U.S. Department of the Interior
Bureau of Land Management

Proposed Onshore Oil and Gas Leasing Rule

Fact Sheet – Bonding Updates

The Bureau of Land Management's (BLM) proposed Onshore Oil and Gas Leasing Rule aims to improve the management of oil and gas-related activities on America's public lands.

The BLM has not comprehensively updated the Federal onshore oil and gas program's regulatory framework since 1988. The existing bonding regulatory requirements are significantly outdated: The BLM has not updated the minimum bonding amounts for statewide and nationwide bonds since 1951 or the minimum amounts for lease bonds since 1960, meaning those amounts do not reflect current costs for reclamation and do not adequately protect the fiscal interests of the American public.

The U.S. Government Accountability Office (GAO) has issued several reports recommending the BLM address risks from insufficient bonding, including as recently as September 2019 (GAO-19-615). The GAO found the bonds held by the BLM were insufficient to cover the costs of reclaiming orphaned wells, shifting reclamation costs onto taxpayers, and that 84 percent of the bonds it reviewed were not sufficient to cover reclamation costs. GAO also determined the bond amounts, which were usually set at the regulatory minimum, "[do] not account for variables such as the number of wells [the bonds] cover or other characteristics that affect reclamation costs, such as well depth."

Adjusting its oil and gas bonding requirements and regulations for the first time in decades would help BLM ensure that reclamation costs reside primarily with oil and gas lessees, operating rights owners, and operators rather than the American public.

Changes to bonding in the proposed Onshore Oil and Gas Leasing Rule would:

1. **Increase the minimum bond amounts for lease and statewide bonds.** The proposed rule will:
   - Increase the minimum lease bond amount from $10,000 to $150,000; and
   - Increase the minimum statewide bond amount from $25,000 to $500,000.

2. **Eliminate nationwide bonds (currently set at $150,000)and unit operator bonds.** By eliminating these bonds, the proposed rule will:
   - Reduce the overall cost and burden to administer bonds;
   - Ensure bonding has an appropriate focus on specific areas and fields; and
   - Reduce the potential burden to the taxpayer by requiring higher bond amounts to cover plugging and reclamation costs.

3. **Implement a phase-in period for existing bonds** to come into compliance with the proposed regulations. The proposed rule would require that:

   - Operators meet or exceed the new minimum bond amount within one year of the effective date of the final rule for lease bonds, or two years for statewide bonds;
   - All unit operator bonds be converted to statewide bonds within two years of the effective date of the final rule; and
   - All nationwide bonds be converted to statewide bonds within three years of the effective date of the final rule.

4. **Add a provision related to surface owner protection bonds** to consolidate all bonding provisions within [Subpart 3104]() of the oil and gas regulations.

   - The proposed rule would require an applicant to file the surface owner protection bonds on the BLM approved bond and authorize the BLM to require such bonds in the event operators and private landowners cannot reach agreement on appropriate compensation for potential damages.
   - These changes will help protect ranchers, farmers, and private landowners when Federal wells are drilled on private, split-estate lands.

How did the BLM determine the minimum bond amounts?

1. The BLM evaluated several factors to ensure the proposed minimum **lease bond** amounts would address increases due to both inflation and the actual cost of potential liabilities on the ground.

   - Adjusted for inflation, the 2022 equivalent of $10,000 (the 1960 lease bond amount) is $100,105.
   - BLM has found the average cost to plug a well and reclaim the surface is $71,000, but with significant variability.
   - A $150,000 minimum lease bond would be sufficient to cover reclamation on over half of all producing leases.

   BLM will rely on its existing bond adequacy review policy to require higher lease bonds when necessary, based upon specific risk factors.

2. The BLM evaluated several factors to ensure the proposed minimum **statewide bond** amounts would address both the increase in inflation and liabilities on the ground.

   - Adjusted for inflation, the 2022 equivalent of $25,000 (the 1951 statewide bond amount) is $284,914.
   - The median number of wells currently covered by each statewide bond is seven, which would be a reclamation cost of $497,000 based on an average cost of $71,000 per well.

   As with lease bonds, BLM will rely on its existing bond adequacy review policy to require higher statewide bonds when necessary, based upon specific risk factors.

What’s next?

We want to hear from you. The BLM will be offering five public meetings and accepting public comments for 60 days. Public involvement through this rulemaking process is crucial to ensure the BLM is making appropriate decisions for onshore oil and gas bonding. To learn more about this proposed rule, or to provide comments, please visit regulations.gov.