

## Bonding Bill FAQs

### **1. What is reclamation bonding, and why does it matter?**

Reclamation bonding is essentially a security deposit for public lands and public health. Before a company is allowed to drill for oil or gas on public land, it must post a financial assurance – typically in the form of a bond – that can be used to plug the well and clean up the surrounding surface in the event the company goes bankrupt or illegally abandons the well. If wells are not plugged and reclaimed, they pose serious risks, like leaking methane into the air or leaching toxins into groundwater. Thus, reclamation bonds are an important protective measure for publicly owned resources and public health; they ensure that companies have a vested stake in cleaning up after themselves.

### **2. What's at risk if reclamation bonds are inadequate?**

If a company abandons a well without cleaning it up (known as an orphaned well) and the reclamation bond amount is insufficient to cover the costs of cleanup, the government and taxpayers get stuck footing the bill. For example, last year (2019), Fram Operating declared bankruptcy, [raising concerns](#) about the on-the-ground status of its wells and other oil and gas operations. At the time of bankruptcy, Fram was already operating wells in Colorado's Mesa and Delta Counties and had posted a total of \$310,000 in bonds. However, bankruptcy filings suggested that BLM would require at least \$1.54 million for cleanup costs. The Fram case is just one example of the risks of inadequate reclamation bonds: wells are left unplugged and unreclaimed, and taxpayers end up footing the bill. Unfortunately, this is not an isolated example: in Wyoming alone, companies abandoned [almost 6,000](#) oil and gas wells since 2014 when low prices caused a bust in the coal-bed methane industry.

### **3. How much do companies currently pay in reclamation bonds?**

The amount that companies pay in reclamation bonds is woefully inadequate, largely due to outdated policies that haven't been updated in over 60 years. There are three types of BLM bonds that companies can choose from:

- [Lease-specific bonds](#): cover reclamation costs for one lease; the minimum bond amount is currently \$10,000;
- [Statewide bonds](#): cover statewide reclamation costs for all leases owned by one company; the minimum bond amount is currently \$25,000; and
- [Nationwide bonds](#): cover nationwide reclamation costs for all leases owned by one company; the minimum bond amount is currently \$150,000.

However, these amounts were set back in 1960, 1951, and 1951, respectively. They have not even been updated for inflation. This is particularly troubling because the cost of plugging and reclaiming wells has gone up over time as technology allows companies to drill deeper, more complex wells. Between inflation and new drilling technology, companies are paying far less than the actual costs of reclamation.

In fact, a [new report](#) from the Government Accountability Office (GAO) evaluated BLM's bond amounts and concluded that they are badly out of sync with actual costs of reclamation, leaving BLM potentially responsible for hundreds of millions of dollars in cleanup costs. The GAO specifically noted that “[b]onds are not sufficient to prevent orphaned wells in part because they do not reflect full reclamation costs for the wells they cover.” Alarming, the GAO found that, based on (limited) available data, 84 percent of

bonds – covering 99.5 percent of existing wells – would not fully cover reclamation costs even under a low-cost cleanup scenario.

#### **4. How are reclamation bonds currently managed?**

BLM currently does a poor job managing its reclamation bond program, due to serious shortcomings in data collection on bond amounts, bond reviews, well condition, and inspection and enforcement. In fact, GAO has studied BLM’s bonding program multiple times – in [2010](#), [2011](#), [2018](#), and [2019](#) – and consistently concluded that more effective data collection, tracking, and monitoring is needed for the program to be effective. In 2011, the GAO found that BLM does “not always regularly review bonds and increase bond amounts.” In its 2018 report, the GAO concluded that “[w]ithout systematically tracking [information on actual reclamation costs and liabilities], BLM does not have assurance that it has sufficient bonds or financial assurances to cover the costs of reclaiming orphaned wells.” And the most recent 2019 report found that, partly due to lack of data, BLM uses the regulatory minimum bond amounts 82 percent of the time.

#### **5. What are orphaned wells, and why are they a problem?**

Orphaned wells are wells where a party responsible for plugging and reclamation cannot be identified, which shifts the clean-up costs onto taxpayers or private landowners. This usually happens when companies go bankrupt and leave behind wells that have not been plugged and/or reclaimed. According to the Interstate Oil & Gas Compact Commission, there are roughly 57,000 [documented](#) orphaned wells across the country and an estimated 746,000 [undocumented](#) orphaned wells.

#### **6. What are inactive wells, and why are they a problem?**

Inactive wells, also known as idle or shut-in wells, are wells that are no longer producing oil or gas nor serving other functional purposes like fluid injection or groundwater monitoring. In theory, many of these wells are just temporarily ‘turned off,’ meaning they’re capable of being re-engaged for production. Consequently, operators do not plug and reclaim them. The problem arises when these wells languish unused and unreclaimed for long periods of time, essentially giving companies a way to indefinitely defer closure and reclamation. In its 2019 report, the GAO identified long-inactive wells as those most at risk of becoming orphaned, potentially leading to \$46 to \$333 million in cleanup costs.

This bill helps tackle the problem by requiring operators to get BLM approval if they want to leave a well inactive for more than 30 days, with a maximum limit of five years of inactivity before the well must be plugged and fully reclaimed.

#### **7. How much does the federal government pay to clean up after companies that leave behind unreclaimed or inadequately reclaimed wells?**

The amount that the federal government (and taxpayers) actually pays to clean up wells is not precisely known, which is part of the problem. However, in its [2018 report](#), GAO found that 13 BLM field offices identified about \$46.2 million in estimated potential reclamation costs associated with orphaned and at-risk wells. In its [2019 report](#), the GAO attempted to calculate how much BLM could be liable for based on the estimated cleanup costs of existing, at-risk wells. Focusing on 2,294 wells inactive since 2008, the GAO found that these wells could impose \$46 million to \$333 million in cleanup costs, and that the vast

majority of the wells' bonds were insufficient to cover these costs. Thus, these at-risk wells could end up costing taxpayers tens, if not hundreds, of millions of dollars to clean up.

#### **8. Why do we need to act now?**

The urgency of the problem has been increasing steadily, and we are reaching a critical threshold with the recent volatility in the oil market proving the federal government is not fiscally prepared if companies go bankrupt. As the costs of reclamation have gone up over time – due to inflation and deeper, more complex wells that are harder to plug – the bonding rates have stayed stagnant. Thus, every day, the gap grows between the amount BLM holds in bonds and the actual costs of reclamation – and this gap is likely to grow at an accelerated pace under President Trump's aggressive "energy dominance" strategy for fossil fuel development on public lands. As [the most recent GAO report](#) shows, the gap is alarmingly high: 84 percent of bonds are too low to cover reclamation costs of the wells they cover, leaving BLM liable for upwards of \$333 million in potential reclamation costs. Action is needed now before the problem worsens.

#### **9. Developing oil and gas on federal land is already expensive. Won't this just increase costs and further disincentivize production, potentially leading to drops in revenue?**

It is unlikely that these additional costs would significantly deter serious and responsible oil and gas operators. For one thing, the minimum bond amounts are simply being adjusted to account for inflation, so those costs should hardly be viewed as increasing. As for bond amounts set above these floors, they would be imposed by BLM purely to accurately account for the likely costs of reclamation, and they would mirror what most states are already doing (e.g., basing bond amounts on well depth and other factors). For example, Colorado's land management agency [requires](#) bonds of \$25,000 for one to three leases, or a statewide bond of \$100,000 for four or more leases; and its oil and gas development agency [requires](#) bonds of \$10,000 or \$20,000 per well, depending on depth, or a statewide bond of \$60,000 to \$100,000. Likewise, Texas – one of the highest production states – [requires](#) bonds of \$2 per foot of well depth or a statewide bond of \$25,000 to \$250,000, depending on the number of wells. Other states have similar structures that are generally higher than the federal rates.

Furthermore, it is also important to remember that bonds are like a security deposit, meaning companies get them back once they've plugged and reclaimed their wells. Of course, a higher bond could deter operators that do not intend to fully reclaim their wells and lease tract, but if those operators are deterred, that would be another success of this bill.

#### **10. BLM already has a hard time tracking and monitoring wells and bonds. Doesn't this bill just give a stretched-thin agency even more to do?**

While the bill does require BLM to more carefully manage wells and bonds, it's also designed to make BLM's job easier. Most notably, the bill requires that a centralized database be created, including automatic alerts to BLM and the Forest Service for deadlines to review things like bond adequacy. With this tool in place, the government, industry, and the public will be better able to track and monitor wells and bonds, alleviating many of the concerns articulated by the GAO in its 2010, 2011, 2018, and 2019 reports (above).

**11. Many companies rely on nationwide bonds, and nationwide bond holders are disproportionately large companies (i.e., “majors”) that are least at risk of leaving behind unreclaimed wells. Why should we disrupt a functional system that penalizes the most responsible actors?**

It’s true that many of the “majors” use the nationwide bond option and are generally responsible with reclamation. However, the fact that large companies with numerous wells across the country can rely on a nationwide bond that may be set as low as \$150,000 is precisely the reason the nationwide bond option should be eliminated. Even if a company is ordinarily responsible, unforeseen or unintended events like bankruptcy could leave BLM to deal with huge numbers of wells that are all covered by a single, inadequate bond. We have seen this occur in the coal industry and now with some major oil and gas producers, such as Continental and Chesapeake. If a “major” went bankrupt, the financial liability for taxpayers would be astronomical, and this risk should be shared more equitably.

**12. What is the average cost to reclaim and remediate a well?**

As GAO [recently found](#), reclamation costs have soared over the past seventy years – mainly because companies are now drilling much deeper wells: “in 1950, well depth averaged about 3,700 feet, and in 2008, it averaged about 6,000 feet. Newer wells may be drilled 10,000 feet vertically.” Consequently, GAO found that it can typically costs between \$20,000 and \$145,000 to reclaim a single well. And this estimate may be on the conservative side, as a [2020 report](#) from Carbon Tracker found that “the actual expect cost for a modern shale well is closer to \$300k.”

**13. What does this bill do for states and private entities to help them clean up wells?**

The bill creates a new program – to be managed by the Secretary of the Interior – where states and tribes can obtain funding to close, remediate, and reclaim orphaned wells under their jurisdiction. For the first two years of the program, the Secretary must allocate funds based on need and ability to expend funds on reclamation activities. For subsequent years, the Secretary can also consider what steps, if any, states are taking to strengthen state bonding requirements so that oil and gas companies – and not taxpayers – are paying the clean-up costs for future orphaned wells.