OCD Bonding Requirements and Orphan Wells

NEW MEXICO OIL CONSERVATION DIVISION (OCD) OF THE ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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OCD Statutory Jurisdiction

• The New Mexico Oil and Gas Act gives OCD broad jurisdiction to:
  ◦ Protect correlative rights of O&G mineral rights owners
  ◦ Prevent waste of O&G natural resources
  ◦ Protect fresh water, human health and the environment

• Act requires OCD to mandate financial assurance (FA) for well plugging and restoration/remediation:

• Act creates a “Reclamation Fund” for the OCD to administer for well plugging and abandonment (P/A)
  • Funds come from percentage of Oil and Gas Conservation Tax and forfeited bonds (general fund not used to plug)
  • Requires OCD to P/A wells as funds become available
  • Allows OCD to employ personnel to survey orphan wells/sites/associated facilities; P/A orphan wells and restoration/remediation
    • HB 2 limits Rec. Fund appropriation for OCD full time employee(s) to $153,000
OCD Bonding Requirements

• Production, injection and service wells are required to have FA to plug wells and restore/remediate location.
• FA comes in several forms: cash bond, surety, letter of credit, plugging insurance.
• Bonding amounts were increased by the legislature in 2018 and OCC enacted a rule to implement the increase in 2019.
  • Active well “single”: $25,000 plus $2 per foot of the projected depth of a proposed well.
  • Active well “blanket” (Note: 70-2-14 set “blanket bond” limit at 250k):
    • $50,000 for one to 10 wells;
    • $75,000 for 11 to 50 wells;
    • $125,000 for 51 to 100 wells; and
    • $250,000 for more than 100 wells.
• Inactive well “single”: $25,000 plus $2 per foot of the depth of an existing well.
• Inactive well “blanket”:
  • $150,000 for one to five wells;
  • $300,000 for six to 10 wells;
  • $500,000 for 11 to 25 wells; and
  • $1,000,000 for more than 25 wells.
Orphan Wells

• What is an orphan well?
  ◦ No current operator of record, usually due to bankruptcy
  ◦ Not properly plugged or restored/remediated

• What happens when an operator orphans their wells?
  • Operator has to forfeit FA if sites not properly P/A’d and restored/remediated
  • OCD must deposit forfeitures/funds into the Reclamation Fund
  • OCD works with plugging contractors to properly P/A the sites

• Approximately 687 orphan wells in NM, each costing on average $35,000 to plug
  • Total est. liability for P/A is $24 million
  • Total may greatly increase if cost for reclamation/restoration of the site are included

• Legislature appropriated OCD appx. 5 million from Reclamation Fund for plugging in FY21
• $2 million from the Reclamation Fund was assigned to pay for the Carlsbad Brine Well project in FY21
Plugging on State Land

• Since 2015, OCD has plugged 136 wells on state land
• Since 2015, OCD has spent approx. $4.5 million of Rec. Fund to P/A wells on state land
Plugging on Federal Land

- OCD receives grant from BLM for P/A, restoration and reclamation on BLM lands
- A total of $1,746,761 was spent from the BLM Grant from 2015-2020
- 49 wells plugged on BLM lands
- Extension to Grant for $5,000,000 over the next five years is pending BLM approval
Questions?