



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

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October 30, 1984

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

Subject: Interior's Report on OCS Shut-In and Flaring Wells
Is Unnecessary (GAO/RCED-85-10)

This is our sixth annual report to the Congress evaluating the methodology the Secretary of the Interior used in allowing offshore oil and gas wells to be suspended from production (shut in) or to burn off (flare) natural gas. (See enclosure I for a listing of our previous reports on these matters.) We believe that Interior's methodology is reasonable. In addition, we believe that Interior's annual report and our annual evaluation are no longer necessary.

Our last four reports questioned the usefulness of Interior's annual report on shut-in and flaring wells. In each of the reports, we recommended that the Congress repeal section 15(1)(D) of the Outer Continental Shelf (OCS) Lands Act, as amended, and sections 601(a) and (b) of the OCS Lands Act Amendments of 1978. These repeals would abolish the requirements that Interior annually report on such practices and that we annually evaluate the Secretary of the Interior's methodology.¹ We continue to support this recommendation.

Staff of oversight committees in both the Senate and the House told us that congressional interest in Interior's annual report does not warrant further reporting. Eliminating Interior's reporting requirement would not diminish Interior's responsibility to oversee OCS lease activities to assure efficient development of oil and gas resources and compliance with applicable laws, regulations, and lease agreements. We believe that Interior is effectively monitoring OCS shut-in and flaring well activity and Interior has stated that it will continue to do so even if the annual reporting requirement is repealed.

¹Interior's annual report is to be issued not later than 6 months after the end of each fiscal year, and our report is to be issued not later than 6 months after that date.

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OBJECTIVES, SCOPE, AND METHODOLOGY

Section 601(b) of the OCS Lands Act Amendments of 1978 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 Department of the Interior's Minerals Management Service (MMS), headquartered in Washington, D.C., has primary responsibility for monitoring OCS lease activities. Our review of Interior's fiscal year 1983 report to the Congress was conducted primarily at the MMS Gulf of Mexico OCS regional office in Metairie, Louisiana. About 92 percent of the 3,788 producing offshore oil wells and all but 4 of the 2,968 producing offshore gas wells are in the Gulf of Mexico.

We evaluated Interior's methodology for allowing OCS wells to be shut in or to flare natural gas. We examined applicable regulations; policies; procedures; and pertinent records, such as lease operator reports on shut-in and flaring wells, MMS platform inspection reports, and lease operator flaring requests to and approvals from MMS. In addition, we interviewed MMS regional officials responsible for Interior's oversight of shut-in and flaring wells. We also contacted the staff of the Senate and House committees having oversight responsibilities for OCS matters regarding congressional interest in Interior's annual report on OCS shut-in and flaring wells and actions taken or anticipated to repeal Interior's reporting requirement. (See enclosure II for a listing of the committees we contacted.) We conducted our review from May through June 1984 and in accordance with generally accepted government auditing standards.

WHY INTERIOR'S AND OUR
REPORTS ARE UNNECESSARY

We do not believe that Interior's annual report and our annual evaluation are necessary. We first questioned the usefulness of Interior's annual report in our 1980 report to the Secretary of the Interior. In each of our annual reviews of Interior's reports thereafter, we have recommended that the Congress repeal sections 601(a) and (b) of the OCS Lands Act Amendments of 1978 and section 15(1)(D) of the OCS Lands Act, as amended, which require that data on OCS shut-in and flaring wells be included in Interior's annual OCS leasing and production report. Interior has agreed with our position and told the Congress in September 1981 that, in its view, the shut-in and

flaring well data it annually provides to the Congress do not serve any useful purpose.²

To determine the purpose of the report when the reporting provision was enacted, we reviewed the legislative history of the OCS Lands Act Amendments of 1978. We found that the Congress was concerned that well operators might delay offshore oil and gas production in anticipation of decontrol and higher prices associated with decontrol. To address this concern, the Congress required Interior to annually (1) provide to the Congress a list of shut-in wells and wells flaring natural gas, (2) indicate why each well is shut in or flaring, and (3) indicate whether the Secretary intends to require production from the shut-in wells or order cessation of the flaring.

Since 1978, however, the situation has changed. When the reporting requirement was enacted, oil and natural gas prices were fully controlled. But, in 1981, oil prices were completely decontrolled. Further, controls over natural gas prices are currently being phased out. Therefore, the incentive to withhold production in anticipation of higher prices and the need for Interior to report on such activities have been eliminated.

In addition, Interior's annual reports have never presented evidence of deliberate withholding of oil or gas in anticipation of higher prices or any unnecessary waste of natural gas through flaring. As a result, since the first report was issued in 1979, no congressional action has been taken based on Interior's reports.

Further, Senate and House committee staff that we contacted said their committees and/or subcommittees have little or no interest in Interior's report. They stated that they do not anticipate any congressional action or hearings on OCS shut-in or flaring wells in the foreseeable future. Two bills were introduced in the 97th Congress (S. 1967 and H.R. 7076) to repeal the requirements that Interior submit an annual report on shut-in and flaring wells and that we annually evaluate Interior's report. However, no action was taken on either of the bills because, committee staff told us, efforts in the Congress to eliminate these requirements had been overshadowed by more pressing legislation. On September 5, 1984, H.R. 6189, which would eliminate the reporting requirements, was introduced in the Congress.

²Written 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/OCS, House Committee on Merchant Marine and Fisheries.

INTERIOR'S OVERSIGHT
CONTINUES

We believe that Interior is effectively monitoring shut-in and flaring wells on the OCS. Further, we believe that the methodology Interior used in allowing OCS wells to be shut in or to flare natural gas is reasonable. Interior relies primarily on data submitted by well operators, which is verified by MMS through routine on-site inspections of OCS wells. According to MMS Gulf of Mexico regional officials, Interior's present monitoring procedures will continue even if the annual reporting requirement is repealed.

Shut-in wells

Interior's fiscal year 1983 report states that, as of September 30, 1983, shut-in wells totaled 3,003, an increase of 342 over the number reported at the end of fiscal year 1982. Interior allows wells to be shut in for such reasons as safety, conservation, or pollution prevention. In addition, Interior may allow a well to be shut in to facilitate development, such as when the operator is awaiting (1) delivery or installation of equipment, (2) approval of a production permit by a government authority, or (3) development of special equipment to enhance production capability. Also, Interior may approve a well being shut in for lack of transportation facilities if the lease operator is waiting for completion of a pipeline or is unable to use pipeline facilities for reasons beyond the operator's control.

Most wells are shut in for reasons beyond the control of the lease operator, such as production obstructions, equipment failure, or reservoir pressure decline. Sand or water obstructing production is the primary reason for shut-in wells. Wells become loaded with sand or water, which prevents the flow of oil and gas into the production tubing.

In fiscal year 1983, pipeline curtailments resulting from decreased demand for natural gas accounted for about 20 percent of the shut-in gas wells. In the Gulf of Mexico, 319 gas wells were shut in because a market for the gas did not exist, and 156 gas wells were shut in due to the lack of a pipeline. According to the MMS Rate Control Section Chief, many of these wells came back on production during the winter months of 1983-84 because of the increased demand for natural gas brought about by extremely cold weather throughout the nation.

Interior requires operators to report monthly on the status of shut-in wells, including the reason a well has been shut in and an anticipated date that restoration attempts will commence. MMS regional office staff identify overdue restoration dates and

query operators about the status of these wells. MMS district field inspectors verify shut-in well status through platform checks and platform records. Regional office personnel compare field inspectors' reports with operators' reports to determine the reasonableness of nonproduction. In addition, regional office personnel review well histories retrieved from the MMS automated information system, which contains a complete record of each well. If unreasonable discrepancies exist between field inspectors' reports and operators' reports, MMS will send a letter of inquiry to operators to clarify the well status.

All OCS platforms--about 3,000 in the Gulf of Mexico--are inspected annually, according to the MMS Rate Control Unit Chief. During these visits, MMS inspectors visually observe and inquire about shut-in well status. During the 12-month period ending April 30, 1984, the Gulf of Mexico regional office sent 19 letters--concerning 88 wells--requesting operators to clarify discrepancies that MMS staff found. We reviewed documentation of MMS efforts to find and clarify discrepancies between its field inspectors' reports and lease operators' reports. Resolution of the discrepancies required only that data be clarified; deliberate withholding of oil or gas production was not involved.

Flaring natural gas

Interior allows flaring, or burning off, of natural gas during well purgings, evaluation tests, and safety-related emergencies caused by compressor or other equipment failure or for the relief of abnormal pressure buildup. Flaring of gas-well gas is forbidden except for short-term (24 hours or less) well tests. In an emergency, gas associated with an oil well may be flared without MMS approval. However, emergency flaring for a continuous period exceeding 72 hours or a cumulative period exceeding 144 hours in a calendar month requires MMS approval. Oil-well gas flaring during well purging and evaluation tests exceeding 24 hours also requires prior MMS approval. The flaring of oil-well gas may be approved for periods of up to 1 year provided (1) the operator has initiated a plan of action to eliminate the flaring or (2) adequate data are furnished to conclude that without flaring, the oil production lost would result in a greater total energy loss than if flaring was allowed and the oil was produced.

Interior reported that gas flaring increased in fiscal year 1983. About 21 billion cubic feet of gas, or about 0.5 percent of all gas produced, was flared, compared with approximately 18 billion cubic feet flared, or about 0.38 percent of the total offshore gas produced, in fiscal year 1982. About 95 percent of the increased gas flaring was associated with oil well flaring in the Gulf of Mexico. According to the MMS Rate Control Unit

Chief, this increase in oil-well gas flaring is the result of increased oil production in 1983.

The Metairie regional office staff periodically review a 6-month summary of gas flared by well operators to assure that flaring does not become excessive. If the volume and percentage of gas flared indicate that an operator has been flaring excessively without approval, MMS requests an explanation from the operator. For the 6-month period ending November 1983, MMS asked six operators to explain why they had flared gas in apparently excessive amounts. For example, one operator flared almost 16 percent of the oil-well gas produced from a lease in October 1983. However, when questioned by MMS staff, the operator said that the excessive flaring was necessary because of the loss of a compressor but a second, backup compressor had been installed that would minimize future flaring.

Interior's fiscal year 1983 report shows that approved flaring expired on 11 separate leases. MMS verified cessation of flaring in each case, but verifications were not always timely. For example, in two instances verification did not take place until about 3-1/2 months after approval had expired. Although verification should be done sooner, inclement weather or the unavailability of helicopter transportation sometimes causes delays, according to the Rate Control Unit Petroleum Engineer.

CONCLUSIONS

We believe that Interior's methodology for allowing offshore oil and gas wells to be shut in or to flare natural gas is reasonable. Further, we believe Interior's procedures are adequate to effectively monitor these activities. Interior intends to continue this oversight.

A primary concern of the Congress in initially requiring Interior to submit an annual report on shut-in and flaring wells was to assure that OCS lease operators were not deliberately withholding production in anticipation of higher prices. However, with the decontrol of oil prices and the phase out of controls over natural gas prices, the incentive to withhold production for later monetary gains has been eliminated. Further, we believe that Interior's report has not been useful to the Congress. Staff of key congressional oversight committees agreed. Therefore, both Interior's and our annual reports are no longer justified.

RECOMMENDATION TO THE CONGRESS

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

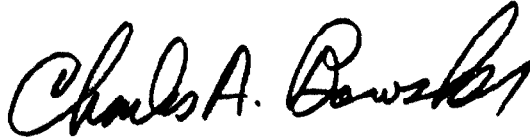
OCS Lands Act Amendments of 1978. These repeals would abolish the requirements for Interior's annual report on shut-in and flaring wells and our annual evaluation of Interior's methodology and subsequent report to the Congress.

AGENCY COMMENTS

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

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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

Enclosures - 2

GAO'S REPORTS CONCERNING INTERIOR'S
ANNUAL/SHUT-IN AND FLARING WELLS REPORT

REPORTS TO THE CONGRESS

Interior Lacks Adequate Oversight of Shut-In or Flaring Natural Gas Wells on the Outer Continental Shelf, EMD-80-3, Nov. 21, 1979.

Interior's Report of Shut-In or Flaring Wells Unnecessary, but Oversight Should Continue, EMD-81-63, Apr. 17, 1981.

Annual Report on Outer Continental Shelf Shut-In or Flaring Wells Is No Longer Needed, EMD-82-17, Nov. 19, 1981.

Interior's Report of Shut-In or Flaring Wells Unnecessary, But Oversight Should Continue, GAO/RCED-83-10, Oct. 5, 1982.

Congress Should Consider Eliminating Requirement for Interior's Report on Shut-In or Flaring Wells, GAO/RCED-84-19, Oct. 24, 1983.

REPORT TO THE SECRETARY OF THE INTERIOR

Followup on Actions Taken in Response to GAO's Recommendations Concerning the Department of the Interior's March 1979 Shut-In and Flaring Wells Report, EMD-81-23, Nov. 25, 1980.

SENATE AND HOUSE COMMITTEESCONTACTED FOR THIS REVIEW

To determine congressional interest in Interior's annual report on OCS shut-in and flaring wells and actions taken or anticipated to repeal Interior's reporting requirement, we contacted the following Senate and House committees having OCS oversight responsibilities.

- House Committee on Energy and Commerce.
- Subcommittee on Oversight and Investigations,
House Committee on Energy and Commerce.
- Subcommittee on Environment, Energy, and Natural
Resources, House Committee on Government Operations.
- Subcommittee on Panama Canal-OCS, House Committee on
Merchant Marine and Fisheries.
- Subcommittee on Energy and Environment, House Committee on
Interior and Insular Affairs.
- Subcommittee on Interior, House Committee on
Appropriations.
- Senate Committee on Energy and Natural Resources.
- Senate Committee on Governmental Affairs.
- Subcommittee on Interior, Senate Committee on
Appropriations.