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WASHINGTON, D.C. 20548

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RESOURCES COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

JANUARY 16, 1984

B-207556

The Honorable Michael L. Synar
Chairman, Subcommittee on Environment,
Energy and Natural Resources
Committee on Government Operations
House of Representatives



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Dear Mr. Chairman:

Subject: Interior's Fiscal Year 1982 Report on Alternative
Bidding Systems (GAO/RCED-84-5)

As requested in your July 5, 1983, letter, we reviewed the Department of the Interior's fiscal year 1982 report to the Congress on the use of alternative bidding systems in leasing offshore lands to determine whether the report adequately meets the statutory requirements of the Outer Continental Shelf (OCS) Lands Act, as amended.

We found that Interior's report generally meets the reporting requirements of the act with two exceptions. The report does not include Interior's recommendations for promoting competition for OCS lands or the Department of Justice's views on the competitive aspects of OCS lease sales. Interior officials in the Minerals Management Service's Office of Offshore Minerals Management--officials responsible for preparing the report--told us that both items were inadvertently overlooked in this year's report, but that they would be included in future reports.

The 1953 OCS Lands Act (Public Law No. 83-212) and its 1978 amendments (Public Law No. 95-372) are the central pieces of legislation governing the use of bidding systems for leasing offshore lands. The legislation requires Interior to experiment with a variety of alternative bidding systems to increase company participation and competition in OCS lease sales. The legislation also requires both the Department of the Interior and the Department of Energy (DOE) to report to the Congress each year on the effects of using these bidding systems. While most of Interior's reporting requirements are similar to DOE's, some differences exist. For example, DOE's report is to include a detailed evaluation of the systems tested while Interior's report is to focus more on ways of promoting company participation and competition. Also, Interior's report is to include an evaluation of bidding

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systems not specifically authorized by the legislation, which is not required in DOE's report.

In May 1983, we issued a report¹ which discussed the initial effects of using the various alternative bidding systems and described Interior's annual reporting requirements. We noted that Interior, relying on DOE's past annual reports, had never issued the required report. We recommended that Interior comply with the reporting requirements of the OCS Lands Act. Interior issued the report for fiscal year 1982 on April 29, 1983. Also, because DOE's role in offshore leasing has been essentially eliminated, Interior has assumed DOE's reporting responsibilities.

As requested in your letter, we examined Interior's fiscal year 1982 report to determine whether it adequately meets the statutory requirements of the OCS Lands Act. We reviewed the act's legislative history and compared the text of the report with the specific provisions of the reporting requirement. We also reviewed the supporting documentation cited in the report for accuracy and adequacy. In addition, we discussed ways to improve future reports with Interior's Minerals Management Service officials in Washington, D.C., and Reston, Virginia.

We conducted our review in accordance with generally accepted government auditing standards, except that we did not obtain official agency comments on a draft of this report. We did, however, discuss the report with Interior officials.

INTERIOR'S REPORT GENERALLY MEETS
THE STATUTORY REQUIREMENTS

Section 15(2) of the OCS Lands Act requires the Secretary of the Interior, after consulting with the Attorney General, to submit a report to the Congress each year on the results of using the alternative bidding systems in leasing OCS lands. The report is to include the Attorney General's findings, recommendations, and drafts of any proposed legislation for promoting competition in offshore lease sales. The report also is to include Interior's recommendations for promoting competition and contain evaluations of the

--alternative systems used in OCS leasing and, if applicable, the reasons why a particular system has not been used;

¹Congress Should Extend Mandate To Experiment With Alternative Bidding Systems in Leasing Offshore Lands (GAO/RCED-83-139, May 27, 1983).

- bidding systems not provided for by the 1978 amendments and why such systems should or should not be used;
- restrictions on joint bidding by large companies;
- measures to encourage entry of new competitors in OCS lease sales; and
- levels of oil and gas supplies to independent refiners and distributors.

Interior's fiscal year 1982 report meets the statutory reporting requirements of section 15(2) of the OCS Lands Act with two exceptions. First, the report does not include Interior's recommendations for promoting competition for OCS lands. The legislative history of the OCS Lands Act amendments indicates that the Congress sought Interior's recommendations to identify legislative changes needed to promote competition in leasing offshore lands. Interior officials responsible for preparing the report said that this requirement was inadvertently overlooked in preparing their analysis for the fiscal year 1982 report but would be addressed in future reports. Second, the report does not provide the Department of Justice's views on the competitive aspects of OCS lease sales. Although Interior requested and received comments from the Department of Justice on a draft of the report, no mention of these comments was made or addressed in the report. Interior officials said that Justice's comments were considered in writing the report but were omitted from the text of the report because of an oversight. The officials said that future reports would include the Justice Department's comments.

Interior's report also meets the legal reporting requirements of DOE under section 8(a)(9) of the act. For example, DOE's report is to include an evaluation of the bidding systems used to promote company participation and competition in OCS lease sales and a description of the economic benefits and costs associated with using the various systems. Interior's report includes this type of data and discusses

- bidding systems not used and those not authorized under the OCS Lands Act,
- restrictions on joint bidding by large companies,
- measures to encourage new competitors,
- supplies of oil and gas to refiners and distributors, and
- bidding systems to be used in fiscal year 1983.

Interior has taken the position that DOE's reporting requirements were transferred to Interior with the passage of the Department of the Interior Appropriations Act of Fiscal Year 1982 (Public Law No. 97-100). While the act did not identify this requirement as one which was transferred, DOE has also taken a position similar to Interior's and has not issued a report covering the use of the alternative systems in fiscal year 1982. Because Interior is responsible for testing the alternative systems and since DOE has no remaining OCS-related responsibilities, Interior is currently in the best position to determine and report on the effectiveness of the various bidding systems. Thus, Interior's annual report to the Congress should be the primary vehicle for providing information to the public on the use and effectiveness of the alternative bidding systems.²

SUGGESTIONS FOR IMPROVING
THE NEXT REPORT

We suggested a number of areas for improving the next annual report to Minerals Management Service officials. Our suggestions included:

- A scope and methodology section identifying the objectives and criteria used to measure the effectiveness of the alternative systems, assumptions made to evaluate the various systems, and types of analysis used by Interior to form its findings and conclusions.
- An executive summary highlighting Interior's findings, conclusions, and recommendations, including sufficient information on the background of Interior's analysis to allow an adequate understanding and proper perspective of the matters being discussed.
- A glossary defining technical words and phrases.
- A list of tables and figures presented in the report for easy reference.
- A list of abbreviations and acronyms used in the text of the report for clarity.

²In our May 1983 report, we recommended that the Congress repeal the requirement that the Secretary of Energy submit an annual report on the use of the alternative systems and require the Secretary of the Interior to provide in Interior's annual report the information DOE is required to submit.

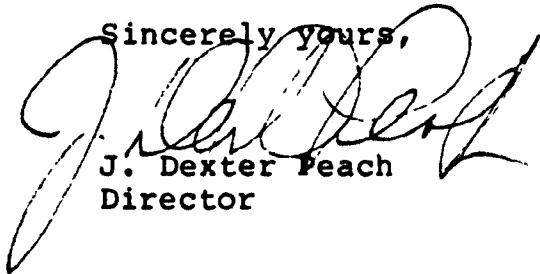
--A description of other OCS-related studies on the competitive aspects of leasing offshore lands and the effects of using the alternative bidding systems.

This type of information would offer more insight into what Interior did in its evaluation of the alternative bidding systems, help clarify some of the technical aspects of the report, and produce a better understanding of why the data presented in the report provide a sound basis for its findings and conclusions. Since a vast number of studies discussing competition in OCS lease sales and the alternative systems have been conducted by federal and state agencies, as well as by industry, a list of these studies would provide the Congress with a ready reference on the kinds of materials available on the subject. Minerals Management Service officials said that future reports would include this type of information.

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Unless you publicly announce this report earlier, we plan no further distribution until 30 days from the date of the report. At that time, we will send copies to the Director, Office of Management and Budget; the Secretary of the Interior; the Secretary of Energy; other House and Senate committees and subcommittees having oversight and appropriation responsibilities; and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach", written over the typed name and title.

J. Dexter Peach
Director