ORPHANED OIL AND GAS WELLS

A growing crisis threatens taxpayers, landowners, and the environment



ADEQUATE BONDS ARE AN AFFORDABLE COST OF DOING BUSINESS AND PROVIDE PROTECTION AGAINST DAMAGES TO PRIVATE, TRIBAL, AND PUBLIC LAND, AIR, WATER, AND HEALTH. OIL AND GAS REGULATORS CAN AND SHOULD REQUIRE ADEQUATE BONDS TO SHIELD TAXPAYERS FROM BEING STUCK WITH THE COST OF FIXING THESE PROBLEMS. ESTABLISHING A BOND SCHEDULE THAT MATCHES THE COST OF RECLAIMING EACH SPECIFIC WELL WILL ASSURE SUFFICIENT FUNDS FOR RECLAMATION.

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A crisis of unreclaimed and under-bonded oil and gas wells is growing across the West, threatening American taxpayers with liability in the billions and landowners with increasing risk to their land and water. The federal government's oil and gas manager, the Bureau of Land Management (BLM), has not substantively changed standards for bonding in nearly seven decades. While this crisis is growing, common-sense solutions can still prevent a catastrophe.

When coal companies apply for a mine permit, they are required to estimate the cost to clean up and reclaim the site, then hand over financial assurances that would cover the cost of that cleanup to the regulatory agency. In the event that the company responsible were to dissolve or disappear, the government would cash the funds to pay for cleanup without using taxpayer dollars. In the world of oil and gas, this is not at all the case.

The BLM allows companies to operate on any number of federal leases in the country — sometimes covering hundreds or thousands of wells — if they post a single nationwide bond of as little as $150,000. These bond amounts are minuscule compared to the average cleanup costs of between $20,000 and $140,000 to plug and reclaim a single well. At least 99.5% of federal wells carry bonds that are insufficient to cover the cost of reclamation.[1]



"Drilling for natural gas and oil started in the 1950s and in some places on federal land around here you can still see some remnants of their equipment that they abandoned after the well dried up. There's a problem on federal land of abandoned wells. And now that the prices are marginal again, that means bankrupt companies will run away and leave wells behind. The taxpayer is held responsible if we want to have these orphaned wells plugged — we're going to have to pay for it." — Leslie Robinson, Chair, Grand Valley Citizens Alliance in Rifle, Colorado



INADEQUATE DEPOSITS

While the BLM's nationwide bond is the most egregious example, their statewide and lease-wide bonds are also substantially inadequate. In 2018, individual lease bonds had an average value per well of only $2,691, and statewide bonds had an average bond value per well of only $1,592.[1] Oil and gas producing states in the West require a statewide bond for wells on state lands with amounts averaging two to four times higher than the the BLM's. In almost every case, the amount of financial assurance provided by a company to clean up oil and gas wells is grossly inadequate. For instance, in the May 2019 bankruptcy of Fram America and Fram Operating, based in Western Colorado, the company reported leaving $1.54 million in reclamation costs to the BLM and $3.85 million to the Colorado Oil and Gas Conservation Commission, while the company's bonds totaled $330,000.[2] This is not an isolated incident — BLM has reported adjudicating 102 bankruptcy cases involving inadequate bonds as of 2018, with the rate increasing[3] in recent years.

POTENTIAL CLEANUP COSTS

While some states have taken initiative to inventory wells,[1] the BLM's inadequate tracking of orphaned wells makes it difficult to estimate the exact scale of the problem across the country. BLM reported 219 orphaned wells in 2017 and 44 new orphaned wells since then, which is nearly double the 144 orphaned wells GAO reported in 2009. This number is artificially low, considering the BLM considers wells idle only when they have not produced for seven years or more, compared to most state's threshold[4] of one to two years. For comparison, since 2014 Wyoming has reported over 6,000 orphaned wells just on state and private lands. With more 96,199 producible wells reported in FY 2018, it is likely that the true number of orphaned wells on federal minerals is measured in the thousands.

- In a 2018 DOI OIG Report, a single BLM field office anticipated that 97 idle wells would become orphaned in the near future. Each of these wells[1] would conservatively cost $20,000 to plug and abandon, then reclaim, for a total of almost $2 million. The companies' bonds to cover these activities total only $150,000, leaving taxpayers potentially liable for the remaining $1.85 million.[5]

- Estimates of the real costs to fully reclaim modern wells that are horizontally drilled and hydraulically fractured are $100,000 on average and can be as high as $700,000, exponentially increasing liability as more modern wells age.[3]

ADDITIONAL HAZARDS

Orphaned wells without funding to plug and reclaim often sit unmonitored for years or decades. The delayed and incomplete reclamation of oil and gas wells poses a threat to air, land, and water. Research shows that abandoned wells leak methane, a potent greenhouse gas, and that government inventories underestimate this source of emissions.[6] Old wells may have degraded well casings or cement that can allow oil, gas, or salty water to leak into freshwater aquifers. These contaminants can endanger public health. Idle or orphaned oil and gas wells and facilities often devalue private split-estate property by causing the spread of noxious weeds and impact wildlife and grazing habitat.

STATE EXPENDITURES GROWING

States are already shouldering the responsibility for orphaned well cleanup, to varying degrees. In Colorado from July 2014 through June 2017, the state regulator spent $14.36 million dollars to plug and/or reclaim wells for operators who failed to meet their reclamation obligations. In 91% of these cases, the operator's financial assurance was insufficient to cover the cleanup costs. In total, these operators had only $1.33 million in financial assurance in place. The state would need approximately $5.3 million per year over a period of 5 years to address the current inventory of orphaned wells and locations. This does not include the cost to clean up new orphan wells that are identified over the next five years, or orphaned federal wells, which are not subject to state bond requirements.[7]

North Dakota has established a fund to cover the costs to plug and reclaim orphan wells, originally funded by fees paid to the Oil and Gas Division and confiscated bonds. While the fund's cap was increased to $100 million dollars in 2015, the legislature has hesitated to authorize adequate funding.[8] From July 2015 through June 2017, the state spent $3.3 million to plug and reclaim abandoned wells, with about one-third of those funds spent to clean up pre-1983 wells that were in service before reclamation policies were in place.[9] The number of orphaned wells continues to grow in North Dakota as well. [1]



A Wyoming Rancher points out several decades old federal wells which marginally produce, have been idled at times, and continue to be the source of spills and accidents.



SOLUTIONS

As a matter of basic fairness, oil and gas companies should pay to clean up their oil and gas operations, not taxpayers or landowners. To guarantee responsible behavior, the BLM and state agencies should require companies to post a bond at the full cost of reclamation as a security against incomplete and delayed reclamation, just as the coal industry is required to do. As average well depth increases, and falling oil and gas prices increase the risk of wells being orphaned, BLM's future reclamation costs will undoubtedly skyrocket.

No matter how you crunch the numbers, the liability is clear. Existing damage deposits posted by oil and gas companies are grossly inadequate to cover potential cleanup costs.

"EVERY STATE THAT HAS OIL AND GAS IS STRUGGLING WITH THE CLEANUP TASK BECAUSE THE INDUSTRY HASN'T BEEN HELD ACCOUNTABLE BY REGULATORS AND BY THE GOVERNMENT TO PAY THE COST OF DOING BUSINESS. ANOTHER BUST COULD PUT WYOMING'S ORPHAN WELL PROGRAM BUDGET OVER THE EDGE. WE'RE GOING TO QUICKLY BE IN THE TENS OF MILLIONS OF DOLLARS RESPONSIBLE FOR PLUGGING AND RECLAIMING OIL AND GAS WELLS IF WE DON'T REQUIRE UPFRONT BONDING."

—JILL MORRISON
DIRECTOR OF POWDER RIVER BASIN RESOURCE COUNCIL IN WYOMING

1 U.S. Government Accountability Office. 2019. Federal Energy Development: Challenges to Ensuring a Fair Return for Federal Energy Resources, GAO-19-718T. Washington, DC. https://www.gao.gov/assets/710/701450.pdf.

2 Webb, D. (2019, May 3). Fram drilling files for bankruptcy. Grand Junction Sentinel. Retrieved from https://www.gjsentinel.com

3 Nedd, M. (2018, November 19). Oil and Gas Bond Adequacy Reviews — BLM. Retrieved from https://www.blm.gov/policy/im-2019-014

4 Energy Policy Act of 2005, Pub.L. 109–58, 119 Stat. 710

5 Office of Inspector General, Department of the Interior. 2018. Bureau of Land Management's Idle Well Program, Report No.: 2016-EAU-061. https://www.doioig.gov/sites/doioig.gov/files/FinalEvaluation_BLMIdleWells_011718.pdf

6 American Geosciences Institute. 2018. Petroleum and the Environment, Part 7/24. https://www.americangeosciences.org/geoscience-currents/abandoned-wells

7 DNR FY 2018-19 Joint Budget Committee Hearing, DNR FY 2018-19 Joint Budget Committee Hearing (2017). Retrieved from https://leg.colorado.gov/sites/default/files/fy2018-19_nathrg_0.pdf

8 VanderBusch, C. (2017, February). North Dakota Reclamation Conference. North Dakota Reclamation Conference. Bismarck. Retrieved from https://blogs-prd5.ndus.edu/ndreclamation/wp-content/uploads/sites/4/2017/02/05-VanderBusch-022017.pdf

9 Analysis of State Trust Funds for the 2015-17 and 2017-19 Bienniums (2018). Retrieved from https://www.legis.nd.gov/files/fiscal/2017-19/docs/trust-fund-analysis-june-2018.pdf

The Western Organization of Resource Councils (WORC) is a network of grassroots organizations that span seven of the Western states with more than 15,000 members. Many WORC members live on lands overlying and neighboring federal, tribal, state and privately owned oil and gas deposits, and experience numerous impacts due to federal oil and gas production. Headquartered in Billings, Montana, WORC also has offices in Colorado and Washington, D.C.