



GAO Report: Interior's Verification Methods Fail to Accurately Track Production

By: [Amy Mowry](#) and [Bret Sumner](#)

Over the past 18 months, oil and gas companies operating on federal lands have experienced a significant increase in investigations and enforcement actions instituted by the U.S. Department of the Interior, through the Office of Inspector General and/or the Bureau of Land Management. These investigations and enforcement actions have typically involved issues related to measurement, production verification, royalty reporting, and sales of liquids. These investigation and enforcement activities have generally been viewed as part of Secretary Salazar's Interior reform efforts, particularly in the wake of the 2008 Royalty-in-Kind "scandal" involving the Minerals Management Service in Lakewood, Colorado. A recent report issued by the U.S. Government Accountability Office (GAO) may also be another factor in this noticeable increase in investigation and enforcement activity by Interior.

Recently, GAO issued a report titled "Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes" (Report). The Report concludes that Interior's methods for verifying production volumes do not provide reasonable assurances of accuracy.

GAO conducted its study and investigation from October 2008 to March 2010. Through this effort, GAO identified a number of Interior shortcomings leading to reduced accuracy assurances in the measurement of oil and gas production volumes. GAO analyzed Interior's regulations and policies and data on oil and gas inspections, and also interviewed BLM personnel in Washington D.C., as well as state and field offices in Colorado, New Mexico, Utah, Montana and Wyoming. GAO also interviewed oil and gas company personnel and officials from other countries responsible for oversight of oil and gas production.

According to the Report, Interior's differing onshore and offshore measurement regulations and its varying approaches for developing and revising those regulations contribute to inaccuracy and inconsistency in oil and gas measurement, often resulting in inefficient and duplicative efforts. The Report faults Interior's current regulations for neither addressing nor offering an efficient method for approving new measurement technologies. Interior's failure to determine the extent of its authority over key elements of oil and gas production infrastructure, including meters and pipelines, has reduced assurances that royalty-bearing volumes are being accurately measured under current methods and has limited the verification of production.

GAO also criticizes Interior's inconsistent and ineffective policies for tracking where and how oil and gas are measured, leading to uncertainty about the location of measurement meters for oil and gas production from federal lands as well as in the measurements taken. Other criticisms include Interior's routine failure to achieve its annual accountability inspection goals, outdated technology and personnel management shortcomings in the production verification program, all of which factors contribute to the reduced assurance that oil and gas volumes are measured accurately.

GAO provides 19 recommendations to Secretary Salazar for improving the consistency and timely updating of measurement regulations and policies, clarifying jurisdictional authority over gas plants and pipelines, and providing appropriate and timely training for key measurement staff. In particular, to enhance consistency and efficiency of Interior's oil and gas measurement regulations and policies, Among other things, GAO recommends: a centralized staff with expertise in both onshore and offshore measurement with authority to increase onshore and offshore measurement regulations; annually review technology changes and recommend updates; and, provision of guidance on current regulations for measurement technologies and for appropriate measurement involving the commingling of federal oil and gas.

To provide greater assurance that key elements in the oil and gas production infrastructure are adequately overseen, the Report recommends that the Secretary determine the extent of Interior's authority over pipelines and other transportation methods for oil and gas produced under federal leases and over gas plants that process gas from federal leases, followed up with any appropriate clarification from Congress.

The Report makes additional recommendations for improved meter tracking, improved consistency in commingling agreements, improved realization of Interior's measurement and inspection program goals, improved personnel

training and management, and better integration of new measurement technologies and appropriate technology upgrades.

The Report may be accessed via this link:

<http://www.bwenergylaw.com/News/documents/GAO-10-313.pdf>

For additional information on the Report or Interior investigations or enforcement actions, please contact [Mike Wozniak](#) or [Bret Sumner](#).



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