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September 26, 2006

Hon. Dirk Kempthorne
Secretary of the Interior
United States Department of the Interior
1849 C Street, Northwest
Washington, D.C. 20240

Dear Mr. Secretary:

As you are aware, the Government Reform Committee and its Subcommittee on Energy and Resources are investigating why the Interior Department excluded price thresholds from deepwater leases entered between the Department and oil and gas companies in 1998 and 1999. The GAO estimates that the missing price thresholds have cost the American people nearly $2 billion to date, and will cost nearly $8 billion more over the life of the leases. We have worked with the Department's Inspector General's office to identify how and why these thresholds disappeared, and who was responsible for this unprecedented loss. The Interior Department must now make whole the American people by collecting the $2 billion already lost.

We have made every effort to assist the Department in recovering the estimated $2 billion in lost royalties. To this end, we conducted a hearing on June 21, 2006 at which senior executives from five of the major oil companies testified. Some of these executives expressed their intent to surrender royalties owed to the government on the problematic leases. John Hoffmeister of Shell Oil, for example, testified that "Shell does not believe deep water royalty relief is necessary in the current commodity price environment." Yet despite Shell's stated intent under oath to pay what it owes, it appears that the Interior Department does not intend to recapture *any* of the $2 billion owed on *any* of the leases.

Minerals Management Service Director Johnnie Burton recently stated that the Department has no bargaining power to recoup the back royalty payments. This is absurd. That money belongs to the federal government and must be collected just as any other

benefit unduly conferred upon a private citizen. When the government mistakenly pays a United States Marine more than his salary commands, does he get to keep it? No. When the IRS mistakenly refunds more money than regulations permit, does Joe Citizen get to keep the money? No. Similarly, the oil companies must not be allowed to keep a multi-billion dollar benefit mistakenly conferred upon them by a mismanaged Interior Department.

The intent of all parties was clear at the outset. Oil companies testified that they bid on the leases as if price thresholds were included, and with the understanding that it was the Department's policy to enforce them. We must honor the clear intent of the parties and collect what is due.

The failure to recoup $2 billion rightfully owed to the American people is impermissible. Please explain your reasoning behind this grievous error and provide us with an amended plan to retrieve this money.

In addition, please provide the basis of Ms. Burton's decision to withhold the names of certain companies that are either actively renegotiating or have expressed their intent to do so. At the September 14, 2006 hearing, we requested an inventory of which companies hold 1998 and 1999 leases, which is renegotiating, and when the leases expire. Ms. Burton and Ms. Lynn Scarlett readily agreed to provide this information.

Ms. Burton delivered last Friday what appears to be an incomplete listing of those companies that are either actively renegotiating or have expressed their intent to do so. Ms. Burton noted that "this [list] includes only those companies that have given us permission to identify them as having met with MMS. We will update this list as more companies provide permission." This explanation is unclear.

Accordingly, please provide the basis of her decision to withhold the names from this Committee, along with the names withheld. Additionally, please provide the expiration dates that correspond to the leases on the chart.

Your prompt reply is requested. Please direct all questions regarding our requests to David Marin, Committee Staff Director, or Thomas Alexander, Subcommittee Counsel at (202) 225-5704 and (202) 225-6427, respectively.

Sincerely,

Rep. Tom Davis
Committee Chairman

Rep. Darrell Issa
Subcommittee Chairman