

OVERSIGHT OF OIL AND NATURAL GAS MEASUREMENT SYSTEM

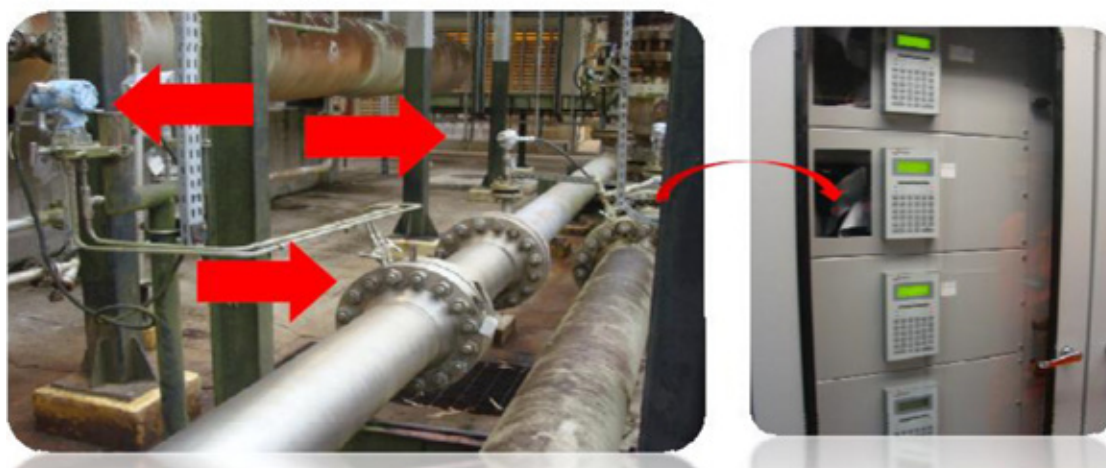
TCU carried out a performance audit at the National Agency of Petroleum, Natural Gas and Biofuels (ANP) between April and August 2012, with the purpose of investigating and evaluating the Agency's procedures to oversight the measurement of oil and natural gas production, assessing the operational aspects of these activities.

In 2011, the national production of oil and natural gas generated direct revenues to the Union that exceeded R\$ 25 billion (US\$ 8,5 billion) in royalties and special takes. This amount surpassed R\$ 30 billion (US\$ 10 billion) in 2012. The revenue obtained in these two specific cases is proportional to the production of oil and natural gas. Therefore, the investigation of ANP's role in oversighting and assessing the reliability of data and information related to the volumes produced is a sensitive issue, particularly for the amounts involved.

The audit revealed that the increase in production, resulting from several exploration contracts signed in the past decade that have initiated production in the last few years, as well as the expectation for the exploration of the Pre-salt Polygon, requires the improvement of ANP's capabilities.

The audit performed by TCU covered both forms of ANP control, which are enforced by the Production Measurement Oversight Center (NFP). They are: (1) monitoring, which particularly involves the analysis of declaratory documentation filled out by concessionaires, called Monthly Production Bulletins (BMPs); and (2) oversight, which involves the actions performed *in loco* at the fields and production facilities by the Agency's inspectors, notably in regards to production measurement systems.

MEASUREMENT SYSTEM IN A PRODUCTION FACILITY



Source: ANP

Main situations identified

ANP has taken measures to build an adequate structure for the oversight of oil and natural gas production measurement systems. However, the audit identified the need for improvement of the control actions taken by the Agency to guarantee the reliability of the measurement of the volumes produced.

In regards to the monitoring actions, the Production Oversight System (SFP) seems to be an important instrument used by ANP to assess the reliability of the volumes produced and reported in the BMPs. However, because of the non-implementation of all SFP's functionalities, its application as a control tool is limited and does not fully reach its goals.

SFP was created to allow verification of the reliability of production data and other information provided by the concessionaires in the BMPs, field by field and month by month, in order to facilitate simultaneous monitoring of national production. Nowadays, the System allows only the monitoring of production of a set of fields, and does not allow individual and automatic validation of BMPs.

It was also observed that the Production Measurement Oversight Center (NFP) does not perform a systematic and regular monitoring of the monthly production bulletins forwarded by the concessionaires as a guarantee of their reliability. In this sense, the production volumes declared in the BMPs are verified, essentially, only at *in loco* inspections performed by NFP's inspectors.

In regards to *in loco* inspections, they are not submitted to a periodic oversight plan previously elaborated. However, the Agency tries to establish some guidelines to direct its oversight work, based on the assessment of risk factors, materiality, relevance and opportunity, such as fields that pay special take (for increased production) and facilities with numerous reports of failures or problems.

In addition, the audit revealed the lack of a detailed and precise definition of occurrences and criteria that entail *in loco* inspections, which may prevent the inspection of facilities and fields for a too long period. The association of these occurrences weakens the expectation of control among concessionaires and operators, and it negatively affects the analyses performed by the NFP's inspectors.

Another finding was the inexistence of a defined term for NFP's response to requests for previous inspections of measurement system, a mandatory requirement for production of oil and/or natural gas in the fields. Thus, it was noticed that this term may considerably vary depending on the process, with some requests responded in 15 days, and others only up to 60 days.

This delay creates some unpredictability and may affect the concessionaires field activities. In addition, it may lead to potential unjustified delays in production, causing consequent delays in the generation of revenues to the Union.

TCU Main Resolutions

TCU recommended that ANP should adopt the necessary measures for the definitive implementation of all functionalities foreseen for the SFP, particularly the ones that will allow BMP's individual validation, contributing to the reliability of the volumes of oil and natural gas produced and reported by concessionaires.

TCU also recommended the formalization of guidelines and regulations for the elaboration and execution of periodic NFP oversight plans in order to improve planning process and ensure control expectancy to every operator, as well as detailed regulation of occurrences and criteria necessary for the execution of *in loco* inspections by the Center in order to standardize its application.

Court Decision

TCU Court Decision: 657/2013-TCU – Plenary – 3/27/2013

Rapporteur: Minister Raimundo Carreiro