

Filling the Gaps

How to Improve Oil and Gas Reclamation and Reduce Taxpayer Liability

Executive Summary

More than two million wells have been drilled in the search for oil and gas in the United States, with approximately 520,000 producing oil wells and 360,000 producing natural gas wells in 2002. These numbers will most likely more than double in the next 10 years. For example, in the San Juan Basin of New Mexico there are currently 18,000 wells, with the Bureau of Land Management (BLM) proposing an additional 12,500 wells in just one portion of the basin. In the Powder River Basin of Wyoming and Montana BLM has proposed 77,000 new wells.

Along with the boom comes a vast grid of associated infrastructure: wells, well pads, roads, power line and pipeline corridors, waste water impoundments, compressor stations, processing plants, and other associated facilities. This development is significantly impacting public and private lands, water resources, crops and soils, air quality, and property values. Those impacts largely have been ignored by both the present administration and the state and federal regulatory agencies involved in the permitting process.

As a matter of basic fairness, when an oil or gas company's actions result in expensive damages to land, water supplies, and other natural resources, the burden of cleanup should be borne by the company, not taxpayers or landowners. This report focuses on the impacts caused by oil and gas development and the reclamation planning and financial assurance practices that can be used to mitigate both the affects and the liabilities associated with those activities. It proposes four changes that will ensure better protection for taxpayers and landowners.

Major Findings

This report examines reclamation practices and financial assurance (sometimes referred to as "bonding") requirements for oil and gas development on state, federal and private lands in Colorado, New Mexico, North Dakota, Montana, and Wyoming and is applicable to other states and regions. The major findings are:

- 1) Oil and gas drilling can cause major impacts to public and private resources. These include extensive disturbance to surface resources (land and vegetation), in addition to impacts to water resources, crops and soils, wildlife, and property values. In the majority of cases the impacts are either not identified or inadequately addressed.
- 2) Current state and federal requirements for reclamation plans are grossly inadequate and fail to result in productive post-development reclamation of damaged sites. Current guidelines lack standards necessary to prevent impacts to land and water resources and loss of use to other public land users and private landowners.
- 3) Financial assurance only works when it is sufficient to cover reclamation costs. In all cases examined in this report, the blanket bond approach currently in use is grossly inadequate and fails to provide sufficient funds for reclamation to be performed by the responsible agencies in the event an operator defaults on its obligation. This results in liabilities for individual projects ranging from \$100,000 to \$6,000,000 or more, and suggests a total industry-wide liability - or risk to taxpayers - of billions of dollars.

Major Recommendations

- 1) Regulatory agencies should require site-specific reclamation plans for each operation that identify all impacts to surface lands and other resources.
- 2) Regulatory agencies should develop reclamation planning and implementation requirements, such as performance standards, for oil and gas operations consistent with those required for other extractive industries affecting public and private resources.
- 3) Regulatory agencies should require financial assurance estimated by a professional engineer, in an acceptable form that covers the full cost of performing all reclamation tasks based on site-specific project analyses, prior to issuance of drilling permits.
- 4) Land management agencies should review and update reclamation plans and financial assurance every year.