



GAO
Accountability • Integrity • Reliability

Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

July 10, 2002

The Honorable Frank H. Murkowski
United States Senate

Dear Senator Murkowski:

This correspondence responds to your July 9, 2002 letter requesting specific information related to our recent report entitled **ALASKA'S NORTH SLOPE: Requirements for Restoring Lands After Oil Production Ceases (GAO-02-357)**. Those questions and our answers follow.

- 1. Does GAO believe the report to be "a powerful indictment of the existing federal and state permitting process, which allows private oil and gas development of public lands, using permits that are so vague and financial assurances so inadequate that the public interest in restoring these lands may never be redeemed?"**

Our report provides no basis to support this assertion. The report does provide information on the state of Alaska's dismantlement, removal, and restoration (DR&R) requirements and financial assurances. Further, it discusses our concerns about federal DR&R requirements and financial assurances for federal lands located on the North Slope. In this connection, we made recommendations to federal land managers to issue specific DR&R requirements on federal lands and to examine the adequacy of their financial assurances. The Department of the Interior agreed with these recommendations.

- 2. Does the GAO believe that the situation in Alaska is "a world-class accounting scandal in the same league as WorldCom or Enron?"**

No, our report provides no basis for alleging any "accounting scandal." We did not audit or evaluate the accounting practices of oil companies operating on the North Slope.

3. Does the GAO believe the State management of its lands is improper?

Our report did not evaluate the propriety of the state of Alaska's management of its lands. We did describe the state's policies and practices concerning DR&R requirements and financial assurances that the state provides in its bonding requirements. The information we developed helped form the basis for our recommendations for standards and financial assurances needed on federal lands.

4. Does the GAO report support the implication that the companies referenced in your report are engaged in "accounting gimmicks?"

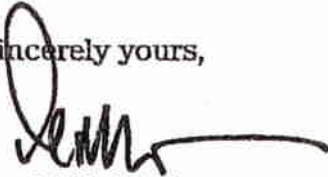
No. Our report states that generally accepted accounting principles require oil companies to estimate their future DR&R liabilities. The Financial Accounting Standards Board and the Securities and Exchange Commission require oil companies to estimate future DR&R costs in order to determine annual depreciation and amortization charges. We did ask the five major oil companies operating on the North Slope to provide us with estimates of their DR&R liabilities for oil and gas activities on the North Slope. However, accounting principles do not require oil companies to separately report their DR&R liability for each operation such as those on the North Slope and the companies consider this information to be proprietary. As such, the companies did not provide this information. The companies report their overall DR&R liability for their entire operations in their annual financial reports. We do not have the authority to audit the companies' financial statements or evaluate their reserve calculation methods and assumptions.

5. Is it the position of the GAO that management policies of State lands are within your scope of authority or that State's practices in general are subject to review by the General Accounting Office?

No. GAO does not have the authority to conduct studies, reviews, evaluations or audits of state or local programs or activities that are solely within the purview of the states or localities. On the North Slope, we would not have undertaken this assignment if it were to look solely at state oil and gas activities on state lands. In this case, we undertook the project because oil and gas activities on state lands are being performed in accordance with federal regulations issued by among others the U.S. Army Corps of Engineers, the Department of the Interior's Fish and Wildlife Service, and the U.S. Environmental Protection Agency. In commenting on this report, the state of Alaska said that it is clearly legitimate to look at Alaska's experience before coming to final policy decisions regarding appropriate DR&R standards on federal lands. Importantly, the lessons we learned from the state's experience resulted in our making recommendations for improving the management

of oil and gas activities on federal lands on the North Slope, which the Department of the Interior accepted.

Sincerely yours,



**David M. Walker
Comptroller General
of the United States**

**cc: The Honorable Ted Stevens, United States Senate
The Honorable Richard A. Gephardt, House of Representatives
The Honorable Nick J. Rahall, House of Representatives
The Honorable Edward J. Markey, House of Representatives
The Honorable Don Young, House of Representatives**

JEFF BINGAMAN, New Mexico, Chairman

DANIEL K. AKAKA, Hawaii
 BYRON L. DORGAN, North Dakota
 BOB GRAHAM, Florida
 RON WYDEN, Oregon
 TIM JOHNSON, South Dakota
 MARY L. LANDRIEU, Louisiana
 EVAN BAYH, Indiana
 DIANNE FEINSTEIN, California
 CHARLES E. SCHUMER, New York
 MARIA CANTWELL, Washington
 THOMAS R. CARPER, Delaware

FRANK H. MURKOWSKI, Alaska
 PETE V. DOMENICI, New Mexico
 DON NICKLES, Oklahoma
 LARRY E. CRAIG, Idaho
 BEN NIGHTHORSE CAMPBELL, Colorado
 CRAIG THOMAS, Wyoming
 RICHARD C. SHELBY, Alabama
 CONRAD BURNS, Montana
 JON KYL, Arizona
 CHUCK HAGEL, Nebraska
 GORDON SMITH, Oregon

ROBERT M. SIMON, STAFF DIRECTOR
 SAM E. FOWLER, CHIEF COUNSEL
 BRIAN P. MALNAK, REPUBLICAN STAFF DIRECTOR
 JAMES P. BEIRNE, REPUBLICAN CHIEF COUNSEL

United States Senate

COMMITTEE ON
 ENERGY AND NATURAL RESOURCES

WASHINGTON, DC 20510-6150

ENERGY.SENATE.GOV

July 9, 2002

Mr. Barry T. Hill
 Director, Natural Resources and Environment
 U.S. General Accounting Office
 411 G Street, Room 2T23
 Washington, D.C. 20548

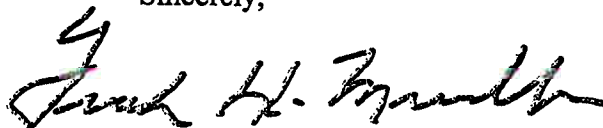
Dear Mr. Hill:

I request your timely review of the enclosed press releases regarding report GAO-02-357, "Alaska's North Slope - Requirements for Restoring Lands After Oil Production Ceases." It appears that the press releases might not properly characterize the body of your work on the report, and I ask for your answers to the following questions:

1. Does the GAO believe the report to be "a powerful indictment of the existing federal and state permitting process, which allows private oil and gas development on public lands, using permits that are so vague and financial assurances so inadequate that the public interest in restoring these lands may never be redeemed?" (July 8, attached)
2. Does the GAO believe that the situation in Alaska is "a world-class accounting scandal in the same league as WorldCom or Enron?" (July 8)
3. Does the GAO believe the State management of its lands is improper?
4. Does the GAO report support the implication that the companies referenced in your report are engaged in "accounting gimmicks?"
5. Is it the position of the GAO that management policies of State lands are within your scope of authority or that States' practices in general are subject to review by the General Accounting Office?

Many Alaskan citizens have a direct relationship with the companies referenced in your report. Moreover, all Alaskans are owners of the resources on State lands. Inasmuch as the press releases may serve to discourage investment in Alaska or otherwise affect the lives, livelihoods and economic well-being of hundreds of thousands of Alaskan citizens, I ask that you respond to these questions no later than close of business Thursday, July 11, 2002. If you have any questions, please call Dan Kish of my staff at 224 8276.

Sincerely,



Frank H. Murkowski
 U.S. Senator

News from Ed Markey
 United States Congress
 FOR IMMEDIATE RELEASE
 Israel Klein or
 July 9,
 2002
 David Moulton
 EMBARGOED-12:00am-Tuesday

Massachusetts Seventh District
 Contact:

(202) 225-2836

GAO FINDS

OIL COMPANIES ARE NOT DISCLOSING UP TO

\$6 BILLION IN CLEANUP LIABILITIES

ON NORTH SLOPE OF ALASKA

Markey Calls on SEC Chairman Pitt, Interior Secretary Norton to Warn
 Investors of and Protect Taxpayers from Huge Potential
 Degradation Losses from Environmental

Washington, DC: Congressman Markey (D-MA) today released a report by
 the General Accounting Office (GAO) finding that oil company
 liability for removing existing oil and gas infrastructure and
 restoring the tundra on the North Slope of Alaska may run as high as \$6 billion,
 but existing industry bonds will cover only a fraction of that cleanup.

"Hiding \$6 billion in cleanup liabilities is a world-class accounting
 scandal in the same league as WorldCom or ENRON," said Markey. "The
 report makes clear that oil companies are refusing to disclose the
 soaring cost of their existing liability on the North Slope, a
 potentially massive accounting issue that needs to be addressed before it is sprung on
 unsuspecting investors, workers and the public. In addition, the
 report is a powerful indictment of the existing federal and state permitting
 process, which allows private oil and gas development on public lands
 using permits that are so vague and financial assurances so inadequate that
 the public interest in restoring these lands may never be redeemed."

The lawmaker also released two letters he is sending today in response
 to the report seeking action from the Department of Interior and from
 the Securities and Exchange Commission (SEC).

In the letter to SEC Chairman Harvey Pitt, Markey noted how recent
 experience had reminded everyone of the costs of failing to be vigilant
 when accounting gimmicks are used to hide a company's true financial
 condition, and he asked the SEC to demand a true accounting of the size
 and scope of the dismantlement, removal and restoration (DR&R) cleanup
 liability of each of the oil companies active on the North Slope of

Alaska.

In Markey's letter to Interior Secretary Norton, he demanded that the Department of Interior undertake the actions recommended by the GAO report to reform the bonding system. These reforms would ensure that the oil and gas industry, not the public taxpayer, shoulders the risk of

failing to set aside the resources to do the necessary restoration of our public land following oil and gas development.

The GAO report raised new concerns about the state of the dismantlement, removal and restoration (DR&R) activities on the state-owned lands in the Prudhoe Bay area. Although the inadequacies of these DR&R activities have long been recognized, the Army Corps of Engineers largely defers to the state regarding permits and restoration requirements on federally-permitted wetlands. Moreover, of immediate concern to Rep. Markey as well as the GAO, are how DR&R the new federal leases on federal land in the 23-million acre National Petroleum Reserve-Alaska (NPR) will be overseen and ensured. New leasing began there in 1999, and the Bush Administration just issued a second round of leases in NPR on June 3, 2002.

"It is clear from this report that the Interior Department has delegated its public responsibilities to a few giant oil companies when it comes to restoring public lands," Markey continued. "Both the Department and the industry have a very lax definition of what will be required and how much they will have to pay. The failure to impose those requirements in the leases we are issuing today could guarantee permanent damage on these ecologically-sensitive public lands for centuries to come."

In recommendations for Executive action, the GAO urges the Secretary of Interior to instruct the Bureau of Land Management (BLM) to issue specific dismantlement, removal and restoration (DR&R) requirements and to review the adequacy of its financial assurance program "in order to ensure that the lands of the National Petroleum Reserve-Alaska are properly restored after oil and gas activities cease." (page 78)

In recommendations for Congressional action, the GAO notes that any future decision to open up new federal lands to oil and gas activities should consider including specific restoration goals and specific financial assurances sufficient to meet those goals. (page 79)

Specific findings of the report include:

FEDERALLY-PERMITTED STATE-OWNED LANDS

None of the five oil companies on the North Slope were willing to provide their estimated DR&R liability, saying the estimates were "for accounting purposes only," not for public review. (page 50)

The U.S. Army Corps of Engineers issues permits for wetlands, including wetlands on the Prudhoe Bay lands owned by the State of Alaska. "Almost the entire North Slope is designated wetland." (page 30) Nevertheless, the Army Corps "prefers" that the State have primary responsibility with respect to DR&R requirements and less than one percent of the 1,100 permits issued by the Corps on the North Slope include specific restoration requirements. (pages 34,40-41)

Even though the DR&R requirements have been deferred to the State of Alaska, the State's requirements "offer no specifics", are not fixed, and are largely discretionary. (pages 33-35)

Two oil companies - BP and Phillips petroleum - expressed a preference for more specific DR&R guidance to relieve uncertainty regarding their obligations (page 44).

Alaska's lack of guidance is not unique, although New Mexico, Oklahoma, Pennsylvania and Wyoming appear to be much more specific. (page 47)

Available evidence suggests that the total liability for DR&R is in the billions of dollars. (49) Estimates based on investment level and cost percentage yield a DR&R estimate of \$2.7 billion to \$6 billion. (page 51)

Alaska's bonding requirements, while higher than other oil-producing states (58), are woefully insufficient. Bonding requirements sufficient to cover a single oil well are accepted as sufficient for entire oil fields. (page 55)

FEDERALLY OWNED LANDS

DR&R responsibilities on federally-owned lands are managed by at least three different subagencies of the Department of Interior, each with different and inconsistent DR&R requirements: The National Petroleum Reserve-Alaska (NPR-A) is managed by Interior's Bureau of Land Management (BLM); the Outer Continental Shelf (OCS) is, managed by Interior's Minerals Management Service (MMS); and the Arctic National Wildlife Refuge (where oil and gas development is prohibited) is managed by Interior's Fish and Wildlife Service (FWS.) (page 62)

BLM has yet to develop DR&R requirements for oil production in the NPR-A. (page 63)

MMS requires specific well-plugging and abandonment plans for offshore wells, as well as restoration, including the

removal of all obstructions in the water. (page 64)

Only MMS has implemented a general bonding structure that provides for higher bond amounts as the scope of oil

industry activity increases. (page 69)

FWS requires removal of all structures and equipment from wildlife refuges and restoration of the area to its original

condition. HR 4, the House Energy bill pending in conference committee, would "compromise" this guidance by adding the phrase "or to a higher and better use." (page 68)

It will cost more than \$100 million just to plug abandoned Navy wells from the 40s and 50s in the NPR-A. (page 73)

DR&R requirements the for Trans-Alaska Pipeline, for abandoned surface mines, and for abandoned nuclear powerplants are much more specific and explicit for these industries than for the oil and gas industry on the North Slope. (pages 74-76)

CONCLUSIONS

"The need for federal dismantlement, removal and restoration requirements and assurances that funds will be available to implement those requirements, is becoming increasingly important. (page 77)

"The BLM and the FWS need to ensure that their financial guarantees are adequate in case a company is unwilling or unable to pay for returning the land to whatever standard has been established. To do otherwise would leave the taxpayer with an unacceptable risk." (page 78)

The entire 107-page GAO report, "Alaska's North Slope: Requirements for Restoring Lands After Oil Production Ceases (GAO-02-357)," is available both on Rep. Markey's website at www.house.gov/Markey <<http://www.house.gov/Markey>> and the GAO website at www.gao.gov <<http://www.gao.gov>>.

News from Ed Markey

United States Congress

Massachusetts Seventh District

FOR IMMEDIATE RELEASE
July 9, 2002

CONTACT: Israel Klein or David Moulton
(202) 225-2836

GAO FINDS OIL COMPANIES ARE HIDING UP TO \$6 BILLION IN CLEANUP LIABILITIES ON PUBLIC LANDS ON NORTH SLOPE OF ALASKA

Markey Calls on SEC Chairman Pitt, Interior Secretary Norton to Warn Investors of and Protect Taxpayers from Huge Potential Losses from Environmental Degradation

WASHINGTON, D.C. --

Congressman Markey (D-MA) today released a report by the General Accounting Office (GAO) finding that oil company liability for removing existing oil and gas infrastructure and restoring the tundra on the North Slope of Alaska may run as high as \$6 billion, but existing industry bonds will cover only a fraction of that cleanup.

"This would appear to be the Granddaddy of all unfunded mandates," said Markey. "There are two public policy issues here -- First, the report makes clear that oil companies are refusing to disclose the soaring cost of their existing liability on the North Slope, a troubling accounting issue that needs to be addressed before it is sprung on unsuspecting investors, workers and the public. Second, the report is an indictment of the existing federal and state permitting process, which allows private oil and gas development on public lands using permits that are so vague and financial assurances so inadequate that the public interest in restoring these lands may never be redeemed."

The lawmaker also released two letters he is sending today in response to the report seeking action from the Department of Interior and from the Securities and Exchange Commission (SEC).

In the letter to SEC Chairman Harvey Pitt, Markey noted how recent experience had reminded everyone of the costs of failing to be vigilant when accounting gimmicks are used to hide a company's true financial condition, and he asked the SEC to demand a true accounting of the size and scope of the dismantlement, removal and restoration (DR&R) cleanup liability of each of the oil companies active on the North Slope of Alaska.

In his letter to Interior Secretary Norton, he demanded that the actions recommended by the GAO report to reform the bonding system so that the oil and gas industry, not the public taxpayer, is shouldering the risk of failing to set aside the resources to do the necessary restoration of our public land following oil and gas development be taken.

The GAO report raised new concerns about the state of the dismantlement, removal and restoration (DR&R) activities on the state-owned lands in the Prudhoe Bay area. Although the inadequacies of these DR&R activities have long been recognized, the Army Corps of Engineers has never used its federal authority over necessary wetlands permits to override the State of Alaska. Moreover, of immediate

concern to Rep. Markey as well as the GAO, are how DR&R the new federal leases on federal land in the 23-million acre National Petroleum Reserve-Alaska (NPRA) will be overseen and ensured. New leasing began there in 1999, and the Bush Administration just issued a second round of leases in NPRA on June 3, 2002.

In recommendations for Executive action, the GAO urges the Secretary of Interior to instruct the Bureau of Land Management (BLM) to issue specific dismantlement, removal and restoration (DR&R) requirements and to review the adequacy of its financial assurance program "in order to ensure that the lands of the National Petroleum Reserve-Alaska are properly restored after oil and gas activities cease." (78)

In recommendations for Congressional action, the GAO notes that any future decision to open up new federal lands to oil and gas activities should consider including specific restoration goals and specific financial assurances sufficient to meet those goals. (79)

"It is clear from this report that the Interior Department has delegated its public responsibilities to a few giant oil companies when it comes to restoring public lands," Markey continued. "Both the Department and the industry have a very lax definition of what will be required and how much they will have to pay. The failure to impose those requirements in the leases we are issuing today could guarantee permanent damage on these ecologically-sensitive public lands for centuries to come."

Specific findings of the report include:

FEDERALLY-PERMITTED STATE-OWNED LANDS

None of the five oil companies on the North Slope were willing to provide their estimated DR&R liability, saying the estimates were "for accounting purposes only," not for public review. (50)

The U.S. Army Corps of Engineers issues permits for wetlands, including wetlands on the Prudhoe Bay lands owned by the State of Alaska. "Almost the entire North Slope is designated wetland." (30) Nevertheless, the Army Corps defers to the State with respect to DR&R requirements. (34,41)

Even though the DR&R requirements have been deferred to the State of Alaska, the State's requirements "offer no specifics", are not fixed, and are largely discretionary. (33-35)

Two oil companies - BP and Phillips petroleum - expressed a preference for more specific DR&R guidance to relieve uncertainty regarding their obligations (44).

Alaska's lack of guidance is not unique, although New Mexico, Oklahoma, Pennsylvania and Wyoming appear to be much more specific. (47)

Available evidence suggests that the total liability for DR&R is in the billions of dollars. (49) Estimates based on investment level and cost percentage yield a DR&R estimate of \$2.7 billion to \$6 billion. (51)

Alaska's bonding requirements, while higher than other oil-producing states (58), are woefully insufficient. Bonding requirements sufficient to cover a single oil well are accepted as sufficient for entire oil fields. (55)

FEDERALLY OWNED LANDS

□ DR&R responsibilities on federally-owned lands are managed by at least three different subagencies of the Department of Interior, each with different and inconsistent DR&R requirements: The National Petroleum Reserve-Alaska (NPR-A) is managed by Interior's Bureau of Land Management (BLM); the Outer Continental Shelf (OCS) is, managed by Interior's Minerals Management Service (MMS); and the Arctic National Wildlife Refuge (where oil and gas development is prohibited) is managed by Interior's Fish and Wildlife Service (FWS.) (62)

□ BLM has yet to develop DR&R requirements for oil production in the NPR-A. (63)

□ MMS requires specific well-plugging and abandonment plans for offshore wells, as well as restoration, including the removal of all obstructions in the water. (64)

□ FWS requires removal of all structures and equipment from wildlife refuges and restoration of the area to its original condition. HR 4, the House Energy bill pending in conference committee, would "compromise" this guidance by adding the phrase "or to a higher and better use." (68)

□ Only MMS has implemented a general bonding structure that provides for higher bond amounts as the scope of oil industry activity increases. (69)

□ It will cost more than \$100 million just to plug abandoned Navy wells from the 40s and 50s in the NPR-A. (73)

□ DR&R requirements for the Trans-Alaska Pipeline, for abandoned surface mines, and for abandoned nuclear powerplants are much more specific and explicit for these industries than for the oil and gas industry on the North Slope. (74-76)

CONCLUSIONS

□ The need for federal dismantlement, removal and restoration requirements and assurances that funds will be available to implement those requirements, is becoming increasingly important. (77)

□ The BLM and the FWS need to ensure that their financial guarantees are adequate in case a company is unwilling or unable to pay for returning the land to whatever standard has been established. To do otherwise would leave the taxpayer with an unacceptable risk." (78)

The entire 107-page GAO report, "Alaska's North Slope: Requirements for Restoring Lands After Oil Production Ceases (GAO-02-357)," is available on the GAO website at _____. The executive summary is available on Rep. Markey's website at www.house.gov/Markey.

###