

# GAO Highlights

Highlights of [GAO-16-40](#), a report to congressional requesters

## Why GAO Did This Study

Oil and gas produced on federal leases in the Gulf of Mexico are important to the U.S. energy supply. Historically, most offshore production was in shallow water, but more than two-thirds of the more than 5,000 active oil and gas leases in the Gulf are now located in deep water. 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 could be liable for these costs.

GAO was asked to review Interior's management of liabilities from offshore oil and gas production. This report examines Interior's (1) procedures for overseeing decommissioning and estimating its costs, (2) procedures for obtaining financial assurances for these liabilities, and (3) challenges managing these liabilities. GAO reviewed agency regulations and procedures and interviewed officials from Interior, credit rating agencies, academia, and trade associations.

## What GAO Recommends

GAO recommends that Interior take several steps to improve its data system, complete plans to revise its financial assurance procedures, and revise its cost reporting regulations, among other things. Interior concurred with GAO's recommendations.

View [GAO-16-40](#). For more information, contact Frank Rusco at (202) 512-3841 or [ruscof@gao.gov](mailto:ruscof@gao.gov).

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## OFFSHORE OIL AND GAS RESOURCES

### Actions Needed to Better Protect Against Billions of Dollars in Federal Exposure to Decommissioning Liabilities

## What GAO Found

The Department of the Interior (Interior) has developed procedures to oversee the decommissioning of offshore oil and gas infrastructure and estimate costs associated with decommissioning liabilities but has not addressed limitations with its system for tracking cost estimates. According to officials, Interior's procedures include (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. However, inconsistent with internal control standards, Interior officials must manually enter cost estimates into Interior's main data system to override inaccurate estimates automatically calculated by the system. Without a more accurate data system, Interior does not have reasonable assurance that it will consistently estimate the costs associated with decommissioning.

Interior's procedures for obtaining financial assurances for decommissioning liabilities pose financial risks to the federal government, and Interior is planning to revise its procedures to address these risks but has not finalized its approach. As of October 2015, for an estimated \$38.2 billion in decommissioning liabilities in the Gulf, Interior officials identified about \$2.3 billion in liabilities that may not be covered by financial assurances. However, these officials were unable to determine the extent to which these data were valid due to limitations with Interior's data system, among other things. Of the remaining \$35.9 billion in decommissioning liabilities, 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 the remaining liabilities. Interior has procedures that allow it to waive its requirement for a lessee to provide a bond if the lessee passes a financial strength test. Prior GAO work has shown that the use of financial strength tests in lieu of bonds poses risks to the federal government. Interior recognizes the risks associated with its procedures, and Interior officials stated that they issued draft guidance to clarify their procedures in September 2015. Interior has not issued any final revisions to its procedures; therefore, it is too soon to evaluate the details of these proposed changes. Until Interior improves its ability to obtain valid data from its data system and revises and implements its financial assurance procedures, the federal government remains at increased risk of incurring costs should lessees fail to decommission oil and gas infrastructure.

Interior faces challenges managing potential decommissioning liability. For example, until December 2015, Interior did not have a requirement for lessees to report on costs associated with decommissioning activities in the Gulf. Instead, Interior contracted studies to obtain data on decommissioning costs, but some data were decades old. Federal internal control standards call for agencies to obtain information from external stakeholders that may significantly affect their ability to achieve agency goals. However, in December 2015, Interior issued final regulations (proposed in 2009) requiring lessees to report data on most, but not all, decommissioning costs to Interior. Unless and until Interior obtains accurate and complete data on decommissioning costs, Interior may not have reasonable assurance that its cost estimates of decommissioning liabilities in the Gulf are accurate, or that it is requiring sufficient amounts of financial assurance based on these estimates.