Summary: Oil and Gas Company Failed to Maintain Wells, Report Federal Mineral Production or Pay Royalties

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The OIG investigated allegations from the Bureau of Land Management (BLM) that Weststar Exploration Company (Weststar) failed to properly maintain its Federal wells or accurately report mineral production. Additionally, the Office of Natural Resources Revenue (ONRR) alleged that Weststar failed to properly report Federal mineral production volumes and associated royalties.[1] We substantiated the allegations.

Our investigation found that Weststar did not properly maintain its Federal wells. Specifically, the evidence showed that Weststar failed to perform required gas meter calibrations and neglected to repair wellhead leaks as required by Federal regulations.[2] In addition, Weststar ignored incidents of noncompliance (INCs) and notifications to plug its nonproducing wells. As a result, BLM assessed over $4 million in civil penalties against the company. Weststar did not pay the civil penalties or plug its nonproducing wells.

We also found that Weststar's reported production volumes for oil and gas did not match its reported royalty volumes. We determined this discrepancy by using volume comparison tests (VCTs),[3] which showed that from 2013 through 2023, Weststar reported 34,604 fewer barrels of oil and 789,259 fewer MMBtu (one million British thermal units) of natural gas on its royalty reports as compared to its production reports. Based on our assessment of this variance, Weststar underpaid approximately $620,000 in Federal royalties from 2013 to 2023. Under the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. § 1701 et seq.) and its implementing regulations, lessees producing oil or gas from Federal or Indian leases are legally required to pay royalties at the rate specified in their leases. Failure to pay these royalties results in a denial of revenue owed to the American public.

We presented our findings to the U.S. Attorney's Office for the District of Utah, which declined to intervene with civil enforcement.

This is a summary of a report we provided to the Director of BLM and Acting Director of ONRR for any action deemed appropriate.

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[1] ONRR requires production reporting on the Oil and Gas Operations Reports (OGORs) and royalty reporting on the Report of Sales and Royalty Remittance (Form ONRR-2014).

[2] *See* 43 C.F.R. § 3175.102 (setting forth the requirements for operators to calibrate gas meters); *see generally* 43 CFR § 3162.5-1(a) (requiring operators to "conduct operations in a manner which protects the mineral resources, other natural resources, and environmental quality").

[3] The VCT is an analytical tool used to compare the production volumes that companies report on their OGORs with the volumes they report on their Form ONRR-2014 royalty reports.