Onshore Oil and Gas Leasing Rule

Fact Sheet – Bonding Updates

The Bureau of Land Management's (BLM) Onshore Oil and Gas Leasing Rule improves the management of oil and gas-related activities on America's public lands, including the first comprehensive update to bonding requirements in more than 60 years. Existing bonding amounts didn't reflect current costs for reclamation or adequately protect the fiscal interests of the American public.

The U.S. Government Accountability Office (GAO) has issued reports recommending the BLM address risks from insufficient bonding, including GAO-19-615 in September 2019. The GAO found that 84 percent of the bonds it reviewed were not sufficient to cover reclamation costs, putting taxpayers at risk of having to cover those costs.

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

Changes to bonding in the final Onshore Oil and Gas Leasing Rule include:

1. **Increasing the minimum bond amounts for lease and statewide bonds.** The final 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. **Eliminating nationwide bonds (currently set at $150,000) and unit operator bonds.** Eliminating these bonds 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. **Implementing a phase-in period for existing bonds** to come into compliance with the final regulations. The final rule will require that:
    - Operators must replace all nationwide or unit operator bonds within one year of the effective date of the final rule;
    - Operators must meet or exceed the new statewide minimum bond amount within two years of the effective date of the final rule; and
    - Operators must meet or exceed the new individual lease minimum bond amount within three years of the effective date of the final rule.
4. **Adding a provision related to surface owner protection bonds** to help protect ranchers, farmers, and private landowners when wells are drilled on private lands overlying Federal minerals. The rule consolidates all bonding provisions within Subpart 3104 of the oil and gas regulations, and will 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.

5. **Adding a provision requiring inflation adjustments** every decade to ensure the BLM's minimum bond amounts remains adequate.

How did the BLM determine the minimum bond amounts?

1. The BLM evaluated several factors to ensure the 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 2024 equivalent of $10,000 (the 1960 lease bond amount) is $104,840.
    - 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 is sufficient to cover reclamation on over half of all producing leases.

    The 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 minimum **statewide bond** amounts would address both the increase in inflation and liabilities on the ground.

    - Adjusted for inflation, the 2024 equivalent of $25,000 (the 1951 statewide bond amount) is $298,390.
    - The median number of wells currently covered by each statewide bond is seven; therefore, the $500,000 minimum statewide bond is sufficient to cover seven wells based on an average cost of $71,000 per well.

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

What changed for bonding between the proposed and final rule?

The BLM received a significant number and range of comments. From those comments, the BLM decided to enact the following changes between the proposed and final rule:

- Reversed the phase-in periods to provide smaller operators with individual lease bonds more time to come into compliance, and less time for larger operators with statewide bonds.
- Added a provision to adjust the minimum bond amounts for inflation every decade.
- Allowed operators to continue to use Certificates of Deposit and Letters of Credit to secure personal bonds.

What's next?

As the BLM moves forward with implementing the new minimum bond amounts, it remains committed to facilitating open dialogue, transparent communication, and proactive engagement to ensure a smooth transition and effective integration of the regulatory changes.