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June 30, 2010

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Allegiance Capital Corporation

Testimony to Senate Committee on Commerce, Science and Transportation hearing titled "The Deepwater Horizon Tragedy: Holding Industry Accountable," Wednesday, June 30 at 10 am in room 253 of the Russell Senate Office Building.

Opening Remarks:

Thank you for this opportunity to speak to you this morning.

As an advisor and broker who works exclusively with closely-held and privately-held companies, I was contacted by one of my clients who currently supplies equipment to BP via United States Environmental Services asking that I and my firm, Allegiance Capital Corporation, help them in identifying specialty vessels that could be used for worker housing in the Gulf.

Allegiance Capital has contacts worldwide through a network of marine brokers who have many different types of vessels available. We found a few unique vessels, mainly Greek cruise ships that also were car carriers. These ships could carry 500 or more workers with all of the amenities of a cruise ship, but also had a large car carrier deck where booms and smaller boats could be stored and oil clean up work could be performed. As we became engaged in this work, the need for skimmers became apparent. We quickly discovered that the total availability of skimmers in the world was around 2,000 specialty built vessels, some for deep water and others for closer in to shore work and that most of the vessels in the U.S. that were available were already deployed in the Gulf. We found that this was a little bit like moving all the fire engines in the country to one area leaving other areas in the country somewhat exposed. As a result, we assembled a fleet of 25 skimmers, boom deployment vessels and two housing and equipment ships. Information is provided in the packet we assembled for you.

Proposals were provided on June 5th (40mm gallons ago) via the established channels through which our client is currently supplying equipment. The BP subcontractor was excited about the vessels being a good fit but could not get a response from BP. After our client tried every possible avenue they could, they turned to us for assistance. Allegiance Capital then began to reach out to BP's subcontractor, who had procured equipment for BP in May, with the results being the same, no response. With growing frustration we started a public discussion regarding the issues we were facing.

BP's PR department called me within hours of being contacted by CNN and within a couple of days put me in touch with the Team Leader for vessel procurement, Veronica Brown.

Veronica Brown called me on a Sunday, June 13, before my CNN interview on Monday the 14th and promised that our vessels would get expedited consideration.

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We submitted the proposals to Veronica Brown on Monday June 14th (25mm gallons ago) and were promised they would be reviewed on an expedited basis. To date we have received no meaningful response.

Even though the Jones Act was not raised as an issue, we became aware that BP may need to request a Jones Act waiver if they wanted to utilize our equipment. Given that BP has the need, the standing to make a request, and the ear of Adm. Thad Allen, we were satisfied that BP would make the request when needed.

With a continued lack of response from BP and the news from the states, parishes and counties that they needed skimmers and were going to take matters into their own hands, Allegiance Capital took it on itself to submit a request for a Jones Act waiver. Our request was first submitted to Adm. Thad Allen's office on June 16th.

After learning that Adm. Allen had issued a press release on June 15th saying that he was providing guidance to ensure expedited Jones Act waiver processing, we began trying to contact the numbers that had been provided in the press release to learn about the new guidance. After two days of unanswered phones, not even a voice mail, and one conversation with a press contact at Adm. Thad Allen's office, we received a call from a Lt. Petta who had called us at the press contact's request. Lt. Petta told us on June 16th that there are no procedures set up as yet for the waiver process; that they were working on the forms, but could not provide any other guidance or provide a copy of Adm. Allen's guidance referred to in the press release. We also asked if they could provide the number of U.S. hulled skimmer vessels, given that "an adequate number of U.S. hulled vessels can not be engaged" is a trigger for a Jones Act waiver. On this subject we were told this was not public information. In spite of this lack of direction, we filed our request with Rear Adm. James Watson's office on Monday June 21st, as was generally directed in the press release.

To date we have not received any correspondence relative to either of our requests. Through the efforts of Todd Bertson of Senator Hutchinson's office, we were told that our request is being reviewed by Matthew Weakley of the Unified Area Command Center Critical Resource Unit. We have emailed Mr. Weakley for questions and status updates but have not received a response. Mr. Weakley informed Mr. Bertson that one of our non-skimmer vessels will be rejected because there are U.S. vessels that can fill the need. This is not the case given that there are no U.S. hulled vessels with both boarding and ferry capabilities in the U.S. We will respond to this anticipated rejection if and when they engage in communication.

We have heard on many occasions that Jones Act waivers have not been requested. Even though that is an incorrect statement, it begs the question as to why the company with the most standing to make such a request, BP, has not made requests for waivers for these specialized vessels when there are no more U.S. hulled skimmers available.

The explanation is that BP has chosen to "disperse and sink" the oil rather than to "surface and collect" the oil. Sinking and emulsifying the oil keeps the problem out of site and better serves BP's financial interest than does removing the oil from the water. By sinking and dispersing the oil, BP can amortize the cost of the clean up over the next 15 years, or so, as tar balls continue to roll up on the beaches,

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rather than dealing with the issue now by removing the oil from the water with the proper equipment. As a financial advisor, I understand financial engineering and BP's desire to stretch out its costs of remediating the oil spill in the Gulf. By managing the clean up over a period of many years, BP is able to minimize the financial damage as opposed to a huge expenditure in a period of a few years.

There are arguments on both sides of the dispersants debate and unfortunately, the cost of this grand and unprecedented experiment they are conducting with the environment and people of the Gulf will not be fully determined for another 20 years.

Even if BP continues to refuse to utilize specialized equipment for remediating the oil, providing a Jones Act waiver for these specific purpose vessels will allow other governmental entities such as states, parishes and counties the option of utilizing this type of equipment to defend their shores.

I, therefore, respectfully request the Committee's support of the following actions:

- Continue to support BP's efforts to close and cap the Deep Water Horizon Well but not at the expense of removal and recovery of existing oil in the gulf.
- Take all steps necessary to force BP to recover and remove oil from the surface of the Gulf.
- Take steps to cause BP to stop using sinking agents and dispersants so that the oil remains on the surface where it can be identified, tracked and removed.
- Cause the Jones Act to be waived for specific efforts of oil removal and recovery, thereby paving the way for foreign equipment and experts to assist in the Gulf.
- Force BP to focus on removal and recovery efforts in both shallow and deep water zones.

Thank you for your consideration of allowing a Jones Act waiver for these specialized vessels.

Fred McCallister
Allegiance Capital Corporation

BP Timeline

Spill rate 1.6mm gallons per day

Saturday, June 5th - ship proposal sent to USES via Chain

Wednesday, June 9th - skimmer proposal sent to USES via Chain

Friday, June 11th - call from Ray Veatore, BP Public Relations

Saturday, June 12th - Call from Mark Truxillo, BP Acting Team Lead Equipment Logistics

Sunday, June 13th - proposals for ship and skimmers sent to BP, Mark Truxillo

Sunday, June 13th - call from Veronica Brown, BP Team Lead Vessels

Monday, June 14th - proposal for ship and skimmers set to BP, Veronica Brown

Wednesday, June 16th - wavier request sent to Adm. Thad Allen's office

Monday, June 21st - waiver request sent to Rear Adm. James Watson's office

**Supplement to Commerce Committee Testimony
June 30, 2010**

Presented by: Fred McCallister, Allegiance Capital Corporation

I. Introduction:

1. Allegiance Capital represents European based foreign flagged, highly specialized marine equipment and the experts that have the scale and capacity to effectively participate in the removal of the surface oil in the Gulf.
2. We are testifying to express our deep concerns as to why BP continues to resist the use of an armada of specialized oil recovery and removal vessels that today are parked in foreign ports awaiting the opportunity to help.
3. We believe key to minimizing the continued damage to our marine environment and the economies of the Gulf States is the removal the oil rather than dispersing and sinking the oil. The only certain way of limiting the impact of the spill is to:
 - successful closure and capping of the well, and;
 - the recovery of the 3,500 sq. miles of oil currently on the surface of the Gulf.

II. Key elements to this effort require this Committee's understanding of:

1. BP's current policies in the Gulf can be characterized as:

"Disperse and Sink" Policy

- The unprecedented use of dispersants and sinking agents being used below the surface as well as on the surface to cause the oil to break up and sink, or remain below the surface has the following benefits for BP:
 - Dramatically reduces the measurability of the spill and therefore reduces the amount of statutory damages and royalties that can be assessed against BP. (BP faces fines and penalties related to the Oil Pollution Act of 1990 and the Clean Water Act. Of note is the fact that under the Oil Pollution Act BP may be held responsible to pay an 18.75% royalty for all oil lost from the well. Also, under the Clean Water Act BP may be fined \$4,300 for every barrel of oil released into the Gulf.)
 - Allows BP to conduct its clean up as tar balls arrive on the shores in the marshes of the Gulf over the next 15 years rather than removing the oil in a few concentrated months.

"Keep in Control" Policy.

- BP has kept control of all aspects of the oil recovery and cleanup efforts. This policy was highlighted by their eagerness to establish the \$20 Billion Dollar Escrow Fund as a gesture to our government in return to be allowed to continue

to operate with policies that are in the best interest of BP but not in the best interest of the environment and the Gulf region.

"Defer and Delay" Policy.

- By deferring action, BP can delay cost today and amortize the cost over future years with less impact to BP's shareholder value.

"Out of Sight, Out of Mind" Policy.

- by keeping as much of the oil below the surface as possible they are keeping the magnitude of the spill from being apparent to us all.

III. A few key data points:

- Experts today estimate the collective area of the patches of oil on the surface of the Gulf is 3,500 square miles (the equivalent of 2,240,000 square acres). The largest foreign oil recovery vessels can, if operating on a 24 hr shift, remove and recover 170 square acres per day. This equates to 13,176 vessel days. Reduced to practical terms, should the well stop flowing oil into the Gulf today, and should the vast amounts of oil not re-suspend itself, and if we immediately deployed the six of the world's largest oil recovery and removal vessels, the effort of removing the surface oil from the Gulf would take six years.
- Pursuant to our National Contingency Plan, or NCP, which is the federal government's blueprint for responding to both oil spills and hazardous substance releases, Section 300.310 (b) states: "as appropriate, actions shall be taken to recover the oil or mitigate its effects. Of the numerous chemical or physical methods that may be used, the chosen methods shall be the most consistent with protecting public health and welfare and the environment. Sinking agents shall not be used."
- Oil suspended below the surface will, at unpredictable times, move to our Gulf shorelines and marshes below the surface making surface removal impossible. This situation currently exists and will magnify itself exponentially if the continued use of sinking agents are allowed. Some of our best experts are predicting that these problems could last for several years.
- Surface removal of the oil is the only way to mitigate the problem with certainty. BP's policy of "Out of sight, Out of Mind" promoted through their use of sinking agents must be stopped and re-focused on surface recovery and removal of the oil. For the past several weeks we have worked closely with our foreign oil removal experts and carefully responded to BP's questions, only to find ourselves caught up in BP's "Defer and Delay" and "Disperse and Sink" policies. As a result we have been told by BP that they are studying the problem and analyzing the available resources. As of today BP has not engaged in meaningful discussions about the equipment we have offered. This is why we are here today asking for the Committee's intervention to this situation.

- Our foreign partners and their governments have, as early as 4 days after the Deep Water Horizon explosion, offered equipment and technical expertise to address this environmental disaster. Should BP's actions be allowed to continue we will truly be facing a very long term environmental disaster in the Gulf.

IV. We ask the Committee to take the following actions:

- Continue to support BP's efforts to close and cap the Deep Water Horizon Well but not at the expense of removal and recovery of existing oil in the gulf.
- Take all steps necessary to force BP to recover and remove oil from the surface of the Gulf.
- Take steps to cause BP to stop using sinking agents and dispersants so that the oil remains on the surface where it can be identified, tracked and removed.
- Cause the Jones Act to be waived for specific efforts of oil removal and recovery, thereby paving the way for foreign equipment and experts to assist in the Gulf.
- Force BP to focus on removal and recovery efforts both shallow and deep water zones.

By taking such actions this Committee can initiate a global response to this massive disaster. By any measure, continued delay will cause unnecessary damage to our marine environment, wetlands, and to the citizens of the Gulf Region.

We continue to stand by waiting for someone in control to give us the opportunity to respond. Our vessels and experts can be in the Gulf Region within days.

In the supplemental information we have provided you will find information describing in detail the types of equipment and technologies available. We stand ready to work with this Committee in any way that you find helpful in order to address this most important problem.

Respectfully submitted,

Fred McCallister
Allegiance Capital Corporation