

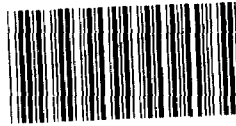


UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

119196

ENERGY AND MINERALS
DIVISION



119196

B-208517

AUGUST 16, 1982

The Honorable James G. Watt
Secretary of the Interior

Dear Mr. Secretary:

Subject: Data Compiled for Shut-In Oil and Gas Wells on
Onshore Federal Lands Is Inaccurate and Probably
Unnecessary (GAO/EMD-82-115)

We recently completed an evaluation of oil and gas wells on Federal lands that are considered producible but yet are shut-in. Our primary purpose was to determine if Government regulations are precluding these wells from producing. Our work indicated that Government regulations will delay production in some cases, but apparently not for an unreasonable time. Economic considerations, such as lack of demand and reserves insufficient to justify the costs to start production, seem to be the primary reasons such wells are shut-in. We therefore did not pursue the matter further.

We are reporting to you, however, because we did find that the data on shut-in oil and gas wells, compiled at the field level and summarized at MMS headquarters, (1) is inaccurate, thereby creating a false impression about the number of wells shut-in on Federal lands, and (2) more basically, is probably not needed at all.

BACKGROUND, SCOPE, AND METHODOLOGY

The Minerals Management Service (MMS) collects a great deal of data on its operations for use in making management decisions. ^{1/} This includes data on the number of producible oil and gas wells shut-in, and the reasons for their being shut-in. Such data is accumulated and reported on a monthly basis by the regional offices, sent to MMS headquarters, and reported annually in the "Federal and Indian Oil and Gas Production Royalty Income and Related Statistics Report." The shut-in data is just a small part of the information contained in this report.

To evaluate the record-keeping for shut-in oil and gas wells on Federal lands, we visited MMS offices responsible for

^{1/} These duties, until early in 1982, were held by the Conservation Division, U.S. Geological Survey.

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the States of Colorado, Wyoming, New Mexico, and Montana, which purportedly have over 85 percent of the shut-in oil and gas wells on Federal lands. These States also contain over 80 percent of the economically producible oil and gas wells on Federal lands in the United States.

We contacted appropriate MMS officials and reviewed oil and gas shut-in records for each of these States. We discussed the procedures and problems involved in keeping the records current. We also reviewed the records used to keep track of the status of wells as to whether they are shut-in, producing, or going from one status to the other. For the States of Colorado and New Mexico we did a more detailed review of the wells in a shut-in status. This included comparing regional source documents to data reported on regional monthly reports and verifying the accuracy of the regional source documents.

Representatives of private companies holding numerous oil and gas wells on Federal lands were also contacted. We discussed with them why wells are shut-in and if there are any incentives to keep wells shut-in.

We performed our review in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

ONSHORE SHUT-IN DATA
IS INACCURATE

The Geological Survey's most current published report indicates there were over 2,000 shut-in oil and gas wells onshore as of December 31, 1980, primarily gas wells as shown below:

| <u>Onshore Shut-in Wells</u> | | | | |
|------------------------------|------------|--------------|--------------|--|
| <u>December 31, 1980</u> | | | | |
| <u>Type of Land</u> | <u>Oil</u> | <u>Gas</u> | <u>Total</u> | |
| Public and Acquired Land | 249 | 1,562 | 1,811 | |
| Indian Lands | 70 | 142 | 212 | |
| Military and Miscellaneous | <u>11</u> | <u>14</u> | <u>25</u> | |
| | <u>330</u> | <u>1,718</u> | <u>2,048</u> | |

Source: U.S. Geological Survey

We found, however, that the data reported is quite inaccurate and thereby misleading to anyone who chooses to interpret it and draw conclusions from it.

MMS representatives stated that they do not have adequate staffing to keep up with the status of oil and gas wells on Federal lands. When wells are completed and determined to be producible, the operator files a well completion report which states if the well is shut-in and why. Subsequently, well operators file monthly production reports which indicate if each well is or is not currently producing. Field personnel from MMS stated that they use the well completion reports as a source for initially identifying shut-in wells, and this is the data that is ultimately published in the annual public report. Field officials attempt to do some updating for their own shut-in records from the monthly production reports, but stated they do not have time to update the records from the more current production reports as wells go off or on a shut-in status.

We examined records for shut-in oil and gas wells on Federal lands in Colorado and a portion of New Mexico and found them to be inaccurate. We found that the shut-in data from the well completion reports--which is the basis for the published shut-in data--varied from the more current District records. We found the following variances at the two locations visited:

| <u>Type of Well</u> | <u>Shut-ins as Reported to Headquarters for Publication</u> | <u>Shut-ins According to District Shut-in Records</u> |
|----------------------------------|---|---|
| <u>Grand Junction, Colorado:</u> | | |
| Oil | 37 | 18 |
| Gas | 451 | 408 |
| <u>Roswell, New Mexico:</u> | | |
| Oil | 9 | 0 |
| Gas | 182 | 207 |

In addition, we analyzed the monthly production reports for 139 randomly selected shut-in wells and found that fewer wells are shut-in than appear in the District Office shut-in records. Observations on these 139 wells are summarized below:

| <u>Category</u> | <u>Number</u> | |
|---|-----------------------|----------------|
| | <u>Grand Junction</u> | <u>Roswell</u> |
| Wells recorded as shut-in and still shut-in | 45 | 16 |
| Wells recorded as shut-in but now producing | 21 | 14 |
| Wells recorded as shut-in with no file at MMS | 25 | 9 |
| Wells recorded as shut-in with no operating data reported since January 1, 1981 | <u>9</u> | <u>0</u> |
| | <u>100</u> | <u>39</u> |

To keep the shut-in oil and gas well reports current would take a significant amount of staff time. The MMS representative responsible for the State of Colorado shut-in well reports estimated that it takes one staff day a month to do what is currently reported, but would take five staff days a month to keep the shut-in well reports current and accurate. MMS representatives from the States of New Mexico, Wyoming, and Montana advised us that they also have problems similar to Colorado's in reporting shut-in oil and gas wells. The State of Colorado has approximately 22 percent of the shut-in oil and gas wells on Federal lands.

COLLECTING AND SUMMARIZING
SHUT-IN DATA IS PROBABLY
NOT NEEDED

Besides being inaccurate, we could find no tangible need or use for compiling the data at headquarters. MMS officials told us that some of the data (i.e., that compiled from the initial well completion reports to show the reasons why completed wells were shut-in) was originally collected--in response to congressional concerns--as part of a comprehensive data base of resources on Federal lands following the energy crisis of 1973. This was at a time of domestic oil and gas shortages when strict price controls were in place and some companies were suspected of holding back production in anticipation of higher prices. Even then, however, there were no specific plans for use of the data, and MMS officials agreed that it should no longer be compiled. If eliminated, raw data on shut-in wells would continue to be available through monthly production reports should circumstances change and MMS find a need to compile and analyze such data.

MMS officials advised us that they believe oil and gas wells are shut-in primarily for economic or equipment-related reasons and, therefore, there is no real need for the information for management purposes. Representatives of private companies also

advised us that because of capital investments in wells and the geologic nature of reserves, the incentive is to produce rather than wait for possible higher prices. While some MMS headquarters officials agreed the shut-in data is not needed for management purposes, they feel it is useful, along with other data on well status, for maintaining an overall picture of activity on Federal lands.

CONCLUSIONS AND RECOMMENDATIONS

MMS officials have agreed to discontinue the compilation of some of the onshore shut-in data--that prepared to show the reasons why completed wells are shut-in--but believe the data they attempt to compile from the monthly production reports on the status of shut-in wells is helpful in giving an overall picture of well activity on Federal lands. However, we found the data is so inaccurate that it does not accomplish this purpose. Present efforts to gather and summarize the data for MMS headquarters require about 300 staff days, or \$30,000 a year. Maintaining accurate data would cost more. If eliminated and later found to be needed--e.g., during another energy supply emergency--the basic raw data would continue to be available through monthly production reports and could be quickly pulled together and analyzed.

Accordingly, we recommend that you instruct the Director of the MMS to discontinue the collection and reporting of data on shut-in oil and gas wells on Federal lands, or--if the shut-in data is still considered to be needed in the present energy climate and the cost to accurately compile the data justifiable--direct the MMS Regional Offices to put forth the additional effort to keep the information forwarded to headquarters updated so that it properly reflects the shut-in situation.

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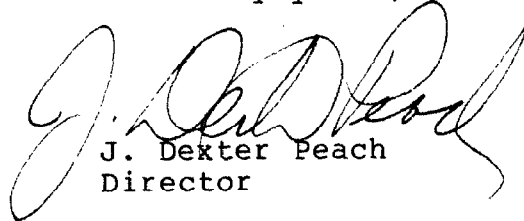
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the four committees mentioned above; the Chairmen of the energy-related Committees and subcommittees; the Director, Office of Management and Budget; and will make copies available to other interested parties upon request.

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We appreciate the courtesy and cooperation extended to our staff during the review and would appreciate being informed of any actions taken as a result of our recommendation.

Sincerely yours,



J. Dexter Peach
Director