OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

BUREAU OF LAND MANAGEMENT'S IDLE WELL PROGRAM

Report No.: 2016-EAU-061 January 2018

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Memorandum

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To: Michael Nedd
Acting Director, Bureau of Land Management

From: Mary L. Kendall
Deputy Inspector General

Subject: Final Audit Report – Bureau of Land Management's Idle Well Program
Report No. 2016-EAU-061

This memorandum transmits the findings of our evaluation of the Bureau of Land Management's (BLM's) idle well program.

We offer 11 recommendations to strengthen BLM's oversight of its idle wells. In its response to the draft report, BLM concurred or partially concurred with nine recommendations and stated that it is working to implement them (see Appendix 2). BLM did not concur with two recommendations. We modified these to meet the intent of our original recommendations while also addressing BLM's concerns. We consider all recommendations resolved but not implemented (see Appendix 3). We are forwarding our recommendations to the Office of Policy, Management and Budget to track their implementation.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions concerning this report, please do not hesitate to contact me at 202-208-5745.

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Results in Brief

The Bureau of Land Management (BLM) did not implement its 2012 Idle Well Review and Data Entry policy in a manner that resulted in a reduced number of idle wells, as the policy intended.

BLM is responsible for regularly reviewing idle wells and taking appropriate steps to timely reduce the idle well inventory. Idle wells pose notable financial risk to the U.S. Government and the taxpayer, as idle wells can fall into disrepair creating environmental, safety, and public health hazards. In addition, idle wells pose a risk of becoming orphaned, thus creating an undue financial burden on taxpayers to pay for plugging and reclaiming. Idle wells have the potential to cost taxpayers millions of dollars if not properly reviewed and managed.

We found various program management issues that have contributed to BLM's inability to reduce its idle well numbers. Specifically, BLM has not applied the correct definition of an idle well, which makes the Bureau unable to maintain an accurate inventory. BLM could not ensure required idle well reviews and approvals were performed, and BLM does not have specific guidance on the method and frequency for tests of idle wells. Finally, BLM monitors its idle wells using a database that is unreliable due to inaccurate well status and absence of necessary data fields.

We make 11 recommendations to help BLM better identify, manage, and reduce its idle well inventory, thus reducing the potential liability.

Introduction

Objective

Our objective was to assess whether the Bureau of Land Management's (BLM's) implementation of its 2012 Idle Well Review and Data Entry policy reduced its number of idle wells in accordance with policy. Specifically, we assessed whether BLM:

1. Maintained an accurate inventory of idle wells.
2. Developed a clear strategy for reviewing idle wells.
3. Ensured required idle well reviews, approvals, and tests were performed.
4. Maintained reliable idle well data.

Appendix 1 contains the scope and methodology for this evaluation.

Background

Section 349 of the Energy Policy Act of 2005 (EPAct), 42 U.S.C. § 15907, requires the Secretary of the Interior to remediate, reclaim, and close idle oil and gas wells on land administered by BLM. To accomplish this task, the EPAct authorized Congress to appropriate $25 million to BLM annually for fiscal years 2006 through 2010.

The Government Accountability Office (GAO) reviewed BLM's idle well program in 2011. GAO found inconsistent idle well reviews, poor idle well review monitoring, and inconsistent well records in BLM's Automated Fluid Minerals Support System (AFMSS). In addition, GAO found that most BLM offices had made very little progress reducing the Bureau's idle well inventory.

In response to GAO's report, BLM issued Instruction Memorandum (IM) 2012-181, "Idle Well Review and Data Entry into the Automated Fluid Minerals Support System," dated September 5, 2012. The IM updated policy to ensure that BLM field offices regularly reviewed all Federal and Indian idle wells, and reduced its idle well inventory in a timely manner. The IM also provides instructions for the data entry of idle well review information into the Automated Fluid Minerals Support System.

Consistent with 42 U.S.C. § 15907(e), IM 2012-181 defines an idle well as "any well that has been non-operational for at least 7 years and has no anticipated beneficial use during the lease term." BLM is responsible for ensuring that idle wells are plugged and abandoned, with surface disturbances reclaimed.

At the start of our evaluation in August 2016, BLM's idle well inventory totaled 4,618 wells, consisting of 2,854 identified as shut-in (SI) and 1,764 identified as temporarily abandoned (TA). An SI well is considered physically and mechanically capable of producing in paying quantities, though low market value for its product or transportation (pipeline) availability issues result in nonproduction. A TA well is no longer capable of producing in paying quantities but could be used for future purposes, for example, as a water injection well.

Findings

During our assessment of BLM's Idle Well Review and Data Entry policy (IM 2012-181), we found BLM's implementation of the policy did not achieve its intended result of reducing the number of idle wells. At the end of fiscal year 2013, the number of reported idle wells in BLM's inventory was 4,546 and, as of August 2016, it was 4,618. BLM's inventory of idle wells, however, is not accurate because of BLM's deficient implementation of IM 2012-181. Specifically, in reviewing the management of idle wells, we found BLM:

1. Did not have an accurate inventory of idle wells.

2. Did not have a clear strategy for conducting idle well reviews.

3. Could not ensure required reviews and approvals were performed and does not have sufficient guidance for tests of idle wells.

4. Used unreliable data in managing idle wells.

BLM's management and reduction of its idle well inventory helps ensure that idle wells do not fall into disrepair, a condition that potentially could create environmental, safety, and public health hazards. In addition, idle wells pose a risk of becoming orphaned. Orphaned wells do not have a responsible or liable party, thus creating an undue financial burden on taxpayers to pay for plugging and reclaiming. For example, one BLM field office we visited anticipated that 97 idle wells would become orphaned in the near future. Each of these wells would cost approximately $15,000 to plug and abandon, then reclaim, for a total of almost $1.5 million. The companies' bonds to cover these activities totals only $150,000, leaving taxpayers responsible for the remaining $1.35 million.

Inaccurate Idle Well Inventory

BLM did not maintain an accurate inventory of its idle wells. The Bureau did not apply the complete definition, as identified in policy. BLM's policy, IM 2012-181, and 42 U.S.C. § 15907(e) defines an idle well as any well that has been non-operational for at least 7 years, and there is no anticipated beneficial use for the well. While the policy contains two requirements that must be met for a well to be defined as idle, BLM only uses the first part of this definition when determining and monitoring its idle well inventory. BLM identified as idle all wells that had been nonoperational for at least 7 years. It did not consider the beneficial use portion of the definition.

Applying only half of the definition causes BLM to overstate the idle wells on its inventory, making it unable to determine the actual number of idle wells that comprise its inventory and identify the true financial risk to the Government. In addition, BLM cannot properly prioritize its idle wells using an inaccurate

inventory. When we asked BLM employees to determine their idle well inventory based on the full definition, we learned that their inventories could be overstated by as little as 20 percent or as high as 95 percent.

To have an accurate inventory, BLM should identify those wells that do not have a future beneficial use. BLM, however, has not provided guidance on determining and documenting future beneficial use. A well can be nonoperational for an extended period, but still not "idle" until the full definition is applied, because of its potential for future beneficial use. Although BLM's Washington Office asserted that some field offices are conducting beneficial use analysis and documenting such actions, we visited 3 field offices and examined 57 idle well case files without finding one instance where BLM staff performed a future beneficial use analysis. What we did find was that an operator would claim a well could produce in paying quantities (one potential determinant of beneficial use), but that BLM field office staff would not always verify the operator's claim.

Since BLM provides no guidance to help staff determine and document if a well has future beneficial use, beneficial use will continue to go undetermined and undocumented. As a result, wells will not be properly prioritized, plugged, and abandoned according to existing guidance.

Recommendations

We recommend BLM:

1. Develop and maintain an idle well inventory that reflects the EPAct and IM 2012-181 definition of an idle well.

2. Develop and implement guidance or update IM 2012-181 to provide field offices with criteria for determining and documenting future beneficial use.

No Clear Strategy for Reviewing Idle Wells

We found that BLM has no clear strategy for conducting its idle well reviews, even though it has a thorough strategy in place for performing idle well inspection and enforcement activities. BLM employees monitor the idle wells in their inventory by performing both reviews and inspections. A significant distinction exists, however, between an idle well review and an idle well inspection. Covered by IM 2012-181, idle well reviews examine the well's down-hole condition. In contrast, idle well inspections are covered in BLM's Inspection and Enforcement (I&E) IMs (not in IM 2012-181), and focus on all aspects of the well as determined from the well surface.

We notified BLM of our finding in a Notice of Potential Findings and Recommendations (NPFR). In response BLM stated it had a priority strategy and a plan to manage idle wells in IM 2007-192, "Priority Ranking for Orphaned and Idled Wells;" Section 349(b) of the Energy Policy Act of 2005 (EPAct). The IM requires field offices to prioritize idle wells based on percentage of idle to active wells; number of years the well has been idle; and environmental, safety, and public health concerns. It also requires each field office to develop an action plan to have its idle wells plugged and abandoned, or returned to production.

BLM did not implement this guidance in the field, nor does it address the strategy for prioritizing idle well reviews, causing BLM's idle well review strategy to be inconsistently applied across the Bureau. During our evaluation, we found that two field offices prioritized reviews based on the operator's reputation, while two others did not prioritize reviews. Of the two that did not prioritize reviews, one field office reviewed files only when an operator contacted BLM; the other has not conducted reviews in the past 2 years.

Since BLM has a thorough idle well I&E strategy, this strategy could be used by the Bureau to improve completion and management of idle well reviews. The idle well I&E strategy requires a specific number of annual inspections, while also detailing priority ranking instructions for those inspections to ensure targets are met. Furthermore, combining the idle well review strategy and idle well I&E strategy would allow the down hole and surface of a well to be evaluated simultaneously, giving BLM more complete data on the well.

Recommendation

We recommend BLM:

3. Develop and implement a well review strategy for nonoperational wells in coordination with BLM's I&E strategy.

Problems Identified with Reviews, Approvals, and Tests of Idle Wells

Although BLM's policy required systematic idle well reviews, we found an ineffective process to track and report progress. In addition, we found BLM management has not ensured that wells classified as temporarily abandoned (TA) have been reapproved every 12 months as required for them to maintain this status. We also found that BLM has no specific guidance on the method and frequency of well integrity tests.

Idle Well Reviews

BLM could not accurately report what reviews had been performed on its idle wells. BLM policy states "that all Federal and Indian wells are regularly reviewed

by BLM field offices and that appropriate steps are taken to timely reduce BLM's idle well inventory." The IM also requires a field office's authorized officer to evaluate every shut-in[1] well at least once every 5 years and review all idle wells 25 years or older by March 29, 2013. If accomplished, every shut-in well, whether idle or not, would be reviewed within 5 years; TA wells that are idle would be reviewed every 12 months in accordance with the IM; and wells idle for 25 years or more would be reviewed for potential action.

Currently, BLM can only track and report its progress in this area by using field office spreadsheets, coupled with AFMSS records, since AFMSS cannot provide an idle well tracking report. Using spreadsheets and AFMSS data have made it difficult, however, for BLM to demonstrate proper oversight. For example, BLM headquarters personnel informed us that they did not meet their self-imposed requirement to review all idle wells 25 years or older by March 29, 2013. They had difficulty meeting this requirement because of unreliable and unavailable AFMSS data, as well as other AFMSS limitations. Specifically, AFMSS cannot provide an idle well review tracking report. BLM's headquarters personnel had to ask State offices how many wells had been reviewed and then had to summarize those results in a spreadsheet.

Ensuring these reviews are performed is important since reviews facilitate communication with the operator of idle wells. This communication also can lead to operator action, whether that action is plugging a well or bringing it back into production. If BLM does not actively ask about an operator's nonoperational wells, then the operator tends to wait until forced to make a decision about well status based on economics or regulatory pressure.

BLM staff stated they believe improved oversight of reviews could be handled through the Management Information System (MIS), a budget tracking system that helps management meet goals and targets. Without proper oversight of idle well reviews, BLM cannot ensure that idle well review goals are met. In response to our draft report, BLM officials stated that they believe the AFMSS and the AFMSS 2 database, currently in development, are the appropriate databases for monitoring and tracking SI and idle well reviews.

We also found inconsistency among field offices performing idle well reviews. In fact, each field office we visited conducted an idle well review differently. One field office simply verified that a well had been in nonoperational status for 7 years, while another field office performed a more detailed analysis of such factors as a well's capability to produce in paying quantities.

These inconsistencies occurred because BLM provided vague guidance. IM 2012-181 states only that BLM needs to provide "policy and guidance for conducting

[1] A shut-in or SI well is one that is physically and mechanically capable of producing in paying quantities but not currently in use for production, either because of low market value for its product or because of pipeline and other transportation issues.

idle well reviews of oil and gas operations on Federal and Indian leases." Specifically, the policy requires "review [of] every SI well located on Federal and Indian lands every five (5) years, with a priority placed on idle wells." The IM, however, does not specifically outline how to conduct and document these reviews. In addition, BLM has no supplemental guidance to address the review process.

BLM noted in its response to our NPFR, dated November 25, 2016, that the Bureau provides detailed guidance on idle well reviews in IM 2007-192 and its recent IM 2016-151, dated September 12, 2016. While IM 2007-192 guides how to prioritize idle wells and requires that a plan be developed to reduce the number, it offers no suggested steps on how to conduct an idle well review. In addition, field staff did not mention using this IM to conduct their reviews.

We found no evidence that IM 2016-151 was being used in the field for idle well reviews. After the IM was created on September 12, 2016, we visited two field offices where we found that staff made no mention of using the IM when conducting idle well reviews. We also analyzed IM 2016-151 to see if it addressed how to conduct a well review, and determined that it did not. Field office staff informed us that having guidance on this topic would be useful.

Since BLM has not established guidance or procedures with which to conduct an SI well review, with a priority on idle wells, BLM management cannot ensure its field offices are conducting the appropriate reviews to manage their idle well inventories or taking appropriate steps to reduce those inventories. Without an organized, consistent review process, wells remain on BLM's idle well inventory for many years. For example, we received BLM-provided idle well inventory data, identifying wells that have been nonoperational for more than 100 years.

Recommendations

We recommend BLM:

4. Monitor and track SI reviews of its idle wells in a management system.

5. Develop and implement guidance or update IM 2012-181 on how to conduct and document an SI review on its idle wells.

Temporarily Abandoned Well Approvals

BLM management has not ensured that wells classified as temporarily abandoned (i.e., a well that can no longer produce in paying quantities but may be used for another function in the future) have been approved as required. This is because BLM has no oversight process with which to monitor or track a well's continual TA status. IM 2012-181 states wells cannot be in TA status longer than 30 days without BLM approval. When the operator justifies TA status to BLM, the Bureau

may provide approval for a period not to exceed 12 months. Offices may approve an additional 12-month request if it is supported by an acceptable, documented justification. BLM Officials in response to our draft report stated that AFMSS and AFMSS 2 are the appropriate databases to track TA well approvals.

None of the eight wells we reviewed that had received TA status had the proper approvals, thus demonstrating that BLM management has not followed policy requirements necessitating this review step. Without proper BLM oversight, operators can maintain wells in TA status for years without justifications. We found wells in TA status that had not received proper approvals for almost 10 years. Although not following through to require justifications every year makes BLM's administration of these wells easier for their operators, it also artificially inflates BLM's idle well inventory. This creates the appearance of unreliable inventory numbers while allowing operators either to choose their own time to reactivate wells on Federal lands or allow them to maintain wells in TA status to postpone potential need for plugging and abandoning them as long as possible.

Recommendation

We recommend BLM:

6. Monitor and track TA approvals in a management system to ensure all TA wells are approved every 12 months.

Mechanical Integrity Tests

IM 2012-181 does not offer specific guidance on the method and frequency of conducting mechanical integrity tests (MITs). It references 43 C.F.R. § 3162.4-2(b) as the criteria for these tests. This regulation is vague, however, using terms such as "when needed" and "periodic" to describe the frequency of MITs conducted by an operator on a completed well. The criteria also states, "the method and frequency of such well tests will be specified in appropriate notices and orders." Ultimately, IM 2012-181 does not provide field offices the leverage to make an operator conduct an MIT since it does not have instructions on the method, frequency, and how to proceed with a notice or order.

MITs ensure the integrity of well casings, tubing, and other mechanical devices by determining that the well is capable of production without significant leakage, a factor that could also be used as a future beneficial use determinant. BLM field office employees told us that performing MITs to judge the integrity of the well assists them in managing their idle well inventory; however, they have received no specific guidance on how or when to conduct the tests. In addition, they added that having a nationwide BLM requirement to conduct an MIT every 5 years, as some States already require, would be beneficial.

Currently, BLM finds it difficult to require MITs for nonoperational (i.e., idle) wells because the expense of the test causes operators to argue against it. To ensure that tests are conducted on nonoperational wells at reasonable intervals, BLM needs to implement nationwide guidance.

Without having these test results available to them, BLM staff cannot be certain that a nonoperational well is environmentally sound and capable of production. Further, the test would give BLM the information necessary to require issues to be corrected or the well plugged and abandoned, ultimately reducing both the idle well inventory and the Government's liability in the future.

Recommendation

We recommend BLM:

7. Develop and implement guidance or update IM 2012-181 to require MITs on SI and TA wells at specific periods. This frequency should consider multiple factors, including the passage of time, similar to State laws that require the test every 5 years.

Need for Reliable AFMSS Data to Manage Idle Wells

BLM monitors its idle wells using an AFMSS database. We found the database to be unreliable due to inaccurate well status and absence of necessary data fields. These conditions occur even though BLM guidance and the regulations require accurate, complete data to manage idle wells.

IM 2012-181 states, "field offices must ensure data are entered into AFMSS both timely and completely" with regard to well reviews. BLM regulations also require using accurate, reliable, and useful information when preparing resource management plans.[2]

Reliable AFMSS data is critical to BLM's management and reduction of its idle well numbers. BLM cannot determine its true inventory of idle wells, however, because of unreliable data in AFMSS. Specifically, BLM field offices cannot ensure proper idle well reviews or demonstrate a reduction in its inventory, based on such data. Moreover, BLM's Washington Office cannot verify that requirements or targets are being fulfilled and, thus, cannot perform meaningful, year-by-year comparisons. For example, in response to our NPFR, BLM reported three field offices had decreased their idle well inventories during the scope of our evaluation. Their assertion cannot be relied upon due to questionable AFMSS data.

[2] 43 C.F.R. §§ 1601.0-5 (defining "high quality information"); 1610.1-1(c) (requiring the use of "high quality information" in preparation, amendment, and maintenance of the plans).

Well Status

BLM is not updating AFMSS with accurate well status data in a timely manner. Of the nine well sites we visited, only two had the correct status listed in AFMSS.

Although BLM has access to production data stored in systems maintained by the Office of Natural Resources Revenue (ONRR), such as the Oil and Gas Operations Report (OGOR), AFMSS is not updated automatically with such production data and well status. Currently, BLM staff members update AFMSS manually during a well review or as needed. This provides an untimely picture within AFMSS of each well's status for the idle well report. Field office staff believe that automating this procedure would be beneficial.

Numerous idle wells in the inventory obtained from BLM had an OGOR well status inconsistent with the AFMSS well status. Out of the 4,618 wells in BLM's 2016 reported idle well inventory, 1,806 wells (40 percent) in AFMSS had a status that differed from the OGOR status. Of the 1,806 wells with the mismatched well status, 362 wells were either plugged and abandoned or are currently producing according to the OGOR. Updating the status in AFMSS with OGOR data would allow BLM to remove the 362 wells immediately from its idle well inventory.

AFMSS also is not accurate because operators can submit a single Sundry Notice (a written notice used by an operator to officially communicate with BLM) for both actions of plugging and reclaiming a well. This allows plugged wells to remain part of BLM's idle well inventory for months or years before removal. In one field office, we identified well case files containing wells that had been plugged, even though the wells were identified as TA in AFMSS. The field office staff informed us they could not change the well status in AFMSS until the wells had been fully reclaimed. This occurred because the Sundry Notice for the wells had been written to require plugging and reclamation before the notice could be closed and the well status changed.

Necessary Data Fields

We found that AFMSS does not have the necessary data fields to properly categorize idle wells. One field office knowingly categorizes wells incorrectly in AFMSS to adjust its idle well inventory numbers. The field office changed the status of certain idle wells to plugged, even though the wells remained idle, because staff thought that the change better represented their inventory. Staff determined the wells could not be plugged because individual wells were able to produce from a different down-hole zone. AFMSS does not have a well code to separate nonproductive wells with future beneficial use from those without future beneficial use.

Furthermore, BLM identifies an idle well as one that AFMSS categorizes as SI or TA, and that has remained in that category for 7 or more years. By BLM's definition, all SI and TA wells have future beneficial use because they either can

produce in paying quantities or have future value as a service well. This interpretation contradicts the idle well definition that an idle well should have no future beneficial use (see EPAct and IM 2012-181). An additional data field in AFMSS could help identify true idle wells, those nonoperational wells without future beneficial use, to ensure the accuracy of BLM's idle well inventory. BLM would then be able to focus on plugging and reclaiming those wells once it has an accurate inventory.

In addition to not having an AFMSS data field signifying future beneficial use, AFMSS uses the current status date instead of the nonoperational date to identify the 7-year idle well status requirement for reporting. Use of the current status date could allow a well to be nonoperational for almost 14 years before it appears in BLM's idle well inventory. For example, if a well that has been SI for almost 7 years is changed to TA status (or vice versa), the 7-year timeframe resets, meaning that another 7 years will pass before the well appears in BLM's idle well inventory. This method is contrary to EPAct and IM 2012-181, which identify the 7-year timeframe start as the date the well becomes nonoperational. BLM, therefore, must be able to report the nonoperational date to better identify idle wells in its inventory.

Recommendations

We recommend BLM:

8. Develop and implement automated procedures so that a well's status in AFMSS reflects its production status reported to ONRR in the OGOR.

9. Develop and implement policy requiring operators to submit Sundry Notices for plugging and reclamation separately.

10. Add proper categories to AFMSS to track idle wells (e.g., future beneficial use and nonoperational date).

11. Develop and implement a quality control process to identify inaccurate or incomplete data in AFMSS.

Conclusion and Recommendations

Conclusion

BLM's implementation of its 2012 Idle Well Review and Data Entry policy has resulted in little progress in reducing the idle well inventory. Further, BLM has not designed and implemented a comprehensive idle well review strategy, thus doing little to ensure that all Federal and Indian wells are regularly reviewed and appropriate steps are taken to reduce BLM's idle well inventory in a timely manner. Although idle wells in BLM's inventory are approximately 5 percent of its total well numbers, improperly managed idle wells can cost taxpayers millions of dollars. BLM has to ensure that wells with 7 years of nonoperational status and with no future anticipated beneficial use are remediated, reclaimed, and closed.

BLM must use the entire definition provided in the IM and EPAct to determine its true idle well inventory, and to plug, abandon, and reclaim idle wells. To identify true idle wells, BLM must monitor and track SI well reviews and TA approvals. In addition, it needs to implement additional guidance regarding SI well reviews, future beneficial use determinations, and the frequency of conducting MITs. Finally, it needs to correct AFMSS deficiencies to ensure timely updating of idle well data, while also ensuring that staff have the data fields necessary to properly categorize wells as idle or not.

Recommendation Summary

We recommend BLM:

1. Develop and maintain an idle well inventory that reflects the EPAct and IM 2012-181 definition of an idle well.

   BLM Response: BLM partially concurred with this recommendation. BLM disagreed with the perception that its idle well inventory does not reflect the definition of an idle well as provided in the EPAct and IM 2012-181. BLM did agree, however, that it should pursue system enhancements in the updated AFMSS 2 (target completion November 2019) that will improve the quality and reporting capabilities of its idle well inventory data. Specifically, BLM will seek to add data fields identifying well nonoperational dates and fields that identify wells for which there is no anticipated beneficial use. Those enhanced features in AFMSS 2 will help to ensure that the wells included on BLM's inventory of idle wells accurately reflect the full EPAct definition for an idle well.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

2. Develop and implement guidance or update IM 2012-181 to provide field offices with criteria for determining and documenting future beneficial use.

   BLM Response: BLM concurred with this recommendation. BLM will consult with the Office of Solicitor to review regulatory authorities and identify appropriate criteria for determining the future utility of wells. Consistent with the guidance from the Office of the Solicitor, BLM will develop and issue written policy that updates IM 2012-181 and provides field offices with general guidance on evaluating and documenting the future beneficial use capabilities of wells. Guidance will not be available until after AFMMS 2 updates are complete.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

3. Develop and implement a well review strategy for nonoperational wells in coordination with BLM's I&E strategy.

   BLM Response: BLM concurred with this recommendation. While BLM believes that its existing policies already provide an appropriate strategy for reviewing and managing non-operational wells, BLM acknowledged that the implementation of that strategy generally occurs through processes that are separate from its annual I&E strategies. BLM believes that enhanced coordination in its non-operational well review, as well as inspection and enforcement strategies, could provide increased efficiencies. As such, BLM will update IM 2012-181 and develop guidance on idle well reviews to be implemented in coordination with BLM's annual I&E strategy. Guidance will not be available until after AFMMS 2 updates are complete.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

4. Monitor and track SI reviews of its idle wells in a management system.

   BLM Response: BLM did not concur with the original recommendation to use the MIS to monitor and track SI well reviews. BLM currently tracks well data using the AFMSS, not the MIS, electronic database. BLM believes that the AFMSS and the updated AFMSS 2 database currently being developed are the appropriate electronic databases for monitoring and tracking SI and idle well reviews. As part of the AFMSS 2 updates, BLM will seek to incorporate features that will improve the quality and utility of its idle well data. This will include SI well reviews conducted for idle and potentially idle wells.

OIG Comment: While BLM did not concur with our recommendation, their proposed solution meets the intent of the recommendation. We consider this recommendation resolved but not implemented.

5. Develop and implement guidance or update IM 2012-181 on how to conduct and document an SI well review on its idle wells.

   BLM Response: BLM concurred with this recommendation. The written policy updating IM 2012-181 will include specific guidance on conducting and documenting idle wells reviews for SI wells. Guidance will not be available until after AFMMS 2 updates are complete.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

6. Monitor and track TA approvals in a management system to ensure all TA wells are approved every 12 months.

   BLM Response: BLM did not concur with the original recommendation to use a management system such as MIS to monitor and track TA well approvals. BLM currently tracks well data using the AFMSS, not the MIS, electronic database. While AFMSS includes some features of MIS, they are different systems, and BLM believes that AFMSS and AFMSS 2 are the appropriate electronic databases for monitoring and tracking TA well approvals.

   OIG Comment: While BLM did not concur with our recommendation, their proposed solution meets the intent of the recommendation. We consider this recommendation resolved but not implemented.

7. Develop and implement guidance or update IM 2012-181 to require MITs on SI and TA wells at specific periods. This frequency should consider multiple factors, including the passage of time, similar to state laws that require the test every 5 years.

   BLM Response: BLM partially concurred with this recommendation. In the guidance updating IM 2012-181, BLM will identify general circumstances where the authorized officer should consider requiring an MIT to verify the integrity of well casings, tubing, and other well components for future production or beneficial uses. BLM believes that it could be beneficial to provide guidance regarding circumstances where authorized officers might want to consider using their discretion to require an MIT. BLM did not concur with this recommendation to the extent that it calls for a policy requiring MITs based upon the passage of time alone.

OIG Comment: Based on BLM's response, we clarified the recommendation to have BLM consider multiple factors in requiring periodic MITs, including the passage of time. We cited an example of State laws that require an MIT every 5 years as an example, not as a recommendation for MITs based on the passage of time alone. We consider this recommendation resolved, but not implemented.

8. Develop and implement automated procedures so that a well's status in AFMSS reflects its production status reported to ONRR in the OGOR.

   BLM Response: BLM concurred in principle with this recommendation. BLM will assess the feasibility of including in its AFMSS 2 updates additional features for automatic uploads and updates of production status reporting to ONRR. Assuming the aforementioned enhancements for AFMSS 2 are technically and financially feasible, BLM will implement them. Implementation, if technologically and financially feasible, may require additional time.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

9. Develop and implement policy requiring operators to submit Sundry Notices for plugging and reclamation separately.

   BLM Response: BLM partially concurred with this recommendation. In the guidance to update IM 2012-181, BLM will emphasize that, if a well has been satisfactorily plugged and abandoned, it should not be identified as idle, even if BLM has not approved a Final Abandonment Notice for the well due other outstanding reclamation requirements.

   OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

10. Add proper categories to AFMSS to track idle wells (e.g., future beneficial use and nonoperational date).

    BLM Response: BLM concurred with this recommendation. BLM will seek to incorporate updates for AFMSS 2 that include adding data fields identifying well non-operational dates and anticipated beneficial use determinations. Guidance will not be available until after AFMMS 2 updates are complete.

    OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented.

11. Develop and implement a quality control process to identify inaccurate or incomplete data in AFMSS.

    BLM Response: BLM concurred with this recommendation. BLM will pursue AFMSS 2 updates that will provide idle well data quality assurances and reporting capabilities that do not exist in the current AFMSS. Implementation of those technological enhancements for AFMSS 2, as well as the guidance updating IM 2012-181, will provide improved quality control processes that identify and minimize inaccurate or incomplete data in AFMSS. Guidance will not be available until after AFMMS 2 updates are complete.

    OIG Comment: Based on BLM's response, we consider this recommendation resolved but not implemented

Appendix 1: Scope, Methodology, and Sites Visited

Scope

We limited our scope to all idle wells managed by the Bureau of Land Management (BLM) during fiscal years 2013, 2014, and 2015, through August 2016.

Methodology

To accomplish the objective, we:

- Gained an understanding of BLM's Instruction Memorandum (IM) 2012-181.
- Reviewed relevant laws, regulations, policies, and procedures cited in the IM.
- Determined how BLM implemented IM 2012-181.
- Reviewed performance data and program-related information.
- Conducted site visits and telephone contacts as necessary to familiarize ourselves with BLM's compliance with IM 2012-181.
- Interviewed program officials and staff personnel.
- Observed processes, as applicable.
- Tested Automated Fluid Minerals Support System data to well case files.
- Determined if BLM received prior audit coverage from external or internal auditors related to the scope of this review.

Sites Visited

We visited or contacted the following BLM offices:

- Division of Fluid Minerals, Washington, D.C.
- Colorado State Office, Lakewood, CO.
- Colorado River Valley Field Office, Silt, CO.
- Buffalo Field Office, Buffalo, WY.

- Bakersfield Field Office, Bakersfield, CA.
- Farmington Field Office, Farmington, NM.
- New Mexico State Office, Santa Fe, NM.

We did not test operation and reliability of internal controls related to the idle well program. BLM provided computer-generated data related to its idle well inventory, which we did not test for completeness, and determined it to be inaccurate.

We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusion and recommendations.

Appendix 2: Bureau of Land Management's Response to Draft Report

The BLM's response to our draft report follows on page 21.

United States Department of the Interior
BUREAU OF LAND MANAGEMENT
Washington, D.C. 20240
http://www.blm.gov

DEC 1 2 2017

In Reply Refer To:
1245(830/300)

Memorandum

To: Mary L. Kendall
Deputy Inspector General

Through: Katharine S. MacGregor
Deputy Assistant Secretary – Land and Minerals Management
Exercising Authority of the Assistant Secretary – Land and Minerals Management

From: Brian C. Steed
Deputy Director for Policy and Programs
Bureau of Land Management

Subject: Office of the Inspector General's (OIG) Draft Evaluation Report, "Bureau of Land Management's Idle Well Program" (Report No. 2016-EAU-061)

Thank you for the opportunity to review and comment on the Office of the Inspector General's (OIG) draft evaluation report (Draft Report) entitled, "Bureau of Land Management's Idle Well Program" (Report No. 2016-EAU-061).

The Bureau of Land Management (BLM) is committed to reducing the number and risks of idle oil and gas wells on Federal and tribal lands in a timely manner. To that end, the BLM has reduced its nationwide inventory of wells that have been idle for 25 years or more by approximately 41 percent since the 2013-2014 time period.

Despite significantly reducing its inventory of idle wells in recent years, the BLM agrees there are areas where it can improve the accuracy of its idle well inventory data and further reduce the risks associated with idle oil and gas wells on Federal and tribal lands. As such, the BLM intends

to clarify and bolster policy and guidance and pursue technological enhancement consistent with several of the recommendations in the Draft Report.

The BLM concurs or partially concurs with nine of the eleven recommendations identified in the Draft Report. However, the BLM does not concur with two of the recommendations in the Draft Report. Detailed comments for each of the recommendations are attached. The BLM is examining the use of existing technological capabilities, such as the Automated Fluid Minerals Support System (AFMSS) 2, to meet these recommendations to better inventory idle wells. Should AFMSS 2 be utilized, target completion dates of the modules is currently November 2019. The completion dates for these recommendations would consequently follow module completion in late 2019 to early 2020. In addition, the BLM Washington Office needs time to update policies (IM 2012-181 and/or issue new guidance), develop solutions, and the field offices will have to manage workload capacity. We hope these comments will assist you in drafting the final report.

If you have any questions about this response, please contact Catherine Cook, Acting Division Chief Fluid Minerals, at 202-912-7145, or Tiya Samuels, Division Chief Evaluations and Management Services, at 202-912-7090.

Attachment

Department of the Interior
Bureau of Land Management
Comments on the Draft Report, "Bureau of Land Management's Idle Well Program"
(Report No. 2016-EAU-061)

The Office of the Inspector General's (OIG) draft evaluation report (Draft Report), "Bureau of Land Management's Idle Well Program," (Report No. 2016-EAU-061) recommends that the Bureau of Land Management (BLM) take the eleven actions listed below. This document also outlines the BLM's proposed responses to the listed actions. The Target Date timeframes for completing these recommendations are scheduled for late 2019 and early 2020 because the completion dates for the Automated Fluid Minerals Support System (AFMSS) 2 modules will not be complete until November 2019. In addition, the BLM Washington Office needs time to update policies (IM 2012-181 and/or issue new guidance), develop solutions, and the field offices will have to manage workload capacity.

Recommendation 1: Develop and maintain an idle well inventory that reflects the Energy Policy Act of 2005 (EPAct) and BLM Washington Office Instruction Memorandum (IM) 2012-181 definition of an idle well.

BLM Response: The BLM partially concurs with this recommendation. The BLM disagrees with the perception that our idle well inventory does not reflect the definition of an idle well as provided in the EPAct and IM 2012-181.[1] The BLM does agree, however, that it should pursue system enhancements in the updated AFMSS 2 (target completion November 2019) that will improve the quality and reporting capabilities of its idle well inventory data.[2] More specifically, as a part of the AFMSS 2 updates, the BLM will seek to add data fields identifying well non-operational dates that can be used to alert the BLM to review beneficial use capabilities when a well has been non-operational for seven years. The BLM will also seek to include in the AFMSS 2 updates data fields that identify wells for which there is no anticipated beneficial use. Those enhanced features in AFMSS 2 will help to ensure that the wells included on the BLM's inventory of idle wells accurately reflects the full EPAct definition for an idle well.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 2: Develop and implement guidance or update IM 2012-181 to provide field offices with criteria for determining and documenting future beneficial use.

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[1] Section 349 of the Energy Policy Act of 2005, 42 U.S.C. § 15907, states that "a well is idled if - (1) the well has been nonoperational for at least 7 years; and (2) there is no anticipated beneficial use for the well." IM 2012-181 notes that "[a]n idle well is defined in the EPAct as any well that has been non-operational for at least 7 years and has no anticipated future beneficial use."

[2] The BLM is currently in the process of completing various updates and enhancement for its AFMSS electronic database. The redesigned and improved database is referred to as AFMSS 2.

BLM Response: The BLM concurs with this recommendation. It should first be noted that future well utility is subject to several variabilities, which include, but are not limited to, field conditions and type, downhole construction, location, and geology of pay zones for the well. Given those variabilities, it would not be practical for the BLM to define technically specific parameters to be applied when determining the future utility of wells. However, it could still be useful to provide field offices with more generalized guidance on evaluating and documenting the beneficial use capabilities for wells. The BLM will consult with the Office of Solicitor to review regulatory authorities and identify appropriate criterion for determining the future utility of wells. Consistent with the guidance from the Office of the Solicitor, the BLM will develop and issue written policy that updates IM 2012-181 and provides field offices with general guidance on evaluating and documenting the future beneficial use capabilities of wells. Guidance will not be available until after AFMMS 2 updates are complete.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 3: Develop and implement a well review strategy for non-operational wells in coordination with BLM's inspection and enforcement (I&E) strategy.

BLM Response: The BLM concurs with this recommendation. Existing BLM policies, such as IM 2007-192 and IM 2012-181, already provide BLM field offices with detailed guidance and a strategy for reviewing and managing non-operational wells on Federal and Indian lands. For example, IM 2012-181 directs BLM field offices to review all shut-in (SI) wells located on Federal and Indian lands at least once every five years, with a priority placed on reviews of idle wells. IM 2012-181 also provides guidance on reviewing and approving temporarily abandoned (TA) wells, and it requires annual reporting on the idle well reviews conducted each fiscal year. In addition to IM 2012-181, IM 2007-192, entitled "Priority Ranking for Orphaned and Idled Wells; Section 349(b) of the Energy Policy Act of 2005 (EPAct)," directs BLM field offices to rank, prioritize and manage idle and orphaned wells for remediation, reclamation and closure or a return to a producing status (for idle well). While the BLM believes that its existing policies already provide an appropriate strategy for reviewing and managing non-operational wells, the BLM acknowledges that the implementation of that strategy generally occurs through processes that are separate from its annual I&E strategies. For example, as the OIG has mentioned in its Draft Report, while idle well *reviews* are conducted and reported annually pursuant to IM 2012-181, idle well *inspections* are conducted and reported pursuant to the direction in the BLM's annual I&E strategies. The BLM believes that enhanced coordination in its non-operational well review and inspection and enforcement strategies could provide increased efficiencies. As such, the BLM will update IM 2012-181 and develop guidance on idle well reviews for to be implemented in coordination with the BLM's annual I&E strategy. Guidance will not be available until after AFMMS 2 updates are complete.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 4: Monitor and track shut-in (SI) well reviews of its idle wells in a management system such as the Management Information System (MIS).

BLM Response: The BLM does not concur with this recommendation. The BLM currently tracks well data using the AFMSS, not the MIS, electronic database. The BLM believes that the AFMSS and the updated AFMSS 2 database that is currently being developed are the appropriate electronic databases for monitoring and tracking SI and idle well reviews. As previously discussed, as part of the AFMSS 2 updates, the BLM will seek to incorporate features that will improve the quality and utility of its idle well data, and this will include SI well reviews conducted for idle and potentially idle wells.

Recommendation 5: Develop and implement guidance or update IM 2012-181 on how to conduct and document an SI review on its idle wells.

BLM Response: The BLM concurs with this recommendation. The written policy updating IM 2012-181 will include specific guidance on conducting and documenting idle wells reviews for SI wells. Guidance will not be available until after AFMMS 2 updates are complete.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 6: Monitor and track temporarily abandoned (TA) well approvals in a management system such as MIS to ensure that all TA wells are approved every 12 months.

BLM Response: The BLM does not concur with this recommendation. The BLM currently tracks well data using the AFMSS, not the MIS, electronic database. While AFMSS includes some features of MIS, they are different systems and BLM believes that the AFMSS and AFMSS 2 are the appropriate electronic databases for monitoring and tracking TA well approvals.

Recommendation 7: Develop and implement guidance or update IM 2012-181 to require periodic mechanical integrity tests (MIT) on SI and TA wells. This frequency might be similar to State laws that require the test every 5 years.

BLM Response: The BLM partially concurs with this recommendation. In the guidance updating IM 2012-181, the BLM will identify general circumstances where the authorized officer should consider requiring an MIT to verify the integrity of well casings, tubings and other well components for future production or beneficial uses. However, in light of the varying circumstances that exist with differing geographic and geologic conditions and even from well to well, the BLM believes that a policy requiring operators to conduct MITs based upon the simple passage of time alone, as opposed to the specific circumstances for a particular well, could result

in the application of arbitrary, unnecessary and potentially unenforceable MIT requirements. For example, Onshore Order 2 (Drilling) at § III.G.6 does seem to provide a brief discussion on situations when the integrity of plugs used in the process of abandoning dry or non-productive wells should be tested, but it does not specifically use the term "mechanical integrity test(s). As such, the BLM believes that it could be beneficial to provide guidance regarding some of the circumstances where an authorized officer might want to consider using their discretion to require an MIT, it does not concur with this recommendation to the extent that it calls for a policy requiring MITs based upon the passage of time alone.

Target Date: November 15, 2019

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 8: Develop and implement automated procedures so that a well's status in AFMSS reflects its production status reported to Office of Natural Resources Revenue (ONRR) in the Oil and Gas Operations Report (OGOR).

BLM Response: The BLM concurs in principle with this recommendation. Since this recommendation involves cross-connectivity and synchronization with a database outside the BLM system and control, the BLM will assess the feasibility of including in its updates for AFMSS 2 additional features for automatic uploads and updates of production status reporting to ONRR. Assuming the aforementioned enhancements for AFMSS 2 are determined to be technically and financially feasible, the BLM will seek to implement them. The implementation of these features, if feasible (technologically and financially), may require additional time.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 9: Develop and implement policy-requiring operators to submit Sundry Notices for plugging and reclamation separately.

BLM Response: The BLM partially concurs with this recommendation. Pursuant to Onshore Oil and Gas Order No. 1 (Order 1), within 30 days following the completion of well plugging, an operator must file with the BLM a Subsequent Report of Plug and Abandon using the Sundry Notices and Reports on Wells, Form 3160–5. Order 1 also provides that upon completion of reclamation operations, operators must file with the BLM a Final Abandonment Notice using the Sundry Notices and Reports of Wells, Form 3160–5. The Final Abandonment Notice will not be approved until the reclamation work required in the Surface Use Plan of Operations (that was included with the approved Application for Permit to Drill) or Subsequent Report of Plug and Abandon has been completed to the satisfaction of the BLM and surface managing agency (if not the BLM).

The BLM will emphasize in the guidance to update IM 2012-181, that if a well has been satisfactorily plugged and abandoned, it should not be identified as idle, even if the BLM has not approved a Final Abandonment Notice for the well due other outstanding reclamation requirements. Considering the requirements from Order 1 that have been noted above, the BLM believes that this approach will address this recommendation more efficiently and effectively than the issuance of policy requiring the filing of additional Sundry Notices.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 10: Add proper categories to AFMSS to track idle wells (e.g. future beneficial use and nonoperational date).

BLM Response: The BLM concurs with this recommendation. As previously stated, the BLM will seek to incorporate update for AFMSS 2 that include adding data fields identifying well non-operational dates and anticipated beneficial use determinations. Guidance will not be available until after AFMMS 2 updates are complete.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Recommendation 11: Develop and implement a quality control process to identify inaccurate or incomplete data in AFMSS.

BLM Response: The BLM concurs with this recommendation. As previously described, the BLM will pursue AFMSS 2 updates that will provide idle well data quality assurances and reporting capabilities which do not exist in the current AFMSS system. Implementation of those technological enhancements for AFMSS 2, as well as the guidance updating IM 2012-181, will provide improved quality control processes that identify and minimize inaccurate or incomplete data in AFMSS. Guidance will not be available until after AFMMS 2 updates are complete.

Target Date: March 30, 2020

Responsible Official: Timothy Spisak, Acting Assistant Director, Energy, Minerals, and Realty Management

Appendix 3: Status of Recommendations

In its response to our draft report, the Bureau of Land Management (BLM) concurred or partially concurred with 9 recommendations. BLM did not concur with Recommendations 4 and 6. We modified these recommendations and Recommendation 7 because BLM agreed to take action to implement their intent. BLM's response included target dates and an action official for each recommendation (see Appendix 2). We consider these recommendations resolved but not implemented.

Recommendations	Status	Action Required
Recommendations 1-11	Resolved but not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget to track their implementation.

Report Fraud, Waste, and Mismanagement

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