Washington, DC - Following several reports in *The New York Times,* Congressman Maurice Hinchey (D-NY) today sent letters to the Securities and Exchange Commission (SEC) and the U.S. Energy Information Agency (EIA) questioning the manner in which both bodies have handled shale gas reserve estimates. One report revealed that rule changes and oversight problems at SEC may have caused natural gas companies to overestimate their reserves. A separate report detailed the use of data from industry-biased sources and intra-agency disagreements regarding gas reserve estimates at EIA.

"These reports raise serious questions about the economics behind the shale gas rush," said Hinchey. "Now it's up to the SEC and the EIA to get to the bottom of these charges and ensure that the public has accurate and honest information about our country's shale gas reserves. EIA has some serious questions to answer and the SEC needs to investigate whether investors have been intentionally mislead."

In the letter to EIA Administrator Richard Newell, Hinchey questioned the agency's handling of internal disagreements regarding shale gas reserve estimates. Hinchey also questioned EIA's internal rules governing the selection of contractors who may have financial conflicts of interests.

In the letter to SEC Chairman Mary L. Schapiro, Hinchey urged the SEC to quickly investigate whether investors have been intentionally misled and to consider updating its oil and gas reserve reporting requirements to provide greater disclosure to investors and the public by, for example, requiring third party audits and requiring companies to reveal the methodologies and technologies they use to develop reserve estimates.

Hinchey is a co-author of the FRAC Act, which would mandate disclosure of chemicals used in frack fluid and allow the EPA to regulate fracking activities under the Safe Drinking Water Act. Hinchey also authored the appropriations language that led to the current U.S. Environmental Protection Agency study on hydraulic fracturing.

The full text Hinchey's letters to SEC and

EAI follow:

June 27, 2011

Ms. Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Schapiro:

I am writing to express my concerns about issues raised in *The New York Times* regarding the potential overestimation of shale gas reserves. According to a series of articles in the paper, shale gas companies may be engaging in questionable accounting tactics and may be taking advantage of loopholes in S.E.C. regulations to artificially inflate estimates of their gas reserves.

According to internal emails and documents reviewed by *The New York Times*, some shale gas companies may be intentionally overbooking their gas reserves by not factoring in new well production data that shows wells were not producing as much gas as originally predicted. Estimating a future gas well's productivity is undoubtedly a difficult challenge. However, once production begins, companies should adjust their financial models accordingly to reflect any new data. According to *The New York Times*, this may not be happening. As a result companies may not only be reporting overly optimistic reserve estimates, but they may also be underreporting costs.

In addition, it appears that S.E.C.'s rules may need updating in light of these new reports. In 2008, the S.E.C. adopted new rules covering oil and gas reporting requirements. According to *The New York Times,* this rule change significantly aided the shale gas industry as companies quickly adjusted upward their gas reserve estimates and reduced their finding and development costs. Unfortunately, investors and the public are unable to verify these new estimates because the new S.E.C rules do not require third party audits, nor do they require companies to disclose the technologies used in making estimates of their gas reserves.

According to market analysts interviewed by *The New York Times*, there is considerable angst within the shale gas industry and the financial markets about this lack of transparency and the possibility that companies may be overbooking their reserves. These are serious charges. Given the rapid growth of the shale gas industry and its growing importance for our country's energy portfolio, I urge the S.E.C. to quickly investigate whether investors have been intentionally misled.

In addition, I urge the S.E.C. to consider updating its oil and gas reserve reporting requirements to provide greater disclosure to investors and the public by, for example, requiring third party audits and requiring companies to reveal the methodologies and technologies they use to develop reserve estimates.

Thank you for your attention to this matter. I look forward to your response.

Sincerely,

Maurice D. Hinchey

###

June 27, 2011

Mr. Richard G. Newell
Administrator
U.S. Energy Information Administration
1000 Independence Ave., SW

Washington, DC 20585

Dear Administrator Newell:

As you know, over the past several years, I have been working to ensure that our federal energy policies, specifically our natural gas policies, rely on the best available science. In the past I have written to you expressing my concerns regarding estimates of how much natural gas may be economically recoverable in shale plays across the country. Today, *The New York Times* has run a front page story outlining serious concerns about the way in which the Energy Information Administration (EIA) estimates shale gas reserves, and its reliance on private contractors that may have financial conflicts of interest.

The EIA plays an important role in providing the public and policy makers with critical information concerning, among other things, estimates of domestically available oil and gas reserves. The information your agency provides helps drive our nation's energy policy, is used by the private sector to make key investment decisions, supports research at our universities and labs, and more. As such, it is critically important that EIA's data and analysis be above reproach.

Unfortunately, the revelations in the *Times* story raise questions about EIA's approach to shale gas. From the documents and emails cited in the story, it is clear that there are significant concerns within EIA about the shale gas industry. While differences of opinion within an agency like EIA are to be expected, it is important that when concerns are expressed they are taken seriously and are not papered over.

I am also very concerned about your agency's use of private contractors to develop important

EIA documents and publications that affect the shale gas market. According to the Times, some of these contractors also had major clients in the shale gas industry. This raises questions about the independence of their work product, as well as questions about the process EIA uses to select private contractors.

In light of these concerns, I request your prompt attention to the following questions:

- Analysts at EIA raised very serious concerns about shale gas. One analyst is quoted as saying: "Am I just totally crazy, or does it seem like everyone and their mothers are endorsing shale gas without getting a really good understanding of the economics at the business level?" Another senior official says there is an "irrational exuberance" around shale gas. Were you, or your Deputy, aware of these concerns regarding the economics behind shale gas, specifically well production and reserve estimates, prior to the publication of today's Times story? If so, what was your response to these concerns? If you were not aware of these concerns, please detail your response to them and whether they could affect EIA's projections for natural gas use and or supply.
- Two private contractors hired to assist in the preparation of EIA's Annual Energy Outlook 2011 apparently also had major clients in the oil and gas sector. Was EIA aware of these financial relationships prior to hiring these contractors? What are EIA's rules governing contractors that may have financial conflicts of interest? Does EIA consider hiring academics or research organizations to assist with its work before considering hiring private contractors? If not, why not?

Thank you for your attention to this matter. I look forward to your prompt response.

Sincerely,

Maurice D. Hinchey

###