



# FINANCIAL ASSURANCE FOR OIL AND GAS CLEANUP

As a matter of basic fairness, oil and gas companies should pay to cleanup their oil and gas operations, not taxpayers or landowners. To guarantee responsible behavior, the U.S. Bureau of Land Management (BLM) and state agencies should require companies to post a full damage deposit – financial assurance – as a security against possible problems, along with reclamation plans detailing how a site will be restored. Unfortunately, the amounts of this financial assurance currently required fall grossly short of potential cleanup costs.

*“Bonding at the state and federal level is not even close to the real costs of reclaiming the land and that of ranches that are down gradient from ours.”*

—Wyoming rancher Nancy Sorenson

## Damage Deposits

Under current laws, companies operating on federal leases can post a blanket financial assurance in the form of a bond or cash or its equivalent. A bond is an agreement between a company and an insurance agency to provide the value of the assurance if the company fails to comply with the rules of the agency or to clean up the site. The BLM allows companies to operate on any number of federal leases in the country if they post a \$150,000 bond, under a 1960’s era regulation. These bond amounts are miniscule compared to the potential cleanup costs. As of 2005, the BLM holds just \$131 million in bonds to cover all of the potential costs of all of the wells tapping federal minerals anywhere in the U.S.

## Potential Cleanup Costs

In almost every case, the amount of financial assurance provided by companies to cleanup oil and gas wells is grossly inadequate. For instance, WORC’s report, *Filling the Gap*, estimates that the potential liability for Fidelity Exploration and Production Company’s Tongue River coalbed methane project exceeds \$6.8 million. Variations in size, degree of disturbance and depth of oil and gas operations makes it difficult to estimate potential costs of cleaning up all U.S. oil and gas wells precisely. However, a few numbers indicate the order of magnitude of the problem:

### Typical Disturbance of a Coalbed Methane Project

- 571 CBM wells
- 315 acres of reservoirs
- 111 miles of roads
- 206 miles of Pipelines

- The BLM estimates that it could cost between \$2,415 and \$75,000 to plug a well. BLM itself has spent an average of \$13,066 per well to plug 167 wells in the past five years.
- Mining engineer Jim Kuipers, author of *Filling the Gaps*, estimates the cost of cleaning up an average well site at \$22,000.
- The Buffalo, Wyoming, BLM Field Office reported that it costs \$4 per foot to plug a well, for one field the Collums Unit, plugging costs are estimated at \$558,020 for 18 wells or \$31,000 per well.
- The Wyoming Oil and Gas Conservation Commission reported a cost of \$825,138 to remove four tank batteries and two water injection facilities and close one pit.

### Oil and gas drilling has dramatically accelerated across the West:

- There are 880,000 total oil and gas wells in the US.
- Drilling permits approved by BLM more than tripled, from 1,803 in 1999 to 6,399 in 2004
- Gas wells on federal lands have increased from 24,913 in 1998 to 42,647 in 2004 in five western states
- 77,000 new wells have been proposed just in the Powder River Basin of Wyoming and Montana
- The oil and gas industry estimates that 400,000 new wells will be drilled in the West by 2020.

## Potential Taxpayer Liability

Current financial assurance practices for the oil and gas industry saddle taxpayers with billions in potential cleanup costs. Many companies have posted less than \$100 per well in bonds:

- ❑ \$75 per well - Seven operators in Wyoming operate more than 1,000 wells, each likely under statewide blanket bonding of \$75,000 per company.
- ❑ \$64 per well - In Colorado, EnCana Oil & Gas, Inc. has at least 3,652 wells covered by a statewide blanket bond of \$235,000.
- ❑ \$13 per well - In New Mexico, Yates Petroleum operates 3,716 oil wells under a blanket bond of \$50,000

### State Blanket Bonds

*The amount of assurance companies most post to cover all operations in the state*

- ❑ Colorado \$100,000
- ❑ Montana \$50,000
- ❑ New Mexico \$50,000
- ❑ North Dakota \$100,000
- ❑ Wyoming \$75,000



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Actual taxpayer liability will be significantly higher, depending on site-specific conditions. Even using a conservative average reclamation cost of \$13,000 per well, taxpayers and landowners will be responsible 95% of the cleanup cost for a typical well. The total potential liability on all oil and gas wells could run into the trillions of dollars.

Certain extraction process, such as the discharge of produced water from coalbed methane development, could add billions more to these estimates, since entire watersheds might have to be restored. 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.

## Policy Recommendations

Steps to reduce taxpayer liability and ensure proper site cleanup:

1. Regulatory agencies should require financial assurance, estimated by a professional engineer, covering the full cost of performing all reclamation tasks, and based on site-specific project analyses, before issuing drilling permits.
2. Agencies should require either certificates of deposit, savings accounts, cash accounts, letters of credit from a bank in an amount less than the FDIC backed amount, or bonds guaranteed by good and sufficient surety licensed with the United States Department of Treasury as instruments of financial assurance.
3. Land management agencies should review and update the adequacy of financial assurance every year, based on interim site cleanup and changes in potential liability.
4. As a first step the BLM should adjust its bond amounts to real dollars. The value of the \$150,000 nationwide bond has been severely eroded by inflation;. Adjusted to have equivalent value in 2005 dollars, this bond should be \$1,000,000.

## Resources

- ❑ Filling the Gaps: How to Improve Oil and Gas Reclamation and Reduce Taxpayer Liability ([www.worc.org/energy/bonding/report.htm](http://www.worc.org/energy/bonding/report.htm))
- ❑ Law and Order in the Oil & Gas Fields (<http://www.worc.org/pdfs/Law%20and%20Order.pdf>)