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
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 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.

While some states have taken initiative to inventory wells, 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 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.

“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. 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. This is not an isolated incident — BLM has reported adjudicating 102 bankruptcy cases involving inadequate bonds as of 2018, with the rate increasing in recent years.

**POTENTIAL CLEANUP COSTS**

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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. 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.

ADDITIONAL HAZARDS

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.

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. 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. The number of orphaned wells continues to grow in North Dakota as well.

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.

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.

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