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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Interior's Report Of Shut-In Or Flaring Wells Unnecessary, But Oversight Should Continue

The Interior Department's annual report to the Congress on offshore oil and gas wells shut-in (not producing) or flaring natural gas, as required by the Outer Continental Shelf Lands Act Amendments of 1978, does not satisfy the congressional intent behind the requirement. Furthermore, it is less necessary now because of recent legislative and administrative actions to decontrol oil and gas prices.

Repeal of the reporting requirement would free up resources of both the Interior Department and the General Accounting Office--the Comptroller General is required to annually examine and report on Interior's methodology for allowing wells to be shut-in or flare natural gas--for other activities.

Interior's monitoring of shut-in and flaring well activities, however, should continue as part of its day-to-day management and oversight of offshore production operations.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202428

To the President of the Senate and the
Speaker of the House of Representatives

As required by section 601(b) of the Outer Continental Shelf Lands Act Amendments of 1978, this is our fourth annual report to the Congress on the methodology used by the Secretary of the Interior in allowing Outer Continental Shelf (OCS) wells to be shut-in or to flare natural gas. Our last two reports 1/ have questioned whether Interior's report fulfilled the congressional intent, and whether continuing to require the report served a useful purpose. We recommended that the Congress repeal section 15(1)(d) of the Outer Continental Shelf Lands Act, as amended, and sections 601(a) and (b) of the OCS Lands Act Amendments of 1978. Such repeal would abolish the requirement that Interior prepare the annual report as well as the requirement that GAO annually evaluate the Secretary's methodology. We continue to support this recommendation.

Abolishing the annual reporting requirement would not diminish Interior's responsibility for regulating and monitoring OCS lease activities to ensure efficient development of oil and gas resources. Our previous reports have shown that the Interior Department needed to improve its monitoring of shut-in and flaring wells. Interior has taken action on most of our past recommendations; however, our current review also indicated some areas where additional improvement is needed. Specifically, Interior should

- reinstitute procedures to compare Interior's onsite inspection reports with operator-reported shut-in data--at least on a selective basis--to verify the information being reported by operators,
- reinstitute procedures for monitoring for excessive emergency gas flaring, and
- verify on a timely basis that gas flaring ceases when it is expected to cease.

1/"Annual Report on Outer Continental Shelf Shut-in or Flaring Wells Is No Longer Needed," EMD-82-17, Nov. 19, 1981, and "Interior's Report of Shut-In or Flaring Wells Unnecessary, but Oversight Should Continue," EMD-81-63, Apr. 17, 1981.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was made pursuant to section 601(b) of the Outer Continental Shelf Lands Act Amendments of 1978 which requires the Comptroller General to annually review, evaluate, and report to the Congress on the methodology the Secretary of the Interior uses in allowing OCS wells to be shut-in or to flare natural gas. Section 15(1)(d) of the OCS Lands Act and section 601(a) of the Amendments require the Secretary of the Interior to include in his annual report to the Congress a list of all shut-in and flaring wells on leases issued under the OCS Lands Act. Also under section 601(a), the Secretary must indicate his intentions on whether to require production of a shut-in well or order the cessation of flaring.

This review, our fourth, of Interior's annual report to Congress, was conducted primarily at Interior's Mineral Management Service (MMS) Gulf of Mexico Regional Office in Metairie, Louisiana, with limited work at the Department of the Interior Headquarters in Washington, D.C. We directed our review towards meeting our legislative mandate to review and evaluate Interior's methodology used in allowing OCS wells to be shut-in or to flare natural gas. We also followed up on Interior's actions in response to the recommendations in our third annual report.

In conducting our review at these locations, we

- reviewed Interior's fiscal year 1981 annual report to determine how the data contained in it is presented and explained;
- examined applicable regulations, policies, procedures, and pertinent records at the MMS regional office to determine any changes in Interior's oversight and monitoring of shut-in and flaring wells since our last report; and
- interviewed agency officials responsible for Interior's shut-in and flaring report activities.

We also contacted Senate and House Committee staffs regarding congressional actions taken to repeal Interior's reporting requirement.

Our review was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

INTERIOR'S REPORT IS OF
QUESTIONABLE VALUE TO CONGRESS

In our review of Interior's fourth annual report, we found that Interior's methodology and procedures for gathering data and

preparing its report were the same as that followed in preparing the previous reports. Basically, Interior relies on data submitted by operators--data which is visually verified through routine onsite inspections by Interior's MMS personnel--to prepare its annual report.

Interior allows or directs oil and gas wells to be shut-in for such reasons as conservation, pollution prevention, and safety. However, most wells are shut-in because of uncontrollable reasons, such as mechanical or reservoir problems. The wells that are allowed or directed to be shut-in, and those shut-in because of uncontrollable reasons, are required to be put back on production when the cause for the shut-in has been corrected. Interior's fiscal year 1981 report states that shut-in well completions on the OCS as of September 30, 1981, totaled 2,443--an increase of 201 wells over what was shown in the fiscal year 1980 report which reflected shut-in wells at September 30, 1980. The report points out that there were 6,480 producing oil and gas wells on the OCS as of September 30, 1981. This represents an increase of about 3 percent over fiscal year 1980. Also, during fiscal year 1981, 280 wells were plugged and abandoned.

Interior also allows natural gas flaring under certain conditions. Long-term flaring (for periods of up to 1 year) of gas associated with an oil well requires MMS approval. Such flaring can be approved provided (1) the operator has initiated a positive plan of action to eliminate the flaring or (2) flaring will result in an ultimately greater total energy recovery. Approved flaring of gas-well gas is provided only for routine or special well tests. In an emergency, oil-and-gas well gas may be flared without approval. However, when emergency flaring continues for 72 hours or exceeds 144 hours in a month, the operator must notify MMS and obtain approval to continue flaring.

Interior's fiscal year 1981 report shows that total gas flaring remained basically unchanged from the flaring in fiscal year 1980. Approximately 16 billion cubic feet of OCS gas was flared during the fiscal year--about 0.33 percent of the total offshore gas produced. Of the gas flared, about 87 percent was categorized as short-term or emergency flaring, almost all of which was from oil wells as opposed to gas wells. Even though the amount of gas flared is insignificant when compared to the total produced, it is noteworthy that Interior's current annual report shows that the portion attributed to long-term flaring increased from 3 percent in fiscal year 1980 to 13 percent in fiscal year 1981. Again, however, the total amount of gas flared is a minute portion of the total gas produced.

In our November 1981 report, we recommended that the Congress repeal the legislation requiring Interior's annual report. Our

recommendation was based on our review conclusions that Interior's report

- does not, in itself, meet the congressional intent behind the statute;
- is less necessary in light of recent decontrol of domestic energy prices; and
- is expensive to prepare, and the resources spent could be better utilized.

The legislative history indicates that when the reporting provision was enacted, the Congress was concerned that OCS operators might delay oil and gas production in anticipation of future higher prices. To address this concern, the Congress enacted the reporting provision to provide some oversight of the potential for wells (1) being shut-in for economic rather than production reasons or (2) flaring gas which could be productively used. Based on our analysis of the report and our discussions with Interior officials, the report in itself does not, and cannot, realistically meet the congressional intent. The report contains statistical data that is best used to analyze shut-in well and flaring trends and anomalies rather than attempting to judge whether or not production is being deliberately withheld or gas is flared unnecessarily. Other regulations and procedures, such as requiring operators to report monthly well status and conducting platform inspection visits, seem to be more appropriate to ensure that this is not being done.

We also recommended repeal of the reporting requirement in view of the Government's decision to decontrol oil and gas prices. We agreed with both industry and the administration that price decontrol measures will provide the economic incentive necessary for increasing exploration and development of domestic oil and gas as well as for maintaining current levels of production. Thus, decontrol of prices for crude oil and natural gas would appear to deter any deliberate withholding of production that might be contemplated.

Our third reason for recommending repeal of the reporting requirement was that the report's usefulness did not appear to justify its cost. The cost incurred by Interior to prepare its fiscal year 1980 report, together with the cost we incurred in reviewing and reporting on the report, totaled about \$280,000. In that the report does not appear to meet congressional intent, and in view of the economic incentives that now exist which should reduce the likelihood of companies withholding production, the report's usefulness and value do not seem to justify its costs.

Two bills, S. 1967 and H.R. 7076, now before the Congress would provide for the repeal of the requirement that Interior submit an annual report on shut-in and flaring wells, and the requirement that we review and comment on Interior's report. No action has been taken on S. 1967 which has as a single purpose the repeal of the reporting requirements. Reportedly, no action is planned in the immediate future on this bill. H.R. 7076, as amended at the markup session by the House Committee on Merchant Marine and Fisheries, would provide for several changes to the 1978 OCS Lands Act Amendments including the repeal of Interior's and our reporting requirement. The bill, as amended, has been ordered to be reported out of the House Merchant Marine and Fisheries Committee; however, no action is expected by the House during this session of Congress. We have discussed the need for repeal of the annual reporting requirement with committee staff of both the Senate and the House and will continue to do so.

INTERIOR'S ACTIONS TO
IMPLEMENT OUR RECOMMENDATIONS

Repealing the requirement for Interior to submit an annual shut-in and flaring report to the Congress does not in any way diminish Interior's responsibility for monitoring shut-in and flaring activities on the OCS and, when necessary, directing that corrective action be taken to assure efficient energy development. In our November 19, 1981, report, we made several recommendations to the Secretary of the Interior for improving Interior's OCS monitoring activities. In their formal response made in accordance with section 236 of the Legislative Reorganization Act of 1970, Interior stated that the Department

"intends to implement, to the extent permitted by budget and manpower levels, the GAO suggestions with respect to continuing oversight of these wells."

We reviewed Interior's actions regarding our recommendations and found that, while MMS had improved its procedures for verifying certain operator-reported information, it has discontinued another verification procedure. We also found that our recommendation regarding Interior's follow-up on suspected excessive emergency gas flaring has not been implemented but, more importantly, we found that MMS's procedure for monitoring for excessive emergency flaring has been discontinued. We also noted an additional area in MMS's gas flaring monitoring activities where oversight could be improved.

Verification of operator-reported data

Well production and shut-in data based on operator-furnished information are maintained by MMS in computer files. This data is submitted monthly by lease operators and recorded and compiled by MMS regional personnel. During routine inspections, district inspectors visually ascertain the shut-in status of wells. Prior

to November 1981, the inspectors reported the results of their platform visits to MMS regional personnel. Regional personnel then compared the inspection reports with the data on file. If discrepancies were noted, the operator was contacted for clarifying information.

Last year we recommended that where operator-reported information regarding shut-in wells appears questionable or unreasonable, Interior should review the engineering and geologic data upon which the operator's report is based rather than totally rely on operator-reported information or visual inspections. In commenting on our report, Interior agreed to do this. In our current review, MMS officials showed us examples of how they now selectively verify operator data by reviewing the entire history of a well when the data reported by an operator appears questionable.

While our review has shown that this recommendation has been implemented, an important part of Interior's prior verification process has been discontinued. We found that shut-in well status reports prepared by MMS district inspectors during routine platform inspections are no longer reviewed by MMS regional office personnel. As a result, MMS is not verifying that wells found to be shut-in by its inspectors have been reported to MMS by the OCS lease operators, nor is MMS verifying that the reasons cited by operators for shut-ins during onsite inspections is consistent with data on file at the MMS regional office. MMS regional personnel told us that during the last year, reviewing district inspector shut-in well reports became too time consuming. Therefore, they decided to discontinue the review, and in November 1981 district officials stopped submitting the inspection reports.

Visual inspections are the only means MMS has to obtain first-hand information on shut-in wells. We believe that the MMS regional office should reinstate the practice of reviewing the onsite shut-in well inspection reports, at least on a selective basis, against the data submitted by OCS operators to the MMS regions as a means of verifying that data being submitted is accurate, i.e., an internal control measure. We discussed this issue with senior MMS regional officials responsible for the shut-in and flaring activities in the Gulf of Mexico. They expressed surprise that their staff had discontinued the review, yet at the same time they did not seem overly concerned that the review was no longer being done. They maintained that these reviews had been of limited value in the past; however, they agreed to consider reestablishing the review.

Followup on "no future utility" wells

In our prior review, we had identified 617 "no future utility" wells from Interior records--i.e., wells categorized as having no

current production nor future production potential--which appeared to warrant review for possible plugging and abandonment. We suggested that Interior review these wells and, where appropriate, require that they be plugged and abandoned. We also recommended that Interior increase its efforts to identify wells that should be plugged and abandoned and implement procedures to ensure that timely action is taken on these wells, and that associated structures and equipment are removed from the leases.

In this review, we found that MMS district offices had been instructed by the regional office to review the wells we had identified. Two of the five districts had responded in writing that none of the 617 wells located in their districts were appropriate for plugging and abandonment. MMS regional officials told us that two additional districts had orally reported that about one-third of the wells we had identified in their district should be plugged and abandoned--about 70 wells--and that the OCS operators had been instructed to take appropriate action. No report had been received from the fifth district, which contained 225 of the 617 wells we had questioned.

MMS regional officials told us that the districts review "no future utility" wells for plugging and abandonment; however, it is not a high priority item and is done when time allows. We plan to look at this aspect of MMS's oversight and management of OCS post-lease activities in more detail in an upcoming review.

Oversight of gas flaring activities

MMS has not implemented our prior review recommendation to followup on suspected excessive emergency gas flaring. Of more importance, however, Interior has discontinued its procedure for monitoring for excessive emergency gas flaring. Our current review also disclosed a shortcoming in MMS's monitoring of long-term OCS gas flaring activities.

In our 1981 review, we found that in monitoring emergency flaring, MMS prepared and reviewed a 6-month summary of gas flared by OCS operators. If the volume and percentage of gas flared indicated an operator had been flaring excessively without approval, MMS requested an explanation from the operator. For example, for the 6-month period ending November 1980, MMS identified eight operators that had excessively flared oil-well gas without approval. Such monitoring, we felt, was consistent with MMS' OCS oversight responsibilities. However, we expressed concern that MMS did not follow up on those operators to ensure that the flaring actually ceased. We stated that without timely follow-up the value of MMS' monitoring effort is diminished and recommended that MMS improve its oversight in this area.

During our most recent review, however, we found that MMS had not implemented our recommendation and, furthermore, had discontinued reviewing the 6-month summary of gas flaring. An MMS official stated the flaring summary review was a worthwhile review and should be done but was discontinued because they did not have time to do it. Even though the total amount of gas flared on the OCS is very small when compared to the total produced, the majority of the gas flared--87 percent in fiscal year 1981--is attributed to emergency flaring. Thus, we believe MMS's review of the 6-month summary of gas flaring should be reinstated as part of its monitoring activities.

In addition, we found that when an operator requests and receives approval to flare gas for a specified period--long-term flaring--MMS does not always follow-up to see that flaring ceases when the period of approved flaring expires. Additionally, when followup is made, it is not timely. For example, we found that the period of approved flaring expired on six different leases during the 18-month period between December 1980 through May 1982. Yet, MMS verified flaring cessations through visits to production platforms on only two of the six leases and of the two verifications performed, one was made about 4 weeks after flaring approval had expired, and the other one was made 1 week after approval had expired.

An MMS official stated that verification of gas flaring cessations were not made often or on a more timely basis because (1) technicians were not always available to perform the verifications and (2) the helicopter used to ferry the technicians to the lease platforms was not always readily available. However, this official conceded that considering the small number of long-term flaring approvals which expired--six during the 18-month period--they should have been able to verify that each approved flaring had ceased as scheduled.

CONCLUSIONS

As we reported last year, a primary concern of the Congress in initially requiring that Interior submit an annual OCS shut-in and flaring wells report was to determine whether OCS operators were deliberately withholding production in anticipation of higher prices in the future. Interior's methodology and reporting, however, is not and has never been adequate to determine whether this is happening and recent legislation and administration actions decontrolling the price of oil and natural gas make the report of dubious value, since decontrol makes it unlikely that operators would deliberately withhold production. Also, given its limited value, the costs of preparing the report and our evaluation of it do not appear justified. Abolishing the report would eliminate an unnecessary burden on Interior and us (costing a combined total

of about \$280,000 annually) and release resources to serve higher priority needs. For the foregoing reasons, we concluded that relief from the OCS shut-in and flaring reporting requirement was appropriate. Our position remains unchanged in this, our fourth, report.

Abolishing the report, of course, would not affect Interior's continuing responsibilities for inspecting and monitoring OCS lease activities to ensure efficient development of oil and gas resources. As in prior reviews, we again found some areas where actions are still needed to improve Interior's general oversight of OCS activities which, as indicated earlier, would continue even if the report is abolished. Specifically, Interior has not implemented the recommendation we made last year to improve its monitoring of OCS wells flaring gas. Also, Interior has discontinued its review of MMS shut-in well inspection reports--which we believe is an important procedure for verifying operator-reported information--and has discontinued its procedure for monitoring for emergency gas flaring.

Interior has reduced its funding and staffing for post-lease supervision activities in its newly approved 5-year OCS leasing program--reductions that are planned at a time when leasing is anticipated to increase substantially. In our recent report "Pitfalls in Interior's New Accelerated Offshore Leasing Program Require Attention," (EMD-82-26, dated December 18, 1981), we questioned these reductions, citing a lack of documentation showing the basis for the reductions and the impact of the reductions on program implementation. The shut-in and flaring monitoring deficiencies discussed in this review could be indicative of the potential impact of this decision, i.e., insufficient staffing to carry out post-lease monitoring functions. Accordingly, we plan to examine Interior's overall management of its post-lease management functions in the near future.

RECOMMENDATION TO THE CONGRESS

We recommend--as we have done in prior years--that the Congress repeal section 15(1)(d) of the Outer Continental Shelf Lands Act, as amended, and sections 601(a) and (b) of the Outer Continental Shelf Lands Act Amendments of 1978. These repeals would abolish the requirement for Interior's annual report on OCS shut-in and flaring wells as well as for our annual evaluation of Interior's methodology and reporting to the Congress.

RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

Repeal of Interior's annual reporting requirement, however, does not affect Interior's responsibility for oversight and monitoring of shut-in and flaring wells. Therefore, we recommend that the Secretary of the Interior direct MMS to

- reinstitute procedures to compare Interior's onsite inspection reports with operator-reported shut-in data--at least on a selective basis--to verify the information being reported by operators,
- reinstitute procedures for monitoring for excessive emergency gas flaring, and
- verify on a timely basis that gas flaring ceases when it is expected to cease.

AGENCY COMMENTS AND OUR EVALUATION

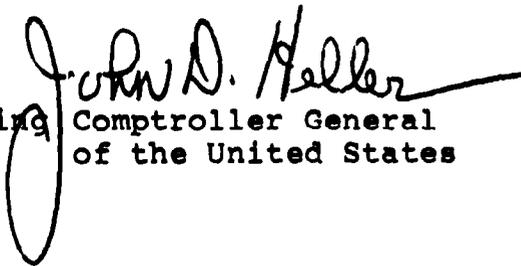
Interior's comments on a draft of this report are included as appendix I. Interior, again, agrees with our recommendation to repeal the requirement for an annual shut-in and flaring report and agrees with our recommendations regarding improved oversight over excessive emergency gas flaring by OCS operators.

The Department questions the cost effectiveness of our recommendation to reinstitute procedures to compare onsite inspection reports against operator reported data. Interior, however, states that these procedures will be reinstated. In our view the quality of the data base used by Interior to monitor shut-in wells is most important and it is reasonable that some costs be incurred in assuring that the data being reported by operators is accurate. How much verification is necessary--and the costs allocated to this activity--is a judgmental factor dependent on a number of variables. A 100 percent verification of reported data may not be necessary to assure a quality data base. As a minimum, however, we believe that the data being reported by operators be verified on a selective basis.

Interior states that monitoring for cessation of gas flaring is a costly procedure and the accomplishment of this task is dependent on the availability of technicians and of a helicopter for transportation. If onsite verification cannot be made in a timely manner, the operator is contacted to verify that flaring has ceased. Interior's procedure to contact the operators to confirm flaring has ceased is an important check in its oversight and monitoring of this activity. We, however, maintain that visual inspections should be used as much as possible--whether they be visits to individual platforms or aerial inspections of the platforms done in conjunction with other routine tasks being accomplished in the nearby area.

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Copies of this report are being sent to the Secretary of the Interior; the Director, Office of Management and Budget; and the House and Senate committees and subcommittees having oversight and appropriation responsibilities for the matters discussed in the report.


Acting Comptroller General
of the United States



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 17 1982

Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review the draft report entitled "Interior's Annual Report to Congress on Shut-In or Flaring Wells Should be Discontinued." The Department of the Interior's comments on the draft report are included in the enclosure.

Sincerely,


RONALD PAUL HOOD
UNDER SECRETARY

Enclosure

Comments on the General Accounting Office Draft Report,
"Interior's Annual Report to Congress on Shut-In
or Flaring Wells Should Be Discontinued"

The General Accounting Office (GAO) draft proposed report is the fourth annual report on shut-in and flaring wells made pursuant to section 601 of the Outer Continental Shelf (OCS) Lands Act Amendments of 1978. For the third time, GAO is recommending that Congress enact legislative relief which would abolish the annual reporting requirement on OCS shut-in and flaring wells as well as for GAO's annual evaluation of the Interior's methodology and reporting to Congress. We concur with the recommendation to Congress for specific legislative relief, i.e., repeal of section 207 (section 15(1)(D)) and sections 601(a) and (b) of the OCS Lands Act, as amended.

Additionally, GAO had three specific recommendations with respect to shut-in and flaring wells as indicated below.

Comment

Reinstitute procedures to compare Interior's onsite inspection reports with operator-reported shut-in data to verify the information being reported by operators.

Reply

The Minerals Management Service (MMS) does not feel that the verification procedure will provide benefits commensurate with the work involved. However, MMS will reinstitute procedures by which District Inspectors will check and report to the Region on platform records pertaining to shut-in wells. These reports will be cross-checked with reports received from the operators on the shut-in wells.

Comments

Reinstitute procedures for monitoring excessive gas flaring.

Reply

MMS has already reinstated a periodic summary of gas flared by OCS operators and as in the past will request an explanation from the operator if the volume and percentage of gas flared without approval is found to be excessive.

Comments

Verify on a timely basis that gas flaring ceases when it is expected to cease.

Reply

Onsite monitoring for cessation of gas flaring is a costly procedure dependent on the availability of technicians and of a helicopter for transportation. The MMS accomplishes such activity to the maximum extent feasible within the routine of daily inspections. If onsite verification cannot be made in a timely manner, the operator is contacted to verify that flaring has ceased.





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