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

BLM Oil and Gas Bonding Procedures

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To: Michael R. Pool
Acting Director, Bureau of Land Management

From: Robert A. Knox
Assistant Inspector General for Investigations

Subject: Management Advisory of Investigative Results
Action and Response Required

Re: BLM Oil and Gas Bonding Procedures
Case Number (OI-OG-12-0085-I)

After a recent investigation regarding the failure of oil and gas operators to report and pay royalties, we found that initial bonds for insuring well plugging and abandonment are frequently insufficient and that a BLM State office may not adequately evaluate these bonds or sufficiently follow the guidance in BLM Instruction Memorandum IM-2010-161: "Federal Oil and Gas Bonds."

After our investigation, multiple BLM inspectors and supervisors noted that well bonding was insufficient. For example, we investigated an operator that is responsible for 58 wells in one State, yet only carries a $25,000 well bond for the entire State. One BLM employee estimated that it costs BLM between $7,000 an $9,000 to plug and abandon a shallow well; therefore, this operator's bond would only allow BLM to plug and abandon 3 or 4 of the 58 wells. BLM would have to rely on appropriated funds to properly plug the remaining "orphaned" wells if this operator declares bankruptcy or the operator's lease is canceled – both very possible outcomes.

We recommend BLM evaluate or consider the following:

- Consider an increase in initial well-bonding requirements. Currently BLM requires 100 percent of the reclamation costs for oil and gas reservoirs. Similar requirements for well plugging and abandonment bonds could reduce or eliminate the need to use appropriated funds to plug and abandon orphaned wells. One option might be to compare current well-bonding requirements to current plugging and abandonment costs to better determine appropriate bonding needs.

- Review bond adequacy before permit or operator approvals are issued. Evaluating bond adequacy before granting permits and approvals will ensure that BLM has appropriate bonding in place if an operator experiences financial difficulties or if BLM cancels a lease in response to an operator's repeated rules violations.

- Conduct and support bond adequacy reviews and bond increases periodically, and do so before problems arise. We learned during our investigation that the State office sometimes delays issuing requests for bond increases until after oil and gas operators have begun to face financial difficulties. Once operators are experiencing financial problems, it may be too late for them to obtain higher bonding. In addition, adequate bonding levels may change throughout the life of the lease or well.

The Government Accountability Office reported that between 1988 and 2009, BLM spent approximately $3.8 million to reclaim wells. Implementing these recommendations may significantly reduce the need to use appropriated funds to plug, abandon, and reclaim orphaned wells.

Please provide a written response within 90 days of receipt of this management advisory indicating whether you intend to implement the suggested recommendations. This information will periodically be sent to Congress and the Department and used for internal review purposes. If you have any questions or need further information, please contact this office at 202-208-6752.

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