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Federal Oil and Gas Bonding

*Lost Hills Oil Field | Richard Masoner*

What is Oil and Gas Bonding?

The Bureau of Land Management (BLM), under the Department of the Interior (DOI), leases parcels of federal land to private entities to develop oil and gas from the federal onshore mineral estate. In exchange for the privilege to extract resources from federal lands, operators are required to reclaim—clean up—wells and surrounding sites. BLM is responsible for determining reclamation requirements, setting minimum bond values, and establishing what types of bonds it will accept.

When operators drill wells on federal lands, they change the landscape. This “surface disturbance” includes road construction, topsoil excavation and leveling, drilling, installing machinery, and storing equipment and materials. BLM defines reclamation as restoring lands to a condition “equal to or closely approximating” their original state.¹ This involves plugging the well, removing structures, and reshaping and revegetating the site. If not reclaimed properly, wells can damage the environment and public health by leaking methane, contaminating surface water and groundwater, fragmenting habitats, eroding soil, and interfering with agriculture and recreation.²

To ensure complete and timely reclamation, the Mineral Leasing Act of 1920 requires BLM to obtain an adequate bond or other financial assurance from operators before drilling begins. BLM uses bonds to cover at least some of the costs of reclamation if operators abandon wells or otherwise

¹ Bureau of Land Management (BLM), “Oil and Gas Site Reclamation,” accessed July 2024. <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/reclamation>

² Government Accountability Office (GAO), “Oil and Gas: Bureau of Land Management Should Address Risks from Insufficient Bonds to Reclaim Wells”, September 2019. <https://www.gao.gov/products/gao-19-615>

fail to adequately restore the landscape. If reclamation is completed, the bond is returned to the operator.

Bonding Protects American Taxpayers

When an operating company dissolves or goes bankrupt, as they regularly do in the oil and gas boom-and-bust cycle, BLM must rely on a company's bond to cover reclamation. If the amount of the bond is insufficient, taxpayers are forced to cover the costs.

Reclamation costs can vary widely depending on the depth and location of a well. Deeper wells are generally more expensive to reclaim, with cost typically increasing in proportion to depth. And wells in hard-to-reach locations, such as in the middle of a river, also cost more to reclaim. The Government Accountability Office (GAO) estimates reclamation costs range from \$20,000 to \$145,000 per well, with extreme cases as low as \$3,069 and as high as \$603,000.³ The BLM estimates the cost to plug a well and reclaim the surface ranges from \$35,000 to \$200,000, with an average cost of \$71,000.⁴

We do not know the exact amount of taxpayer dollars spent each year reclaiming orphan wells. Most recently, the Infrastructure Investment and Jobs Act (P.L. 117-58) appropriated \$4.7 billion: \$4.275 billion for state and private land, \$250 million for federal land, and \$150 million for tribal land.

Current Bonding Requirements

The BLM accepts two types of bond coverage:

- Bonds for an operator's wells on an individual lease (minimum \$150,000)
- Bonds for all wells owned by an operator in one state (minimum \$500,000)

Higher bond values may be required if the operator has a history of violations, BLM anticipates unusually high reclamation costs, or there are other risk factors.

Operators can secure either a surety bond or a personal bond. A surety bond is a legally binding contract with a third-party surety company that assumes responsibility for the debt if the operator defaults or cannot make bond payments. A personal bond is either an upfront cash payment or a guarantee of funds in the future. Acceptable forms include certificates of deposit, letters of credit, cashier's checks, certified checks, and negotiable Treasury securities.

When the federal government does not own the surface rights—which are separate from mineral rights and may have different owners—operators may be required to secure a surface owner

³ Ibid.

⁴ BLM, "Fluid Mineral Leases and Leasing Process," Federal Register, July 2023.

<https://www.federalregister.gov/documents/2023/07/24/2023-14287/fluid-mineral-leases-and-leasing-process#p-82>

protection bond. This bond does not cover reclamation costs but instead addresses other damages, such as damage to crops.

Current bonding requirements were implemented in June 2024 for new leases and will phase in for existing leases. Nationwide and unit bonds were required to be converted into statewide or individual bonds by June 2025. Statewide bonds must be increased to the new minimum by June 2026 and individual lease bonds by June 2027.

Why Oil and Gas Bonding Requirements Were Updated

Prior to June 2024, oil and gas bonding minimums had not been adjusted in over 60 years and failed to cover the full cost of well reclamation. Too often, taxpayers had to cover the shortfall between growing cleanup costs and outdated bond amounts.

The old bond minimums were:

- \$10,000 for an individual lease (set in 1960)
- \$25,000 for statewide coverage (set in 1951)
- \$150,000 for nationwide coverage (set in 1951)

In 2019, GAO found the average bond held by the BLM was \$2,122 per well⁵—far below the average estimated reclamation costs of \$71,000.⁶

Decades of inadequate bonding left taxpayers with millions in cleanup costs for thousands of orphaned oil and gas wells on federal land. The Interstate Oil & Gas Compact Commission estimated there were at least 15,913 known orphan wells on federal and tribal land at the end of 2021, with many more undocumented.⁷

Bureau of Land Management



⁵ GAO, “Oil and Gas: Bureau of Land Management Should Address Risks from Insufficient Bonds to Reclaim Wells”, September 2019. <https://www.gao.gov/products/gao-19-615>

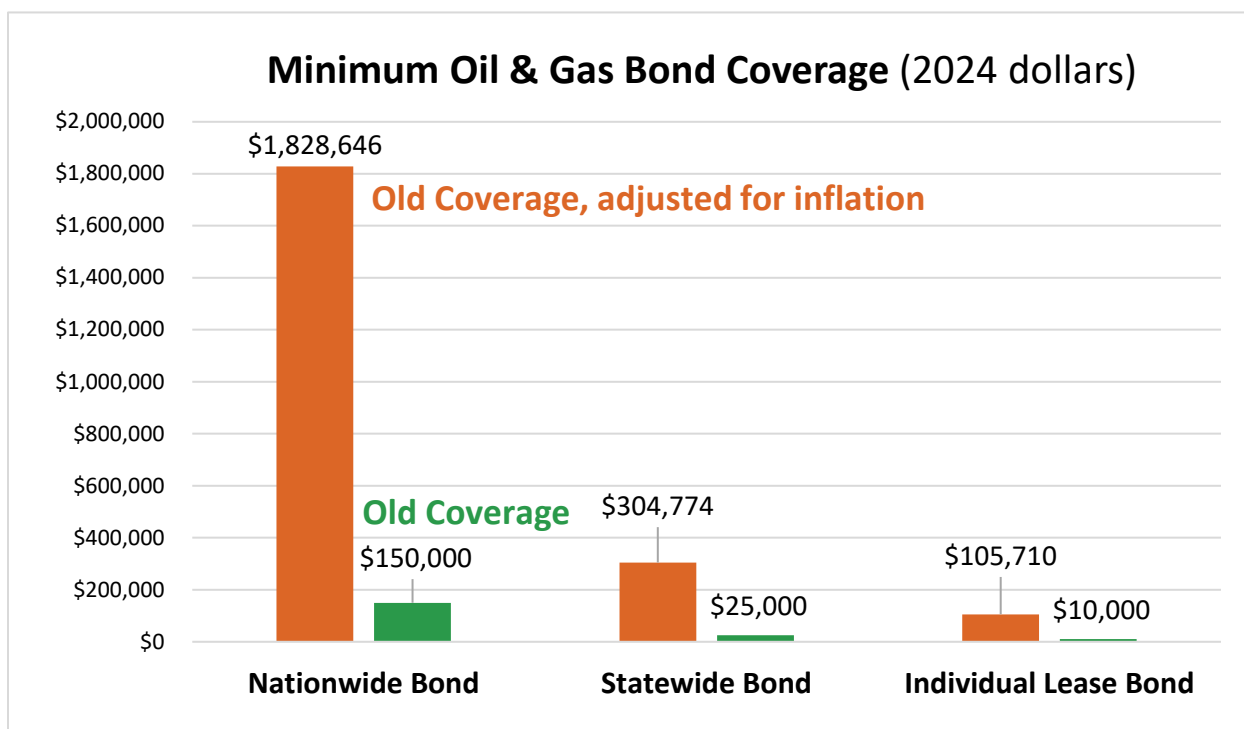
⁶ BLM, “Fluid Mineral Leases and Leasing Process,” *Federal Register*, July 2023.

<https://www.federalregister.gov/documents/2023/07/24/2023-14287/fluid-mineral-leases-and-leasing-process#p-82>

⁷ Interstate Oil & Gas Compact Commission, “Idle and Orphan Oil and Gas Wells: State and Provincial Regulatory Strategies 2021.” https://iogcc.ok.gov/sites/g/files/gmc836/f/iogcc_idle_and_orphan_wells_2021_final_web.pdf

There are several reasons old bonding minimums failed to protect taxpayers:

1. **Bonding minimums had not been adjusted for inflation since they were first set in the 1950s and 1960s.** Adjusted for inflation, the original \$10,000 minimum for an individual lease bond set in 1960 would equal \$105,710 in 2024 dollars. Likewise, the original statewide and nationwide bond minimums set in 1951 would translate to \$304,774 and \$1,828,646 in reclamation coverage.



The individual lease bond minimum was set in 1960; statewide and nationwide bond minimums were set in 1951. Inflation adjustment calculated using Consumer Price Index for All Urban Consumers (CPI-U) provided by U.S. Bureau of Labor Statistics.

2. **Wells have become deeper and more expensive to reclaim**, from about 3,700 feet in 1950 to more than 6,000 feet in 2008, with some drilled to 10,000 feet.⁸
3. **Bonding requirements do not account for the number of wells on a lease(s).** Minimum bond values are based on broad categories rather than the number of wells covered, which favor large oil and gas companies with extensive operations. For example, an operator with 10 wells in a state paid the same \$25,000 statewide bond as one with 100 wells. Bond minimums also failed to consider other well characteristics, such as depth and location, that directly affect reclamation costs.

⁸ GAO, "Oil and Gas: Bureau of Land Management Should Address Risks from Insufficient Bonds to Reclaim Wells", September 2019. <https://www.gao.gov/products/gao-19-615>

4. **The BLM frequently accepted bonds at the statutory minimum, despite having the authority to require higher amounts.** Although the agency could raise bond values above the statutory minimum—and was required to do so if an operator had previously failed to reclaim a well—82% of all bonds were still set at the regulatory minimum.⁹

Conclusion

Federal lands are entrusted to operators for responsible oil and gas development, but unreclaimed wells pose serious environmental, public health, and financial risks. For decades, weak bonding requirements allowed operators to abandon wells with little consequence and pass reclamation costs to taxpayers.

At the end of FY2023, federal lands had 89,350 producing wells with an estimated \$6.34 billion in future cleanup costs. Based on the Government Accountability Office's estimated average bond value per well, only a fraction of those costs were covered, leaving \$6.15 billion in potential liabilities that could have fallen on federal taxpayers.¹⁰

The BLM's updated bonding requirements begin to close this gap. These reforms shift the burden back to operators—where it belongs—ensuring that oil and gas companies, not taxpayers, pay for cleaning up their wells.

⁹ Ibid.

¹⁰ At an average reclamation cost of \$71,000/well, 89,350 wells across federal land carry an estimated \$6.34 billion in reclamation costs. Less the \$189.6 billion held in bonds by DOI (using \$2,122 average bond value per well held by BLM in 2019, per the GAO, uncovered reclamation costs of \$6.15 billion may fall to federal taxpayers.