

FLUID MINERALS BOND PROCESSING USER GUIDE

KeywordsIV. Acceptance of Unit Operator's BondsA. General

The operator of a federally-approved unit agreement may furnish a collective bond for all Federal leases committed to the unit in lieu of separate bonds which would otherwise be required for each Federal lease where bond coverage is required. If a unit operator has a lease bond or an operator's bond covering each lease committed to the unit, a separate unit operator's bond does not have to be provided if the existing amount of bond coverage is determined to be adequate to cover operations in the unit. If the unit operator chooses to obtain a unit operator's bond in lieu of separate lease bonds for each lease, upon request, such prior individual bonds may be terminated when the Field Office Fluid Mineral Operations staff verifies that coverage is provided under the unit operator's bond. When a unit terminates, or a well drilled by the unit operator under its bond is determined **not** capable of producing unitized substances in paying quantities, bond coverage must be obtained for operations continuing on an individual lease basis from the operator assuming responsibility for each well that has been drilled prior to terminating the unit operator's bond.

UNIT OPERATOR'S
BOND

A unit bond must be conditioned on the performance of all duties and obligations under the unit agreement **and** the terms and conditions of all of the leases committed to the unit. The unit bond must be for an amount that the Field Office Fluid Mineral Operations staff determines to be adequate to protect the interests of the United States. In practice, the amount of the unit bond is to be not less than the amount of a statewide bond, i.e., \$25,000. Informal contact between the unit operator and the BLM officials supervising the planned unit operations usually results in setting the unit bond amount before the procedures addressed below take place. A model form for a unit operator's bond is provided in the regulations at 43 CFR 3186.2 if the operator elects to provide such a bond.

MINIMUM BOND
AMOUNT

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Keywords

No distinction in bonding requirements is made between unitized and nonunitized Federal leases under a unit in that a unit agreement is a plan of development and operation for all the leases committed to the unit, treating all such committed leases within the unit boundary as a single lease. A unit operator is formally approved to control and conduct all operations on lands within a unit area when the unit is approved. A unit operator is responsible for leasehold operations in the sense of the terms and conditions of either the June 1987 or June 1988 edition of bond Form 3000-4. Therefore, if a unit operator indicates that its statewide bond coverage on either of these editions of the bond form will apply to the unit operations, the Field Office Fluid Mineral Operations staff is to determine if the amount of the statewide bond needs to be increased and, if so, must notify the SO Fluid Leasing Adjudication staff by a memorandum of the required increase so that the SO Adjudication staff can issue a decision to the principal requiring the increased bond amount.

COVERAGE UNDER
BOND FORMS

Versions of previous bond forms do **not** clearly cover the principal in the capacity of unit operator where the unit operator does not have an interest in the lease. Under the earlier bond forms, the unit operator may provide a rider to the unit operator's statewide/nationwide bond extending the bond's coverage to include its unit operations (see Illustration 12 and Section XI, below, for processing unit riders). A unit operator's statewide/nationwide bond with a designated operator rider will suffice to cover its unit operations. However, if a lessee/sublessee covers the unit operations on a lease basis, a consent of surety/obligor to allow such unit operations coverage must be submitted. Additional discussion related to unit agreements is provided in Handbook 3180-1.

COVERAGE EXTENDED
BY RIDER

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B. Acceptance by Field Office Operations

| <u>Responsible Official</u> | <u>Step</u> | <u>Action</u> | <u>Keywords</u> |
|---------------------------------|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Field Office Operations | 1. | Receive original unit bond from unit operator. | |
| | 2. | Determine whether the amount of the bond is adequate for the proposed unit operations. If inadequate, return the bond to the unit operator advising it of the minimum acceptable bond amount. | BOND AMOUNT ADEQUACY |
| | 3. | Check bond for the following: | |
| | 3a. | If a surety or personal bond, check for exact conformity to the format in 43 CFR 3186.2 and check the acceptability of the surety in the ABSS. | CONFORM TO UNIT BOND FORMAT SURETY ACCEPTABILITY REVIEW |
| | 3b. | If the bond is not acceptable because of deviation from the regulations format, return the bond to the unit operator for correction. | UNIT BOND FORMAT UNACCEPTABLE |
| | 3c. | If the amount of the bond is adequate and the bond is determined to meet the format, forward the original bond and all accompanying material to the SO Fluid Leasing Adjudication staff under a cover memorandum indicating that the amount of the bond is sufficient, that the principal is the approved unit operator, and recommending bond acceptance. | FORWARD UNIT BOND TO STATE OFFICE ADJUDICATION |

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C Acceptance by State Office Fluid Leasing Adjudication

| Responsible Official | Step | Action | Keywords |
|----------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| Receiving Official | | Receive memorandum and bond, date/time stamp, and forward to Docket. | |
| Docket | 2 | Pull unit file and route to Adjudication. | |
| ABSS Entry | 3. | Enter the bond abstract into the ABSS. Enter Action Date: Date Bond Filed; DE 2960 Action Code 468; Action Remarks: Unit Serial No. <i>2. Len. Perovich</i> | AUTOMATED NOTATION |
| Adjudication | 4 | Check bond for the following: | |
| | 4a | Bond is properly executed by the principal, including principal's corporate seal (if available) affixed to the bond form. The relationship of the signatory to the principal is to be shown either on the bond form itself or in an accompanying document. | EXECUTION BY PRINCIPAL/ CORPORATE SEAL |
| | 4b | Bond is properly executed by an acceptable surety, with the seal of the corporate surety affixed to the the bond form, accompanied by a POA showing proof of the signing authority as the surety's representative (see Illustration 6). | EXECUTION BY SURETY/SURETY CORPORATE SEAL |
| | 4c | Check that the principal is the approved unit operator. | APPROVED UNIT OPERATOR |
| | 4d | A surety bond number is not required to be shown on the bond form. If no number is indicated, refer to the bond in correspondence as "Unnumbered Bond." If a surety bond number is used, refer to this number in addition to the ABSS bond number in all correspondence. | BOND NUMBER |

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| Responsible Official | Step | Action | Keywords |
|-------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| | 4e. | Check that the bond amount is properly indicated on the form. The dollar amount must be spelled out, e.g., Twenty-Five Thousand and No/100 Dollars. A bond with only figures indicated (\$25,000) is to be returned for correction, but a bond with the figures missing may be accepted if the correct amount is spelled out clearly. | BOND AMOUNT SPELLED OUT |
| | 4f. | Check that the execution date on the bond is completed and precedes the date of filing of the bond. If the date of execution is not completed, the bond must be returned to the principal for correction. | EXECUTION DATE COMPLETED |
| | <u>NOTE:</u> | Parties will sometimes attempt to file a bond to be effective at some future date. Reject such postdated bonds and advise the parties that the bond may be executed with a provision that it will become effective at some certain later date, but that the execution date must precede the date of filing. | EXECUTION POSTDATED |
| | 4g. | See Step II.C.4k, above, for handling of the POA. | POWER OF ATTORNEY |
| | 4h. | Check that the Field Office Fluid Mineral Operations authorized officer has confirmed that the bond is for an adequate amount. | ADEQUATE BOND AMOUNT |
| | <u>NOTE:</u> | A recommendation for acceptance or approval from the Field Office Fluid Mineral Operations is to be considered a determination that the bond amount is adequate. | |
| | 4i. | Access the ABSS to determine if the surety is acceptable. | QUALIFIED SURETY |

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| Responsible Official | Step | Action | Keywords |
|-------------------------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| | 5. | If the bond is determined to be unacceptable, return the bond by a decision indicating the defects. A copy of the decision returning the bond for correction is to be furnished to the Field Office Fluid Mineral Operations staff that recommended acceptance. | UNACCEPTABLE BOND |
| ABSS Entry | 6. | Enter Action Date: Date of decision declaring bond unacceptable; DE 2960 Action Code 470; Action Remarks: EFF MM/DD/YYYY. | AUTOMATED NOTATION |
| Adjudication | 7. | If the bond is in order, prepare an acceptance decision (see Illustration 13), effective as of the later of the following dates: | BOND ACCEPTANCE DECISION |
| | 7a | Date the bond was received in an acceptable form by the Field Office Fluid Minerals Operations staff that accepted the bond; or | EFFECTIVE DATE OF BOND |
| | 7b | Effective date indicated on the bond. | |
| | 8. | Forward the decision to the BLM signing official for signature. After signed, distribute to the principal and surety (c/o the attorney-in-fact). | |
| | 9 | Route for ABSS Entry and filing of unit case file and bond for safe guarding. | |
| ABSS Entry | 10. | Enter Action Date: Date of decision showing bond accepted; DE 2960 Action Code 469; Action Remarks: Enter effective date of unit bond (MM/DD/YYYY). | |