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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Annual Report On Outer Continental Shelf Shut-In Or Flaring Wells Is No Longer Needed

The Outer Continental Shelf Lands Act Amendments of 1978 require (1) the Secretary of the Interior to submit annually a report on shut-in (not producing) or flaring (burning off) natural gas OCS wells, and (2) the Comptroller General to annually examine and report on the methodology used by the Secretary in allowing such activity

Interior's report, however, does not satisfy the congressional intent behind this requirement, and continuance of the reporting is less necessary in light of recent oil and gas price decontrol measures

Relief from the annual reporting requirement would release resources of both the Department of the Interior and the General Accounting Office to serve higher priority needs. Monitoring shut in and flaring wells would continue as part of Interior's routine oversight of OCS activities



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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

This is our third report, required annually by the Outer Continental Shelf Lands Act Amendments of 1978, that examines the Department of the Interior's (DOI) methodology used to allow Outer Continental Shelf (OCS) wells to be shut-in or to flare natural gas.

In our last (second) report 1/ we questioned whether Interior's report fulfilled the intent of the Congress and whether continuing to require a report served a useful purpose. A primary concern of the Congress in enacting the annual reporting requirement was to oversee whether OCS operators were deliberately withholding production in anticipation of higher prices. As in our last review, we again found that Interior's report does not satisfy that purpose. Furthermore, recent legislation and administrative actions decontrolling the price of oil and natural gas make concern over deliberate withholding less of an issue.

We believe legislative relief from the OCS shut-in and flaring wells reporting requirement is appropriate. Interior agrees that abolishing the reporting requirement would eliminate an unnecessary burden (costing both DOI and us a combined total of about \$280,000 annually) and release resources to serve higher priority needs.

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. In this connection, we found that the U.S. Geological Survey still needs to improve its monitoring of shut-in and gas flaring wells by

--selectively reviewing supporting data of
OCS operators that report wells in shut-in
status,

1/"Interior's Report On Shut-in Or Flaring Wells Unnecessary,
But Oversight Should Continue," (EMD-81-63, Apr. 17, 1981).

--more aggressively following up on wells categorized as having "no future utility" for possible plugging and abandonment actions, and

--timely following up on operators suspected of excessive gas flaring.

In addition, until such time as legislative relief is granted, we believe Interior's shut-in and flaring wells report should be as meaningful and responsive to the intent of the Congress as possible--and the Survey has agreed to make certain additional improvements in any future reports. (See pp. 12-13.)

Interior's comments on the findings and recommendations in this report were provided orally on October 22, 1981, at a meeting with officials of the U.S. Geological Survey (Survey). The Survey officials stated that they fully support the recommendation to the Congress seeking legislative relief from the annual reporting requirement. In addition, the officials have agreed to implement the other recommendations made in this report. (See pp. 14-16.)

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was made pursuant to section 601(b) of the OCS Lands Act Amendments of 1978 which requires the Comptroller General to 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 601(a) of the amendments requires the Secretary of the Interior to submit a report to the Congress which (1) lists all shut-in oil and gas wells and wells flaring natural gas on leases issued under the OCS Lands Act, and (2) indicates the Secretary's intentions on whether to require production of a shut-in well or order the cessation of flaring.

Our review was conducted primarily at the U.S. Geological Survey's Gulf of Mexico Regional Office, with limited work at the Department of the Interior's headquarters. About 94 percent of the wells producing oil on the OCS and all of the wells producing gas, as of September 30, 1980, were located in the Gulf of Mexico. We directed our review primarily toward meeting our legislative requirement to review the methodology used by Interior to determine if OCS wells should be shut-in or allowed to flare natural gas. We also addressed the issue of the usefulness of the shut-in and flaring wells report in meeting the congressional intent of section 601(a) of the OCS Lands Act Amendments of 1978.

In performing this review, we used Interior's fiscal year 1980 annual report which presents detailed and summary information on OCS shut-in wells and natural gas flaring activities. Since this

was our third review, we used an approach similar to that used in the two previous reviews, which included

- following up on Interior's actions taken regarding our previous recommendations;
- reviewing Interior's fiscal year 1980 report to determine how the data contained in it were presented and explained;
- randomly sampling shut-in well data reported by OCS operators to determine whether the reported data were correctly processed and presented in the report;
- reviewing wells categorized as having "no future utility" to determine whether any consideration has been or will be given to plugging and abandoning them, as well as removing any related equipment from the OCS; and
- reviewing approvals for long-term natural gas flaring and procedures regarding short-term flaring reported by operators to determine operator compliance with requirements.

In accomplishing these tasks, we

- interviewed officials at the U.S. Geological Survey's headquarters in Reston, Virginia; its regional office in Metairie, Louisiana; and Interior's headquarters in Washington, D.C.;
- reviewed pertinent records at Survey's regional office;
- examined applicable regulations, policies, and procedures pertaining to OCS shut-in and flaring gas wells; and
- utilized a GAO geologist with extensive knowledge of and experience with Survey's activities to review the technical aspects of the annual report.

In addition, we contacted Interior and congressional officials to determine the extent of current interest in continuing the report or, if warranted, to seek legislative relief from the reporting requirements.

INTERIOR'S SHUT-IN OR FLARING WELLS
REPORT SHOULD BE DISCONTINUED

On May 19, 1981, Interior issued its fiscal year 1980 annual report on the OCS oil and gas leasing/production program. Included in the annual report was the Department's third shut-in and flaring OCS wells report. This portion of the report includes 14 pages of narrative and tabular information, and five appendices, totalling 690 pages, containing detailed listings and related data on natural gas flaring and shut-in wells.

In response to recommendations made in our second report, the Department revised the format of the fiscal year 1980 shut-in and flaring wells report to include additional detail and explanatory information that improved the report's presentation.

With regard to the report's continuance, we first raised this question in a November 25, 1980, report 1/ to the Secretary of the Interior. We had noted concern by Survey over the usefulness of the report and suggested that Interior consider (1) whether its reporting approach meets the congressional intent and, if not, to put forth the required effort to meet the intent, or (2) whether it should seek legislative relief from the Congress.

We recommended in our April 1981 report to the Congress that the Department seek legislative relief from the Congress on section 601(a) of the OCS Lands Act Amendments of 1978. In commenting on our recommendations, the Department stated:

--The prime reason for initially requiring the report--to alert the Congress of any intentional withholding or wasting of OCS resources--is no longer valid.

--The report itself can never be an effective means to measure intentional withholding of oil and gas production.

--Economic incentives are now sufficient to ensure maximum production.

The Department stated further that it believes that staff resources required for preparing the report could be better utilized.

1/"Follow-up on Actions Taken in Response to GAO Recommendations Concerning the Department of the Interior's March 1979 Shut-in and Flaring Wells Report," (EMD-81-23, Nov. 25, 1980).

In this review, we again found that Interior's current report of OCS shut-in and flaring gas wells

- does not 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.

For these reasons, we believe that the Congress should repeal sections 601(a) and (b) of the OCS Lands Act Amendments of 1978. In addition, section 15(1)(D) of the Outer Continental Shelf Lands Act, as amended, which calls for the OCS shut-in and flaring wells report to be a part of Interior's Annual Report, should also be repealed. Interior has stated before the Congress that in their view, and we agree,

"* * *this section of the report does not serve any useful purpose and its elimination would not significantly affect the remainder of the Annual Report." 1/

We would like to again point out, and Interior agrees, that should the legislative relief we are calling for be granted, Interior would still maintain its continuing responsibilities for inspecting and monitoring OCS lease activities, including the prevention of waste or abuse of resources.

Interior's report does not meet
the congressional intent

Our review of the legislative history indicated that, at the time the reporting provision was enacted, the Congress was concerned with a possible withholding of oil and gas production in

1/Written responses of September 14, 1981, by the Secretary of the Interior to a list of questions by Congressman Carroll Hubbard, Chairman, Subcommittee on Panama Canal/Outer Continental Shelf, House Committee on Merchant Marine and Fisheries.

anticipation of future higher prices. To address this concern, the Congress enacted the report provision to provide some oversight of OCS wells shut-in or flaring natural gas--more specifically to determine (1) whether wells were being shut-in for economic rather than production reasons and (2) whether it was really necessary to flare gas or whether the gas could be productively used. Interior agrees that the purpose of preparing the shut-in and flaring well report is to alert the Congress of any intentional withholding or wasting of hydrocarbon resources on the OCS. While Interior recognizes the purpose of this statutory provision, it stated that its reporting efforts have not and can not realistically meet this congressional intent.

According to Interior officials, the current report of shut-in and flaring OCS wells contains statistical data that should only be analyzed for trends and anomalies rather than attempting to judge whether or not production is being deliberately withheld or gas is flared unnecessarily. However, Survey officials have stated that while the report can not indicate deliberate withholding, other regulations and procedures, such as requiring operators to report monthly well status and conducting platform inspection visits, are sufficient to ensure that this is not being done.

Price control phase-out makes report less necessary

Legislation and recent administrative actions make concern over any deliberate withholding of oil or gas less of an issue. The phased decontrol of domestic crude oil prices in 1980, according to an industry report ^{1/}, brought the domestic average wellhead price of crude oil up 68 percent. Under decontrol, producers of domestic crude oil may now charge world market prices for their products. Consequently, higher wellhead prices of crude oil are expected to continue, yielding higher returns, since complete decontrol occurred in January 1981. In addition, under the Natural Gas Policy Act of 1978, controls over most natural gas produced from OCS leases acquired after 1977 are being phased out by 1985, when full price decontrol is scheduled. Both industry and the administration contend that these 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.

^{1/}A report by the American Petroleum Institute, "The Responses of Drilling Activity to Higher Oil Prices," July 16, 1981.

Report's worth does
not justify its cost

Interior's current report of OCS shut-in and flaring gas wells is expensive to prepare. If the report could meet the congressional intent behind the statute and if current economic conditions suggested that deliberate withholding might exist, then the cost might be justified. However, the current report provides no more than an indication that a well is shut-in or flaring natural gas. And, as we previously stated, decontrol of prices makes it less likely that any deliberate withholding of production would occur.

Interior has made significant improvements to the OCS shut-in and flaring wells report since it was first issued in March 1979. The report, at that time, was just a reproduction of computer program print-out pages which excluded explanations necessary to make it a useful document. The current report contains detailed data, including adequate descriptive narrative on wellbores, well completions, and wells flaring natural gas. However, as Interior noted, the report itself can never be an effective means to measure deliberate withholding of oil and gas production.

Preparing the current report requires Interior personnel to compile information received from OCS operators, keypunch the data, and assemble the report for publication. In addition, there is an administrative review process by Interior and the effort by us to review and evaluate Interior's methodology, using Interior's report as the basis for our work. The combined cost incurred by Interior and us to fulfill our statutory requirement totals about \$280,000. We believe, and Interior agrees, that the resources employed for them to prepare the report and us to review it could be better utilized to serve higher priority needs.

Since Interior's report of shut-in or flaring OCS wells does not (1) meet the congressional intent behind the requirement, (2) appear necessary in view of actions to decontrol the price of oil and natural gas, or (3) appear to justify its cost, we believe Congress should 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--thus eliminating this reporting requirement.

INTERIOR'S METHODOLOGY FOR
MONITORING AND REPORTING ON
OCS SHUT-IN AND FLARING WELLS

In the event the legislative relief called for above is realized, the Secretary of the Interior would still be required to maintain oversight of OCS activities and, in this regard, needs to improve the monitoring of shut-in and gas flaring wells by

--selectively reviewing supporting data of OCS operators that report wells in a shut-in status,

- more aggressively following up on wells categorized as having "no future utility" for possible plugging and abandonment actions, and
- timely following up on operators suspected of excessive gas flaring.

In addition, as long as Interior is required by law to provide a report to the Congress on shut-in or flaring OCS wells, we believe it should be as meaningful as possible. We recognize that Interior already has made substantial improvements in its report based on our past recommendations, but believe the report can be further improved by including information on (1) the date approved flaring began for individual wells, to show the length of time they have been in a flaring status, and (2) the total amount of gas flared during the fiscal year under each extended term approval, thus giving a better perspective on the total amount of gas flared over time.

Interior's methodology for
allowing wells to be shut-in
or to flare natural gas

The phrase "allowing wells to be shut-in" is generally not descriptive of the shut-in process. A shut-in, according to Interior, is usually caused by a mechanical or reservoir problem despite operator efforts to keep the well on production. Thus, most wells are not "allowed to be shut-in" but become shut-in for uncontrollable reasons such as equipment failure, reservoir decline, wellbore problems, etc.

The Secretary allows or directs a well to be shut-in on relatively few occasions and for reasons such as conservation, pollution prevention, and safety. The well completions that are allowed or directed to be shut-in by Interior and those that become shut-in because of uncontrollable occurrences are required to be put back on production when the cause for the shut-in has been removed. The operator analyzes all available information on those shut-in wells and determines whether production can be restored and, if so, the efforts necessary to achieve such production.

Shut-in data are maintained by Survey computer files based on operator-furnished information. Such data are submitted monthly by the operator on Survey Form No. 9-152 and recorded and compiled by Survey personnel. Shut-in well listings are furnished to Survey district offices so that inspectors can verify the well status during routine platform inspections. During these routine inspections, Survey inspectors visually determine that individual well completions are not producing and then review the records available in the field and reach their own conclusion as to why each well went off production. These findings and conclusions are compared with operator-reported information on a spot-check basis when time permits. According to Interior, the conclusion reached by the Survey inspector, in nearly every case, is the same or similar to the operator's conclusion.

Survey orders permit natural gas flaring, but only under certain conditions. The Survey's OCS Order No. 11 provides for two general categories of gas flaring--(1) approved long-term or extended flaring and (2) short-term or small-volume flaring. Long-term flaring of casinghead gas (gas associated with an oil-well) requires approval by the Survey's Oil and Gas Supervisor, who can allow flaring for periods of up to one year. This flaring can be approved provided (1) positive action has been initiated to eliminate the flaring, or (2) flaring will result in an ultimate greater total energy recovery. Approved flaring of gas-well gas is provided only in connection with routine or special well tests. Small-volume or short-term flaring of both oil- and gas-well gas is permitted without the Supervisor's approval on a temporary basis during emergencies, well purgings and evaluation tests, and when gas vapors are released in such a manner that recovery is uneconomical.

During fiscal year 1980, approximately 16 billion cubic feet of gas was flared of which about 84 percent represented oil-well gas. Of the total amount of gas flared, about 97 percent represented short-term flaring while about 3 percent was extended or long-term flaring. The total amount of gas flared during fiscal year 1980 represented only about 0.33 percent of the total gas produced (4.8 trillion cubic feet of gas was produced from the OCS).

Interior still needs to selectively
review data supporting OCS operators
production decisions

In prior reviews we found that the Survey verifies information submitted by OCS operators by visually inspecting shut-in wells at the platform and by comparing reports received by Survey with reports of the operators on location. We recommended that additional verification or review of operator-reported information was needed to more reasonably attest to the validity of data reported annually to the Congress but, more importantly, to provide Interior a sound basis for monitoring OCS activities regarding shut-in wells.

Interior believes that its current procedures for testing or verifying operator data adequately assure the reasonableness of operator decisions and plans regarding shut-in well completions. Further, when technical data are reviewed by equally competent and experienced persons, similar findings can be expected.

Interior stated that it could go beyond reviewing operator data on shut-in wells as we recommended. By doing so, however, the Survey would need to make (1) a detailed study of conditions of the wellbore along with the completions within the wellbore; (2) a detailed geologic and engineering study of the reservoir in which the well is completed; and (3) an economic analysis as to whether a recompletion is feasible. Interior added that to conduct

such studies on a very limited basis, which could be accepted as a representative sample, would require excessive professional resources. Thus, Interior concluded, the benefits derived from such monitoring procedures are questionable considering the costs.

We recognize that a detailed study of conditions at the wellbore would enable the Survey to verify the true conditions of a wellbore and reservoir. However, we are not suggesting independent well testing. What we are suggesting is that the Department should, in cases where operator-furnished information appears questionable or unreasonable, review the engineering and geologic data supporting the operator's data. We believe, as we stated before, that if selective reviews reveal that sufficient information is not available through inspection visits, discussions with platform personnel, and periodic reports from operators, then Survey should contact the operator and obtain whatever additional information is needed to reasonably ensure the reliability and validity of information being reported by operators.

Differences noted in operator-reported
and Survey-recorded information

During this, our third, review we evaluated a random sample 1/ of 130 Forms 9-152 (Monthly Report of Operations--OCS) received by Survey to determine whether the information submitted was processed correctly from the source document to the final shut-in report. We found discrepancies between information recorded in the shut-in report and information recorded on the operator's submitted Form 9-152 in 60 of the 130 entries reviewed. In 35 of the 60 instances, the shut-in report was apparently correct because information on the most recent Form 9-152 differed from that consistently reported on several previous months forms. The shut-in report was incorrect in 14 other instances because of keypunch errors. In five other instances, it could not be determined which was correct because of erroneous information in Survey's data base. The six remaining discrepancies could not be reconciled because sufficient data were not readily available for review due to the age of the reported shut-in.

Errors in recording the last date of production accounted for 47 (78 percent) of the 60 discrepancies discussed above. Survey officials advised us that errors in the shut-in report probably relate to dates reported prior to the establishment of the Survey's current internal system of accuracy checks or the reporting methodology used in the operator's system.

1/Our sample included 130 of the 2,208 Gulf of Mexico shut-in well completions reported on Form 9-152 for September 1980. The criteria used to select the sample consisted of a universe of 2,208; a confidence level of 95 percent; and an error rate of 10 percent, with a 5-percent allowance.

More vigorous efforts and followup
needed to ensure appropriate plugging
and abandonment of wells categorized
as having "no future utility"

The Survey has taken some action in response to specific wells identified in our April 1981 report as having "no future utility," but has not acted aggressively in implementing our recommendation to ensure that useless structures and equipment are removed from the OCS. In this connection, Federal regulations require the expeditious removal of structures and/or equipment no longer needed on the OCS.

In our April 1981 report, we identified 117 "no future utility" well completions located in wellbores and individual well jackets where there is no production or potential production. ^{1/} The Survey directed its district personnel to review these 117 well completions and, where appropriate, require plugging and abandonment. According to a Survey official, no analysis or followup has been made of the district's responses to this directive. Our recent review of the district's responses and individual well files disclosed that of the 117 wells identified, three wells were producing, 28 were located on active platforms or structures, 29 were plugged and abandoned, and 46 were still reported as "no future utility." The status of the remaining 11 well completions could not be determined.

According to Survey data, as of September 1980, there were 3,104 shut-in oil and gas well completions classified as nonproducing with "no future utility" (3,218 were reported the previous year). We analyzed the Survey's 1980 report on these "no future utility" well completions and identified at least 617 located in wellbores on 35 platforms and 370 individual well jackets where there was no production or potential production. At least 107 of these 617 had been in this status at least 12 years and appeared to warrant review for possible plugging and abandonment.

After discussing this matter with a Survey official, he stated that plans will be made to send a listing of the 617 well completions to district personnel for evaluation and, where appropriate, require plugging and abandonment. He added that Survey recognizes that this is an exercise it should be routinely doing. However, since GAO reviews wells in the "no future utility" category, Survey has become reliant on GAO's specific list of these wells each year rather than to issue a general instruction to district personnel directing them to identify all wells for possible plugging and abandonment.

^{1/}A well completion is the smaller diameter pipe within the initially drilled hole or bore; i.e. wellbore. Well completions do the actual producing and more than one can be within a wellbore. The term wellbore and well jacket are synonymous.

We believe the Survey's recognition of the problem is a step in the right direction, however, the Survey should conduct its own data review--rather than wait for our report--to identify possible useless wells that could be plugged and abandoned. The Survey should implement vigorous followup procedures to ensure that appropriate "no future utility" wells are, in fact, plugged and abandoned and associated structures and equipment are removed.

Followup on emergency flaring
is still insufficient

In our April 1981 report, we recognized that the Survey has begun monitoring operator's reporting of emergency flaring, however, the value of these efforts is diminished due to untimely followup. We recommended that the Survey follow up on operators suspected of excessive flaring to ensure that such flaring actually ceases. The need for such followup still exists.

Survey guidelines allow the intermittent flaring of small volumes of gas from oil and gas wells without approval in instances of gas vapors released from low-pressure production vessels, emergencies and well purgings, and evaluation tests. In the case of emergency flaring, the Survey permits flaring continuously for over 24 hours without approval; however, the operator must report such flaring. When emergency flaring is continuous for over 72 hours or exceeds 144 hours in a month, the operator must notify the Survey and obtain approval to continue to flare.

In monitoring emergency flaring, the Survey prepares and reviews a 6-month summary report of gas flared by OCS operators. If the volume and percentage of gas flared indicates an operator has been flaring excessively but has not requested or obtained an approval, the Survey notifies the operator and requests an explanation for the flaring. After receiving the operator's response, the Survey determines whether the operator satisfies the request and files it without any further action.

During the 6-month period ending November 1980, the Survey identified eight operators that were excessively flaring oil-well gas without an approval. During this period, the eight operators flared a significant volume of the oil-well gas they produced (ranging from 14 to 100 percent). However, the flared volumes were insignificant (about 0.3 percent) when compared to the total volume of oil-well gas produced on the OCS for the same period.

Although the Survey has identified these operators as excessively flaring gas, no followup has been done to ensure that the flaring actually ceased. In our opinion, without timely followup, the value of the Survey's monitoring efforts is diminished. Furthermore, operators who have been flaring excessively could continue to waste natural resources that might become commercially produced.

Other data still needed for OCS
wells flaring natural gas

In our April 1981 report, we recognized that the Survey had made improvements in reporting natural gas flaring activities. However, we still believe, as previously recommended, that as long as this reporting requirement exists, the report needs to include information such as the date approved flaring begins and the total amount of gas flared during the fiscal year for each long-term approval listed in the report. This information will let the Survey know how long, as well as how much, an operator has been flaring.

Interior's fiscal year 1980 report does not contain the date approved extended-term (long-term) flaring began. Instead, the report indicates the date of initial approval for each instance of approved flaring. According to Survey officials, the date flaring actually began is not important because operators can start flaring anytime within the approval period. While we recognize that an operator can begin flaring anytime within the approval period, we believe this data is needed to indicate whether or not some approved flaring in large amounts should be reviewed for other more productive purposes. Survey officials agreed to add this information in future reports.

Although the fiscal year 1980 flaring report contains the total amount of gas flared, the amounts shown are in aggregate and are not presented for each instance of approved flaring. In addition to the aggregate, the only flare amounts shown for individual extended-term approvals are for those on file at the end of the month--September 1980. As a result, the report does not indicate for fiscal year 1980 which wells, leases, or operators contributed during the fiscal year to the total volume of gas flared under approvals. We believe this information would provide any reader of the report with better perspective to gauge the extent and seriousness of the flaring. According to a Survey official, the monthly information is available and will be included in future reports.

CONCLUSIONS

Prudent Federal management of the OCS should involve the expeditious restoration, where economically feasible, of producible shut-in wells and the elimination of the flaring of producible natural gas. Currently, the Department of the Interior exercises oversight in this area through its routine monitoring and enforcement of regulations that pertain to OCS shut-in and flaring wells.

Our review indicated that 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 future higher prices. Interior's methodology and reporting, however, is not and never has 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.

We believe legislative relief from the OCS shut-in and flaring wells reporting requirement is appropriate. The Department agrees that abolishing the reporting requirement would eliminate an unnecessary burden (costing both it and us a combined total of about \$280,000 annually) and release resources to serve higher priority needs. 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.

Until such time as legislative relief is granted, however, we believe the report should be as meaningful and responsive to the intent of Congress as possible--and the Survey has agreed to make additional improvements in any future report. In addition, we again found some areas where actions are still needed to improve the Survey's general oversight of OCS activities which, as indicated earlier, would continue even if the report is abolished.

- Interior does not review operator-reported data to determine its reasonableness and validity. As we have stated before, we are not recommending an independent well testing. What we are recommending is that the Survey, for those cases where the operator information appears questionable or unreasonable, review the engineering and geologic data upon which the operator's data submitted to the Survey is based.
- In addition, the Department does not follow up on "no future utility" wells that should be plugged and abandoned. Although the Survey reviews short-term flaring by operators, it does not follow up on those operators that appear to be flaring excessively to ensure that such flaring actually ceases.
- Furthermore, Interior's report does not show the date extended-term flaring began nor does it indicate for fiscal year 1980, which wells, leases, or operators contributed to the total volume of gas flared--information which we believe would provide additional perspective on the extent of gas flaring. The Survey has agreed to add such information.

RECOMMENDATIONS

We recommend 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. This repeal would abolish the requirement for Interior's annual report on OCS shut-in and flaring wells as well as GAO's annual evaluation of Interior's methodology and subsequent reporting to the Congress--thus saving approximately \$280,000 a year and allowing limited staff resources to be used more cost-effectively. If such relief is granted, Interior would have to continue its general oversight responsibility for the OCS, including appropriate oversight of shut-in and gas flaring wells to prevent waste and to promote prompt and efficient development of OCS resources.

In connection with such continuing oversight, we recommend that the Secretary of the Interior direct the Survey to

- selectively review and monitor supporting data used by OCS operators to ensure its reasonableness and validity;
- aggressively follow up on "no future utility" wells and, when appropriate, require the plugging and abandonment of those wells, including the removal of any useless and unused structures and equipment;
- follow up on suspected excessive gas flaring to ensure that such flaring ceases if appropriate.

AGENCY COMMENTS

Interior's comments on the findings and recommendations in this report were provided orally on October 22, 1981, at a meeting with officials of the U.S. Geological Survey directly responsible for the reporting and oversight of, among other things, OCS wells shut-in or flaring natural gas. The Survey officials stated that they fully support the recommendation to the Congress calling for legislative relief from the annual reporting requirement. In addition, they agreed to review the operator's supporting data for any submission of information which appears unreasonable or questionable.

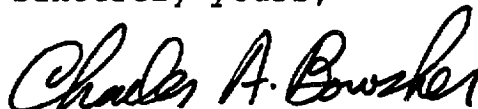
With regard to our recommendation calling for Interior to aggressively follow up on "no future utility" wells for possible plugging and abandonment, Survey officials said they would be reviewing these wells for that purpose. They also indicated, however, that because of changing conditions, such as the increase in the wellhead prices for oil and gas and more efficient secondary recovery technology, some wells currently categorized as having "no future utility" may actually have future utility. Thus, during their review, they also plan to consider the need

for additional or better classification of some wells in this category. Survey's plans for possible well plugging and abandonment are responsive to our recommendation. In addition, we agree with Survey's position on the possible need for some reclassification since economic conditions surrounding some wells currently categorized as having "no future utility" conceivably could result in their future use.

With regard to our recommendation calling for Interior to follow up on operators suspected of excessive gas flaring, the officials stated that they have created a file to track long-term approved gas flaring. In addition, they said they will continue to review operator-reported short-term flaring and, where they find operators flaring gas excessively, will instruct them to cease such flaring. We believe this is a step in the right direction but that an on-site inspection is appropriate even when the operator states the flaring has ceased, to verify that the flaring has in fact stopped. Rather than a special on-site visit this could be done during routine on-site inspections. Survey officials agree with this approach.

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.

Sincerely yours,



Comptroller General
of the United States

008974

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
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