

Summary: Royalties Associated with Oil Inventory Adjustment Remain Outstanding

Report Date: June 19, 2017

OIG initiated an investigation after receiving allegations that an oil and gas company improperly reduced its oil inventory associated with offshore production, which also reduced its mineral royalty obligation.

We found that the company's inventory adjustment reduced their production inventory by approximately 122,000 barrels of oil, which also reduced the company's mineral royalty obligation by approximately \$2.1 million. The inventory reduction was authorized by the Bureau of Safety and Environmental Enforcement (BSEE), but the Office of Natural Resources Revenue (ONRR) never agreed to waive the company's royalty obligation.

The company reported the inventory adjustment was based on the oil used to originally fill the pipeline, also known as "pipeline fill," which the company claimed was incorrectly reported to ONRR as production inventory for a period estimated to exceed forty years. The company was unable to provide adequate evidence to support its claims, and as a result ONRR will continue to pursue outstanding royalties.

We consulted with the United States Attorney's Office (USAO) for the District of Colorado, which declined to pursue the matter.

This is a summary of a report of investigation issued to the Directors of ONRR and BSEE.

