



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

July 30, 2015

Memorandum

To: Neil Kornze
Director, Bureau of Land Management

From: Jeff Carlson (for) *Amy P. Billings*
Director, Energy Audits

Subject: Closeout Memorandum – Evaluation of BLM-Managed Orphaned Oil
and Gas Wells
Assignment No. 2015-EAU-010

We have completed the survey phase of our evaluation of orphaned oil and gas wells managed by the Bureau of Land Management (BLM). During this phase, we contacted or visited seven BLM State offices and seven field offices. After completing the survey phase of this evaluation, we concluded that further work in the area of orphaned wells is not necessary at this time.

Background

Our survey objective was to assess how BLM manages idle wells to prevent them from becoming orphaned and to determine what BLM does with wells that already have been orphaned. In particular, we reviewed pertinent BLM policies, rules, regulations, and procedures to determine their sufficiency for managing idle wells. We also attempted to identify the potential impact of not properly managing orphaned oil and gas wells.

BLM currently manages nearly 95,000 wells on almost 700 million acres of mineral estate. A subset of these wells may become orphaned when no responsible or liable party can be identified and when bonding amounts are insufficient to plug the well and complete surface reclamation. When a well becomes orphaned, BLM must identify funding sources, available either through the Bureau or a state program, to plug wells and restore the surface.

The most recent pertinent BLM instruction memorandum (IM) outlines BLM's oil and gas bonding reviews (IM 2013-151, July 2013). Proper bonding prevents wells from becoming orphaned by providing the managing agency both a pathway and a funding source for plugging wells when the responsible party cannot be identified or no longer exists. The IM directs BLM to review all bonds every 5 years to ensure that these bonds appropriately reflect potential risk (liability) and that bond amounts have been adjusted to reflect assessed risk.

A second related IM (IM 2012-181, September 2012) establishes BLM's idle well review policies, defining idle wells as those that have not been in operation for at least 7 years and that have no anticipated beneficial use (e.g., disposal wells or injection wells). Wells in this category

are to be reviewed every 5 years. We noted that a well becoming idle is not a direct step to a well becoming orphaned, as identifiable ownership is a more crucial part of this definition than production status.

Results of Survey

We asked for a listing of orphaned wells from BLM and received a listing of 121 wells managed by 5 state offices (California - 1, Eastern States - 13, New Mexico - 95, Utah - 11, and Wyoming - 1) identified in the BLM Automated Fluid Minerals Support System (AFMSS) as orphaned. After contacting the BLM state offices that reported orphaned wells in AFMSS, we determined that BLM was able to identify significantly fewer unplugged orphaned wells than initially reported. These wells likely constitute less than 0.1 percent of the nearly 95,000 wells managed by BLM. We feel that the small number of orphaned wells BLM identified does not justify continued work in this area at this time.

According to AFMSS, the BLM New Mexico office managed 95 orphaned wells, with 63 being managed by two field offices and one field station (Roswell - 32, Carlsbad - 4, and Hobbs - 27). Upon subsequent records review, however, BLM staff informed us that Roswell actually had no orphaned wells; rather, a data entry error had classified them as orphaned. Discussions with Carlsbad Field Office and Hobbs Field Station staff clarified that 27 out of their combined 31 listed orphaned wells had been plugged by the State of New Mexico and were awaiting BLM's completion of surface reclamation. Staff also stated that the actual number of unplugged orphaned wells in both locations was only two, although staff was unable to clarify the status of the remaining two wells. While plugged wells awaiting surface reclamation still meet BLM's definition of orphaned wells, such plugged wells constitute a significantly lower liability for the Government.

During our survey work, we identified related areas for potential future reviews. These include bond adequacy and idle wells reviews as prescribed in IMs 2013-151 and 2012-181 respectively, and data shortcomings in AFMSS. In addition, difficulties with BLM-managed wells located almost exclusively in the North Eastern States Field Office on leases that are not considered Federal has caused us to initiate a subsequent review.

Promising Practices

We identified three promising practices that could benefit BLM if replicated on a larger scale. First, BLM has successfully negotiated with operators to plug idle or potentially orphaned wells on existing leases, sometimes in lieu of increasing bond requirements. Alternatively, BLM has added contingencies to proposed leases that would require the new purchasers to plug identified orphaned wells on the lease. Having operators or new lessees plug these wells has the effect of lowering the overall liability faced by the Federal Government.

Second, one BLM office also used the equivalent of change-of-operator forms to update well ownership records. The forms required operators to obtain permission from lessees when selling or trading operators' rights on a lease. This recordkeeping tool could benefit BLM overall, eliminating difficulty when tracking down lessees of record or simplifying the process if an operator ceased to exist and BLM needed to locate a responsible party to plug wells.

Third, another BLM office identified the practice of setting higher initial bonds for new operators due to the increased risk created by operators without an established track record. These bonds could then be periodically reviewed and reduced for operators building a satisfactory compliance history.

Conclusion

After completing the survey phase of this evaluation, we concluded that further work in the area of orphaned wells is not necessary at this time. We recently initiated a review of privately acquired leases on BLM land and may be initiating additional reviews in the near future to address some of the other related areas discussed above. We encourage BLM to continue implementing and improving policies and practices that have benefited the management of orphaned wells and to continue dividing its review workloads to meet its 5-year cycles as stated in the policies.

We appreciate the cooperation and assistance provided by your staff during our survey. If you have any questions, please contact me at 303-236-9107.