



Filling the Gaps

How to Improve Oil and Gas
Reclamation and Reduce
Taxpayer Liability

Introduction

- ***Filling the Gaps*** examines *reclamation practices* and *financial assurance requirements* (including “bonding”) for oil and gas development on state, federal and private lands.
- ***Filling the Gaps*** looks at reclamation and financial assurance practices in Colorado, New Mexico, North Dakota, Montana, and Wyoming and the Federal Government.
- ***Filling the Gaps*** was produced by the Western Organization of Resource Councils (www.worc.org).
- ***Filling the Gaps*** was prepared by Kuipers and Associates. Jim Kuipers has 25 years of experience with mining, oil and gas, and environmental projects, including engineering design, permitting, operations, reclamation, and financial assurance.

[Problem]

- It's a matter of basic fairness that oil and gas companies should pay to clean up their well sites - not taxpayers or landowners.
- The U.S. Bureau of Land Management requires companies to post a damage deposit - or a financial assurance bond - as a security against problems, along with reclamation plans detailing how a site will be restored.
- Financial Assurance falls far short of potential clean up costs and reclamation plans rarely cover true clean up needs.
- The irresponsible actions of a few bad actor companies could saddle taxpayers and landowners with billions of dollars of cleanup liability.

Major Findings

- Oil and gas drilling can cause major impacts to public and private resources.
 - Extensive disturbance to surface resources (land and vegetation)
 - Water resources
 - Crops and soils
 - Wildlife
 - Property values
- In most cases the impacts are either not identified or inadequately addressed.
- 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 to prevent impacts to land and water resources or loss of use to other public land users and private landowners.
- Financial assurance only works when it is sufficient to cover reclamation costs.
- The blanket bond approach currently in use is grossly inadequate and fails to provide sufficient funds for reclamation. Liabilities for individual projects range from \$100,000 to \$6,000,000 or more.
- Total industry-wide liability - or risk to taxpayers – could amount to of trillions of dollars.

Major Recommendations

- Regulatory agencies should require site-specific reclamation plans that identify all impacts to surface lands and other resources for each operation.
- Regulatory agencies should develop reclamation planning and implementation requirements, such as performance standards, for oil and gas operations like those required for other extractive industries.
- Regulatory agencies should require financial assurance prior to issuance of drilling permits.
 - Estimated by a professional engineer.
 - That covers the full cost of performing all reclamation tasks.
 - Based on site-specific project analyses.
- Land management agencies should review and update reclamation plans and financial assurance every year.

Reclamation and Financial Assurance Case Studies

- ***Filling the Gaps*** includes five case studies representing a variety of development types, land administration and ownership situations, and geographic locations.
- Estimated financial assurance to fully fund reclamation range from \$174,000 to \$7.3 million in the case studies.
- Per acre cost of reclamation ranges from \$4,093 – \$13,874 in the case studies.
- Average per well reclamation cost for all case studies is \$21,685.17.
- Financial assurance falls short of reclamation costs in all cases, from \$120,000 to \$6.8 million.

Examples of Inadequate Financial Assurance

- In Colorado, EnCana Oil & Gas, Inc. has 3,652 wells on record. The company's statewide blanket assurance amount is \$235,000, or **\$64 per well**.
- In Montana, Fidelity Exploration and Production Company has 571 wells and state blanket assurance totaling \$270,000, or **\$473 per well**.
- State and Federal governments will spend \$3,875,000 to reclaim 120 oil wells left behind after the bankruptcy of Emerald Restoration & Production Company or **\$32,292 per well**.