

## Why GAO Did This Study

The number of oil and gas wells on leased federal land has increased dramatically. To help manage the environmental impacts of these wells, the Department of the Interior's (Interior) Bureau of Land Management (BLM) requires oil and gas operators to reclaim disturbed land in a manner it prescribes. To help ensure operators reclaim leased land, BLM requires them to provide a bond before beginning drilling operations. BLM refers to oil and gas wells and leased land that will require reclamation as potential liabilities because BLM may have to pay for reclamation if the operators fail to do so. GAO was asked to determine (1) BLM's policies for managing potential federal oil and gas well liability, (2) the extent to which BLM has implemented these policies, and (3) the challenges, if any, BLM faces in managing potential oil and gas well liability. GAO analyzed agency data on bonding and wells and interviewed BLM officials. We surveyed all 48 BLM field offices with an oil and gas program, and received 33 responses covering these offices.

## What GAO Recommends

GAO recommends that BLM develop a comprehensive strategy to, among other things, increase minimum bond amounts over time and improve its data system to better evaluate potential liability and agency performance. In commenting on a draft of this report BLM agreed with GAO's recommendations and noted that it has already taken steps to improve the completeness and accuracy of its oil and gas data.

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## OIL AND GAS BONDS

### BLM Needs a Comprehensive Strategy to Better Manage Potential Oil and Gas Well Liability

## What GAO Found

To manage potential liability on federal land, BLM has developed policies for reviewing bond adequacy and for managing idle wells (wells that have not produced for at least 7 years) and orphan wells (wells that generally have no responsible or liable parties). The bond adequacy policy is intended to ensure that bonds are regularly reviewed by BLM field offices when certain events occur, or periodically, and increased as necessary to ensure that they reflect the level of risk posed by the operator. BLM's idle and orphan well policy is intended to ensure that nonproducing wells are either plugged or returned to production; this policy directs BLM field offices to develop an inventory of such wells and rank and prioritize them for reclamation based on potential environmental harm, among other things.

BLM has not consistently implemented its policies for managing potential liabilities. Specifically, for fiscal years 2005 through 2009, GAO found that 13 of the 33 field office survey respondents reported that they either did not conduct any reviews or did not know the number of reviews conducted. Most field office officials told GAO that a lack of resources and higher priorities were the primary reasons for not conducting these reviews. In addition, BLM state offices also did not consistently interpret BLM policy on when to increase bond amounts. For example, officials in three state offices told GAO that they generally require evidence of operator noncompliance before raising a bond amount, while another state office increased bond amounts for most operators because it viewed them as a potential risk to the government. With regard to reviews of idle or orphan wells, 11 of the 33 field office survey respondents reported that they had not conducted any reviews in one or more fiscal years during the 5-year period GAO examined. The shortage of resources was identified by officials as the primary reason that these reviews were not conducted. In addition, 2 BLM state offices and 22 field offices have not created action plans for reviewing bond adequacy and idle and orphan wells, as BLM policies call for.

BLM faces two challenges in managing potential liability, according to field office officials. First, its bonding system impairs BLM's ability to manage potential liability. Specifically, the minimum bond amounts—not updated in more than 50 years—may not be sufficient to encourage all operators to comply with reclamation requirements. These officials also stated that criteria in the policy for deciding when to increase a bond is vague, creating ambiguity about whether a request for an increase should be submitted and whether it will be approved. Second, limitations with the data system BLM uses to track oil and gas information on public land restrict the agency's ability to evaluate potential liability and monitor agency performance. For example, the BLM field offices GAO surveyed reported a total of about 2,300 idle wells that had been inactive for 7 years or more as of fiscal year 2009. However, other Interior data indicate that the number of idle wells on federal land is nearly double the amount reported by the BLM field offices.