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### Surety Bonds for Outer Continental Shelf Leases

The following information outlines and summarizes the recent revisions to the surety bond program. These revisions are contained within the *Federal Register Notice*, "Surety Bonds for Outer Continental Shelf Leases" (May 22, 1997; *Federal Register*).

The revisions to the surety bond program provide for the following :

1. Establishes December 8, 1997, as the deadline for every lessee to comply with the bond coverage requirements established in the rule published August 27, 1993 (58 FR 45255).

The three tiers specifically prescribed by the final rule are:

- A. \$50,000 lease or \$300,000 areawide bond for leases with no MMS-approved operational activity plan or leases under an MMS-approved operational activity plan but with no submittal to MMS of assignment or operational activity plans on or after November 26, 1993. A lessee need not provide this bond if an applicable lease or areawide bond is in place in accordance with one of the following, higher requirements.
  - B. A \$200,000 lease or \$1,000,000 areawide bond for leases with submittal on or after November 26, 1993, of a proposed EP, or a significant revision to an approved EP, or a proposed assignment of a lease with an approved EP. A lessee need not provide this bond if an applicable lease or areawide bond is in place in accordance with one of the following, higher requirements.
  - C. A \$500,000 lease or \$3,000,000 areawide bond for leases with submittal on or after November 26, 1993, of a proposed DPP, or DOCD, or a significant revision to an approved DPP or DOCD, or a proposed assignment of a lease with an approved DPP or DOCD.
2. Clarifies MMS's position that co-lessees and operating rights owners are jointly and severally liable for compliance with our regulations and the terms and conditions of their OCS oil and gas and sulphur lease for non-monetary obligations.
  3. Clarifies MMS's position that an assignor of an OCS lease remains responsible for compliance with the lease abandonment obligations associated with wells drilled or used while the assignor was lessee.
  4. Establishes regulatory frameworks for acceptance of lease-specific abandonment accounts and third-party guarantees.

5. Sets a higher, more realistic level of bond coverage to be required of the holder of a G&G exploration permit to drill a deep stratigraphic test well and authorizes a demand for a supplemental bond from the holder of a G&G permit or pipeline right-of-way.

This rule is the product of our efforts to write regulations in plain English and continue MMS's attempts to provide optimum flexibility for a lessee to meet lease bond requirements and ensure that lessees adequately fund their end-of-lease obligations.

MMS has, on a case-by-case basis, allowed an individual lessee to furnish a third-party guarantee or to ensure funding for its lease abandonment obligations by the establishment and funding of a lease-specific abandonment account as alternatives to traditional supplemental bonds. These alternatives are specifically addressed in this rule. A third-party guarantor need not qualify as a surety with the Department of the Treasury (Treasury) but must agree to fully perform all lease obligations without the dollar limitation permitted a surety under this rule.

MMS objectives for this rule are to (1) ensure a lessee's financial capability to perform its lease obligations; (2) protect the environment from threat of harm that might result from a lessee's failure to carry out proper well abandonment and site clearance operations in a timely fashion; (3) achieve a reasonable degree of protection from default by a lessee, permittee, or pipeline right-of-way holder at a minimum increase in costs for lease, permit, or pipeline operations; and (4) select a method for attaining these goals that equitably affects all parties.

This rule implements the changes proposed by MMS's notice of proposed rulemaking (NPRM) that was published December 8, 1995 (60 FR 63011). MMS received 17 sets of comments and recommendations in response to that NPRM. Four of those comments and recommendations were from industry associations, and 13 were from lessees or operators. MMS has carefully considered each of these comments and recommendations. MMS did not adopt the recommendations that did not appear to be in the public's best interest.

MMS rewrote the requirements of the rule in plain English and for technical accuracy. These additional revisions describe more clearly how the current rule works and do not affect the substance of the rule.

Nothing in this rule (e.g., the levels of bond coverage required) is intended to limit the obligations of either a lessee, the holder of an OCS pipeline right-of-way, or the holder of a G&G exploration permit, to fulfill all the requirements of the lease, right-of-way, or permit and any applicable regulations.

MMS is the Federal agency that manages the Nation's oil and gas and other mineral resources on the OCS and collects, accounts for, and disburses about \$4 billion yearly in revenues from Federal offshore leases and Federal and Indian onshore mineral leases.

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