GAO Highlights

Highlights of GAO-17-642T, testimony before the Subcommittee on Energy and Mineral Resources, Committee on Natural Resources, House of Representatives

May 2017

OFFSHORE OIL AND GAS RESOURCES

Information on Infrastructure Decommissioning and Federal Financial Risk

Why GAO Did This Study

Oil and gas produced on federal leases in the Gulf are important to the U.S. energy supply. When oil and gas infrastructure is no longer in use, Interior requires lessees to decommission it so that it does not pose safety and environmental hazards. Decommissioning can include plugging wells and removing platforms, which can cost millions of dollars. Interior requires lessees to provide bonds or other financial assurances to demonstrate that they can pay these costs; however, if lessees do not fulfill their decommissioning obligations, the federal government may be liable for these costs.

This statement describes offshore oil and gas infrastructure in the Gulf and Interior's requirements and procedures for overseeing decommissioning, and the risks posed by its financial assurances procedures. This statement is based on GAO-16-40 from December 2015. For that report, GAO reviewed agency regulations and procedures and interviewed officials from Interior, credit rating agencies, academia, and trade associations. GAO also followed up on the implementation status of the report's recommendations.

What GAO Recommends

Among other recommendations, GAO recommended in GAO-16-40 that Interior complete plans to revise its financial assurance procedures to address risks posed by these procedures. Interior concurred with GAO's recommendations and has taken or described planned actions to address the recommendations, which GAO will continue to monitor.

View GAO-17-642T. For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

What GAO Found

As GAO reported in December 2015, offshore oil and gas infrastructure in the Gulf of Mexico (Gulf) varies in size and complexity, and lessees have installed and removed thousands of structures over the past half century. The simplest structures are found in shallow water and include a caisson, which is a cylindrical, large diameter steel pipe enclosing a well. A more complex structure in shallow water is a fixed platform, which uses a jacket and pilings to support the superstructure, or deck. A typical platform is designed so that multiple wells may be drilled from it. Structures in deep water rely on other methods to anchor to the ocean floor, such as using a narrow, flexible tower and a piled foundation. From 1947 through 2014, lessees drilled over 50,000 wells and installed over 7,000 structures in the Gulf. Over the same time period, lessees plugged almost 30,000 of these wells and removed about 5,000 of these structures. Oil production from deepwater wells increased significantly in recent decades, and in 2014, over 80 percent of Gulf oil production occurred in deep water.

The Department of the Interior (Interior) requires lessees to decommission offshore oil and gas infrastructure, and according to GAO's December 2015 report, Interior developed procedures for overseeing the decommissioning of offshore oil and gas infrastructure and estimating costs associated with decommissioning liabilities. According to Interior regulations, lessees must permanently plug all wells, remove all platforms and other structures, decommission all pipelines, and clear the seafloor of all obstructions created by the lease and pipeline operations when the lessee's facility is no longer useful for operations. Lessees must also permanently plug wells and remove platforms within 1 year after a lease terminates. According to officials GAO interviewed for its December 2015 report, Interior's procedures for overseeing decommissioning and estimating costs associated with decommissioning liabilities included (1) identifying and tracking unused infrastructure, (2) reviewing lessee plans to decommission infrastructure, and (3) using different cost estimates for decommissioning in shallow and deep water.

Interior requires financial assurances from lessees to cover decommissioning liabilities, but GAO's December 2015 report found that Interior's financial assurance procedures in place at that time posed risks to the federal government. Under Interior's financial assurance procedures in place at the time, each offshore lease with a decommissioning liability had to be covered by a bond unless Interior determined that a lessee had the financial ability to fulfill its decommissioning obligations. Interior's procedures allowed it to waive its requirement for a lessee to provide a bond if the lessee passed a financial strength test. However, GAO found that of $38.2 billion in decommissioning liabilities as of October 2015, Interior held or required about $2.9 billion in bonds and other financial assurances, and had foregone requiring about $33.0 billion in bonds for most of the remaining liabilities. Prior GAO work has shown that the use of financial strength tests in lieu of bonds poses risks to the federal government. GAO recommended that Interior address this risk by following through on plans to revise its financial assurance procedures. Interior issued revised financial assurance procedures in July 2016 but, according to Interior, delayed implementing them in 2017 pending a six-month review process.