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

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June 15, 1976

B-156603

The Honorable George Miller
The Honorable John Moss
House of Representatives

BEST DOCUMENT AVAILABLE

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Gentlemen:

This is in response to your letter of September 9, 1975, to the Comptroller General. Your letter asked about (1) oil company profits on Outer Continental Shelf (OCS) operations, (2) the Department of the Interior's offshore royalty accounting procedures, and (3) the relationship between major oil producers and the regulatory agencies of the Federal Government.

With respect to the first question, oil company profits on OCS operations, it was agreed with your offices that we would not undertake any work at this time since other studies of the matter were underway. Concerning the Interior Department's offshore royalty practices, we agreed to discuss with your representatives the scope of the Department's planned audit of offshore royalty accounting practices. As soon as the Department completes its audit plan, we will review it and meet with your representatives. This letter responds to the third area, concerning the relationship between the major oil producers and the regulatory agencies of the Federal Government.

Specifically, you asked about exceptions from regular accounting rules as well as any other requests from the oil companies for deviation from standard operating procedures. As discussed with your offices, we requested this information through a letter of inquiry (copy enclosed) to the following departments and agencies:

- --Environmental Protection Agency.
- --Federal Energy Administration.
- --Federal Maritime Commission.
- --Federal Power Commission.
- --Federal Trade Commission.
- --Department of the Interior.
- --Interstate Commerce Commission.
- --Department of Transportation.

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In addition, we obtained information from the Securities and Exchange Commission (SEC). Because we had supplied similar information concerning SEC to Congressman Moss in May 1975, we updated the information previously furnished.

We asked these agencies to furnish us with information on any requests for waivers, exceptions, exemptions, or modifications of agency rules and regulations or reporting requirements from September 1973 through October 1975. We also asked for information on any unsolicited requests by the companies for changes in rules or procedures before proposed rulemaking. We requested this information for the following 10 oil companies:

American Oil Company
Atlantic Richfield
Exxon
Gulf Oil Company
Mobil Oil Company
Shell Oil Company
Standard Oil (California)
Standard Oil (Ohio)
Sun Oil Company
Texaco

Although your request asked for all oil company requests for deviations from standard operating procedures, it is our understanding, based on discussions with your offices, that the point of interest was any deviation which could affect accounting procedures resulting in distorted financial reporting. In this regard, other than the action by SEC, of which you are already aware, we noted no instances which would appear to result in distortions of financial reporting. The following briefly summarizes the information obtained in response to our letter of inquiry. Copies of the detailed information received from each agency were previously furnished to your office.

Environmental Protection Agency (EPA) 2d

EPA received the following requests for changes to its established procedures.

--A request by the Offshore Operators Committee for an amendment to regulations to exempt certain discharges from drilling operations. The Committee represents the oil companies (mostly major companies) operating in the Gulf of Mexico. Pending submission of test data by the operators, EPA has taken no action.

--A request by Shell for a variance from petroleum effluent guidelines. EPA determined that this request was not sufficiently justified by the evidence submitted by Shell.

--A total of eight requests were made by Shell, Sun Oil, Texaco, Gulf Oil, and Atlantic Richfield for relaxation of sulfur in fuel requirements during and after the oil embargo. Nearly all were approved for periods of 30 to 90 days.

3 Federal Energy Administration (FEA) 75

In response to our inquiry, FEA did not provide any specific information; instead, it cited published decisions and orders, as well as agency files in general. We reviewed the published requests for exceptions, appeals, stays, and modifications of FEA rules and regulations. There were 181 requests, of which 33 were granted and 2 were partially granted. None of these actions involved procedures which would tend to distort financial reporting.

Although our request for information covered the period beginning September 1973, publication of these orders was started in March 1974. According to an FEA official, the nature of the requests before March 1974 was essentially the same as after they began to be published. During the oil embargo, most requests came from small retailers, whereas since that time, most requests have come from larger operators--refiners and producers. We discussed this matter with your offices, and it was agreed that because these FEA actions (dealing with smaller companies and/or nonaccounting matters) did not touch on your area of interest, it would not be necessary to search FEA files covering the earlier period.

4 Federal Maritime Commission (FMC) 70

No waivers, exemptions, exceptions, or modifications to standard operating procedures were requested.

5 Federal Power Commission (FPC) 258

Information furnished by FPC covered five areas with respect to requests for deviations from established FPC procedures.

--Atlantic Richfield, Gulf Oil, Mobil, Shell, Standard Oil (Ohio), and Sun Oil requested extensions for filing FPC Form 40 (Natural Gas Companies Annual Report of Proved Domestic Gas Reserves). The extensions ranged from 5 to 5-1/2 months and were granted on October 29, 1975.

--All 10 oil companies requested reconsideration of termination of 60-day and limited-term procedures for emergency sale of natural gas. The procedures were reinstated on September 9, 1974.

--Mobil Oil requested two extensions of 60-day emergency sales of natural gas. These were granted on September 10 and 11, 1973.

--Sun Oil, Gulf Oil, and Texaco each requested extensions of time to submit data or file forms. Extensions were granted on November 23, 1973, November 11, 1974, and June 19, 1975, respectively.

--Commission Order 491 extended for up to 180 days emergency sales of natural gas by all producers to interstate pipelines, to help consumers obtain adequate and reliable service for the 1973-74 winter season, but was challenged in the courts. Thus, some producers filed for individual extensions of 60-day emergency sales under the previous procedure. When order 491 was upheld, the extensions which had been granted were rendered moot. Companies filing for extension were: Texaco, Exxon, Mobil, Atlantic Richfield, Gulf Oil, Sun Oil, Standard Oil (Ohio), and Amoco.

With respect to 60-day emergency sales of natural gas, we previously reported to Congressman Moss that extensions to such sales were improper (B-180228, dated September 13, 1974).

Federal Trade Commission (FTC) 59

The FTC response dealt with four orders served on one or more of the oil companies, as well as many other firms, to file special reports--1973 and 1974 Line of Business Reports, Natural Gas Reports, and Corporate Patterns Report. In response to the orders, various companies, including some of the oil companies, filed motions to quash the orders. Companies filing included Atlantic Richfield, Exxon, Gulf, Mobil, Shell, Standard Oil (California), Texaco, Standard Oil (Ohio), and Amoco. All the motions were denied.

Department of the Interior

The Department received a number of requests for deviations or modifications of established drilling, operation, and maintenance procedures on oil and gas leases, both offshore and onshore. Most of these dealt with testing requirements or modifications of oil or gas well equipment. Offshore, there were about 1,400 requests, dealing with such matters as type of subsurface safety device, drilling platforms and structures, pipelines, and production rates. Onshore, there were 25 requests, mostly dealing with drilling or production procedures. Nearly all these requests were granted. None of those granted distorted financial reporting.

7 <u>Interstate Commerce Commission (ICC)</u> 72

ICC reported 12 requests for deviations to established procedures, all pertaining to onshore operations. Six of these pertained to the following accounting matters.

--Amoco Pipe Line Company requested approval to use the equity method of accounting for investments in subsidiaries in books of account as well as for financial reporting purposes. This request was approved on January 2, 1975.

--Gulf Refining Company and Arapahoe Pipe Line Company (Atlantic Richfield) asked for approval to use computer output microfilm systems for record retention requirements. The requests were approved on July 2, 1975. (On October 29, 1975, all carriers were granted similar authority.)

--A request by the Sun Pipe Line Company to record "Ad Valorem Tax" on an as-paid basis was denied on May 7, 1974.

--The Mobil Oil Company, for its Mobil Pipe Line Company and Wolverine Pipe Line Company, made requests to increase the minimum amount for capitalization to $500. These requests were approved on August 12 and November 4, 1974, respectively.

The other six requests pertained to rate establishment or publication and did not affect accounting procedures.

8 <u>Department of Transportation</u> 29

Only the Coast Guard and the Materials Transportation Bureau of the Department received requests from oil companies to modify existing procedures or establish new rulemaking.

The Coast Guard is responsible for regulating U.S. recreational and commercial fleets and protecting and controlling inland, offshore, and marine environment, including pollution by substances other than oil, such as waste discharges by ships.

Requests were received concerning temporary waivers of discharge containment regulations, emergency facility shutdown, use of a computerized payroll system, and extension of time to submit a design drawing for a ship and for authorization of a chemical shipment. Most of these were approved.

The Materials Transportation Bureau has jurisdiction over the shipment of hazardous materials, including containers and labeling, and the issuance of permits for the transport of hazardous materials.

--Texaco and the Exxon Pipeline Company requested waivers from compliance with lettering and marking requirements of the pipeline safety regulations. The Texaco request was denied; the Exxon request was pending at the time the Department responded to our inquiry.

--Mobil and Shell both had petitioned for new rulemaking with respect to hazardous substance packaging. Both requests were pending when the Department responded to our inquiry.

--Amoco, Atlantic Richfield, Exxon, Gulf Oil, Mobil, Shell, Texaco, and Sun Oil all made various requests for hazardous substance transport permits. These were in accordance with regulations requiring permits for such shipments and were granted.

9 <u>Securities and Exchange Commission</u> 199

A basic purpose of SEC is to require companies with publicly held securities to make adequate disclosures of financial and other information relevant to investors and the public. SEC does not prescribe standard operating procedures for the companies under its jurisdiction. SEC has not exempted oil companies from its regular information disclosure requirements, except for the five waivers affecting the reporting for Aramco and the Shell subsidiary which is discussed below.

SEC requires companies with publicly held securities to provide separate financial statements for significant unconsolidated subsidiaries. Requesting waivers to this reporting requirement were the then four owners of Aramco (Mobil Oil, Standard Oil (California), Texaco, and Exxon) and the "Shell" Transport and Trading Company, Limited, which operates a subsidiary similar to Aramco in Nigeria.

These five companies are the only companies which have requested and been granted waivers to the reporting requirement for significant unconsolidated subsidiaries. A May 1974 GAO report[1] stated that SEC's decision to grant the reporting waivers was a reasonable exercise of regulatory judgment.

Although the certified public accountants which audited Aramco's 1974 financial statements could not definitely determine how the ownership percentages were changing, the accountants viewed the subsidiary's statements under the assumption that the Saudi Arabian Government had, during 1974, acquired a substantial majority interest.

The accountants noted that further discussions were being held which might lead to an increased Saudi Arabian Government interest. Should the interests of Mobil, Standard, Texaco, and Exxon continue to diminish, Aramco could lose its status as a significant subsidiary to the oil companies. This change would make it unnecessary for SEC to continue its waivers pertaining to Aramco reporting.

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We trust that the foregoing information is responsive to your needs, as discussed with your offices.

Sincerely,

Phillip S. Hughes

Phillip S. Hughes
Assistant Comptroller General

Enclosure

[1] Letter report to Congressman Moss, B-181217, May 29, 1974.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

DEC 16 1975

The Honorable Thomas S. Kleppe
Secretary, Department of the Interior
Washington, D.C. 20240

Dear Mr. Secretary:

The General Accounting Office has been requested by the Chairman, Subcommittee on Oversight and Investigations, House Committee on Interstate and Foreign Commerce, and Representative George Miller, a member of the Ad Hoc Select Committee on the Outer Continental Shelf, to review the relationship between major oil companies and Federal regulatory agencies with particular emphasis on whether requests have been made by the companies for waivers and/or modifications of rules and regulations.

The purpose of this letter is to request that the Department of the Interior furnish us with information on any request for waivers, exceptions, exemptions, or modifications of agency rules and regulations or reporting requirements during the period September 1973 through October 1975. Any unsolicited requests by the companies for changes in the Department's rules or procedures prior to issuance of proposed rulemaking, should also be included. In all cases where such requests have been made we would like you to furnish the disposition of the request and dates action was taken. For purposes of this request the following companies are considered the major oil companies:

American Oil Company	Shell Oil Company
Atlantic Richfield	Standard Oil (California)
Exxon	Standard Oil (Ohio)
Gulf Oil Company	Sun Oil Company
Mobil Oil Company	Texaco

Where feasible we would appreciate your separating out actions pertaining to Outer Continental Shelf matters.

We would appreciate receiving your response to this request within thirty days.

If you have any questions concerning this request or problems in complying with it in the requested time, please contact Mr. Richard Chervenak or Mr. Mark Gebicke of our Office of Special Programs on 961-8375.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director