

### Oil and Gas Bond Information

After October 1, 1988, the only bond forms that are acceptable are forms 3000-4 and 3000-4a, June 1988 editions. Form 3000-4 is the oil and gas lease bond form, while 3000-4a is used to provide coverage for geophysical exploration operations only. In addition to covering the principal as lessee and/or holder of operating rights, the new oil and gas bond form provides coverage for the principal as operator, including unit operator, regardless of whether or not that principal holds record title or operating rights interests in the leases.

Attachment 1 is Form 3000-4, Oil and Gas or Geothermal Lease Bond. This form may be used for coverage of the principal on individual, statewide, or nationwide personal or surety bonds. If the bond amount is \$10,000 to \$24,999, the bond is an individual bond and will provide coverage for the principal on the single federal lease identified on the form. If the bond amount is between \$25,000 and \$149,999, inclusive, the bond is a statewide bond and will provide coverage for the principal on federal leases in the state or states named on the bond form. A minimum of \$25,000 for each state you name on the form is required. If the bond amount is \$150,000 or higher the bond is a nationwide bond and will provide coverage for the principal on federal leases in the United States, except for the National Petroleum Reserve in Alaska.

Surety bonds must be issued by qualified surety companies approved by the Department of the Treasury, as listed in Department of the Treasury Circular No. 570, published on July 1 of each year.

The only acceptable forms of security for personal bonds are cash equivalents such as certified checks or cashier's checks, negotiable bonds or notes issued by the United States, certificates of deposit issued by financial institutions whose deposits are federally insured, or irrevocable letters of credit issued by financial institutions whose deposits are federally insured. U.S. Savings Bonds and notes or bonds issued by state or local governments or private companies are not acceptable forms of securities.

**Personal bonds in the form of certified checks, cashier's checks, Letters of Credit, or Certificate's of Deposit need only be accompanied by a fully-completed Form 3000-4. In addition to the bond form, personal bonds secured by negotiable securities must be accompanied by information regarding the securities, detailed on Attachment 2. Attachment 3 describes the requirements applicable to certificates of deposit submitted with Form 3000-4; and Attachment 4 details the conditions to which irrevocable letters of credit accompanying Form 3000-4 are subject. Attachment 5 is a copy of the regulations codified at 43 CFR Subpart 3104.**

Please note that Form 3000-4 contains a power of attorney granting the Secretary of Interior full power to assign, appropriate, apply or transfer the deposit or any portion thereof, to the satisfaction of any damages, assessments, late payment charges, penalties, or deficiencies arising out of any default in the performance of the terms of any lease covered by the bond.

The regulations at 43 CFR 3104.2 require that the operator on the ground be bonded in one of the following ways:

1. The operator may conduct operations under the operator's own bond by providing the bond number and furnishing a statement that the principal is responsible under the terms and conditions of the lease for the operations conducted on that lease. Submission of an APD or a sundry notice or a letter to the District or Resource Area office will satisfy this "self-certification" requirement.

2. The operator may conduct operations under any one of multiple existing lessee bonds currently providing bond coverage for a lease by providing a consent of surety rider on one bond which would allow the operator to use that one existing lessee's bond. Upon our receipt of the consent of surety, the operator and the remaining lessees would be relieved of the responsibility to provide additional bond coverage, and those lessees maintaining individual lessee bonds could request termination of those bonds.

3. The operator may conduct operations under a new lessee's bond only if a consent of surety/obligor rider is filed wherein the principal and surety on the bond specifically agree that the coverage of the bond extends to such operations. A sample consent of surety is also attached.

If you have any questions about the information provided, please contact LaVonna Smith at 703-440-1532 or Jennifer Spencer at 703-440-1604.

#### 5 Attachments

- 1 - Bonds Accompanied by U.S. Treasury Securities
- 2 - Bonds Secured by Certificates of Deposit
- 3 - Bonds Secured by Irrevocable Letters of Credit & Sample Letter
- 4 - Operator Rider Form

## Bonds Accompanied by U.S. Treasury Securities

The following information is provided to assist the applicant in obtaining a U.S. Treasury Note or Bond to be used as security for BLM bonds. Instead of being transferred to BLM's book-entry account through the Federal Reserve Bank (FRB) as in the past, securities will now be held in a Circular 154, U.S. Government Account Number 11, under the obligor's depository financial institution's (bank's) American Bankers Association (ABA) number with the FRB. Once the security is transferred into the Circular 154 Account Number 11, neither the obligor nor the bank will be able to access the security without BLM providing authorization to the FRB to do so.

Therefore, when you, as the obligor, contact your bank to purchase a negotiable Treasury security, you should send the following to the BLM office responsible for administering the lease(s) for which the bond is being provided as soon as possible:

1. Your name and address.
2. The serial number of the oil and gas lease (or a statement that the bond is for statewide, nationwide or unit coverage).
3. The type of security purchased (Bill, Bond or Note).
4. The par amount of the security, the interest rate, and maturity date of the security.
5. The Committee on Uniform Securities Identification Procedures (CUSIP) number of the security.
6. The name and mailing address of your bank, along with the name and telephone number of a contact person, if possible.
7. The depository bank's nine-digit ABA number.
8. The name of the FRB or branch servicing the depository financial institution.

Upon receipt of the information in Items 1-8 above, the BLM office will telefax a copy of that information to the Negotiable Securities Custodian at the Denver Service Center's Branch of General Accounting. The Negotiable Securities Custodian will then contact both the servicing FRB or branch and the obligor's bank to authorize the transfer of the security to the Circular 154 Account Number 11.

**THE OBLIGOR'S FINANCIAL INSTITUTION MUST NOT TRANSFER THE SECURITY TO THE CIRCULAR 154 ACCOUNT NUMBER 11 UNTIL AUTHORIZATION IS GIVEN BY THE NEGOTIABLE SECURITIES CUSTODIAN.**

When the security is transferred to the Circular 154 Account Number 11, the financial institution must include the following information in the electronic transfer message: "Security pledged to DOI-BLM (Name of Office) by (Name of Obligor) for (Lease number, etc.). The following is an example of an acceptable transfer message: "Security pledged to DOI-BLM Wyoming State Office by Alpha Corporation for Oil and Gas Lease WYW12345."

Upon transfer of the negotiable security, the obligor should provide the following information, in writing, to the BLM office:

1. A fully-completed bond Form 3000-4. A power of attorney which authorizes the Secretary of the Interior to collect the funds in case of default in the lease terms is a part of Form 3000-4.
2. A copy of the "Acknowledgment of Book-Entry Deposit, Release of Account Transfer," which the FRB will send to your bank. This will constitute proof that the security is in the Circular 154 Account Number 11. This document also provides BLM with the date of the transfer.
3. A transaction document from your bank to verify that the amount you paid for the security, excluding any commission fee and accrued interest, equals or exceeds the bonding requirement amount. A discounted value less than the full amount is not acceptable. If a Treasury Bill, purchased at a discount, is submitted for less than the required bond amount, the bonded party must make up the difference, otherwise the bond will be returned as unacceptable. The principal may submit a certified check or cashier's check in the amount of the deficiency to bring the bond up to the required amount.

BLM will then notify the obligor by written decision: 1) that the personal bond has been accepted; 2) the BLM Bond Number assigned to the bond; and 3) the date bond coverage is effective. The BLM office will also furnish a copy of its bond acceptance decision, along with a copy of "Acknowledgment of Book-Entry Deposit, Release of Account Transfer," to the Negotiable Securities Custodian (SC-615).

Semi-annual interest on Treasury Notes and Bonds will be transferred by the FRB to the obligor's bank, which will transfer the interest to the obligor in accordance with an agreement between the obligor and the financial institution (e.g., deposit the interest to a checking account or savings account, etc.). Beginning in 1992, the obligor's financial institution will be responsible for sending a 1099-INT form to the obligor for interest paid the previous calendar year.

The Negotiable Securities Custodian will notify the BLM office about a maturing security approximately 90 days before the maturity date, and the BLM office will, in turn, notify the obligor by letter that the security is maturing.

If bond coverage is no longer required, or if replacement bond coverage is provided prior to the maturity date of the security, the BLM office will send a memo requesting that the Negotiable Securities Custodian direct the FRB to transfer the security from the Circular 154 Account Number 11 to the obligor's bank.

If bond coverage is no longer required, or if replacement bond coverage is provided after the maturity date of the security, the BLM office will send a memo requesting that the proceeds of the matured security be transferred from the Circular 154 Account Number 11 to the obligor's bank.

If collection under the bond is necessary due to a default under the terms of a lease or leases covered by the bond, BLM will send a memo requesting that the Negotiable Securities Custodian direct the FRB to transfer the proceeds to BLM. The proceeds of the security will then be deposited into the BLM office's suspense account.

If you, or your bank, have any questions about any of the information provided, you may contact LaVonna Smith at 703-440-1532 or Jennifer Spencer at 703-440-1604.

## Bonds Secured by Certificates of Deposit

Regulation 43 CFR 3104.1(c)(1) effective June 17, 1988, allows the acceptance of Certificates of Deposit (CD) to secure personal oil and gas bonds. The following items are required and will be verified by BLM to determine the acceptability of a CD:

1. The CD must be issued by a financial institution which is Federally insured.
2. The name, street address and phone number for the financial institution must be on the face of the CD.
3. The CD must be issued to the Department of Interior, Bureau of Land Management, or adequate proof must be provided that the right to payment of the principal under the CD has been assigned to Department of Interior, Bureau of Land Management, together with proof that the issuing bank has changed its records to reflect that ONLY Bureau of Land Management may collect the face amount of the CD and that the CD is for the benefit of the Bureau of Land Management.
4. The CD must bear the statement that it is immediately payable to Department of Interior, Bureau of Land Management in the full amount of the required bond without penalty for early withdrawal.
5. There should be no expiration of the time in which the CD may be collected by the Bureau of Land Management.
6. The CD must be automatically renewable.
7. The face of the CD and signature page must bear the statement: "Secretary of the Department of Interior, Bureau of Land Management or his/her authorized officer's approval is required prior to the redemption of this certificate by any party." By this statement on the face of the CD, the financial institution acknowledges that the CD may not be released unless both the financial institution and the obligor are advised by a decision from the BLM office holding the CD as security for the bond, that the CD has been released. When the CD is no longer required, or has been replaced, the original CD will be returned to the financial institution, along with the financial institution's copy of the decision releasing the CD. Under no circumstances is the CD to be released without a decision, from the BLM office holding the original CD as security for the bond, stating that the CD has been released.
8. The CD must be accompanied by a fully-completed bond form 3000-4, filled out as a personal bond, and executed by the obligor on the back of the form . This form includes a power of attorney granting the Secretary of the Interior full power to assign, appropriate, apply or transfer the deposit or any portion thereof, for the satisfaction of any damages, assessments, late payment charges, penalties, or deficiencies arising out of any default in the performance of the terms of any lease covered by the bond.
9. Interest on the CD should be payable to the CD purchaser, not the Department of Interior, Bureau of Land Management. The tax ID number should be applicable to the party receiving the interest. CD interest statements should be sent to the CD purchaser as well, not the BLM.

If there is a question about any of the above identified items, the BLM office will informally contact the financial institution issuing the CD for information or clarification.

## Bonds Secured by Irrevocable Letters of Credit

Regulations effective June 17, 1988, allow the acceptance of Irrevocable Letters of Credit (LOC) to secure personal oil and gas bonds. The following items will be verified by BLM to determine the acceptability of a LOC:

- 1. Please submit the LOC on bank letterhead stationery. Include bank address and phone number for future reference.**
- 2. The LOC must be issued by a financial institution which is federally insured.**
- 3. The document must be immediately payable upon demand by and to the Department of the Interior-BLM (DOI-BLM) in the full amount of the required bond (e.g., \$10,000 for a lease bond, \$25,000 for a statewide bond, \$150,000 for a nationwide bond).**
- 4. Unless the LOC is being submitted as replacement security for an existing personal bond, the LOC must be accompanied by a fully-completed Form 3000-4. Form 3000-4 must be completed as a personal bond when submitted with the LOC. This form includes a power of attorney granting the Secretary of the Interior full power to assign, appropriate, apply or transfer the deposit or any portion thereof, for the satisfaction of any damages, assessments, late payment charges, penalties, or deficiencies arising out of any default in the performance of the terms of any lease covered by the bond.**
- 5. The stated expiration date of the LOC must be at least one (1) year following the filing of the letter in the proper BLM office. The effective date must also be stated on the LOC and immediately after the effective date the LOC must also state ". . . however, this credit will automatically be extended for periods of one year from any scheduled expiration date, . . ."**
- 6. The LOC must contain a clause providing that, in the absence of notice from the financial institution to the Authorized Officer at least 90-days prior to the stated or any extended expiration date not to renew the credit represented by the letter of credit, the letter of credit will be automatically renewed in full force and effect for an additional one year period.**
- 7. The LOC must authorize BLM to exercise the right to collect the full amount of credit from the financial institution in the event of either: (1) a default occurring prior to the expiration date (including any extended date); or (2) failure of the obligor to furnish an acceptable substitute bond at least 30-days prior to the expiration of the LOC if the financial institution gives the proper 90-day requirement of its intent not to renew the LOC.**

If there is a question about any of the above identified items, the BLM office will informally contact the financial institution issuing the LOC for information or clarification.

**SAMPLE ACCEPTABLE LETTER OF CREDIT**

**IRREVOCABLE LETTER OF CREDIT NUMBER**

Issuing Financial Institution:

Address:

City, State & Zip Code:

Contact Person & Telephone Number:

Date Issued: (To be completed by bank)

Gentlemen:

On behalf of (name and address of party requesting issuance of Letter of Credit), as Obligor, we, (name of financial institution), hereafter referred to as "Bank," hereby establish an Irrevocable Letter of Credit in favor of the Bureau of Land Management (BLM). We agree to pay, upon demand therefore by and to the Department of the Interior-BLM, up to an aggregate amount of \_\_\_\_\_ Dollars (\$ .00), upon receipt of a written demand by the Authorized Officer (AO) of the BLM retaining the personal bond of the obligor whose bond this letter serves as security, pursuant to 43 CFR Section 3104.1.

This Letter of Credit is effective (date), and will expire either at the close of business or at midnight (date, which must be at least one year from the effective date or the date the letter is filed with BLM, whichever is later); however, this credit will automatically be extended for periods of one year (or such longer periods as may be determined by the bank) from any such scheduled expiration date, as originally scheduled or as automatically extended by this provision, unless 90-days prior to such date, we notify the AO originally accepting this letter, or his/her successor, by Certified Mail-Return Receipt Requested, that we elect not to renew this letter for such additional period.

Upon receipt by the AO of such a notice from us not to renew this letter, he/she may draw on us at sight for up to the amount of this Letter of Credit, prior to the expiration thereof, provided that such draft is accompanied by a statement signed by the AO to the effect that no satisfactory replacement bond has been provided by the obligor prior to 30-days before this letter of credit expires, pursuant to 43 CFR 3104.1(c)(5)(ii).

It is also understood that, at any time this Letter of Credit is in effect, the AO may draw on this letter of credit for any amount, up to the full amount, to cover any default in obligations covered by the bond, including but not limited to, rentals, royalties, and appropriate reclamation of lands associated with development of oil and gas in any lease(s) to which the bond applies. Such drawing shall be accompanied by a statement signed by the AO to the effect that the obligor has been determined to be in default and the amount drawn represents the reasonable amount, as determined by BLM, of such default.

SAMPLE ACCEPTABLE LETTER OF CREDIT (Contd.)

In order to draw on this Letter of Credit, the AO shall not be required to furnish the original letter. However, it is understood as a condition of any payment thereunder, that the face amount of the letter shall automatically be reduced by any payment made by the Bank; and that the AO will promptly surrender the original letter when and if the Bank shall tender to the AO the full amount of funds represented by this letter. Such surrender shall occur as soon as reasonably practical after full payment is made. The original letter shall also be surrendered promptly following its expiration provided that no drawing on such letter was made prior to such expiration.

We promise that the amount of credit herein established will not be reduced for any reason during the effectiveness of this letter without the prior written approval of the AO. In the event that we, the Bank, become unable to fulfill our obligations under this Letter of Credit for any reason, notice shall be given immediately to the obligor and to the AO.

We acknowledge that we have received a copy of the personal bond which the obligor will file with the AO and we understand that this Letter of Credit may be used, until it expires as a result of notice we give to the AO, for all matters to which the bond applies. We also certify that the deposits of this bank are federally insured.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Name of Financial Institution

\_\_\_\_\_  
Witness Title

\_\_\_\_\_  
Signature and Title of Person Executing for  
Financial Institution

The Letter of Credit should bear the Seal of issuing bank. If the laws of the state under which the bank is chartered do not require a seal for the bank, there may be substituted therefore the statement that the bank has no seal and is not required having one by virtue of (statutory citation).

If desired, the bank may complete any acknowledgment appropriate for the state in which the letter is issued; acknowledgment is not required.

Format for Bond Rider Extending Coverage of Bond to Assume Liabilities  
for Operations Conducted by Parties Other  
Than the Principal (Consent of Surety)

This rider is being submitted to comply with 43 CFR 3104.2 which states in part, "The operator on the ground shall be covered by a bond in his/her own name as principal, or a bond in the name of the lessee or sublessee, provided that a consent of the surety, or the obligor in the case of a personal bond, to include the operator under the coverage of the bond is furnished to the Bureau office maintaining the bond."

The principal and surety (or principal/obligor if personal bond) hereby agree to extend the coverage of the bond referenced above to include liabilities for operations conducted by  (parties other than the principal) or (a specifically-named party)  on  (all leases in which the principal holds record title or operating rights interests) or (a specific lease numbered \_\_\_\_\_ in which the principal holds record title or operating rights interest).

Coverage includes the performance of all lease obligations, both past and future, including the responsibility to properly plug and abandon any and all wells, including related surface restoration, and to pay any outstanding rentals or royalties due.

This coverage of operations shall continue whether or not the lease subsequently expires, terminates, is canceled, or relinquished; provided, however, that this rider shall not act to increase the actual cumulative or potential liability of the surety above the face amount of the bond.

Executed this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_.

\_\_\_\_\_  
Name of Witness

\_\_\_\_\_  
Address of Witness

\_\_\_\_\_  
Name of Witness

\_\_\_\_\_  
Address of Witness

\_\_\_\_\_  
Name of Principal

\_\_\_\_\_  
Signature and Title of Person Executing for  
Principal

\_\_\_\_\_  
Principal's Address

\_\_\_\_\_  
Name of Surety

\_\_\_\_\_  
Signature and Title of Person Executing for  
Surety

\_\_\_\_\_  
Surety's Address

**PLEASE NOTE: A power of attorney document for the surety's representative must accompany this rider.**