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OCTOBER 24, 1983

B-202428

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

Subject: Congress Should Consider Eliminating Requirement  
for Interior's Report on Shut-in or Flaring Wells  
(GAO/RCED-84-19)

As required by section 601(b) of the Outer Continental Shelf (OCS) Lands Act Amendments of 1978, this is our fifth annual report to the Congress on the methodology used by the Secretary of the Interior in allowing offshore oil and gas wells to be shut-in (not producing) or to flare (burn off) natural gas. Shutting-in applies to oil and gas wells, while flaring applies only to natural gas. Our last three reports have questioned whether Interior's annual report on shut-in and flaring wells--also mandated by the 1978 amendments--continues to serve a useful purpose. We recommended that the Congress repeal section 15(1)(D) of the OCS 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 its annual report as well as the requirement that we annually evaluate the Secretary of the Interior's methodology. We continue to support this recommendation.

Eliminating the reporting requirement would not diminish Interior's responsibility for monitoring and regulating OCS lease activities to ensure efficient development of oil and gas resources. Our previous reports have shown that Interior needed to improve its oversight of shut-in and flaring wells. However, during our current review we found that Interior has taken appropriate action to implement our past recommendations and we did not identify any new issues.

#### FEDERAL RESPONSIBILITIES

The Department of the Interior has primary responsibility for monitoring OCS lease activities. Within the Interior Department, the Minerals Management Service (MMS) has the day-to-day responsibility for OCS management. MMS offices in Los Angeles, California; Anchorage, Alaska; Metairie, Louisiana; New York, New York; and Washington, D.C., have regional responsibilities for coordinating offshore activities.

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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 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 annually report to the Congress on shut-in and flaring wells. The report is to list all OCS wells shut-in or flaring, and indicate why each well is shut-in or flaring natural gas and whether the Secretary of the Interior intends to require production on the shut-in wells or order cessation of gas flaring. Interior's report is to be issued 6 months after the end of each fiscal year, and our report is to be issued 6 months after that date.

This review of Interior's fiscal year 1982 report to the Congress was conducted primarily at MMS regional office in Metairie, Louisiana, and MMS headquarters in Reston, Virginia. About 92 percent of the offshore wells producing oil and all of the offshore wells producing gas are located in the Gulf of Mexico, where the Metairie regional office has oversight responsibilities. We reviewed and evaluated Interior's methodology 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 previous annual report.<sup>1</sup> In addition, we also contacted staff members of Senate and House committees having oversight responsibilities for OCS matters regarding congressional actions taken to repeal Interior's reporting requirement. We conducted our review in accordance with generally accepted government auditing standards.

INTERIOR'S METHODOLOGY UNCHANGED

In our review of Interior's fiscal year 1982 report, we found that Interior's methodology for allowing OCS wells to be shut-in or to flare natural gas and its procedures for gathering data and preparing the annual report were the same as those followed in preparing the previous reports. Interior relies primarily on data submitted by well operators--data which are verified by MMS inspectors through routine onsite inspections of OCS wells--to prepare its 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 problems, depleted resources,

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<sup>1</sup>Interior's Report of Shut-In or Flaring Wells Unnecessary, but Oversight Should Continue (GAO/RCED-83-10), Oct. 5, 1982.

and low production pressure. Shut-in wells are required to be put back on production when the cause for the shut-in has been corrected. Interior's fiscal year 1982 report states that, as of September 30, 1982, shut-in wells totaled 2,661--an increase of 218 wells over the fiscal year 1981 total. The report points out that 6,835 wells were producing oil and gas as of September 30, 1982. This was an increase of about 5 percent over the fiscal year 1981 level.

Interior allows natural gas flaring under certain conditions, such as during safety-related emergencies, well purgings, valuation testings, and equipment failures. In an emergency, gas associated with an oil well may be flared without approval. However, when emergency flaring continues for 72 hours or exceeds 144 hours in a month, the well operator must notify MMS and obtain approval to continue flaring. Such flaring can be approved provided (1) the well operator has initiated a positive plan of action to eliminate the flaring or (2) flaring will result in an ultimately greater total energy recovery. The flaring of a gas-only well is strictly forbidden except for short-term (24 hours or less) well tests. Interior's fiscal year 1982 report shows that total gas flaring remained basically unchanged from the flaring in fiscal year 1981. Approximately 18 billion cubic feet of gas was flared during fiscal year 1982 or, in other terms, about 0.38 percent of the total offshore gas produced.

INTERIOR'S REPORT IS OF  
QUESTIONABLE VALUE TO THE CONGRESS

In our October 1982 report, we recommended that the Congress repeal the legislation requiring Interior's annual report. We continue to support repeal of this provision because it

- does not serve a useful purpose to the Congress;
- is less necessary in light of the full decontrol of oil prices in 1981 and since controls over natural gas prices are currently being phased out; 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 well operators might delay offshore oil and gas production in anticipation of decontrol and future higher prices associated with decontrol. To address this concern, the Congress required Interior to annually provide a list to the Congress of all shut-in wells and wells flaring natural gas. The report's objective is to indicate why each well is shut-in or flaring and whether the Secretary of the Interior intends to require production on the shut-in wells or to order the cessation of flaring. The

current report contains detailed statistical data, including adequate descriptive narrative on wellbores, well completions, and wells flaring natural gas, and fulfills the statutory reporting requirements of the OCS Lands Act and its 1978 amendments.

However, on the basis of our analysis of the report and discussions with Interior officials and congressional staff, the report no longer appears to serve a useful purpose to the Congress. Since the report was first issued in 1979, no congressional actions or hearings have occurred as a result of the data presented in the report. In addition, our contacts with key congressional committee staff indicated little or no interest in the report. Past and current reporting efforts have never presented any evidence of deliberate withholding of OCS resources or unnecessary flaring of natural gas. The report contains statistical data that are best used by the Interior Department to analyze shut-in and flaring trends rather than judge whether or not production is being deliberately withheld or whether gas is being flared unnecessarily.

In addition, the environment under which the requirement was enacted has changed, making continued reporting of questionable value. The requirement was enacted when full control over oil and natural gas prices was in effect. However, oil prices were completely decontrolled in 1981, and controls over natural gas prices are currently being phased out. Consequently, any incentives to withhold production in anticipation of higher prices resulting from decontrol have been largely eliminated. Industry and administration officials believe that price decontrol measures should generally provide the economic incentive necessary for increasing exploration and development of domestic oil and gas as well as for maintaining current levels of production. Under decontrol, producers of domestic crude oil may now charge world market prices for their products and higher well-head prices of crude oil yield higher returns to the industry. In fact, the number of producing oil and gas wells has gradually increased in recent years.

In addition, we continue to believe that the report's usefulness does not appear to justify its cost. The cost incurred by Interior to prepare its fiscal year 1982 report, together with the cost we incurred in reviewing and reporting on the report, totaled about \$250,000. Since the initial concerns which generated the reporting requirement have largely dissipated, the report's usefulness and value do not seem to justify its costs.

Two bills, S. 1967 and H.R. 7076, were introduced in the Congress in 1982; both bills would have repealed the requirements that Interior submit an annual report on shut-in and flaring wells and that we review and comment on Interior's report. However, no action was taken on Senate bill 1967. House bill 7076, as amended by the House Committee on Merchant Marine and

Fisheries, would have provided for several changes to the 1978 OCS Lands Act Amendments, including the repeal of Interior's and our reporting requirement. However, no action was taken by the House during the past session of Congress. We have discussed the need for repeal of the annual reporting requirements with Senate and House committee staffs. They agreed with this position but noted that current efforts in the Congress to eliminate these requirements have been overshadowed by other more pressing legislation.

#### INTERIOR'S ACTIONS TO IMPLEMENT OUR RECOMMENDATIONS

Repealing Interior's requirement 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. This monitoring is an integral part of Interior's efforts to ensure the efficient development of oil and gas resources. In our October 1982 report, we made three recommendations to the Secretary of the Interior for improving Interior's monitoring activities. Specifically, we recommended that Interior

- reinstitute procedures to compare its 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 excessive emergency gas flaring; and
- develop procedures to verify, on a timely basis, that long-term gas flaring ceases when it is expected to cease.

During this review, however, we found that Interior had taken appropriate actions in these areas, as discussed below, and we did not identify new issues.

#### Verification of operator- reported data

Last year, we recommended that MMS start comparing onsite shut-in well inspection reports again, at least on a selective basis, with the data submitted by well operators. These onsite visual inspections are the only means MMS has to obtain first-hand information on shut-in wells and to verify that the data submitted by operators are accurate.

In September 1982, the Metairie regional office reinstated the practice of requiring district-level inspectors to visually ascertain the shut-in status of wells during their routine inspections. The inspectors report the results of their platform visits to regional personnel. The regional staff then

compare the inspection reports with operator-reported shut-in data maintained by MMS in computer files. If discrepancies are identified, the operator is contacted to clarify information. As of June 1983, the Metairie regional office had verified the operator-reported data on all 2,631 shut-in wells in the Gulf of Mexico and requested clarification in approximately 60 cases. These cases related to clarification of reporting data and did not involve deliberate withholding of oil or gas production.

#### Monitoring of excessive gas flaring

In our previous report, we noted that MMS had discontinued its procedures for monitoring for excessive emergency gas flaring by well operators. Even though the total amount of gas flared on the OCS is very small when compared with the total produced, the majority of the gas flared--87 percent in fiscal year 1981--was attributed to emergency flaring. Thus, we recommended that MMS' review of excessive gas flaring should be reinstated as part of its monitoring activities.

The Metairie regional office reinstated a periodic review of excessive emergency gas flaring in August 1982. In monitoring emergency flaring, regional staff prepare and review a 6-month summary of gas flared by well operators. If the volume and percentage of gas flared indicate that an operator has been flaring excessively without approval, MMS will request an explanation from the operator. For example, for the 6-month period ending August 1982, MMS identified five operators that had excessively flared gas without approval and requested an explanation from each. In each case, the reasons given for flaring gas were found to be appropriate. MMS also followed up on these operators to ensure that the excessive emergency flaring had actually ceased.

#### Verification of long-term gas flaring cessations

Also, in our previous review, we noted that MMS was not verifying that long-term gas flaring actually ceased when the period of approved flaring expired. For example, we found that the period of approved flaring had expired on six different leases during the 18-month period between December 1980 through May 1982. Yet, MMS had verified flaring cessations through visits to production platforms on only two of the six leases. During this review, however, we found that the Metairie regional office had verified the cessations of long-term flaring at all 13 flaring wells scheduled to cease during the period June 1982 through June 1983.

#### CONCLUSIONS

A primary concern of the Congress in initially requiring that Interior submit an annual shut-in and flaring wells report

was to determine whether well operators were deliberately withholding production in anticipation of higher prices once controls were lifted. However, the environment under which the reporting requirement was enacted has changed. Legislation and administration actions to fully decontrol oil prices and to phase-out controls over natural gas prices make the report of questionable value, because the incentive to withhold production in anticipation of higher prices resulting from decontrol has been largely eliminated. Thus, given its limited value, the costs incurred by Interior in preparing the report and by us in evaluating it do not appear justified.

Abolishing the reporting requirement would not alter Interior's continuing responsibilities for inspecting and monitoring OCS lease activities to ensure efficient development of oil and gas resources. Interior has taken appropriate action on our prior recommendations for improving its oversight of shut-in and flaring activities in the OCS. We believe these procedures are adequate to effectively monitor these activities.

#### RECOMMENDATION TO THE CONGRESS

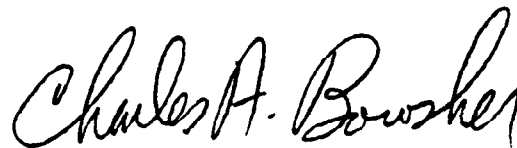
Accordingly, we recommend that the Congress repeal section 15(1)(D) of the OCS Lands Act, as amended, and sections 601(a) and (b) of the OCS Lands Act Amendments of 1978. These repeals would abolish the requirement for Interior's annual report on shut-in and flaring wells as well as our annual evaluation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

#### AGENCY COMMENTS

Interior's comments on a draft of this report are included as enclosure I. Interior, again, agrees with our recommendation to repeal the requirement for an annual shut-in and flaring report.

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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.



Comptroller General  
of the United States

Enclosure



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

AUG 23 1983

Mr. J. Dexter Peach  
Director, Resources, Community and  
Economic Development Division  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Peach:

We appreciate the opportunity to review your draft report entitled "Congress Should Abolish Requirement For Interior's Report on Shut-In or Flaring Wells."

The Department has previously supported your report's recommendation that the Congress abolish the requirement for Interior's annual report on shut-in and flaring wells. We continue to support this recommendation. We agree with the draft report and have no additional comments.

Sincerely,

Deputy William P. Pendley  
Assistant Secretary  
for Energy and Minerals