

Bond Adequacy Review Process Description

A. Process Scope.

Bond adequacy reviews should be performed when any of the following actions occur.

1. The record title is assigned (as workload permits).
2. Operating rights are transferred (as workload permits).
3. A notification of change of operator (as workload permits).
4. The AO performs an Idle/Inactive well liability review.
5. The AO determines that the operator poses a risk (for example, operator compliance history, current level of plugging and surface reclamation liabilities, undercapitalized operator situations, etc.).
6. An operator requests that a bond be released.
7. When the AO periodically reviews operating leases.

B. The BLM field office determines the amount of well plugging and surface reclamation liability using cost indices.

If an increase in bonding is determined necessary in accordance with regulation (43 CFR 3104.5) and policy, the following actions will be performed.

1. Determine the well plugging and abandonment liability cost.
2. Determine the surface reclamation costs including pit closures, removal of equipment, and road reclamation.
3. Use existing cost indices or past project costs.
4. Strongly recommended: Increase the bond to cover idle wells on the property. We suggest that such idle well bonding be calculated to equal the total footage of idle wells on the property multiplied by \$2.00 per foot. However, see also C. 2. a. below.

C. BLM determines an adequate level of bond coverage.

1. Bond amounts as stated in 43 CFR, Subpart 3104 are the minimum acceptable bond amounts.
2. Additional bond coverage cannot exceed the total cost of:
 - a. Estimated well plugging and surface reclamation,
 - b. Uncollected royalties, and
 - c. Monies owed for previous violations that remain payable.
3. The increase in bond amount may be to any level specified by the AO (but cannot exceed the limits as described above). The AO must be mindful to strike a balance between acceptable risk and an undue burden on the operator (such as removing an operator's limited operating capital earmarked for future liability reduction).
4. The AO should consider the plugging schedule and the future revenues that could be applied to bond increases.

5. BLM should observe associated state oil and gas bonding, especially when a state oil and gas conservation program provides funds for operations on Federal lands.
6. Existing bond amounts may be maintained in cases where an agreement is reached with the operator (lease interest holders) to reduce well plugging and surface reclamation responsibilities. The agreement should specify a plan of action to be performed in an acceptable timeframe.
7. If the bond amount is considered adequate, no action is required to increase the bond. The BLM may still require the operator to submit and follow through with a plan of action to ensure compliance with the lease terms and regulatory requirements.
8. The BLM field office must formally recommend and justify proposed bond increases to the State Office bonding staff.

D. Bond adjudicators render a decision concerning the adequacy of an existing bond amount.

1. If the field office bond increase recommendation is tenable, and the existing bond amount is verified inadequate, the operator (or lease interest holders, as appropriate) is issued a demand to raise the bond to a specified amount.
2. An operator (lease interest holders) may appeal the State Office decision to increase the bond.