to existing leases, the bill would require the Minerals Management Service to renegotiate the leases to include these price thresholds. Any company that refused to renegotiate an existing lease would not be eligible for any new lease for oil or natural gas on Federal lands. So you might want to think about that, you might want to respond or just hold, make that presentation to your various groups and then get back to us on that.

Mr. COUVILLION. Yes, ma'am.

Mr. CAIN. Yes, ma'am.

Ms. WATSON. Smart guys.

Mr. ISSA. I want to thank both of you once again on behalf of this committee on a bipartisan basis. I want to thank Chevron for volunteering information that has led to, I think, a fuller understanding of what occurred during this period. Although as a member of Judiciary, I personally am very committed, and I believe the committee is very committed, to maintaining contract sanctity, essentially saying that a properly induced and accepted contract is the underpinning of American law and American business.

And I, like the gentlelady from California, we have chastised Russia and some of their former satellites for saying a deal is a deal unless we want to change the deal, and we will deliver you

gas unless we don't want to deliver you gas, and we will keep you warm unless you don't behave right and so on.

I certainly think on a bipartisan basis that you will find that the Congress wants to maintain what has made our economy so incredibly well, and that is the predictability that an honestly negotiated contract is in fact a contract that will be upheld, even if it is a benefit to one side or another. I realize that there are a lot of nuances to this particular set of contracts, but I wanted to make sure that was on the record.

And one last time, I want to thank Chevron for their willingness to be a very active and positive participant in this process. With that, the first panel is excused, and I look forward to hopefully not having to have any more panels, because I think you have been so forthcoming with information.

I will ask one unanimous consent, and that is that other members of the committee be able to submit in writing questions to both of our panelists that could be responded to. Is that agreed to?

Mr. COUVILLION. Yes, sir.

Mr. ISSA. Without objection, it is so ordered. Thank you.

We will take about a minute while the other panel comes up.

I want to thank our second panel for being here today. We have already dispensed with the swearing-in process. Once again, I want to thank the Department of Interior for making both of you available. Again, if you can try to have your opening comments to about 5 minutes, a little red light will come on when we would like you to wrap up.

Mr. Oynes, if you would go first.

STATEMENTS OF CHRIS C. OYNES, REGIONAL DIRECTOR, GULF OF MEXICO REGION, MINERALS MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE INTERIOR; AND CHARLES J. SCHOENNAGEL, JR., DEPUTY REGIONAL DIRECTOR, GULF OF MEXICO REGION, MINERALS MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE INTERIOR

STATEMENT OF CHRIS C. OYNES

Mr. OYNES. Thank you, Mr. Chairman.

It is a pleasure to be here today. I hope that we can provide some additional elucidation on how the process worked, or did not work, as the case may be.

My name is Chris Oynes. My current position is as the Regional Director for the Minerals Management Service [MMS], in the Gulf of Mexico Region in New Orleans. I have been the Regional Director or the Acting Regional Director since my appointment in 1993. This position is part of the Senior Executive Service.

Prior to 1993, I served as the Deputy Regional Director in the Gulf of Mexico Region in New Orleans. That position I held since October 1986. I have been an employee of MMS or its predecessor agencies for about 30 years. In my position as Regional Director, I manage a staff of approximately 550 employees. As was alluded to a little bit by the previous panel, the scope of the operations that I manage is quite extensive. It involves not only leasing but also approval of plans, inspections for safety and environmental compliance, violation notices and penalties, operations, evaluation of geo-

logic or resource potential, acceptance of bids from lease sales and environmental reviews and environmental studies.

Mr. Chairman, that the leases in 1998 and 1999 were issued without price thresholds was a serious mistake. It is a mistake I believe that happened because of poor processes in MMS and not because of any intentional or calculated act. I have provided, and as you noted, I submitted my testimony for the record. At this point, this concludes my statement, and I would be happy to answer any questions.

[The prepared statement of Mr. Oynes follows:]

Statement of

Chris C. Oynes

Minerals Management Service

Before the

HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON ENERGY & RESOURCES UNITED STATES HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING ON

"Absence of Price Thresholds in Deepwater Leases"

July 27, 2006

My name is Chris C. Oynes. My current position is the Regional Director for the Minerals Management Service (or MMS) in the Gulf of Mexico Region in New Orleans. I have been the Regional Director (or Acting) since my appointment in 1993. This position is part of the Senior Executive Service. Prior to 1993 I served as the Deputy Regional Director for the Gulf of Mexico Region since October 1986. I have been an employee of MMS and its predecessor agencies for over 30 years. In my position as Regional Director I manage a staff of approximately 550 employees. The scope of operations that I manage involves not only leasing but also approvals of plans, inspections for safety and environmental compliance, violation notices and penalties, operations, evaluation of the geologic or resource potential, acceptance of bids from lease sales, and environmental reviews and environmental studies.

Mr. Chairman that leases in 1998-1999 were issued without price thresholds was a serious mistake. It is a mistake I believe that happened because of poor processes and not because of any intentional or calculated act.

Let me describe the processes by which the MMS reviews, approves and enters into leases. My perspective is limited to that of the Regional or field office and a general understanding of the MMS headquarters processes. The committee has been previously furnished a list of individuals and positions that were involved in the sales in 1998 and 1999. A description of lease sale process and the process for issuing leases has also been furnished to the Committee.

The process for a lease sale involves numerous steps that take place over a two year period ; these steps are in addition to the development of 5 year leasing plan which sets in motion the steps for an in individual lease sale. . Towards the end of the process a draft is prepared in MMS Washington office of a (1) decision memorandum on the proposed notice of sale and (2) a proposed notice of sale. These are sent to various MMS offices for supplementing, approval and issuing. Once a decision is made it is announced in the publication of Federal Register notice. As part of this process the Gulf of Mexico Regional Office of MMS prepares a series of materials ("sale packet") which contains all of the specific instruments, terms and conditions of the lease sale for each individual block of land that

is available to be bid on. This packet is publicly available. This process initiates a potential series of comments from the relevant states, public, industry and perhaps even other Federal agencies. All of these comments are summarized and a draft is prepared in MMS Headquarters of (1) a decision memorandum on the Final notice sale and (2) a final notice of sale. These are then sent through an approval process in MMS Headquarters. This Finial notice of sale is published in the Federal Register at least 30 days before the actual holding of a lease sale. A similar "sale packet" is prepared for the Final notice of sale.

For the actual lease sale the bidders deliver their sealed bids in envelopes to the MMS regional office starting several days before the sale with no more bids after 10:00 a.m. the day before the sale. When the sale day arrives, all the bids are publicly opened (usually at a rental ballroom at a hotel) on that day and publicly read. The bidders then have a day or so to submit one-fifth of the bonus money that they bid. The MMS Gulf of Mexico regional office then conducts a detailed review of the bid to evaluate whether it constitutes fair market value for the block and awards the lease to the high bidder over the next 90 days; or rejects the bid. After a significant staff effort involving many hours and days of geologic, geophysical and economic review, the Regional Director approves the acceptance of all bids and approves the rejection of any bid recommended for rejection. After approval of the bid, the lease form is prepared for each accepted block and sent to the lessee (company) for signature and payment of the 4/5th's bonus and then in turn signed by the Regional Director.

So how did the price thresholds not be placed in the leases for 1998 and 1999? I do not know why they were removed and by who.

I think a contributing factor was that MMS did not have in place an overarching system to place the price thresholds as an issue to make sure they were included in the lease forms. The normal MMS process is that any major economic term and condition is discussed in the decision memorandum for both the proposed and final notice of sale. So it is common to see (1) rental rates and (2) minimum bids and (3) bidding systems discussed in these decision memorandums for all sales. In none of the decision memorandum for all ten sales from 1996 through 2000 was the term or concept of price thresholds mentioned. Thus, even though this was an important and major term of the lease it was not raised to the attention of policy officials in these documents. This is important because the result if is

that the staff has no formal guidance on how to deal with or implement price thresholds. That all levels in MMS allowed the decision documents to proceed without this discussion is indicative that the system totally broke down.

Parallel in time to this was the rulemaking on Pre –Act leases which was carrying language on price thresholds for the so-called pre-Act leases (those authorized under another Section of the DWRRA). Also parallel in time to this was a rulemaking on mandatory royalty relief for new deepwater leases which, even though it did NOT contain price threshold language, it was widely thought in MMS (in my opinion) that it did contain price threshold language. This contributed to the entire confusion of price thresholds.

You had asked how I regularly interface with industry. My personal involvement in interfacing with industry covers a wide range of forums and meetings that occur numerous times over any given year. As i mentioned earlier my responsibilities include many area other than leasing. To focus on the specific matter of interest to the subcommittee, I have regular meetings, at their request, with representatives of the OCS Committee of the American Association of Professional Landmen (AAPL). These meetings may occur as often as quarterly during a year. These meetings are usually held with 4 to 7 representatives of the AAPL's OCS Committee. The full OCS Committee has about 20 members from individual oil and gas companies.

The purpose of the somewhat regular meetings with the OCS Committee is to explain and clarify what MMS is doing (new rules, new forms, and new procedures). This allows for MMS to see if there are misunderstandings or ambiguities in its rules, forms, or procedures that need to be clarified. It also allows industry to more fully understand what MMS is doing. The 20 OCS committee members represent the lease holders for the vast majority of the 8000+ leases that exist in the Gulf of Mexico. The AAPL Committee members are also are the primarily persons in industry who are involved in preparing industry's bids at lease sale and executing the leases.

I have found notations on calendars that indicate I and my staff had meetings with representatives of AAPL on November 13, 1998, April 9, 1999, and December 2, 1999. There could have been – and probably were – additional meetings held in 1998 and 1999 but I have no

records or recollection of them. The 1998 meetings wee held approximately eight years ago so it is difficult to remember all the precise details. These meetings would usually involve 4 to 7 representatives of AAPL.

These meetings were conducted in compliance with all statutes and mandates such as the Administrative Procedures Act. The AAPL knew we could not comment on a rulemaking once a comment period closed; this requirement was strictly adhered to. For other discussions, such as if an item involved policy matters from Washington/ Headquarters, we would point them to meet with others in Washington D.C. I should note in 1998 and 1999 MMS was involved in a number of issues other than deepwater royalty relief that were of concern and issue to members of the AAPL and these were discussed at these meetings. In many of those issues were of considerable concern and caused substantial discussion.

The committee has been told that the AAPL group informed me in the fall of 1998 that the price thresholds were missing from the leases. I have no recollection that they told us this. I do remember that the AAPL discussed with us (presumably in 1998) the royalty relief for pre-Act leases (before DWRRA). This regulation had been published as a final rule on January 16, 1998. It contained price thresholds.

The Committee has been told that the AAPL group informed me in a late 1999 meeting that neither the Act nor the regulations contained price threshold provisions. I do not recall that the AAPL made this comment. MMS did discover in late 1999 that the 1998 and 1999 lease did not contain price thresholds. How exactly this discovery was made I do not recall.

This concludes my testimony.

Mr. ISSA. Thank you.

Mr. Schoennagel, please.

STATEMENT OF CHARLES J. SCHOENNAGEL, JR.

Mr. SCHOENNAGEL. Thank you. It is also a pleasure to be here today to try and answer any questions that the panel has, and to try and clear anything up.

My name is Charles J. Schoennagel, Jr. My current position is Deputy Regional Director for the Minerals Management Service in the Gulf of Mexico Region in New Orleans. I have been the Deputy Regional Director since my appointment in August 1998. This position is at the GS–15 level. Prior to August 1998, I served in the Gulf of Mexico Region for the Regional Supervisor for Field Operations as the Chief of the Office of Safety Management since November 1992.

I have been an employee of MMS and its predecessor agency, U.S. Geological Survey, since 1973. My 25 years of experience prior to becoming the Deputy Regional Director were all on the operational side of the house.

I assist Mr. Oynes in managing the approval of plans, the inspection of safety and environmental compliance, violation notices and penalties, operations, evaluation of geologic or resource potential, acceptance of bids from lease sales and environmental reviews and environmental studies.

I will be glad to answer any questions I can.

[The prepared statement of Mr. Schoennagel follows:]

Statement of

Charles J. Schoennagel Jr.

Minerals Management Service

before the

HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON ENERGY & RESOURCES UNITED STATES HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING ON

"Absence of Price Thresholds in Deepwater Leases"

July 27, 2006

My name is Charles J. Schoennagel Jr. My current position is the Deputy Regional Director for the Minerals Management Service (or MMS) in the Gulf of Mexico Region in New Orleans. I have been the Deputy Regional Director since my appointment in August 1998. This position is at the GS-15 level. Prior to August 1998 I served in the Gulf of Mexico Region for the Regional Supervisor for Field Operations as the Chief in the Office of Safety Management (formerly Office of Accident Investigation and Civil Penalty) since November 1992. I have been an employee of MMS and its predecessor agencies since August 1973. In my position as Deputy Regional Director I assist in the management of a staff of approximately 550 employees. The scope of operations that I assist in managing involves not only leasing but also approvals of plans, inspections for safety and environmental compliance, violation notices and penalties, operations, evaluation of the geologic or resource potential, acceptance of bids from lease sales, and environmental reviews and environmental studies.

Mr. Chairman, that leases in 1998-1999 were issued without price thresholds was a serious mistake. Let me try to describe the processes by which the MMS reviews, approves and enters into leases. My perspective is limited to that of the Gulf of Mexico Regional office and a somewhat general understanding of the MMS headquarters processes. The committee has been previously furnished a list of individuals and positions that were involved in the sales in 1998 and 1999. A description of lease sale process and the process for issuing leases has also been furnished to the Committee.

The process for a lease sale involves numerous steps that take place over a one to two year period; these steps are in addition to the development of a 5 year leasing plan which sets in motion the steps for an individual lease sale. The lease sale steps are drafted and proposed by the Gulf of Mexico Regional Office and sent to MMS Headquarters in Washington D.C. for approval. Towards the end of the process a draft is prepared in the region of a (1) decision memorandum on the Proposed Notice of Sale and (2) a Proposed Notice of Sale which includes the proposed terms and conditions under which the leases will be offered. These are sent to MMS Headquarters for supplementing, approval and issuing. Once a decision is made it is announced in the Federal Register. As part of this process the Gulf of Mexico Regional Office of MMS prepares a series of materials ("sale packet") which contains all of the specific instruments, terms and conditions

of the lease sale for each individual block of land that is available to be bid on. This packet is publicly available. This process initiates a potential series of comments from the relevant states, public, industry and perhaps even other Federal agencies. All of these comments are summarized and a draft is prepared of (1) a decision memorandum on the Final Notice of Sale and (2) a Final Notice of Sale which includes the terms and conditions under which the leases will be offered. These are then sent through an approval process in MMS Headquarters. This Finial Notice of Sale is published in the Federal Register at least 30 days before the actual holding of a lease sale. A similar "sale packet" is prepared for the Final Notice of Sale.

For the actual lease sale the bidders deliver sealed bids to the MMS Regional office. All bids are publicly opened and publicly read on sale day. The MMS Gulf of Mexico Regional office then conducts a detailed review of the high bids to evaluate whether it constitutes fair market value for the block and either awards the lease to the high bidder over the next 90 days or we reject the bid. For each accepted bid during the evaluation process, a lease form is prepared and sent to the lessee (company) for signature and then returned for signature by the Regional Director.

So why were price thresholds included in the 1996 and 1997 leases and omitted in the 1998 and 1999 leases?

Before my appointment in August 1998 to the position of the Deputy Regional Director of the Gulf of Mexico Region my experience with MMS was in offshore operational issues. For the 1996 and 1997 lease sales and even the first sale in 1998 my position was in the Office of Field Operations as the Chief of the Office of Safety Management so my duties included conducting accident investigations and processing civil penalty cases. I had no involvement in either the lease sale process or price thresholds for those lease sales. My understanding of the lease sale process described above only came about after a lengthy learning curve to my new appointment as the Deputy Regional Director. Therefore my knowledge on both the lease sale process and the price threshold issue for the 1998 and 1999 sales was extremely limited.

How do I regularly interface with industry?

My involvement in interfacing with industry covers a wide range of forums and meetings that occur numerous times over any given year. To focus on the specific matter of interest to the subcommittee I attend regular meetings, at their request, with representatives of the OCS Committee of the American Association of Professional Landmen (AAPL). The timing and frequency of these meetings vary year to year. These meetings are usually held with 4 to 7 representatives of the AAPL's OCS Committee. The full OCS Committee has about 20 members from individual oil and gas companies.

The purpose of the somewhat regular meetings with the OCS Committee is to explain and clarify what MMS is doing (new rules, new forms, and new procedures). This allows for MMS to see if there are misunderstandings or ambiguities in its rules, forms, or procedures that need to be clarified. It also allows industry to more fully understand what MMS is doing. The 20 OCS committee members represent a significant percentage of the 8000+ leases that exist in the Gulf of Mexico.

I have found notations on my calendar that indicate we had meetings with 4 to 7 representatives of AAPL on November 13, 1998, April 9, 1999, and December 2, 1999. There could have been – and probably were – additional meetings held in 1998 and perhaps 1999 but I have no records or recollection of them.

Did members of the industry ever raise an issue with the omission of price thresholds in the final notices of sale and the leases themselves?

I do not remember any issues being raised by industry concerning the omission of price thresholds in either the final sale notice or the lease instruments themselves.

This concludes my written testimony.

Mr. ISSA. Thank you.

I must admit that when we ask people to please abbreviate and their full statement is in the record, we seldom get such great cooperation. Thank you.

Mr. Oynes, in your testimony you used the term "no overarching system," and the "system was totally broken down," as if someone in the system is at fault for the missing price thresholds, "I take exception to that statement. It is individuals that cause a problem by not following basic procedures or meeting minimum requirements of their job descriptions." There were about 30 surname signatures, they are up there on the screen, on each lease sale, and you signed more than 600 leases that you knew did not have the price threshold. I am actually reading it as thought it was still a quote.

The document up there has all of those signatures on it. But I believe that in the 600 or so leases that you signed, that you knew that those signatures were mostly pro forma and that you were the operating person that had to be responsible for that. Is that pretty correct?

Mr. OYNES. To a degree, Mr. Chairman. If I might try to clarify. The document that you had up on the screen previously is what we call a decision memo. That is, it is a record of the policy level decisionmakers in our Washington office as they make decisions about the character, that is, what is the area to be offered in an individual lease sale, and the terms and conditions of that lease sale. A decision memo like that is prepared for both the so-called proposed notice of lease sale and for the final notice of lease sale.

So the surnames as an example that you referred to I believe are all Washington level officials. Whereas, once the decision has been made, that is, the structure of the lease sale has been put together and the authorization to go ahead with either a proposed notice of sale or a final notice of sale has been made, then it falls upon the staff in the Gulf of Mexico region to execute that.

I hope that clarifies things.

Mr. ISSA. A little bit. Sort of like Louisiana mud that is in the water, you know there is water there, but it looks mostly like brown mud.

Again, my basic question was, you signed these documents. You were the one who was in the November 13, 1998 meeting in which it was asked if these price thresholds, why these price thresholds weren't there, and answered that they were essentially in another part of the implied document by the regulations, and that there was no problem. And again in 1999, when you were asked, "Where are they, we can't find them?" And you and your staff apparently implied that you would get back with an answer, because you knew they were there.

All those Washington names that we saw, and we are not going to put it back up again, we have had testimony that those were pro forma, that people only looked at them if people before them had tabbed something particular to look at. Because we have had testimony that these are take it or leave it documents, that even though they don't say Ohio standard legal form number 201, that in fact they are all the same, except for location.

So I again want to understand, you said the system was broken. But I have to ask, the system appears to have been you, your assistant, whoever was signing a particular lease, saying that something was there when it wasn't, and implying that you knew when it wasn't. Tell me why I am wrong here. I really want to know.

Mr. OYNES. First of all, Mr. Chairman, let me go back to the two meetings with the members of the AAPL. The comments that they made about what was discussed in the meeting about the price thresholds, as I indicated in my testimony, I have no recollection in either one, in the 1998 or 1999, that issue was discussed like that. I have no recollection that they have made those presentations as they stated that they did.

Mr. ISSA. Mr. Schoennagel, is that the same for you? You were also in those meetings?

Mr. SCHOENNAGEL. Yes, it is. And let me just state that I had never seen the 1996 or 1997 leases. The first time I got involved in this was in August 1998. So my understanding of the leasing process was extremely minimal when I first got into the job as the Deputy Regional Director. All of my experience before that was in the operational side of the house.

Mr. ISSA. Mr. Oynes, you are not saying that Chevron was saying when they said a question was asked?

Mr. OYNES. Absolutely not. I am just saying that I have no recollection of that conversation as they have laid out.

Mr. ISSA. And you previously answered to this committee, not in hearing, but answered to the committee that you didn't remember anyone bringing it up, until, if I recall from that meeting, the year 2000 when you checked and that is when it got put in the addendum, is that correct?

Mr. OYNES. Right. I didn't recall that anyone had brought it up at any meetings. I believe what I indicated to the staff when we talked, not in testimony, was that some time in late 1999 or early 2000 is when I first became aware that it was missing from the leases.

Mr. ISSA. Maybe you can just give me an understanding of one thing, though. If we assume that Chevron has no reason whatsoever to be telling us anything but the truth, they came forward with this from their own recollection and documentation, November 13, 1998, a fairly large gathering brings this up, because they are concerned, they want to make sure, it is a lot of money, potentially, even though it is down the road. And on that date, and it is important for me to understand this, that meeting was at about 8 o'clock in the morning, it finished off some time during the day.

On that date, 11/13/98, you signed seven leases that didn't have a threshold in them. So let me understand, if you signed seven that day, in order to sign seven that day after they brought up the question, you would have to have said, oh, no, it is taken care of in the other part of the document. Is there any other way that if you were asked that question that you wouldn't have checked before signing seven of them, even though you don't remember today?

Mr. OYNES. Mr. Chairman, I don't remember them saying that at the meeting. So I would be totally speculating as to what would be appropriate or not appropriate. I don't recall that was raised at the meeting.

Mr. ISSA. OK, but you do not dispute it?

Mr. OYNES. No, I do not dispute it. The only other thing I would add, as I indicated in my testimony, these meetings usually covered a wide range of issues. And there were many, many issues that were of significant importance to the members of the committee, AAPL group, that they raised to us in these various meetings.

Mr. ISSA. We are probably going to have to come back after the vote. I just want to make sure the record is complete, because this is where the difference between my background in business and my understanding of Government breaks down. I think it is important we make the record complete, because we are trying to make Government work more like business. On that day, you happened to sign seven documents, seven leases. During that week, you signed 17. Between November 13th and the time that Chevron—and we have no reason to doubt them, you have no reason to doubt them—brought it up again in a similar forum, you signed 71, for a total actually of 160 leases, you signed after being told twice that they could not find the thresholds in them.

I have to ask, if you don't remember the first time, you don't remember the second time, but others remember it, and as we go through this process and we discover other staff that were in these meetings and other companies and representatives, how do you explain that you and/or some staff member, the two of you being on the hot seat here today, would not have checked at some level to discover exactly how they were there? Because you had companies bringing it up at least twice in two different veins. First of all, where is it, then second of all, we can't find it where you said it should be.

Mr. OYNES. Well, Mr. Chairman, it keeps coming back to the same thing. I do not recall that this issue was raised at either the meetings in 1998 or in 1999.

Mr. ISSA. I am going to ask just one more quick question, then I would like the ranking member to get 5 or 10 minutes before we run to the vote. Did you or your staff, the two of you or any one that you know that works for you, read the interim and final rules on new leases? There were never price thresholds in either of the rules. If no one read it, how do you explain that you would have the responsibility that the two of you have, in the 30 years plus or minus that you have, and you wouldn't have read them?

Mr. OYNES. Mr. Chairman, my best recollection is I did not read that final rule. I was probably at the time of my understanding relying on staff representations about what was in the rule. And as to whether other staff people had read the rule, I can't speak for that.

Mr. ISSA. OK. I am going to pause now and let the gentlelady get hers in, then we will come back.

Ms. WATSON. I am going to ask a couple of questions and I would like you to respond to them both at the same time. Then I am going to have to run, we both will have to run.

My first question is, how many audits of oil and gas royalties were done in the year 2003, if you know? You have been there since 1986. So how many were done in 2003, 2004, and 2005? Were there any mistakes found? If so, were they rectified? And what wasn't done for the 1998 and 1999 period?

It has been suggested that MMS can only implement what Congress has written into law, that is why I mentioned the Markey bill. But do you feel that Congress should create legislation to define collection actions for the leases between that period of time, and should Congress create legislation to handle collections from this year one?

That kind of goes to what I mentioned before. You are going to go to your respective institutes, so these are some things that we are going to be talking about. So can you respond, please, both of you?

Mr. OYNES. On the question of audits, I assume you mean a formal audit.

Ms. WATSON. Yes.

Mr. OYNES. The auditing function is handled by a different part of the Minerals Management Service that is headquartered in our Denver field office, and is handled by what we call Minerals Revenue Management. I am not a part of that, and I therefore would not be aware of any scope or details of the dates of any audits. So I just don't know.

Ms. WATSON. Well, Mr. Chairman, who should we have here next time who can answer some of these questions?

Mr. ISSA. If the gentlelady would yield, that was why I was kind of taking a deep breath when you said this might be our last hearing, I do suspect that as we followup the train of audit, we are going to have to have follow-on.

Ms. WATSON. I didn't mean last hearing, I meant my last chance to ask questions.

Mr. ISSA. Oh, yes. We will undoubtedly have to have the audit function looked at by this committee.

Mr. OYNES. Ms. Watson, as to the second part of your question, on the legislation and the bill that was introduced, I would have to defer to that. Again, I work in a regional office. Our headquarters office is the one that would speak as to the use of any of the bills and the concepts in any bills and the support or lack of support for any particular bill.

Ms. WATSON. Yes, then let me ask you, are you going to actually do some negotiation or renegotiation tomorrow?

Mr. OYNES. As far as I am aware of, I am not a part of the negotiations. It is going to be handled by our Washington office.

Ms. WATSON. OK. Well, you heard what we asked the first panel, so you might want to raise some of these issues, because we certainly are going to.

Mr. OYNES. I will make that a point to do that. I think that they are well aware of that already, though.

Ms. WATSON. All right, and then I just want to say to the chairman that I am going to have to leave and I can't come back. But I do appreciate you holding these, and I certainly expect to have more of these hearings until we get to the bottom, until we can come up with some kind of authority, some kind of legislation that would look at this problem and be a resolution to the problem.

Thank you so much, witnesses, for coming, and thank you, Mr. Chairman.

Mr. ISSA. I thank the gentlelady. I would like to now ask unanimous consent that the letters submitted by Chevron be inserted

into the record as well as a briefing memorandum prepared by the staff and other relevant materials. Without objection, so ordered.

Additionally, I ask unanimous consent that the record be held open for 2 weeks from this date, so that those who may want to forward submissions for possible inclusion be allowed to. Without objection, so ordered.

Last but not least, we will be recessed for this very quick series of votes. Those are the last votes of the day, I am pleased to report. As a result, when I come back, we will be able to conclude at a reasonable pace. Thank you very much, and we stand in recess.

[Recess.]

Mr. ISSA. Thank you all for your patience. This hearing comes back to order.

I will be brief. I have kept you much later than I had planned. The good news that there are no further votes probably is of little consolation to you.

But let me just wrap up with a couple of questions that came from the first round. Mr. Oynes, you testified that you did not read the regulations governing the leases. You were the main person in charge of MMS and the Gulf Office for that entire period until today.

How can you sign leases worth billions of dollars without being familiar with the regulations MMS is charged to enforce?

Mr. OYNES. Mr. Chairman, as I indicated earlier, I had also been briefed by staff on the content of the regulations. MMS issues a wide variety and lots of regulations. I don't profess to be an expert on every single one of them. As I indicated, I have a staff of 550. I have a leasing group that is presumably made aware of that.

Mr. ISSA. Mr. Oynes, who on your staff briefed you to tell you that in fact there was no need for the addendum, so that you participated in removing it?

Mr. OYNES. Mr. Chairman, I did not participate in its removal. I know that it was removed. I don't know who removed it.

Mr. ISSA. Let's go back through the time line. There was a time when there was an addendum. When the addendum came out, did you question why the addendum came out?

Mr. OYNES. I didn't know it had been removed.

Mr. ISSA. Until it was brought to your attention by Chevron?

Mr. OYNES. Until it was brought to my attention some time in late 1999, 2000, by staff.

Mr. ISSA. Well, Chevron has testified that they brought it to your attention.

Mr. OYNES. They have testified to that, and I am not aware of those meetings.

Mr. ISSA. OK, so to your recollection, and I should ask both of you, because you both at various times had this, did anyone ever brief you as to the change in the lease in the 1998, and I realize that Mr. Schoennagel, you were not there in the previous time, but were either of you ever briefed as to the change causing the addendum not to be there?

Mr. OYNES. When it was brought to my attention in late 1999 or early 2000.

Mr. ISSA. No, that is not the question. I really want to ask——

Mr. OYNES. I was not briefed.

Mr. ISSA. No one on your staff, to your recollection, ever briefed you about the change in the addendum?

Mr. OYNES. That is correct.

Mr. ISSA. And the same for you, sir? I realize you came in at that transition time.

Mr. SCHOENNAGEL. That is correct, yes.

Mr. ISSA. And to your recollection, who briefed you about what was in the regulations that by reference are included in these leases?

Mr. OYNES. Mr. Chairman, I don't recall who was the one that briefed me on that.

Mr. ISSA. You have 500 people who work for you. It was one of them.

Mr. Schoennagel, when you came in, you have a lot of experience here, who briefed you on these leases and how it worked and how the references represented the rest of the body of the document?

Mr. SCHOENNAGEL. I do not know, and I do not know if I was really ever briefed, because the regulation changed in January 1998, before I was even in that position, and I came in after the first——

Mr. ISSA. But you signed leases?

Mr. SCHOENNAGEL. Yes, I did, for the second sale in 1998, I believe I signed some.

Mr. ISSA. Did you ever request a briefing, so you would understand the document you were signing?

Mr. SCHOENNAGEL. No, I didn't.

Mr. ISSA. Mr. Oynes, did you ever request a briefing? Because I think you would remember if you requested a briefing, did you ever request a briefing as to the meaning of these documents?

Mr. OYNES. Your question, Mr. Chairman, and I am not trying to be evasive, your question is very broad. There are a large number of issues brought up in the decision process and in the leases. So yes, I was briefed on several issues contained in the leases in 1998 and 1999. I could go into specific issues but——

Mr. ISSA. Well, the ones we are obviously concerned about——

Mr. OYNES. Right. I was not briefed on this issue, no.

Mr. ISSA. Did you ever request a briefing on that?

Mr. OYNES. No.

Mr. ISSA. When the interim or the final regulations were issued, did you ever request a briefing on either the interim of the final, so you would have an understanding of these fairly voluminous documents prepared elsewhere?

Mr. OYNES. No, I did not.

Mr. ISSA. Chevron testified that after notifying you, Mr. Oynes, in 1998 and again in 1999 in a meeting you were both in that you would have your staff check into the price thresholds that weren't in the regulations or the leases. I am going to ask this one last time, who did you ask or who would you have asked to check into this?

Mr. OYNES. Since I don't recall that they asked or presented that information, I did not ask the staff to check into anything. And it would be pure speculation as to who I would have asked to check into that.

Mr. ISSA. But you know your org chart, both of you do. Who are the people, to your recollection, it is not unreasonable—500 people don't run an organization. Three or four or five report to you.

Mr. OYNES. I would have probably asked Mr. John Rodey, who at that time was head of the sales unit.

Mr. ISSA. Mr. Rodey. And Mr. Schoennagel, who would you have asked, if you had been carrying that for your boss?

Mr. SCHOENNAGEL. Probably the same person, John Rodey.

Mr. ISSA. OK. And this goes to both of you, again. Did you contact anyone at headquarters after you found out the price thresholds weren't in the leases or the regulations? This would have been apparently 1999, end of the year, or 2000.

Mr. OYNES. Yes. I remember that I contacted my immediate superior, Carlita Calor.

Mr. ISSA. Do you remember any conversations with superiors, Mr. Schoennagel?

Mr. SCHOENNAGEL. No, I don't.

Mr. ISSA. Did either of you change or give orders to change the final notices of the sale to reference 30 C.F.R. 203 instead of 30 C.F.R. 260?

Mr. OYNES. I did not, Mr. Chairman, in fact, I did not know that change had been made.

Mr. SCHOENNAGEL. Neither did I.

Mr. ISSA. Do either of you know of anyone who did give that order or is knowledgeable of that order change?

Mr. OYNES. I am unaware of who made the change or order to change.

Mr. SCHOENNAGEL. I am also unaware of that.

Mr. ISSA. Do you believe that this is a change that within the purview of your job description as the No. 1 and yours as the No. 2, you should have been informed of?

Mr. OYNES. I believe it should have been brought to my attention, yes.

Mr. SCHOENNAGEL. Yes.

Mr. ISSA. So would it be fair to say that people in your organization made changes in leases without your authority?

Mr. OYNES. Without my knowledge, yes.

Mr. SCHOENNAGEL. That is correct.

Mr. ISSA. Now, I asked authority rather than knowledge for a reason. You are a hierarchical organization, that change is going to cost the Government hundreds of millions, probably billions, even after good corporate citizens come back and make some adjustments, that we the people are not going to be made whole. So back to the question of authority, wasn't it your decision to make, and wasn't that decision one that if you had made you also would have ensured that the lease reflected it properly, with the addendum never being dropped out?

Mr. OYNES. I think the broad, the answer to that question is in general, yes, Mr. Chairman. The only thing I would add is that the way our process works, as I mentioned to your staff when we had a briefing, is that other individuals and groups are involved in the finalization process of that. So as an example, some of the other divisions in our headquarters group could have been involved in this. I don't know that they were, but that is a possibility. But yes, in

terms of the broad question, it is something I should have been briefed on, and it would have been in my authority to at least investigate if not to decide the issue.

Mr. ISSA. Mr. Schoennagel.

Mr. SCHOENNAGEL. I would agree for that, for the sale that was held in 1998, although I was only in for before I guess even this final sale notice was probably issued, before I took the office. But certainly for the 1999 sales.

Mr. ISSA. You remind me a little bit of a brand new second lieutenant who reports to the company on the day the shotgun is lost by an MP, but unfortunately, he's the second lieutenant in charge of that MP that day.

Mr. SCHOENNAGEL. It is a very steep learning curve to go from just the operational side to the lease, to the pre-lease side, from the post-lease side to the pre-lease side.

Mr. ISSA. I have little doubt that we are offering you some addition to your learning curve here today.

Mr. SCHOENNAGEL. You are.

Mr. ISSA. Now, you both said that you did not read the interim or final regulations. I want to understand. What is the role of the New Orleans office in implementing and enforcing regulations? And this is obviously relevant to those regulations. Are you the organization that has to implement and enforce those regulations?

Mr. OYNES. We certainly are the implementer, the regional office, and in terms of the enforcer, we are certainly part of the enforcer. It probably goes broader than that, but ultimately, we are certainly part of the enforcement of that.

Mr. ISSA. Do you believe that the MMS policy to include price thresholds in the leases issued by your region between 1995 and 2000, in other words, do you believe there were supposed to be price thresholds the entire period from 1995 to 2000 in the Deepwater Royalty Relief Act? Obviously 1995 isn't a relevant part, but a little later.

Mr. OYNES. Yes, absolutely.

Mr. SCHOENNAGEL. I've read the act, and I believe that it probably requires that. But again, I am not an attorney that can look at the act and then determine whether or not it is required.

Mr. ISSA. I guess I will ask just one or two more questions and let you off the supposed hot seat, although we announced that it was Chevron in those seats. But I suspect they haven't cooled down.

What has been changed, as of today, that would cause me to feel that the Congress should sleep well at night, that this couldn't happen again? Just the briefest answer, if possible, so that I can understand it, simple enough for Congress.

Mr. OYNES. The staff has been instructed many years ago to bring significant issues as they come up in the sale process to me. As we speak, a draft has been presented to me on my desk of changes in procedures which will create a formal process for review of these types of changes and significant issues, if you will.

Mr. ISSA. And would you make that draft available to us so we can see your progress?

Mr. OYNES. Surely. It still needs some work, it is a work in progress, but it is a draft.

[NOTE.—Mr. Oynes has been contacted and never submitted answers to the chairman's questions for the record.]

Mr. ISSA. We would appreciate that.

I am going to close, and I am not going to read exactly the prepared statement on this last question, but I want to paraphrase it and maybe tone it down just a little. Chevron testified that they told you about the missing price thresholds in 1998 and 1999. And you both say you don't remember or it didn't happen. I have to tell you, by Chevron telling us this, volunteering the information in the previous round, coming forward, negotiating as early as tomorrow with MMS, they stand to lose billions of dollars for their stockholders, rather than just not mentioning it, not volunteering it.

This is something which has at a minimum cost them in the court of public opinion a great deal. Because of their willingness to try to meet the intent minus in negotiations the cost as a result of the misdirection, and whatever that ends up, they are still going to give up billions of dollars over the life, or at least hundreds of millions, that they otherwise believed that in good conscience they were told in 2000 they had.

So I am not going to read the rest of it, and I am not going to say I don't believe you. But I will ask you, why is it I should believe your lack of memory over a period in which others seem to have good memory, good dates, and they have nothing to lose but, in a sense everything to gain by forgetting?

Mr. OYNES. Mr. Chairman, I don't think there is anything else I can really add that hasn't been already put in the record. There are a very large number of issues that are dealt with in the regional office, in these meetings with the AAPL. We discuss a number of other significant issues, and I don't have any better explanation other than that, simply that what I am telling you is the truth. I do not recall that we discussed those matters.

Mr. ISSA. OK. The same for you, sir?

Mr. SCHOENNAGEL. I don't recall that, and perhaps part of my issue is that I really did not understand the leasing process, so something that was mentioned may have just gone right over my head. Because I was very new to the job at the time.

Mr. ISSA. As I have described, I was a butterbar at one time, too. I understand, and I had been a private before that. So the transition was significant for me, and I certainly appreciate your comments.

I am going to ask one more question along a slightly different line, probably because of sensitivity here in the Congress and what affects things, I feel this has to be put in the record. Have either of you accepted a trip, a gift or attended an event paid for by an oil or natural gas company, or an individual with an interest in them? Have you accompanied, and this is all of the above, any of the above, have you accompanied industry representatives on trips on which you didn't pay the fair market value of the trip? Any of those. Is that part of your job?

Mr. OYNES. I would say the answer is I have not done any of those actions.

Mr. SCHOENNAGEL. Absolutely not.

Mr. ISSA. Well, then I have to report that you are better off than most Members of Congress. I appreciate your answer on the record on that.

I am going to close briefly by just putting into the record that I am deeply disappointed that this kind of mistake could happen, that as of today, subject to material changes in how the Department of Interior works broadly, not just in New Orleans but here in Washington, it is likely that these mistakes are happening again.

This committee will continue, with the ranking member and other members of the committee, to explore this event in hopes that we can see how it can be prevented in the future.

I want to thank you for your testimony today. The record will remain open for 2 weeks from this date, so that others may forward submissions. With that, we stand adjourned.

[Whereupon, at 4:55 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

COMMITTEE ON GOVERNMENT REFORM

Subcommittee on Energy and Resources
DARRELL ISSA, CHAIRMAN

Oversight Hearing:

Royalty Relief and Price Thresholds III

July 27, 2006, 2:00pm
Rayburn House Office Building
Room 2154

BRIEFING MEMORANDUM

SUMMARY

This Subcommittee is investigating the absence of price thresholds in deepwater leases between the Interior Department and various oil and natural gas producing companies during 1998 and 1999. The Government Accountability Office estimates that the lack of price thresholds will cost the U.S. Government upwards of $10 billion in lost revenue over the life of the leases. According to GAO, this loss is estimated at nearly $2 billion to date.

Over the past five months, the Subcommittee staff has reviewed documents surrounding nearly every aspect of the lease creation process. This includes an examination of the regulations, leases, lease sale documentation, decision memoranda, and bureaucratic processes. Moreover, the Subcommittee staff has interviewed multiple witnesses, and Chairman Issa has conducted two oversight hearings at which individuals intimately familiar with the leasing process have supplied critical information.

The Subcommittee staff believes it has identified the Department employees who may have been responsible for the genesis of the problem, and who were in the best position to have done something about it. Milo Mason, a Department attorney, revealed himself in the June 21st hearing as the person responsible for dispensing arguably inadequate legal advice. Upon his advice, the Secretary of the Interior promulgated regulations that did not include price thresholds. Moreover, Mr. Mason found out in 1999 that the leases signed in 1998 and 1999 did not contain price thresholds, yet he failed to formally notify the Department in writing or take corrective measures.

The Subcommittee staff has since determined that information supplied by Chris Oynes, Gulf of Mexico Regional Director, appears to be inconsistent with other evidence obtained by the Subcommittee. Mr. Oynes, who signed 668 of the 1100 leases during 1998 and 1999, told Subcommittee staff during an interview that he did not know about the missing price thresholds until 2000. Chevron Corporation officials informed the Subcommittee that two of its employees notified Mr. Oynes and his staff of the missing price thresholds several times throughout 1998 and 1999. If the latter is true, Mr. Oynes and his staff could have saved the U.S. Government at least $5 billion had they immediately rectified the problem.

Accordingly, the purpose of the July 27th hearing is to question Mr. Oynes, his Deputy, and the two Chevron employees who maintain they notified the Department of the problematic leases. Mr. Oynes signed 668 deepwater leases during 1998 and 1999 and was in the best position to know of the problem and take corrective measures. Alas, the American people are now unnecessarily burdened with this unprecedented $10 billion loss.

BACKGROUND

The Deep Water Royalty Relief Act

To appreciate the magnitude of this blunder, it is useful to understand the policy behind the Deep Water Royalty Relief Act and what Congress sought to accomplish. In 1995, Congress enacted the Deep Water Royalty Relief Act[1] (the "Act") to provide financial incentives to oil and gas companies to explore and extract oil and natural gas from our deep coastal waters. This came at a time when oil and natural gas prices were low and the interest in deepwater drilling was lacking. The Act – tirelessly lobbied for by Democratic Senator J. Bennett Johnston of Louisiana and enacted by a Republican Congress – provided a mechanism by which the Secretary of the Interior and oil and gas companies were to enter into leases of federal waters. Furthermore, the Act provided the critical royalty relief terms these leases were to include.

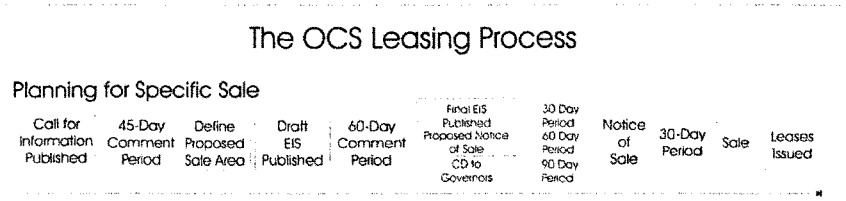
Effective November 28, 1995, companies with eligible leases would be allowed to operate royalty-free until either a certain volume of production was achieved, or the market price for oil or gas reached a specified ceiling. Upon the occurrence of either event, companies would begin paying royalties to the U.S. government at an agreed-upon percentage rate. These lease terms, also known as volume suspensions and price thresholds[2], became critical components of thousands of leases entered into between 1995 and 2005. To begin leasing property under the Act, however, it was first necessary for the Department to promulgate a rule delineating the process by which it would award leases and grant royalty relief.

Given the immediacy of the Act's effective period, the Department published an interim rule on March 25, 1996. This interim rule contained, among other things, a bidding

[1] 43 U.S.C. 1337 (1995)
[2] The implementation of volume suspensions was mandatory, whereas price thresholds were discretionary.

system and a royalty relief scheme for eligible leases. Throughout 1996 and 1997, hundreds of leases were entered into pursuant to the guidelines set forth by this interim rule. It was not until January 16, 1998 that the Department issued a final rule. For the remainder of the effective period (1998 through 2000), leases were then entered into pursuant to the final rule.

The OCS Leasing Process



Abbreviations: CD - Consistency Determination, EIS - Environmental Impact Statement

The leasing process is quite involved and occurs over a period of approximately one year. After a lengthy planning stage that includes multiple studies and numerous reviews, the Department advertises in the Federal Register a particular area that it intends to lease. This advertisement, otherwise known as a "final notice of sale," includes the terms and conditions of the lease sale. (These terms include, among other things, a description of the land and royalty relief provisions applicable to qualifying leases.) The Department then enters a bidding phase, wherein multiple companies compete for the right to lease and drill on the land described in the notice. Successful bids are awarded leases. These leases include the terms and conditions described in the final notice of sale and are governed by statute and Departmental regulations. This process, which appears remarkably simple on its face, requires a tremendous amount of legal and bureaucratic oversight within the Department.

At nearly every turn, there are decision memoranda passed among multiple levels of management for their review and approval. This is true not only for the leasing process, but also for the drafting and promulgation of the regulations. All told, there are nearly thirty surnames required for every lease sale, including those of every supervising and reviewing attorney in the Solicitor's Office[3]. Incidentally, most of the attorneys who reviewed and signed off on the interim and final regulations, the final notices of sale, and numerous decision memoranda, are employed by the Department's Solicitor's Office to this day. Furthermore, the Department official who signed hundreds of problematic deepwater leases during 1998 and 1999 – and who allegedly was aware of the lack of price thresholds – remains intimately involved with the leasing process.

[3] A "surname" is a signature that indicates an approval of the contents of the document on which it appears. See Attachment 2, a spreadsheet furnished by the Interior Department which contains a list of every name and title of those individuals involved in the lease sale review and approval.

THE PROBLEM

The United States Government faces an enormous problem at the hands of the Interior Department. Neither the regulations promulgated by the Department, nor the leases entered into during 1998 and 1999, contained the critical price threshold provisions contained in leases signed in 1996, 1997, and 2000. (In 1996, 1997, and 2000, price thresholds and volume suspensions were included in addenda to the lease documents because the interim regulation failed to impose price thresholds. In 1998 and 1999, the Department discontinued the practice of detailing royalty provisions in addenda.) Consequently, companies that signed leases eligible for royalty relief in 1998 and 1999 are able to sell oil and gas at fair market value until they produce the amount permissible under the volume suspension scheme. In 1998 and 1999, fair market value of a barrel of oil was well under $20. Today, it is nearly $74. For natural gas, in 1998 and 1999, the price per thousand cubic feet was about $2. Last year it averaged $7.51. This means that in a field greater than 800 meters depth, lessees are producing and selling millions of barrels of oil and trillions of cubic feet of natural gas at today's market price royalty-free until volume suspensions expire. As a result, these companies are not surrendering billions in royalties owed to the American people.

Accordingly, the purpose of this investigation is to determine why price thresholds do not appear in leases entered into during 1998 and 1999, and identify those individuals who either caused the error or who were in the best position to rectify the problem and failed to do so. Moreover, an ancillary objective is to identify and pursue whatever measures are necessary to remedy this error. The Subcommittee has nearly accomplished all three objectives.

HISTORY OF THE INVESTIGATION

The Subcommittee became aware of this problem by way of a *New York Times* article published in late January of 2006. The Subcommittee subsequently engaged in an aggressive oversight investigation into the allegations in that article. The investigation began with a hearing on March 1, 2006, and has thus far culminated in witness interviews, an intense document review, and a June 21st hearing at which oil company executives and Interior Department officials testified. Through these efforts, the Subcommittee has identified the individuals responsible for the creation and perpetuation of the faulty leases.

RECENT FINDINGS

The Subcommittee staff believes it has identified the Department employees who may have been responsible for the genesis of the problem, and who were in the best position to have done something about it. At the June 21st hearing, Milo Mason unveiled himself as the Interior Department attorney responsible for the promulgation of faulty regulations. He testified that upon his legal advice, the Department implemented the Deep Water Royalty Relief Act with rules that failed to impose price thresholds. As a result, over a thousand deepwater leases did not contain price thresholds. The lack of price thresholds

in these leases allows companies to sell oil and natural gas at record-high market prices without paying billions in royalties. He ultimately could not account for his actions.

Mr. Mason was cavalier in his responses to Chairman Issa's prodding, and was ultimately unable to substantiate his flawed legal reasoning. When asked, he replied that "it didn't seem like as big a deal as it is now, for sure, at that time." He also remarked that in 1999, he was aware that the leases were faulty, yet failed to either correct or adequately document the problem. Instead, he noted that his practice is not to write memoranda or keep a chronological file[4] because his desk drawer is full. He ultimately agreed with Chairman Issa, however, that there would be no investigation today had he advised the Department to include price thresholds in the regulations implementing the Act.

But even more explosive than Mr. Mason's testimony was that of a Chevron Corporation official. Government Reform Committee Chairman Tom Davis signed five subpoenas to compel the testimony of oil executives after they declined our invitation to testify. (Though four of the companies begrudgingly agreed to testify under threat of subpoena, Shell Corporation continually refused and its president, John Hoffmeister, was served.) The purpose of eliciting industry testimony was to determine the extent of its interaction with the Department regarding the faulty leases. We believed that industry must have contacted the Department when it noticed that price thresholds were no longer included in 1998 and 1999 leases as they were in 1996 and 1997. We were right.

According to a Chevron official's testimony, Chevron employees met with Department officials in 1998 concerning the missing price thresholds in deepwater leases. At Chairman Issa's request, Chevron detailed in follow-up correspondence how two of its employees had three meetings with Chris Oynes, Director of the Gulf of Mexico Region, to discuss the problematic leases. These discussions occurred over the course of three quarterly meetings between members of the American Association of Professional Landmen's Outer Continental Shelf Committee[5] and Mr. Oynes and his staff during 1998 and 1999.

The general purpose of these quarterly meetings was to discuss various issues related to the Minerals Management Service's ("MMS") administration of offshore oil and gas leasing. According to Chevron officials, two Chevron employees informed Mr. Oynes and his staff on three separate occasions that price thresholds were imposed neither through the regulations nor in addenda to 1998 and 1999 leases. Mr. Oynes first replied that the price thresholds were contained in the 1998 regulation, but when subsequently informed by the Chevron employees that they were not, he indicated that he would have his staff review the issue. It is now clear that Mr. Oynes and his staff failed to take corrective measures despite allegedly being notified on three separate occasions that the leases did not contain price thresholds. The result of his inaction is now manifest.

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[4] A record of legal advice given to Department officials.

[5] The AAPL OCS Committee, during 1998 and 1999, was comprised of representatives from most of the major oil and gas producing companies that held deepwater leases including Exxon, Mobil, Texaco, Phillips, et al.

The Subcommittee will examine whether Mr. Oynes has sought to obstruct this Congressional investigation and to mislead the Subcommittee staff. In May of this year, the Subcommittee staff interviewed him about his knowledge of the missing price thresholds. When asked specifically about when he became aware of the faulty leases, he professed not to know until 2000. This conflicts with the information supplied by Chevron officials. The Subcommittee will examine in a public hearing, and under oath, whether Chevron officials are telling the truth or Mr. Oynes is lying. If Mr. Oynes had been notified, and had he taken corrective measures when he was notified, he could have prevented at least $5 billion in lost revenue.

CONCLUSION

The American people have been shortchanged by negligent Interior Department officials. Some of these Department officials, who today remain employed in their same capacities, are responsible for a nearly $10 billion loss of revenue generated from our outer continental shelf. Had they taken measures to correct this mistake when they were notified, they could have saved at least $5 billion.

WITNESSES

Panel 1:

- J. Keith Couvillion, Deepwater Land Manager, Chevron North America Exploration and Production Company, a Division of Chevron U.S.A., Inc.
- Gordon R. Cain, Deepwater Land Manager, Chevron North America Exploration and Production Company, a Division of Chevron U.S.A., Inc.; and

Panel 2:

- Chris Oynes, Regional Director, Gulf of Mexico, Minerals Management Service; and
- Charles Shoennagel, Deputy Regional Director, Gulf of Mexico, Minerals Management Service.

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