

FOREST GRAY

IBLA 85-15

Decided July 22, 1985

Appeal from decision of the California State Office, Bureau of Land Management, requiring bond for oil and gas lease SAC 019642.

Affirmed.

1. Oil and Gas Leases: Assignments or Transfers -- Oil and Gas Leases: Bonds

A BLM decision requesting a new bond for an oil and gas lease prior to approval of assignment of the lease will be upheld where the assignee disputes the amount of the required bond but fails to establish error in BLM's determination of the bond amount.

APPEARANCES: Forest Gray, Bakersfield, California, pro se.

OPINION BY ADMINISTRATIVE JUDGE HARRIS

On August 10, 1984, the California State Office, Bureau of Land Management (BLM), received a request for approval of assignment of 100-percent record title interest of oil and gas lease SAC 019642 from Getty Oil Company to Forest Gray.

By decision dated September 6, 1984, BLM required Gray, prior to assignment approval, to furnish a new \$ 80,000 lessee bond to satisfy lease obligations. BLM stated the lease obligations were currently satisfied by Getty's nationwide bond. The decision contained no further explanation of how BLM arrived at its \$ 80,000 figure. Gray filed a timely appeal disputing the amount of the bond.

On appeal Gray claims the money required for bonding would be better utilized for investment in lease operations designed to increase production. He claims the lease obligations are estimated to be \$ 31,000 and an existing "blanket oil and gas bond furnished to the State * * * in the amount of \$ 100,000.00 * * * is more than ample to cover the lease obligations."

[1] The regulations at 43 CFR 3104.2(a) require that a lessee's general lease and drilling bond "shall be in an amount of not less than \$10,000 conditioned upon compliance with all the terms and conditions of the lease." (Emphasis added.) Thus, the regulations require a bond of at least \$ 10,000. In addition, 43 CFR 3104.5 states that the authorized officer may elect to increase the amount of any bond to be issued or any outstanding bond when additional coverage is determined appropriate. The question presented is whether BLM's requirement of an \$ 80,000 bond is reasonable.

The case record contains a memorandum dated August 3, 1984, from the BLM Associate District Manager, Bakersfield, to the BLM California State Director, recommending imposition of the \$ 80,000 bond and explaining:

Our last Monthly Report of Operations for the lease was for April 1984 from Getty. It showed twenty-three wells on the lease with four wells producing. The remaining nineteen wells were shut-in. Production for the month of April 1984 was 19 barrels of oil, zero gas, and 19,980 barrels of water. Gravity of the oil is 11.5 degrees API. In regard to the shut-in wells Getty has advised us that "Evaluation shows that future flood potential exists". This means potential for steam flooding. Before Getty sold the property they indicated that they wished to retain the wells for the potential steam flooding. Most of the idle wells were shutdown in 1976 or 1977. all were completed between 1963 and 1982; depths run from 1100' to 1500'.

Due to the very low oil production, the high water production and the large number of shut-in wells, this property appears to be a candidate for abandonment of oil operations. It may have potential for economic production by steam drive. However, until economics improve, we believe the Federal interest should be protected by a bond that would cover possible abandonment costs.

Therefore we have no objection to this lease assignment so long as the new operator posts a bond of \$ 80,000. If economics of the operation improve we would be agreeable to a reduction in the bond amount. This bond amount is based on recent abandonment experience for shallow wells (1500' deep). At \$ 3000 for each abandonment plus \$ 11,000 for surface cleanup and contingencies, the total comes to \$ 80,000.

The record contains adequate support for BLM's requested bond amount. Gray's argument that a bond furnished to the State is sufficient to satisfy lease obligations is not responsive to BLM's request for bond. The bonding regulations, 43 CFR Subpart 3104, require bonds to be provided to insure compliance with all the terms and conditions of the Federal lease. A bond furnished to the State does not insure compliance with Federal lease obligations.

Appellant has shown no error in BLM's request for a bond of \$ 80,000.

Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is affirmed.

Bruce R. Harris
Administrative Judge

We concur:

Wm. Philip Horton
Chief Administrative Judge

Franklin D. Arness
Administrative Judge

