

February 26, 2025

Draft Bond Rule Briefing

Division of Oil, Gas and Mining



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Division of Oil, Gas & Mining

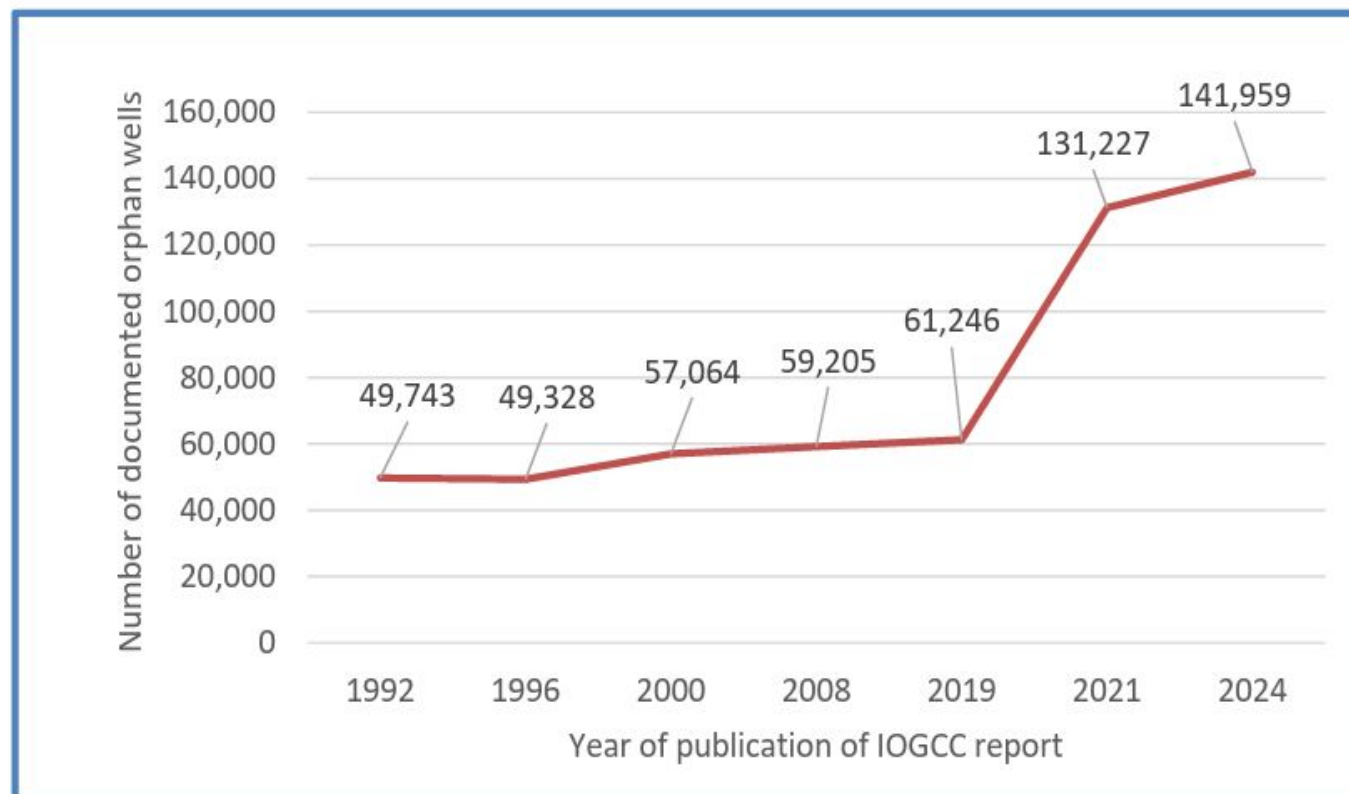
Why a New Bond Rule?

Utah Code 40-6-5(9) Requires the Board to review bonding rules to determine whether rules provide adequate fiscal security for the fiscal risks to the state.

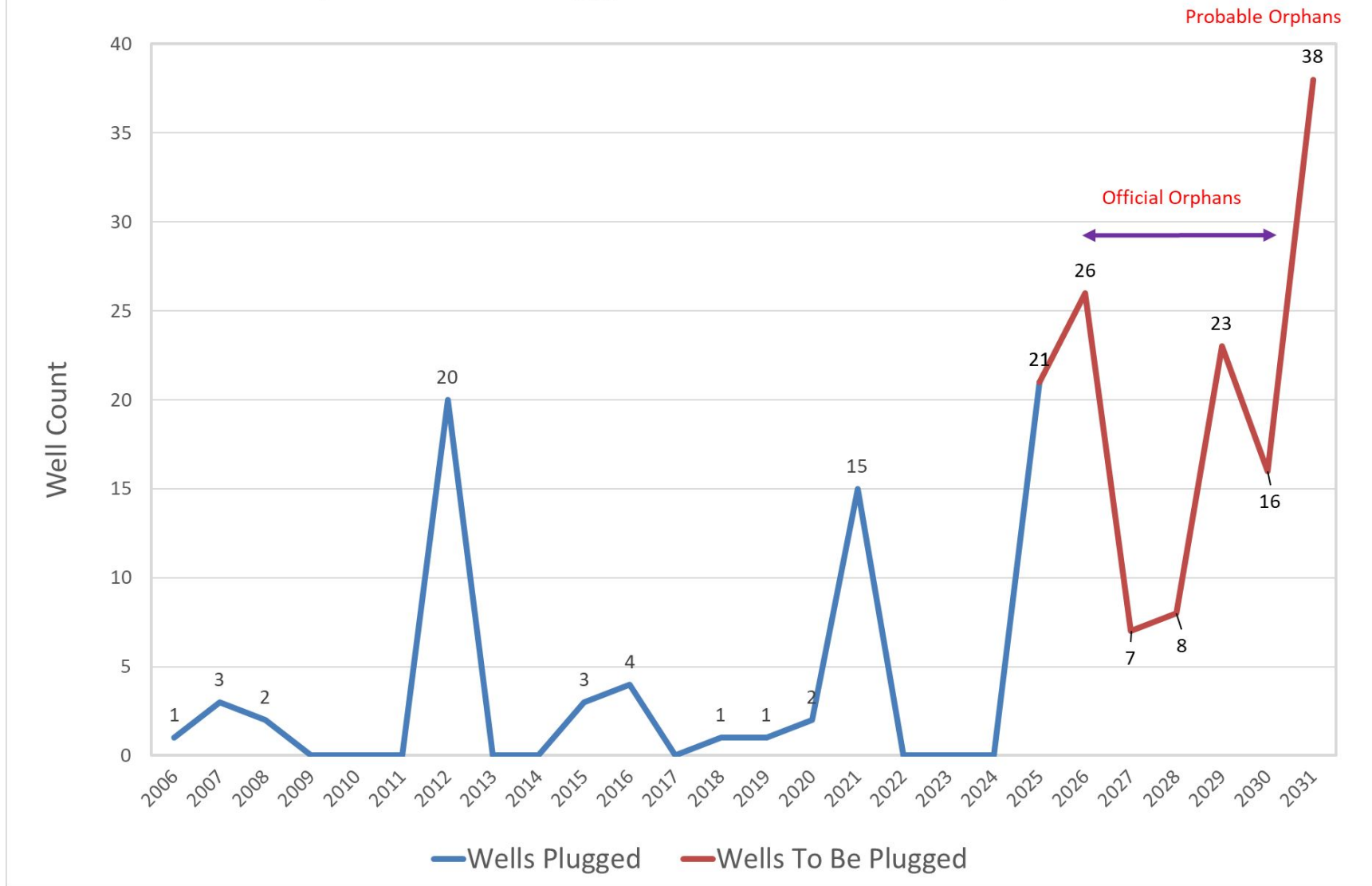
- Current Rule is Over 20 Years Old
- Increased Plugging Cost and Changes to Orphan Well Trends
- 2019 Legislative Audit

National Data

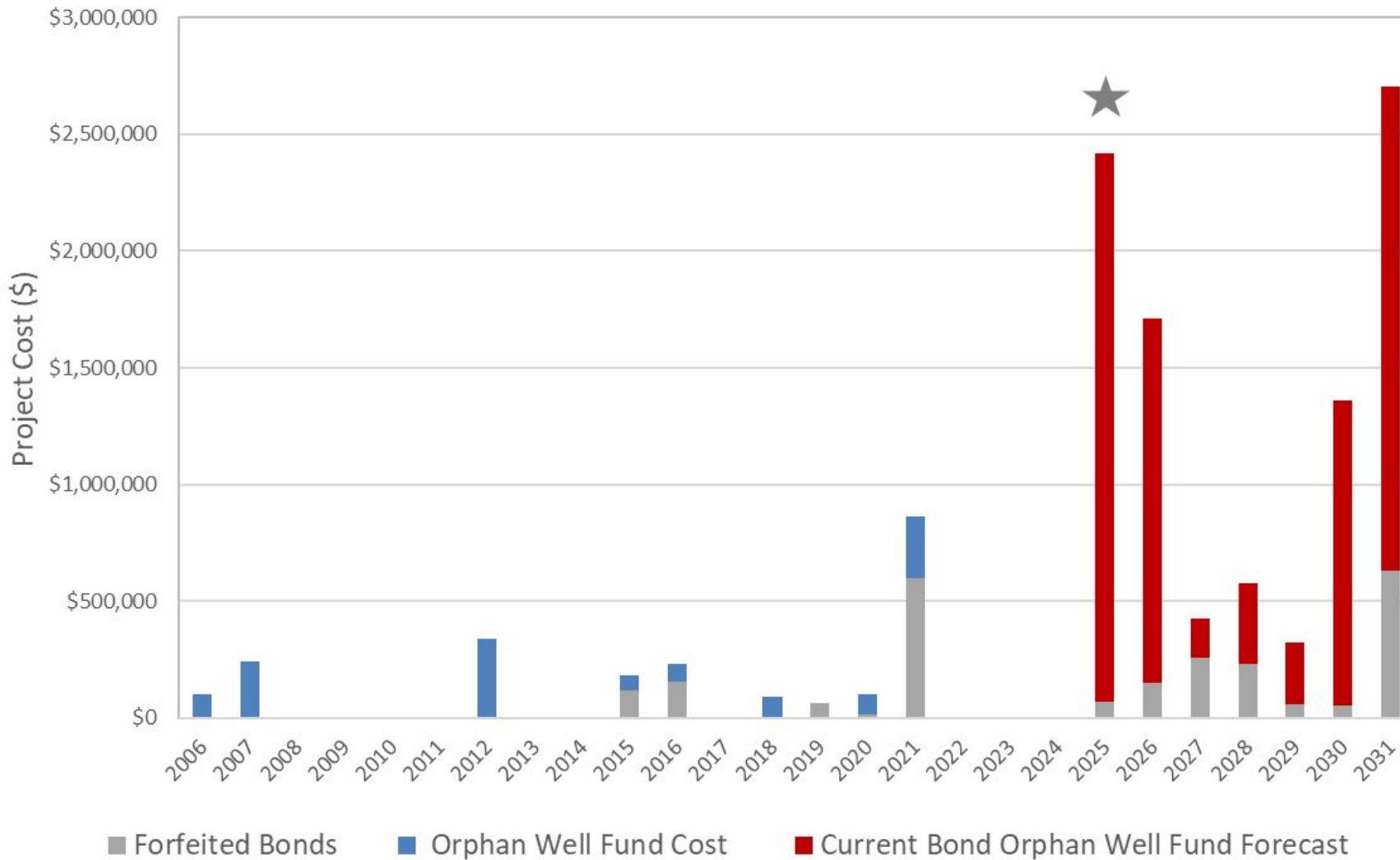
Figure 1. Trend in State Reports of Documented Orphan Wells



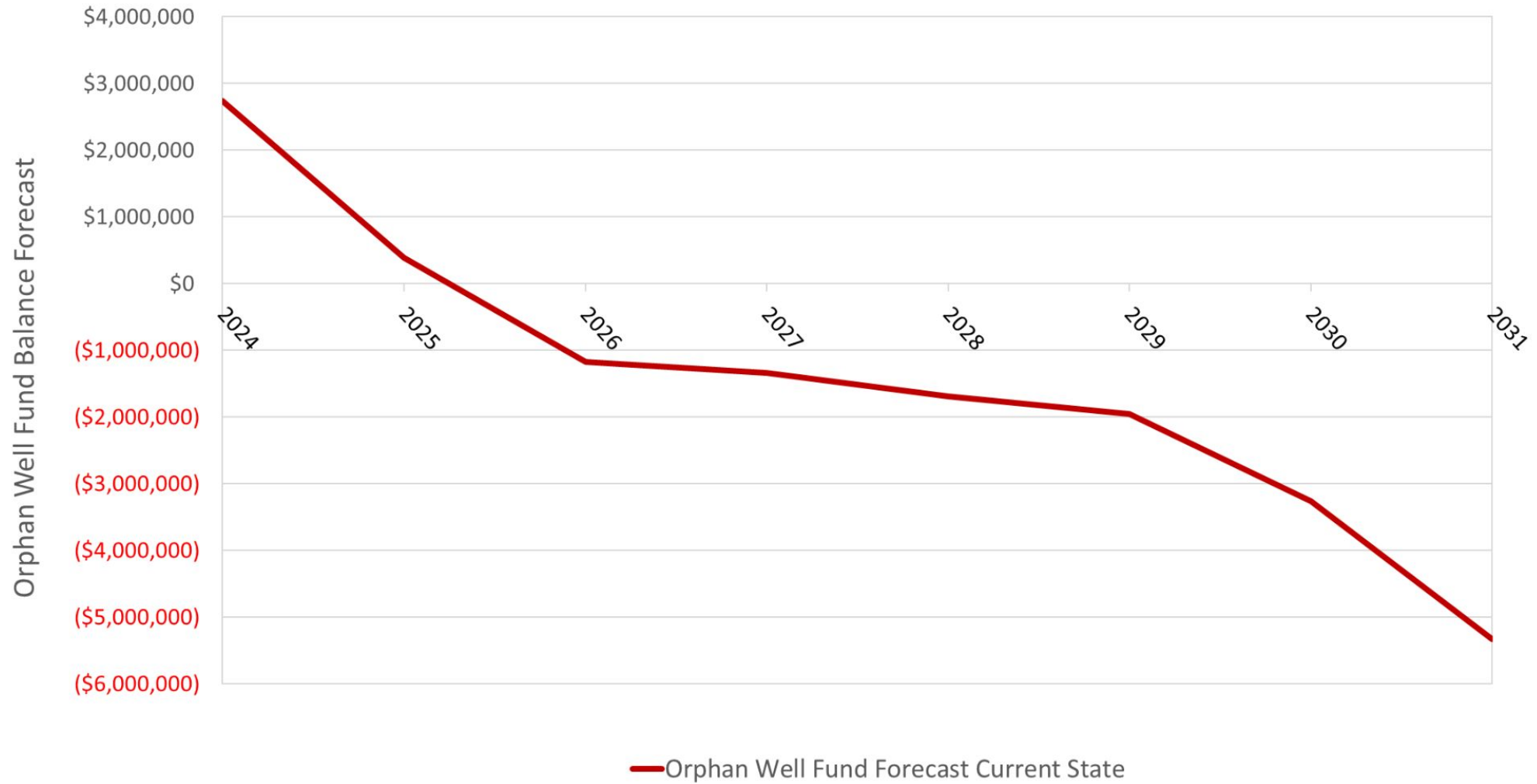
Orphan Wells Plugged with Forecasted Orphan Wells



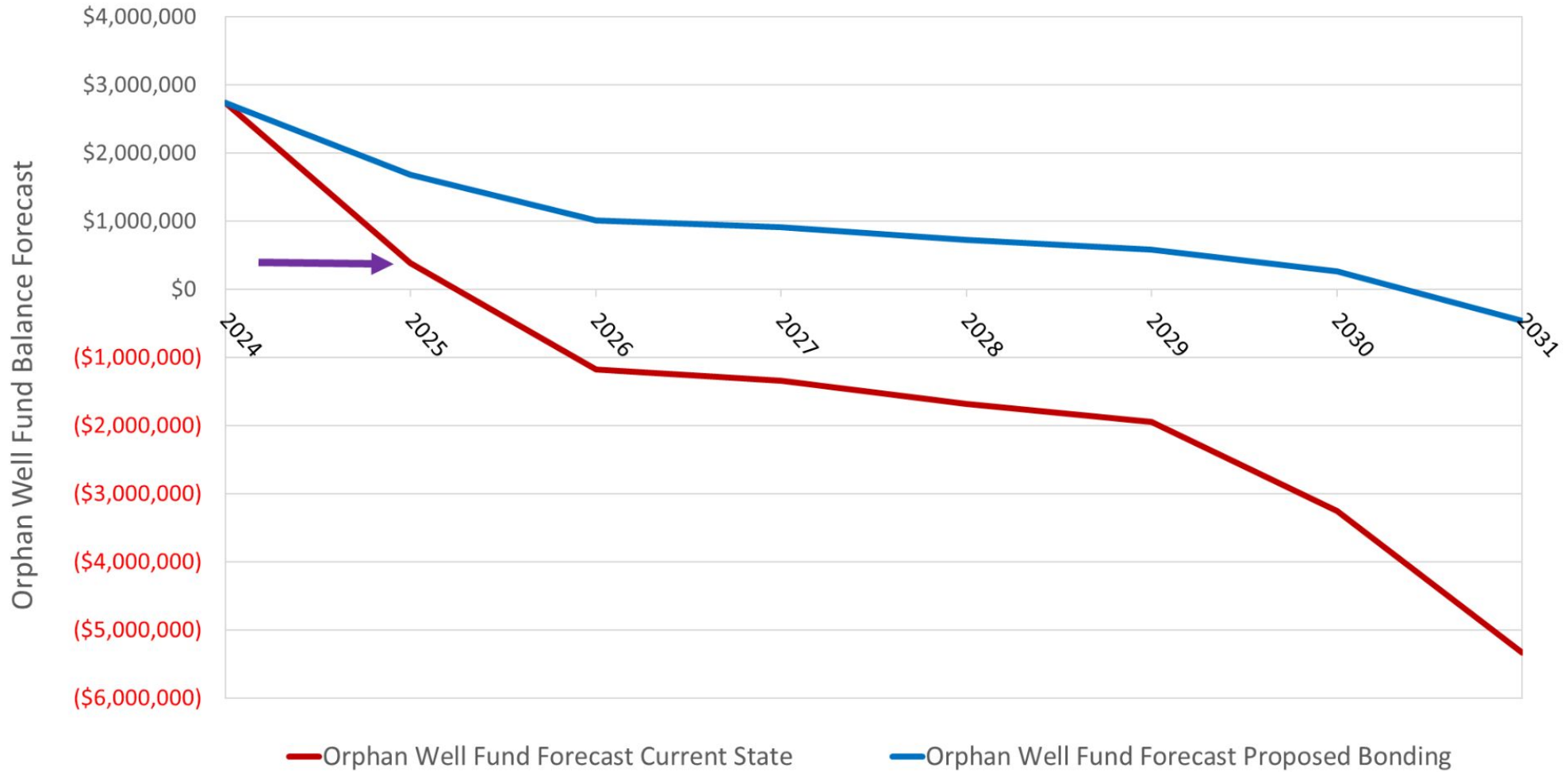
Orphan Well Project Total Cost: Forfeited Bonds vs Orphan Well Fund



Orphan Well Fund Balance Current Bonding



Orphan Well Fund Balance Current Bonding vs Proposed Bonding



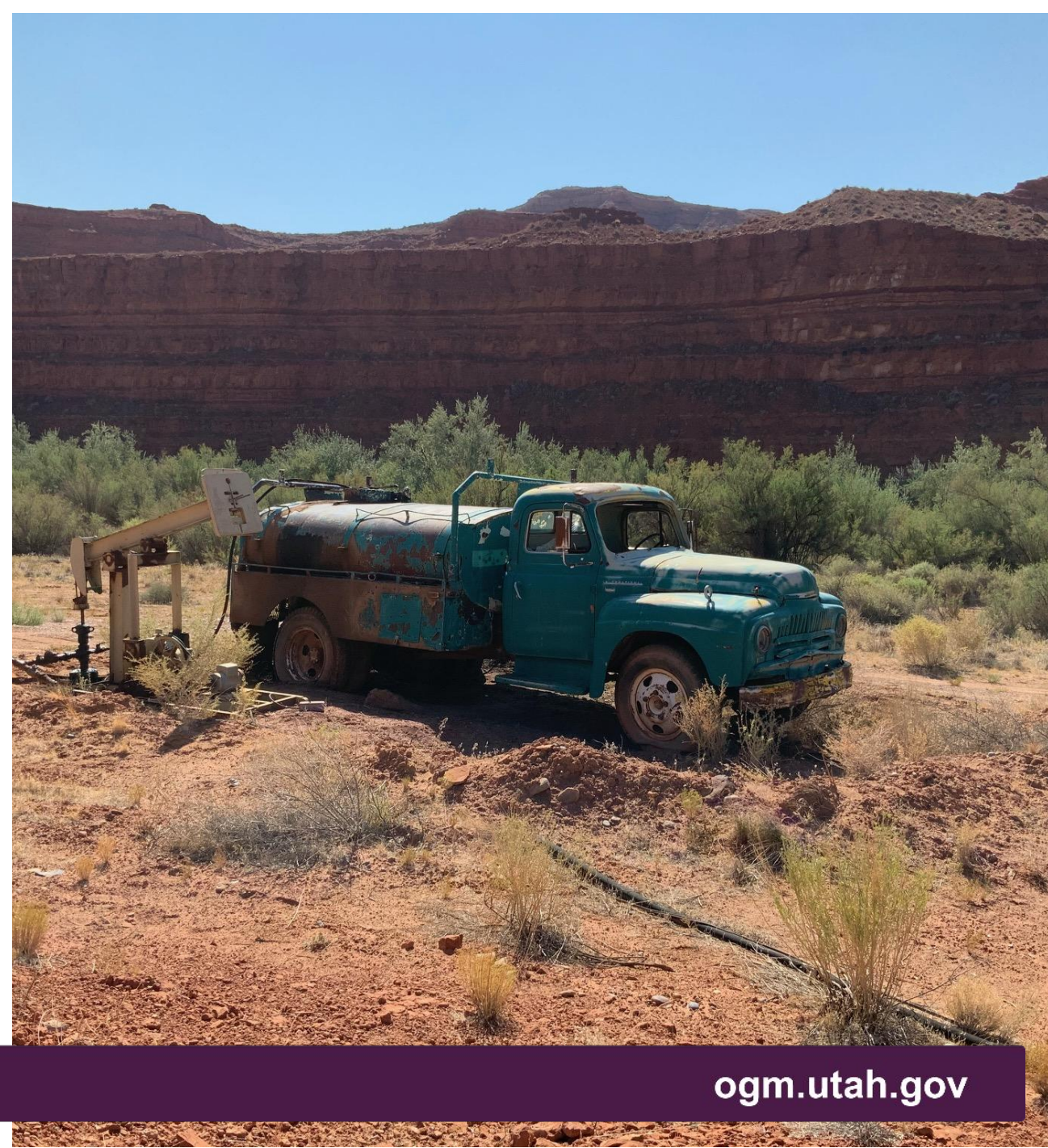
Objectives of Draft Rule

- Gives Utah Operators tools to manage bond
- Bond amount based on operational risks
- Reduce Administrative burden for Industry and Regulators
- Decrease financial liability to the State



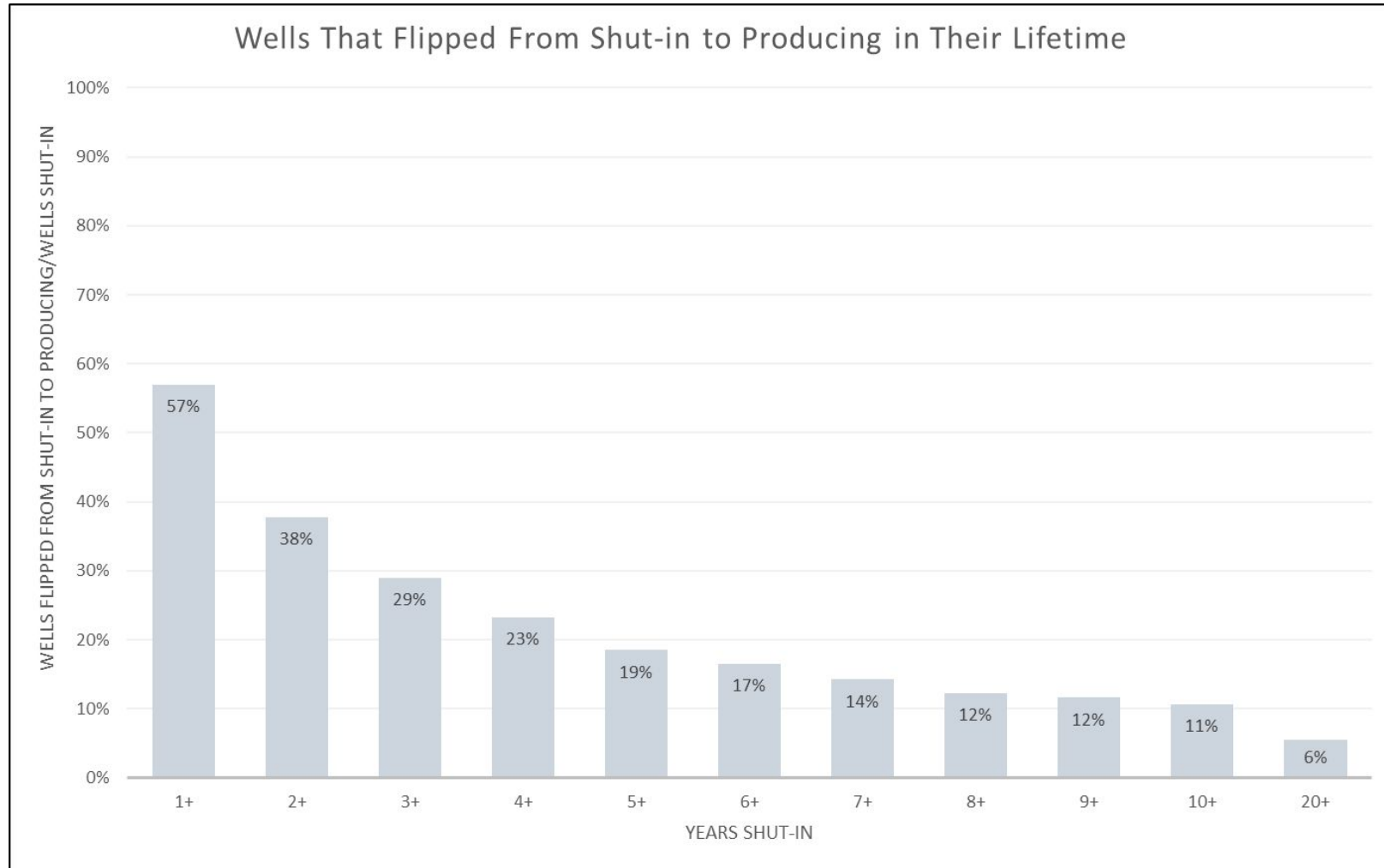
Objectives of Draft Rule

- Support full range of Utah Operators
- Gives Operators specific bond amounts for their Utah operations



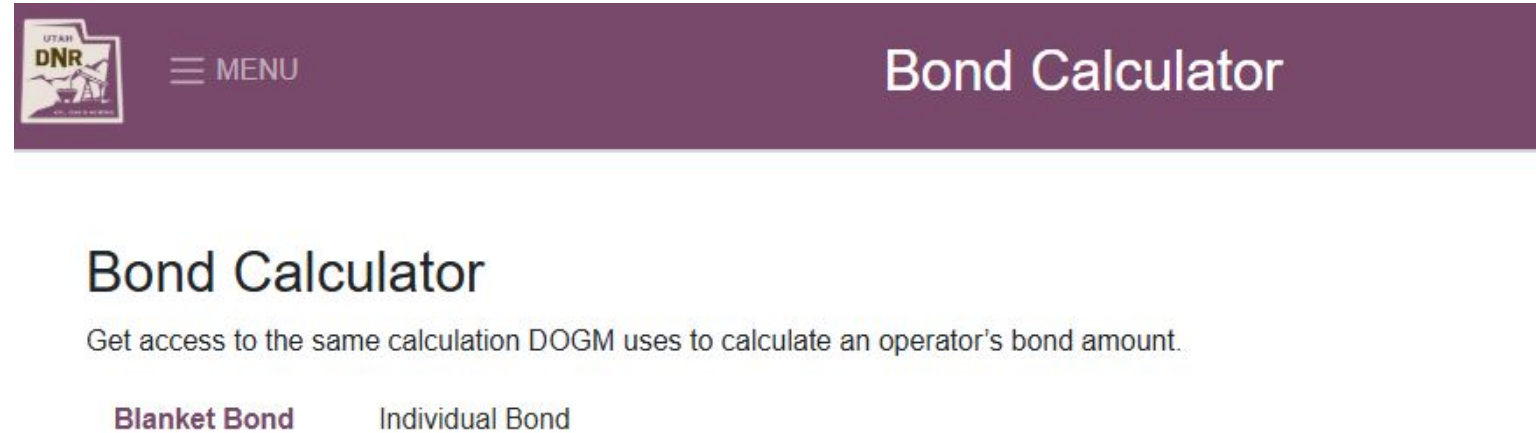
Idle Well Trends

- History of idle wells
- Forward looking approach to bonding
- Partially captures At Risk Wells for proposed bond



Overview of Draft Bond Rule

- Tiers
 - Base Bond
 - Supplemental Bond
- Individual Bond



The screenshot shows the top portion of a web page. At the top left is the Utah DNR logo, which includes the text 'UTAH DNR' and 'Oil, Gas & Mining'. To its right is a 'MENU' button with a hamburger icon. On the right side of the header is the text 'Bond Calculator'. Below the header, the main content area features the heading 'Bond Calculator' followed by the text 'Get access to the same calculation DOGM uses to calculate an operator's bond amount.' At the bottom of this section are two buttons: 'Blanket Bond' and 'Individual Bond'.



Calculating a Bond: Overview of Tier System

Tier I

- Production greater than 1,000 BOE
- At risk well ratio equal to or less than 15%

Tier II

- Production greater than 500 BOE
- At risk well ratio equal to or less than 20%

Tier III

- Production greater than 200 BOE
- At risk well ratio equal to or less than 25%
- OR production greater than 1000 BOE with no required at risk well ratio

Tier 1 Bond Calculation Reference

Bonded Well Count	Amount (\$)
1 - 10	200,000
11 - 25	300,000
26 - 50	400,000
51 - 100	500,000
101 - 250	650,000
251 - 500	800,000
501 - 750	1,000,000
751 - 1000	1,250,000
1001 - 1500	1,500,000
1501 - 2000	2,000,000
2001 - 2500	2,500,000

Tier 2 Bond Calculation Reference

Bonded Well Count	Amount (\$)
1 - 10	300,000
11 - 25	450,000
26 - 50	600,000
51 - 100	750,000
101 - 250	975,000
251 - 500	1,200,000
501 - 750	1,500,000
751 - 1000	1,875,000
1001 - 1500	2,250,000
1501 - 2000	3,000,000
2001 - 2500	3,750,000

Tier 3 Bond Calculation Reference

Bonded Well Count	Amount (\$)
1 - 10	400,000
11 - 25	600,000
26 - 50	800,000
51 - 100	1,000,000
101 - 250	1,300,000
251 - 500	1,600,000
501 - 750	2,000,000
751 - 1000	2,500,000
1001 - 1500	3,000,000
1501 - 2000	4,000,000
2001 - 2500	5,000,000



Calculating a Bond: Determining the Tier

Production Level ^

Production (First 12 months of Previous 15 months)

Oil BBL	Gas MCF	Production Per Day (BOE)
281260	57805492	28,076

Tier 1

> 1000 BOE/day 28076
BOE/day

At Risk Well Ratio <=
15% 9.66%

Qualifying Wells ^

[View Qualifying Wells](#)

- State, Fee, and Mixed Ownership
- Federal Wells
- Tribal Wells

Total Qualifying Wells	
2,692	
Total At Risk Wells	At Risk Well Ratio
260	(260/2,692) * 100 9.66%



Calculating a Bond: Establish Base Blanket Bond

State, Fee, and Mixed Ownership

Active	Drilling	Drilling Operations Suspended
17	0	0
Inactive	Producing	Shut-in
0	876	41
Temporarily-abandoned		Total
0		934

Tier 1 Bond Calculation Reference

Bonded Well Count	Amount (\$)
1 - 10	200,000
11 - 25	300,000
26 - 50	400,000
51 - 100	500,000
101 - 250	650,000
251 - 500	800,000
501 - 750	1,000,000
751 - 1000	1,250,000
1001 - 1500	1,500,000
1501 - 2000	2,000,000
2001 - 2500	2,500,000

Base Blanket Bond

\$1,250,000

934 State Wells

Bonded Well Count: 751-1000



Calculating a Bond: Calculate Supplemental Bond

At Risk Wells

State Wells (State, Fee, and Mixed Ownership)

Active

0

Drilling

0

Drilling Operations
Suspended

0

Inactive

0

Producing

20

Shut-in

25

Temporarily-abandoned

0

Total

45

Average TVD for State Wells

Fee, State or Mixed
Ownership

8982.611819235

Supplemental Bond (TVD of Total
Wells)

Average Depth	Amount (\$)
0 - 500	2,500
501 - 1000	5,000
1001 - 3000	10,000
3001 - 6000	20,000
6001 - 9000	32,500
9001 - 12000	42,500
12001+	55,000

Supplemental Bond

\$1,300,000 (40 * 32500)

**8982.611819235226 (Average
TVD of State Wells)**

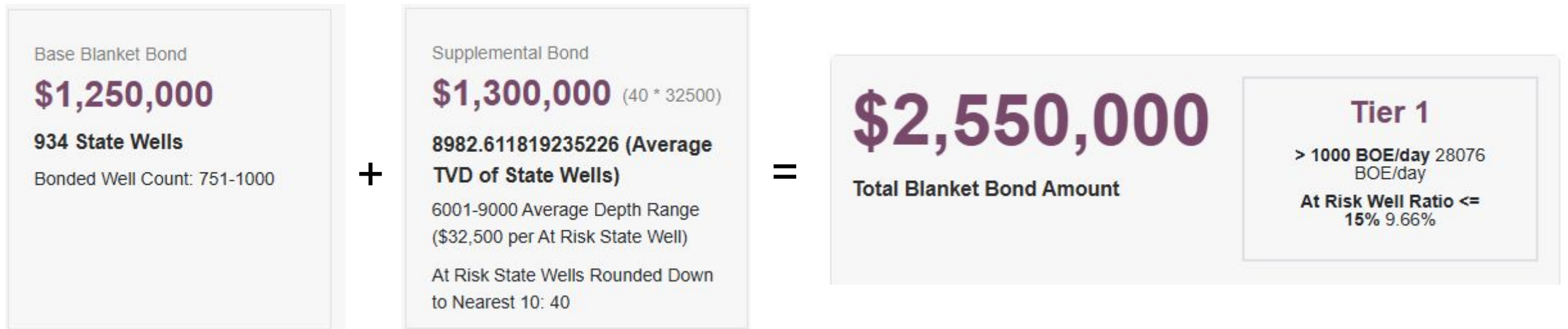
6001-9000 Average Depth Range
(\$32,500 per At Risk State Well)

At Risk State Wells Rounded Down
to Nearest 10: 40



Calculating a Bond:

Base Bond + Supplemental Bond = Total Blanket Bond



Calculating a Bond: Individual Well Bond

Individual Blanket Bond Calculation Summary

8,657 |

True Vertical Depth

Average Depth	Amount (\$)
0 - 500	5,000
501 - 1000	10,000
1001 - 3000	20,000
3001 - 6000	40,000
6001 - 9000	65,000
9001 - 12000	85,000
12001+	110,000

Individual Well Bond (Total Amount)

\$65,000

1 Individual Wells

6001 – 9000 True Vertical Depth
(\$65,000 per well)

Individual Well Bond (Total Amount)

\$390,000

6 Individual Wells

6001 – 9000 True Vertical Depth
(\$65,000 per well)



Current Bond vs Draft Bond

Operator	Utah (current)	Utah (proposed)	% Change	State Wells
Operator K	\$ 941,000	\$ 2,950,000	213%	934
Operator N	\$ 180,000	\$ 400,000	122%	7
Operator O	\$ 320,000	\$ 800,000	150%	373
Operator P	\$ 120,000	\$ 520,000	333%	26
Operator R	\$ 469,000	\$ 425,000	-9%	5
Operator S	\$ 2,620,000	\$ 5,500,000	110%	299
Operator X	\$ 981,800	\$ 800,000	-19%	374



Draft Utah Bond Rule VS Rocky Mountain States

Operator	Utah (proposed)	Colorado	Wyoming	New Mexico
Operator K	\$ 2,950,000	\$ 56,040,000	\$ 4,356,790	\$ 1,250,000
Operator N	\$ 400,000	\$ 980,000	\$ 187,940	\$ 200,000
Operator O	\$ 800,000	\$ 1,865,000	\$ 758,720	\$ 550,000
Operator P	\$ 520,000	\$ 960,000	\$ 291,800	\$ 375,000
Operator R	\$ 425,000	\$ 700,000	\$ 377,440	\$ 200,000
Operator S	\$ 5,500,000	\$ 16,445,000	\$ 4,033,280	\$ 1,250,000
Operator X	\$ 800,000	\$ 1,870,000	\$ 900,000	\$ 550,000



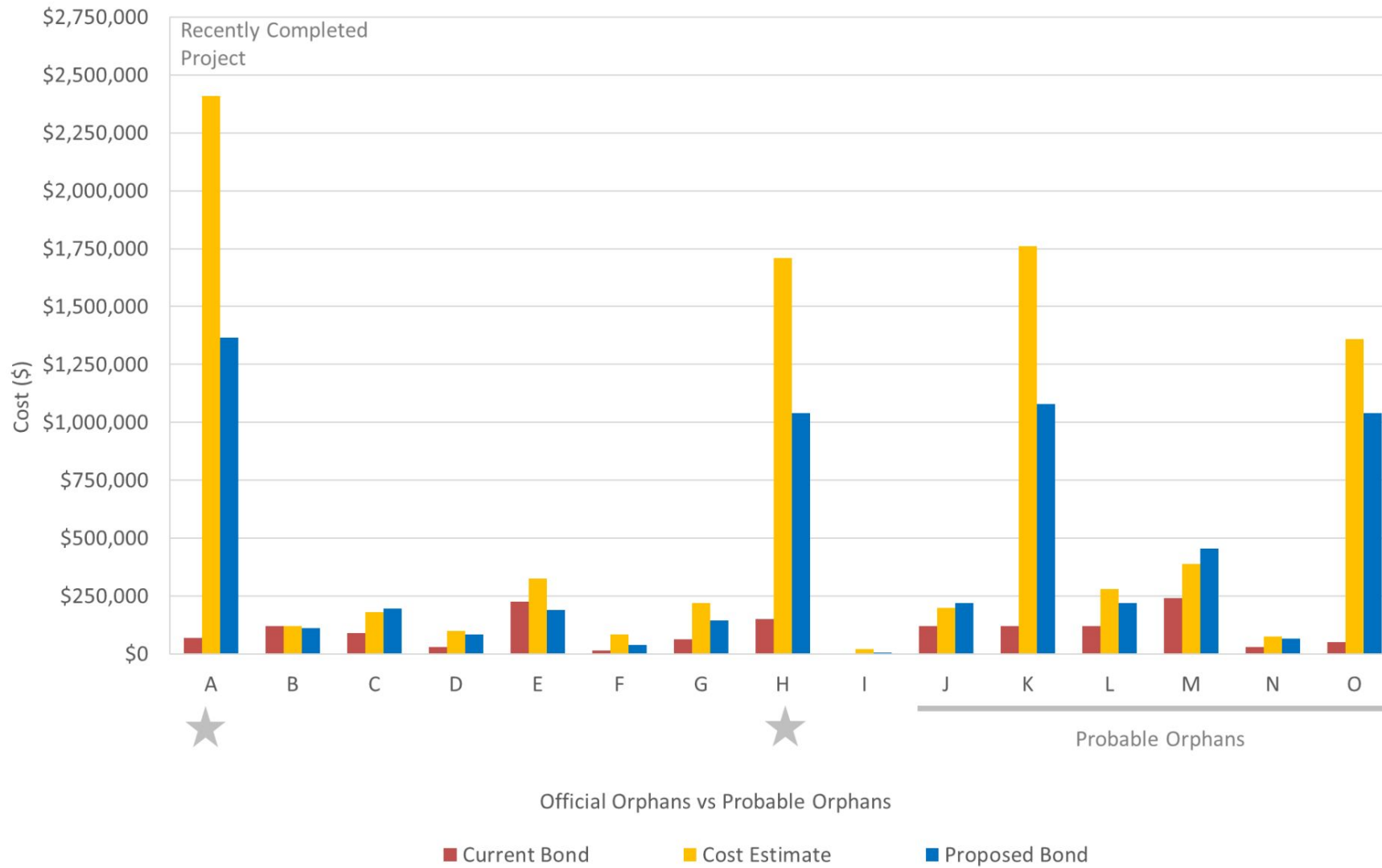
Bond Amount for Operators Over 200 BOE/Day

- Operator Specific
 - Total production, At Risk Wells, State Well Count, and average total vertical depth determine bond amount
- No Bond for Federal or Tribal Wells
- Operators with low number of At Risk Wells have lower bond amounts

	BOE 2023-2024	Draft Rule Bond	State Well Count	Bond Per State Well
1	42213735	\$800,000	466	\$1,716.74
2	28403795	\$650,000	156	\$4,166.67
3	24476206	\$800,000	373	\$2,144.77
4	23274269	\$1,900,000	443	\$4,288.94
5	19682267	\$2,950,000	934	\$3,158.46
6	18925984	\$1,425,000	543	\$2,624.31
7	8166193	\$0	0	\$0.00
8	7740709	\$5,500,000	299	\$18,394.65
9	8696355	\$1,200,000	602	\$1,993.36
10	6685399	\$650,000	198	\$3,282.83
11	5150511	\$975,000	118	\$8,262.71
12	4598284	\$500,000	72	\$6,944.44
13	3423028	\$1,387,500	84	\$16,517.86
14	2356731	\$1,725,000	89	\$19,382.02
15	2244712	\$300,000	11	\$27,272.73
16	1242149	\$500,000	100	\$5,000.00
17	787912	\$800,000	38	\$21,052.63
18	787465	\$800,000	27	\$29,629.63
19	735607	\$0	0	\$0.00
20	602393	\$450,000	14	\$32,142.86
21	536455	\$450,000	13	\$34,615.38
22	479210	\$450,000	17	\$26,470.59
23	353867	\$300,000	10	\$30,000.00
24	346953	\$1,080,000	27	\$40,000.00
25	278222	\$2,970,000	27	\$110,000.00
26	273606	\$1,755,000	27	\$65,000.00
27	239721	\$455,000	7	\$65,000.00
28	153491	\$400,000	7	\$57,142.86



Orphan Well Cost Estimates vs Current Bonding vs Proposed Bonding



Summary

- Utah has a strong idle and orphan well history
- However, the number of orphan wells and the cost to plug and abandon them is increasing
- Draft Bond Rule is based on Operator specific variables
- Provides Operators the tools to manage their own bond amounts through:
 - Manage production
 - Decreasing At Risk Wells
 - Petition the Board for bond review





Thank you.

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