

Bond Adequacy Review Process Description

A. Process Scope.

- Bond adequacy reviews should be performed when any of the following actions occur:
- The record title is assigned;
- Operating rights are transferred;
- A notification of change of operator;
- The authorized officer (AO) performs an Idle/Inactive well liability review;
- The AO determines that the operator poses a risk (for example, operator compliance history, current level of plugging surface reclamation liabilities, and other examples);
- An operator requests that a bond be released;
- Any periodic review of an operating lease;
- When a surety seeks to terminate the period of liability of a bond.

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:
- Determine the well plugging and abandonment liability cost;
- Determine the surface reclamation costs including pit closures, removal of equipment, and road reclamation.

C. The BLM determines an adequate level of bond coverage.

- Bond amounts as stated in 43 CFR, Subpart 3104 are the minimum acceptable bond amounts.
- 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.
- 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 determine acceptable risk, taking into account any undue burden on the operator (such as removing an operator's limited operating capital earmarked for future liability reduction).
- The 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.
- Existing bond amounts may be maintained in cases where an agreement is reached with the operator to reduce well plugging and surface reclamation responsibilities. The agreement should specify a plan of action to be performed in an acceptable timeframe.
- 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.

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

- 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.
- An operator (lease interest holders) may contest the decision to increase the bond – this should be done via the State Director review process; the operator may then appeal a final decision on the bond increase to the Interior Board of Land Appeals.
- The operator may comply by either filing an additional bond or attaching a rider to an existing lease, statement or nationwide bond.