



# Hearing on Proposed Revision to Financial Assurance Provision of *Rule Relating to Oil and Gas Leases (19.2.100.23 NMAC)*

New Mexico State Land Office  
May 27-28, 2026





# Development and Publication of Proposed Rule

## Pre-Publication Consultation

- ❖ Extensive stakeholder input and review took place between fall 2025 and spring 2026.
- ❖ Proposed rule amendment was finalized.

## Publication of Notice of Hearing – pursuant to NMSLO Rules 19.2.16.9 (Comment Period) & .10 (Notice of Rulemaking) NMAC

- ❖ On April 6, 2026, a transmittal letter providing the Notice of Hearing was emailed to the Legislative Council for distribution to the appropriate interim and standing legislative committees.
- ❖ On April 7, 2026, the Notice of Bond Rule Amendment hearing was published in the New Mexico Register.
- ❖ On April 7, 2026, the Notice of Bond Rule Amendment hearing and proposed Rule Amendment were made available on the NMSLO website.
- ❖ On April 7, 2026, the Notice of Bond Rule Amendment hearing and proposed Rule Amendment were made available on the New Mexico Sunshine portal.
- ❖ On April 7, 2026, the Notice of Bond Rule Amendment hearing and proposed Rule Amendment were emailed to Interested Parties.
- ❖ On April 10, 2026, the Notice of Bond Rule Amendment hearing was published in the ABQ Journal.



# Informal Public Engagement

## PRE-PUBLICATION DISCUSSION DRAFT

- Released October 23, 2025; posted on NMSLO website
- Sent directly to stakeholders with expressed interest in bonding reform, including three oil and gas trade associations and environmental advocacy groups
- Held in-person (with Zoom option) stakeholder meetings
- Made various changes based on input received

## STAKEHOLDER MEETINGS

- November 6 and 12, 2025 (Santa Fe)
- November 14, 2025 (Hobbs)
- November 17, 2025 (Farmington)





# Informal Public Engagement

## KEY CHANGES MADE IN RESPONSE TO INFORMAL COMMENTS

- **Bulk Bonds**: Capped bulk bonds for a single lessee at \$40 million (consistent with Colorado) and clarified that drawing on a financial assurance for one lease won't result in the loss of coverage for the other leases
- **Heightened Bonds**: Required heightened bonds to be listed on the agency's website; extended the period a lessee has to secure a heightened bond from 60 to 90 days; limited the potential deferment period for a lessee to avoid heightened bonding to 270 days
- **Annual Report**: Extended annual reporting timeframe; created a different attestation standard for a record title holder that is not the operator of wells; provided that leases subject to heightened bonding requirements may be subject to additional reporting (including asset retirement obligations); gave lessees time to fix reporting errors and indicated that corrected errors won't be used as an independent basis for lease cancelation



# Purpose of Rule Changes

## CORE OBJECTIVES

- Adequate bonding to mitigate the risks associated with actual and potential damage to state trust land
- Annual reporting that enables the agency to better understand the potential liabilities and risks on each lease and inform adjustments to bonding levels
- Manageable framework for agency and industry

## STATUS QUO

- Insufficient bond minimums of \$10,000 (single lease bond), \$20,000 (blanket lease bond) and \$25,000 ("megabond")
- Billions of dollars in potential liability for taxpayers and state trust land beneficiaries
- Lack of actionable information to ensure bonding aligns with risks





# NMSLO's Current, Inadequate Rule

## **19.2.100.23 SURETY TO PROTECT SURFACE PURCHASER AND LESSEE - WAIVERS:**

**A.** Before any lessee shall commence development or operations, including any and all prospecting activities upon the lands, such lessee or operator shall execute and file with the commissioner a good and sufficient bond or other surety, in an amount to be fixed by the commissioner but not less than ten thousand dollars (\$10,000) in favor of the state of New Mexico for the benefit of the appropriate trust beneficiary and the state's contract purchasers, patentees and surface lessees, to secure payment to the extent allowed by law for such damage to their interests and tangible improvements upon such lands as may be suffered by reason of development, use and occupation of the lands by the oil and gas lessee.

**B.** A bond or other surety in the minimum amount of ten thousand dollars (\$10,000) for each lease shall be deemed sufficient unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided, however, that if a lessee holds more than one oil and gas lease, a blanket bond or other surety in the amount of twenty thousand dollars (\$20,000) will be acceptable unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided further, that if any purchaser, patentee or surface lessee shall file with the commissioner a waiver duly executed and acknowledged by the purchaser, patentee or surface lessee of the purchaser's, patentee's or surface lessee's right to require such bond or other surety pursuant to Section 19-10-26 NMSA 1978 the development, occupation and use of the lands by the oil and gas lessee may in the discretion of the commissioner be permitted without said surety.

**C.** With the approval of the commissioner, in lieu of the single and blanket bonds for oil and gas lessees, a twenty-five thousand dollar (\$25,000) bond or other surety may be used at the option of lessee for the use and benefit of the commissioner, to secure surface improvement damage and the performance of the lessee under one or more state leases or permits for minerals, oil and gas, coal or geothermal resources or as holder under one or more state rights of way or easements which the lessee has executed with the commissioner. The lessee will be obligated to perform and keep all terms, covenants, conditions and requirements of all state leases for minerals, oil and gas, coal or geothermal resources and of all state rights of way and easements executed with the commissioner, including the payment of royalties when due and compliance with all established mining plans and reclamation requirements.

[19.2.100.23 NMAC - Rp, 19.2.100.23 NMAC, 6/30/2016; A, 6/11/2019]



# NMSLO's Environmental Compliance Office

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- ECO was established in 2022. Its mission is to restore and maintain the health of state trust lands to support beneficiaries in perpetuity.
- ECO is supervising remediation and reclamation at sites across state trust land. Many of these sites are oil and gas wells, disposal wells, tank batteries, and other facilities – or resulting contamination – where NMSLO has claimed a lessee's bond after the lessee failed to respond to, or failed to honor, a compliance demand.
- In every case the cost of work far exceeds the nominal value of oil and gas lease bonds.



# ECO's Mission and Program Overview

**ECO's mission is to restore and maintain the health of state trust lands to support beneficiaries in perpetuity**

- Created in 2022 to support the newly created Accountability & Enforcement Program
- Manage environmental issues on any type of lease
  - Mining, oil and gas, industrial manufacturing, construction industry, renewable energy, illegal dumping
  - Conduct compliance inspections and draft reports of findings
  - Review remediation and reclamation workplans
  - Draft lease stipulations and settlement agreement terms
  - Coordinate with all divisions and other regulatory agencies to ensure compliance with lease requirements and regulations
- Remediation and reclamation of oil and gas sites is ~ 90% of workload
- Currently overseeing 2300 active clean up projects on oil and gas sites
  - Projects with 250 oil and gas companies



# ECO's Mission and Program Overview

**ECO's mission is to restore and maintain the health of state trust lands to support beneficiaries in perpetuity**

- Provide technical and regulatory expertise in support of the Office of General Counsel
- Participate in a multi-agency program to reclaim abandoned uranium mines throughout NM
  - First four mines being reclaimed are on STL
- ECO currently overseeing the remediation and reclamation of several sites that have no responsible party or as the result of a court order
- The cost to plug and remediate an oil and gas well site can range from \$150K to several hundred thousand dollars (and some very contaminated sites exceed \$1M)



# Case Study: Smith & Marrs/Sanmal Queen Unit



- Smith & Marrs is a defunct one or two person company that operated low-producing wells on several adjoining state leases near Lovington that were held by a related entity called MMCP.
- This is a rare instance where the lessee was required to post a higher bond – in this case, \$60,000 – as the result of a settlement agreement with a prior NMSLO administration. In 2022, NMSLO claimed the bond and filed suit after the companies failed to plug their inactive wells or clean up the lease sites.



# Case Study: Smith & Marrs/Sanmal Queen Unit

Cont.



- The State Land Office obtained a judgment against the companies for just under \$7.5M which was the estimated cost to plug the wells, clean up contamination, and properly reclaim the lease site. If final cleanup costs are in line with that estimate, the so-called heightened bond will cover less than 1% of those costs.
- The damages award was based on an assessment of the cost of plugging five abandoned wells, removing leaking oil tanks, trashed buildings, and other abandoned infrastructure, and most significantly, remediating serious contamination caused by oil and wastewater spills.
- Phase I – \$83,000 – Site Decommissioning, removing free liquids from surface
- Phase II – Site Assessment and Delineation and Cost Estimate to Remediate and Reclaim
- Phase III – Remediate and Reclaim site



# Case Study: Nordstrand Engineering, Inc.

- Nordstrand had two leases; both have since expired. NMSLO claimed the company's \$20,000 bond after it failed to respond meaningfully to demands to plug five inactive wells and conduct associated surface cleanup.
- NMSLO entered into a settlement agreement with another oil and gas company under which that company performed an initial phase of work at the site. Just the plugging of the inactive wells and site delineation cost more than \$1.3 million. The company had initially estimated just \$44k to plug each well; actual plugging costs were significantly higher.
- The remediation work at just one of the sites was estimated in a 2024 workplan to exceed \$225,000. The bond accounted for less than 2% of actual and estimated costs – not including surface remediation/reclamation at four more well sites.
- NMSLO had to sue Nordstrand a second time for its failure to responsibly close out its other state lease. The company filed for bankruptcy protection a day before trial but the bankruptcy case was recently dismissed. Nordstrand continues to operate marginally in Texas.





# Case Study: High Plains Petroleum Corp.



- High Plains Petroleum was a one-man company based out of the owner's home. At the time of suit, it operated just one well in the entire United States – located in a fragile area near the Hogback Area of Critical Environmental Concern in San Juan County.
- High Plains had a \$10,000 bond on file with NMSLO, which was all that was required at the time it obtained its lease in the early 2000's. That is still all that is presumptively required today.
- NMSLO initiated litigation in 2021 and claimed High Plains' bond in 2022. After NMSLO filed for summary judgment against High Plains, the company sought bankruptcy protection and by all indications had virtually no assets.



# Case Study: High Plains Petroleum Corp.

Cont.



- NMSLO is conducting work at High Plains site now, in spring/summer 2026.
- Although High Plains' owner ignored his legal responsibilities, NMSLO is fortunate that this is a relatively clean site, with limited soil contamination.
- The total cost to plug, remediate, and reclaim could be as low as \$150,000 or higher than \$300,000. The bond will end up covering 7% of total cleanup – at most.



# Case Study: G&G Oil and Gas, LLC



- G&G is a one-person company from Hobbs – a side business for a Hobbs man who runs a pawnshop and a sport vehicle dealership. All G&G wells were inactive by 2018 and its leases had expired.
- NMSLO claimed the \$20,000 bond in the fall of 2023. After G&G still failed to take remedial action, NMSLO sued G&G later in 2023 and settled with G&G month for a payment of \$580,000.
- Plugging and remediation/reclamation on one of the leases, with two wells, will likely cost at least \$600,000. Just the first phase of the work, which will consist of plugging, a site delineation, and removal of equipment and junk, is expected to be over \$330,000.
- The bond will cover around 3% of the work and that doesn't include G&G's inactive wells on a second lease.



# Proposed Rule: Base Bonding Levels and Bulk Bonds

## MINIMUM BONDING

- Increases minimum bonding requirement to \$150,000 per lease (\$100,000 for mineral only)

## BULK BONDS

- Allows lessees to bundle financial assurance for multiple leases at a discounted rate
  - Between 10 and 19 leases: \$130,000 per lease
  - Between 20 and 49 leases: \$110,000 per lease
  - Between 50 or more leases: \$100,000 per lease
- Total amount required of a single lessee shall not exceed \$40 million, excluding any lease subject to heightened bonding





# Proposed Rule: Heightened Bonding

## HEIGHTENED BOND FACTORS

- Inactive wells (with some exceptions, e.g. wells in limited periods of OCD Temporary Abandonment, NMSLO–approved shut–in)
- Extremely low producing wells (250 bbl/oil or gas equivalent in past year)
- Unremediated spills/releases
- Claims against the lessee’s financial assurance or lawsuits relating to lease operations





# Proposed Rule: Heightened Bonding

## ADDITIONAL HEIGHTENED BOND PROVISIONS

- Other compliance-related factors may be considered
- NMSLO provides lessees with notice of requirement to post heightened FA
- Lessees may defer heightened FA for up to 270 days (almost 9 months) if they are diligently resolving issues triggering heightened FA requirement
- NMSLO may require additional reporting for leases covered by heightened bonds
- Leases subject to heightened bond requirement will be made public





# Extremely Marginal Wells Pose a High Risk to NMSLO

	12.5% RR @ \$65 Years to break-even (to nearest year)	20% RR @ \$65 Years to break-even (to nearest year)	12.5% RR @ \$83 Years to break-even (to nearest year)	20% RR @ \$83 Years to break-even (to nearest year)
100 bbl/year	\$812.50 (201 years)	\$1,300.00 (125 years)	\$1,037.50 (157 years)	\$1,660.00 (98 years)
250 bbl/year	\$2,031.25 (80 years)	\$3,250.00 (50 years)	\$2,593.75 (63 years)	\$4,150.00 (39 years)
300 bbl/year	\$2,437.50 (67 years)	\$3,900.00 (42 years)	\$3,112.50 (52 years)	\$4,980.00 (33 years)
500 bbl/year	\$4,062.50 (40 years)	\$6,500.00 (25 years)	\$5,187.50 (31 years)	\$8,300.00 (20 years)
750 bbl/year	\$6,093.75 (27 years)	\$9,750.00 (17 years)	\$7,781.25 (21 years)	\$12,450.00 (13 years)
1,000 bbl/year	\$8,125.00 (20 years)	\$13,000.00 (13 years)	\$10,375.00 (16 years)	\$16,600.00 (10 years)



# Proposed Rule: Annual Reporting

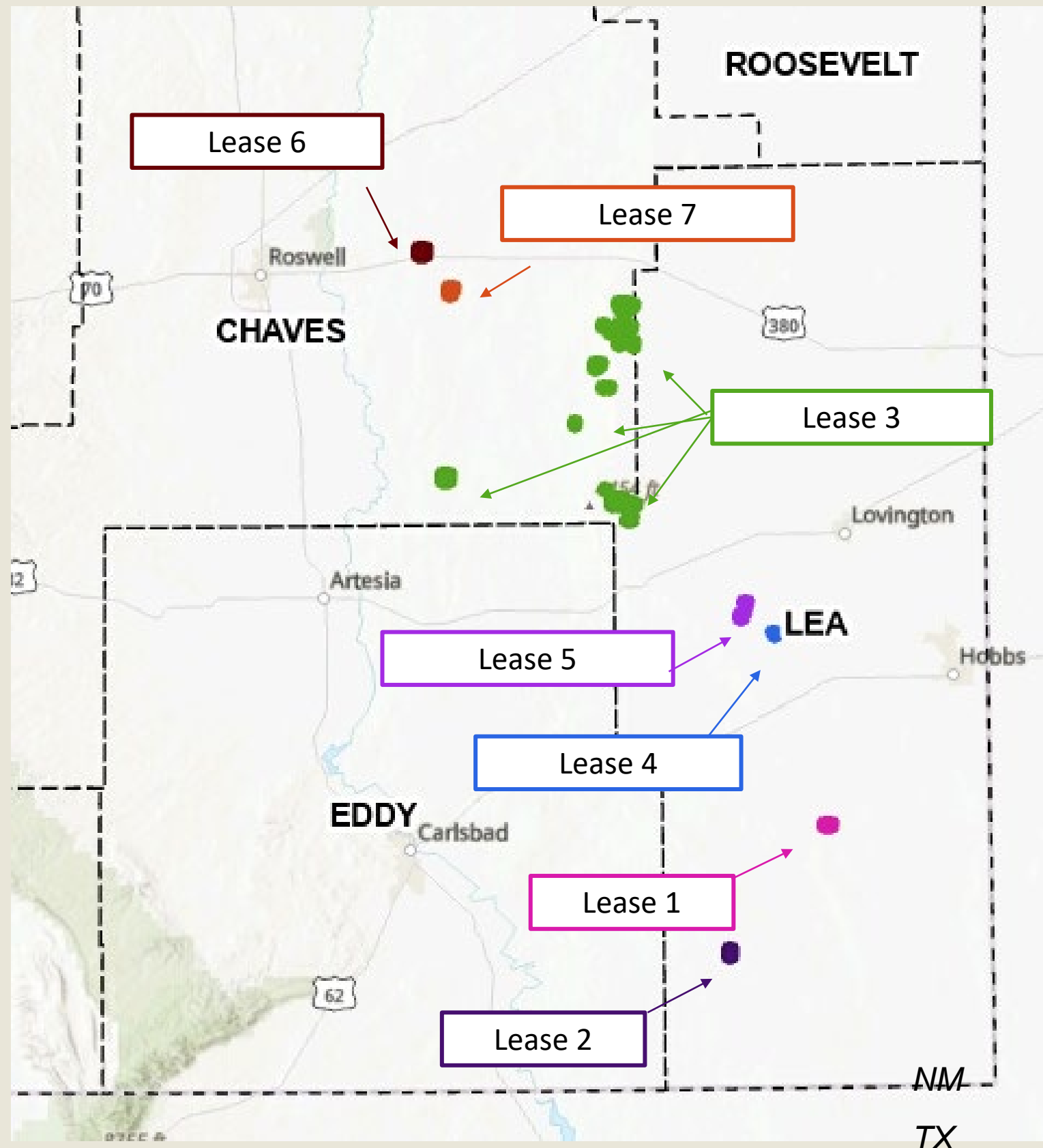
## REPORTING REQUIREMENTS

- Annual report required for each lease – due July 1 for the preceding year
- Reporting components include inventory of wells, well status, inventory of fixed oil and gas-related infrastructure, spills/releases, and regulatory actions or lawsuits involving lease operations
- Lessees are required to make reasonable inquiry into lease conditions
- Lessees do not need to submit a full report for leases with no status changes
- Honest reporting mistakes do not result in lease cancellation
- Reporting details inform future bonding adjustments





# Example Lease Reviews

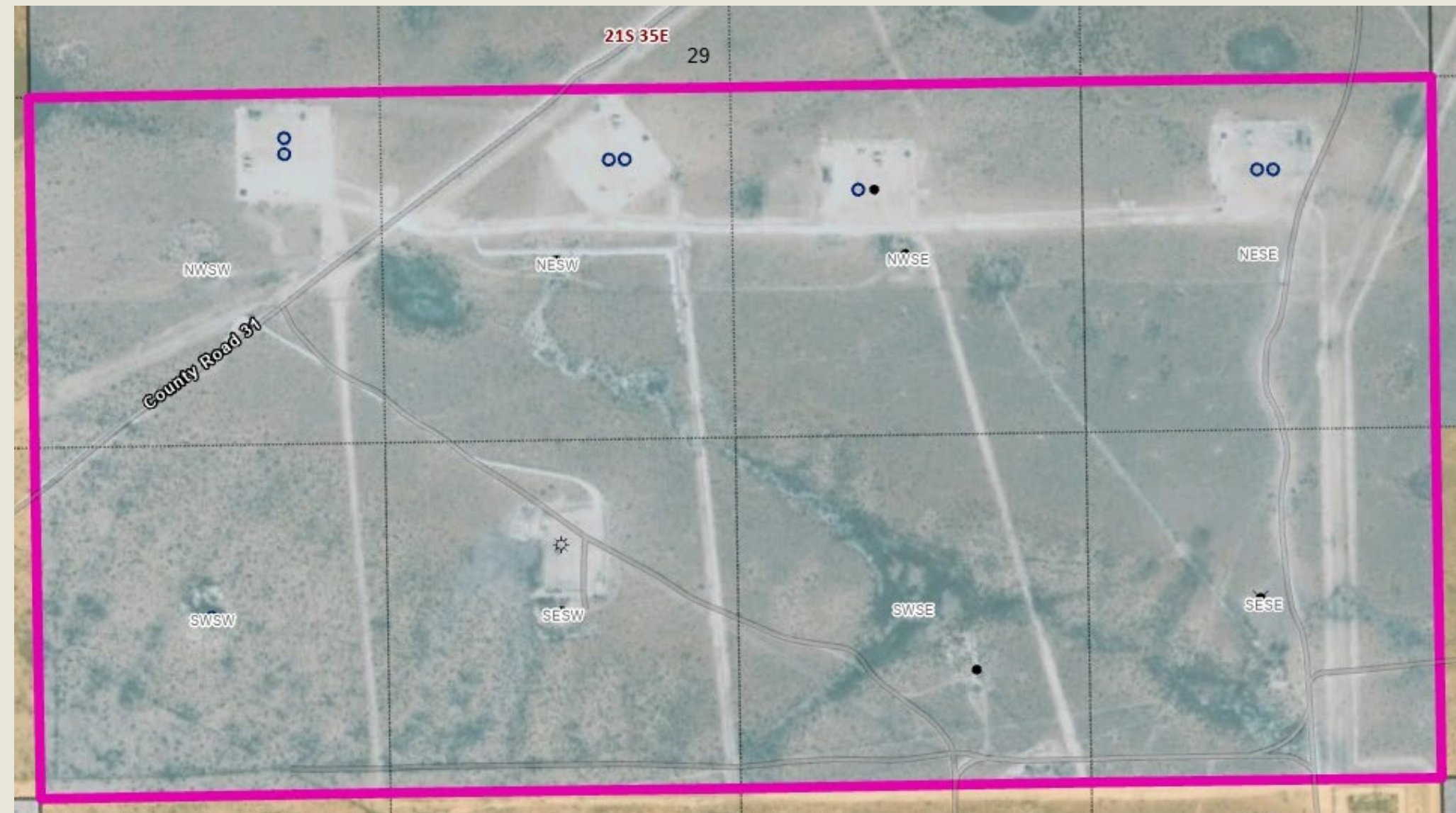


Lease	Lessee	No. of Wells	No. Operators	Acres
Lease 1	Lessee A	14	3	320
Lease 2	Lessee A	10	1	320
Lease 3	Lessee A	2	2	~4483
Lease 4	Lessee B	2	1	160
Lease 5	Lessee B	6	2	280
Lease 6	Lessee C	16	2	640
Lease 7	Lessee C	12	1	320



# Lessee A – Major Company

- Full Estate
- 320 acres: 29-21S-35E
- Fourteen wells and one tank battery.
- Three operators
- Five wells from one operator have produced, cumulatively, only approximately 170 BBL and 1160 MCF since 2018. Some well pads appear to be overgrown which could cause a fire hazard.
- Tank Battery: *See following slide.*





# Lease 1 – Tank Battery

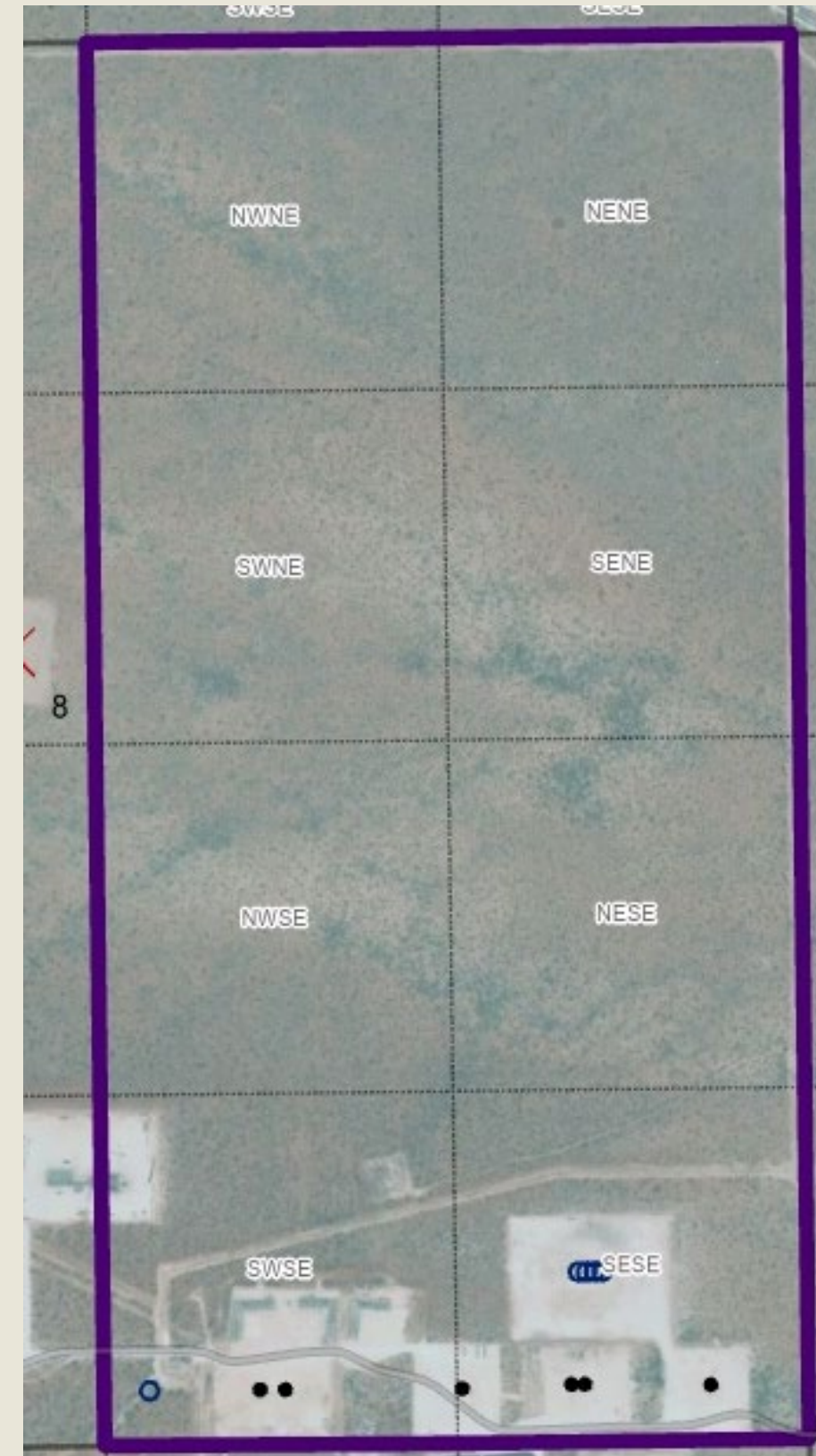
- 32.442833, -103.386025
- Current Status: “Closure Not Accepted”.
- Major open spill of 40 BBL of crude oil from 2015.
- Current Status: “Initial C-141 Approved, Pending submission of Site Characterization / Remediation Plan OR Remediation Closure Report from the operator”.
- Tank battery appears to have possible staining, unused equipment, and is overgrown.





# Lease 2

- Full Estate
- 320 acres: 8-24S-33E
- Ten wells and three tank batteries.
- One Operator
- One open spill at a tank battery for 15 BBL of crude oil and 46 BBL of produced water from 2022. Current status is "Remediation Closure Report Approved, Pending submission of Reclamation Report from the operator".

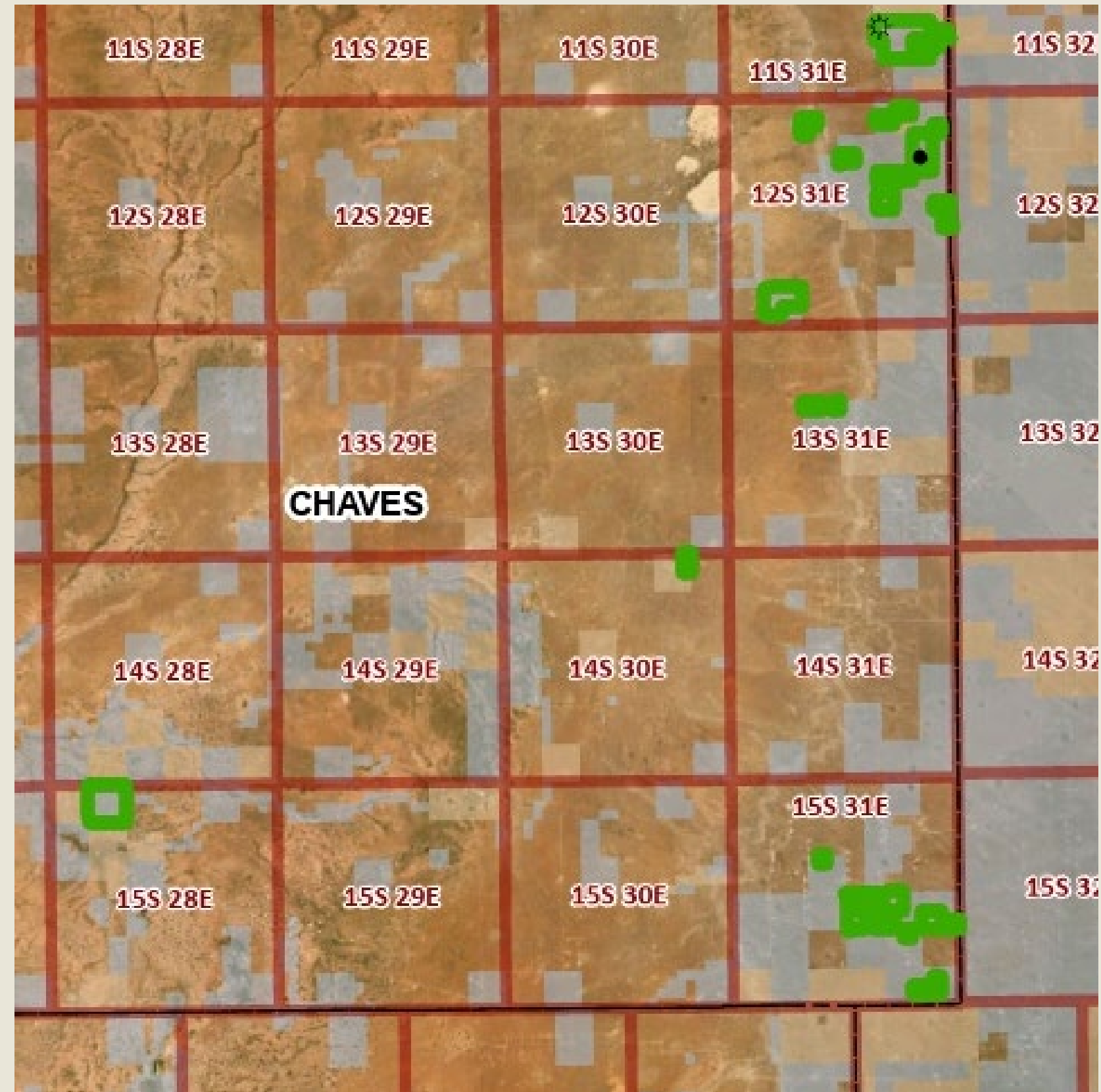




# Lease 3

- Full and Mineral Only Estate
- ~4483 acres covering multiple Section-Townships-Ranges
- Two wells.
- Two Operators.
- One well: Open compliance for staining around wellhead.

Google Earth: 1/2018





# Lessee B – Mid-Sized Company

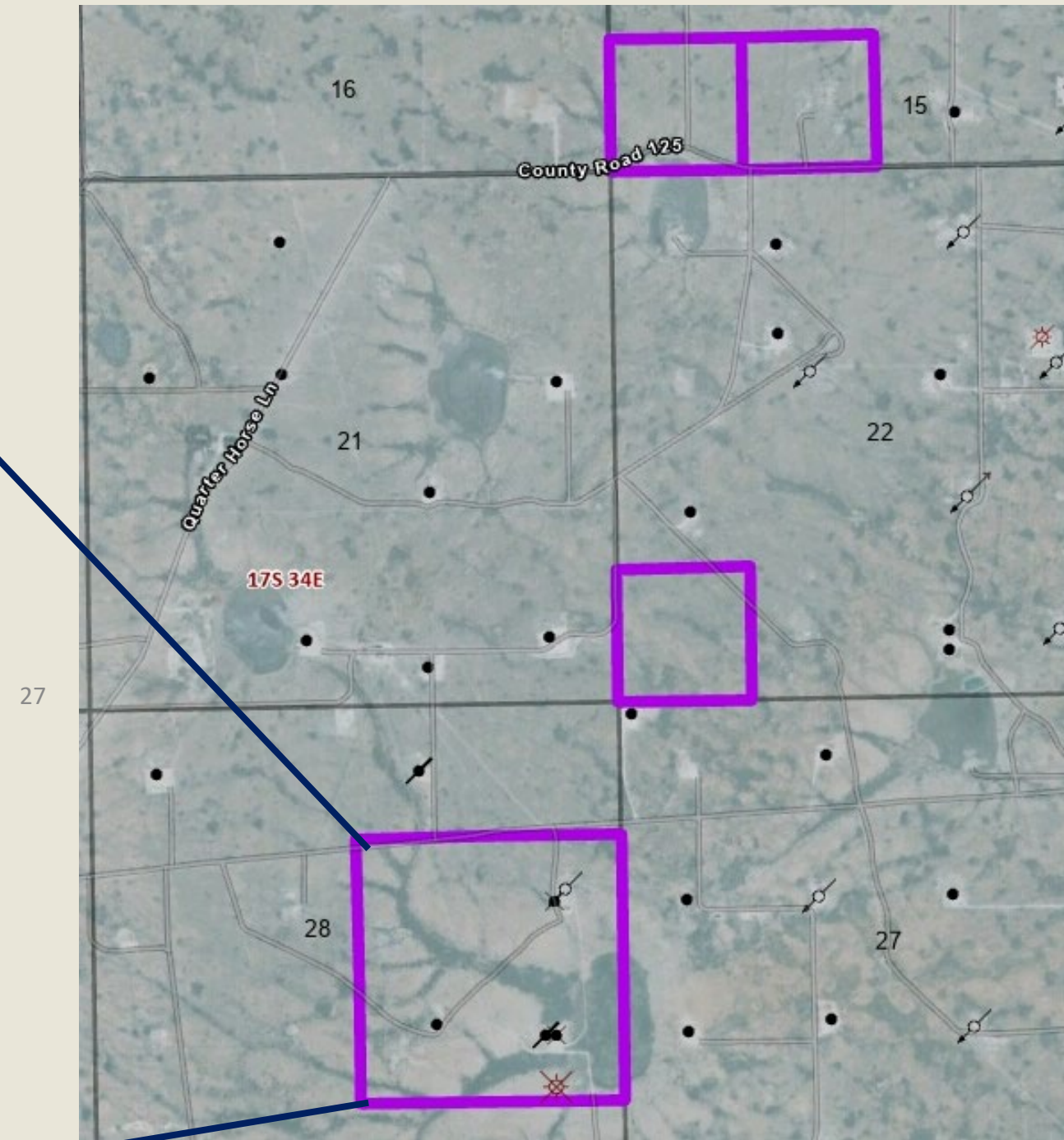
- Full Estate
- 160 acres: 6-18S-36E
- Two wells.
- One operator.
- One well: Approved TA until 6/1/2026.  
No production since 6/2016.
- Plugged wells could possibly have more reclamation.





# Lease 4

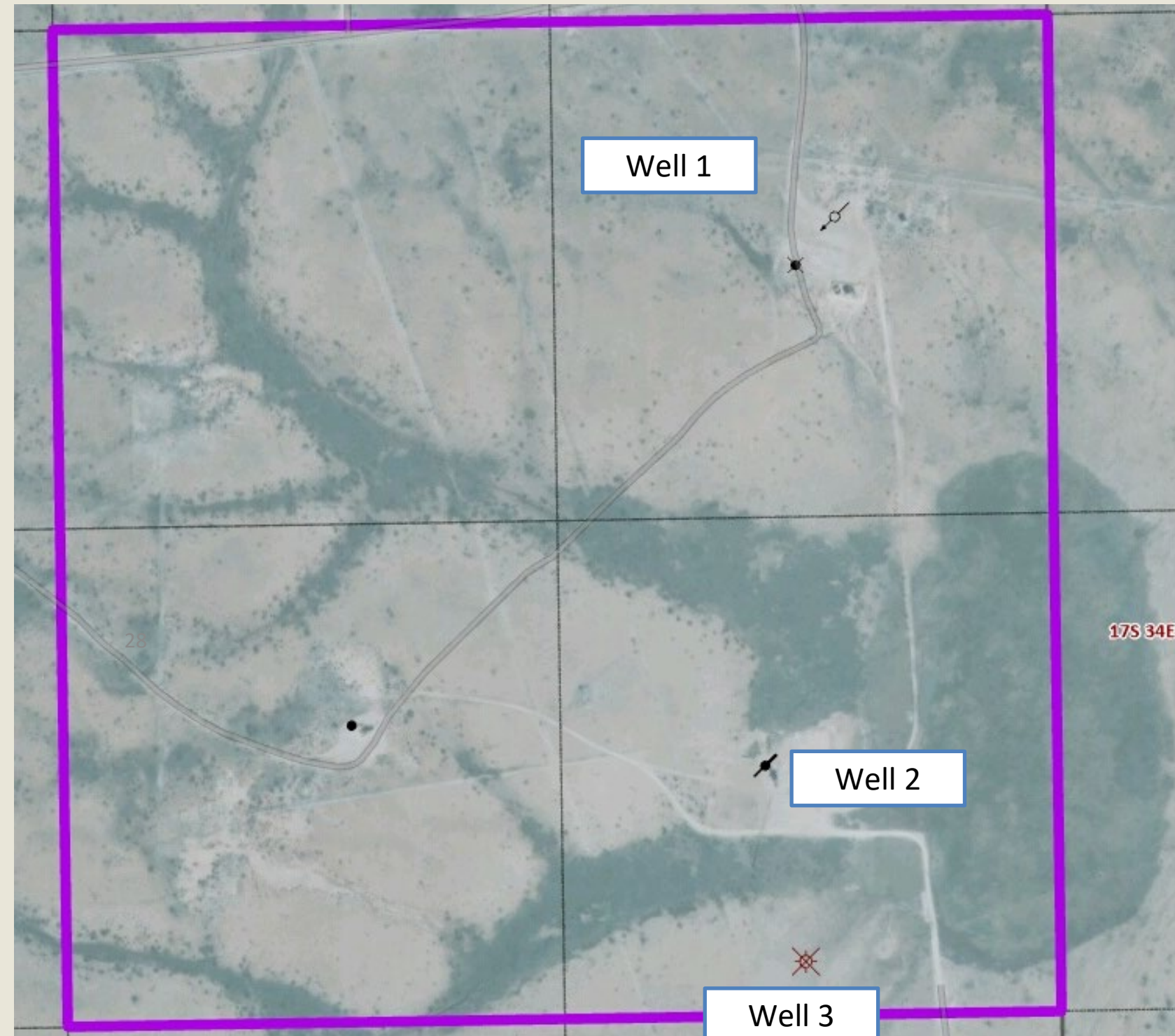
- Full Estate
- 280 acres: S2SW4 of 15, SW4SW4 of 22, S2NE4 & N2SE4 of 28 in 17S-34E
- Two operators.
- Six wells on Section 28.





# Lease 5

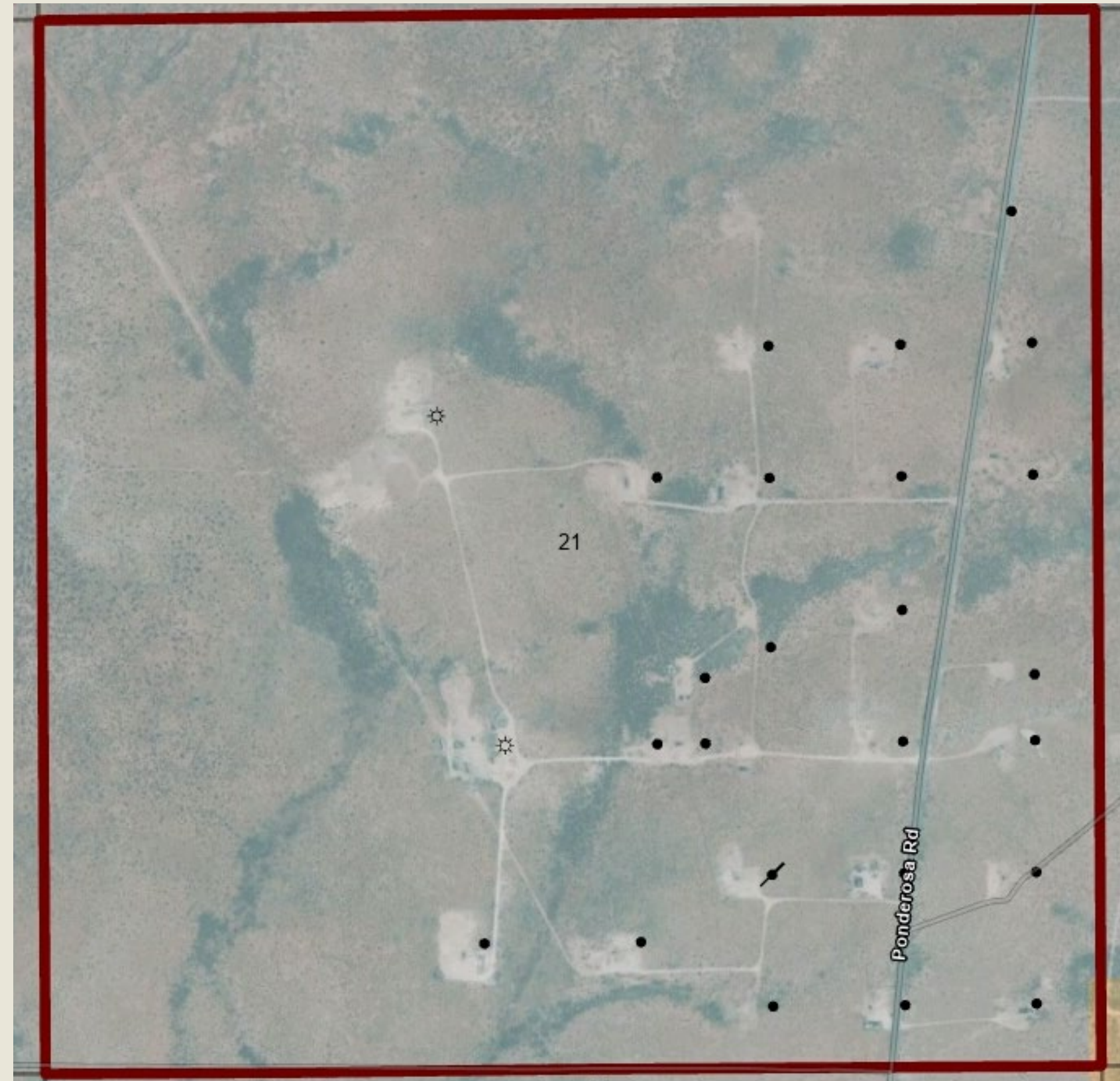
- Well 1: Plugged 12/18/2024 but not released. See next slide for more detail.
- Well 2: Plugged, Not Released. Plugged 12/23/2024.
- Well 3: Plugged, Not Released. Plugged 12/21/2023.
- In violation of 19.15.25.10 (D) NMAC





# Lessee C – Small Company

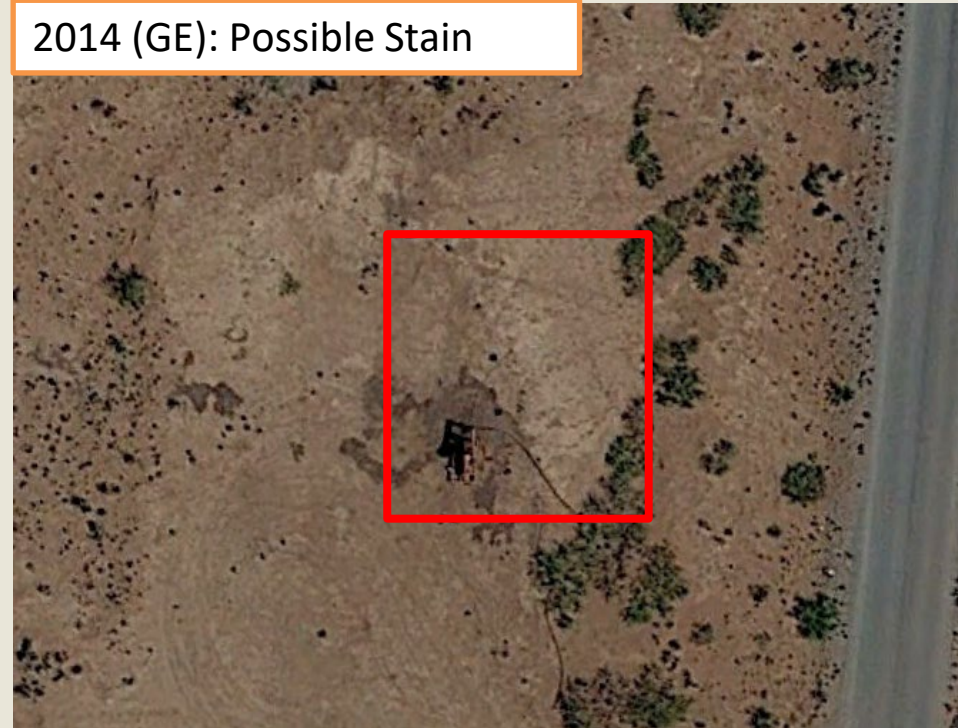
- Full Estate
- 640 acres: 21-10S-27E
- Sixteen wells and one tank battery.
- Two operators.
- Previously idle well since 2016 but has produced, cumulatively, 335 BBL since 2024.
- Two open spills with the OCD.
- A couple of wells have open compliance for rusted tanks, tank battery liner tears, missing secondary containment, equipment left on site, etc.



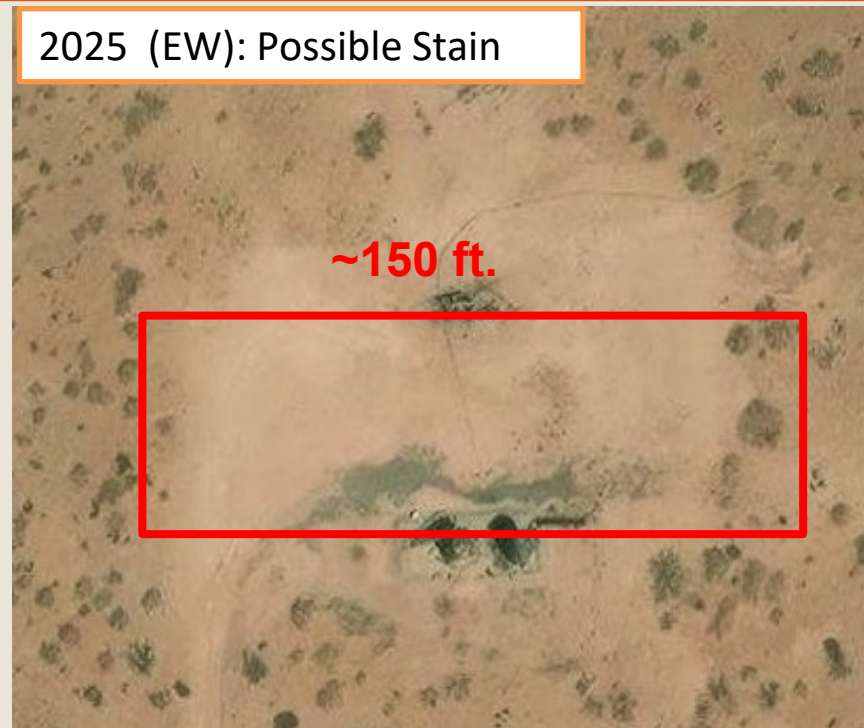


# Lease 6 – Spills

2014 (GE): Possible Stain



2025 (EW): Possible Stain



2025 (EW): Possible Stain



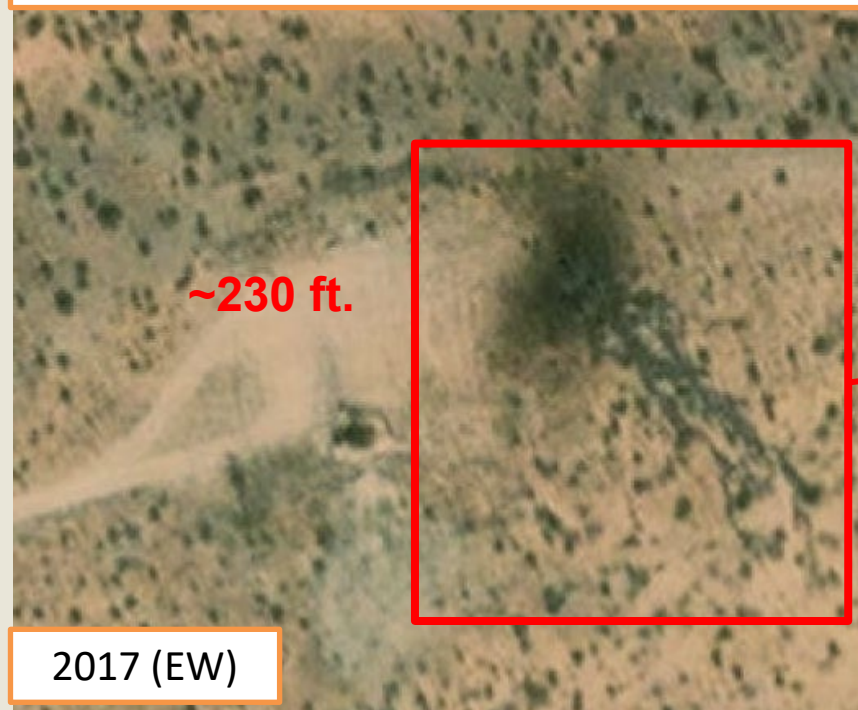
2023 (GE): Possible Stain



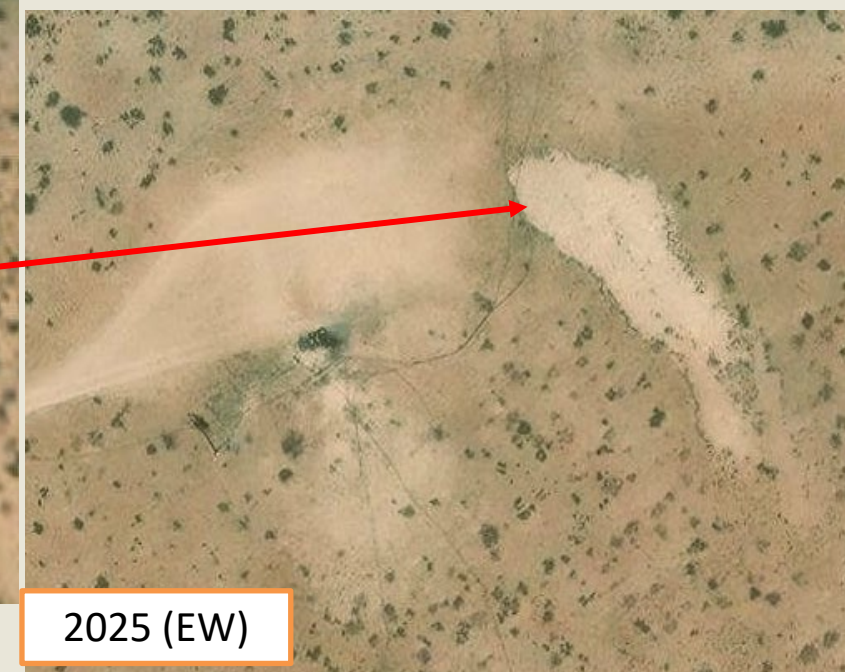
Appears to be a flowline spill from satellite imagery. Could be tied to open spill from 2017 that has a current status of "Initial C-141 Approved, Pending submission of Site Characterization / Remediation Plan OR Remediation Closure Report from the operator".

~230 ft.

2017 (EW)



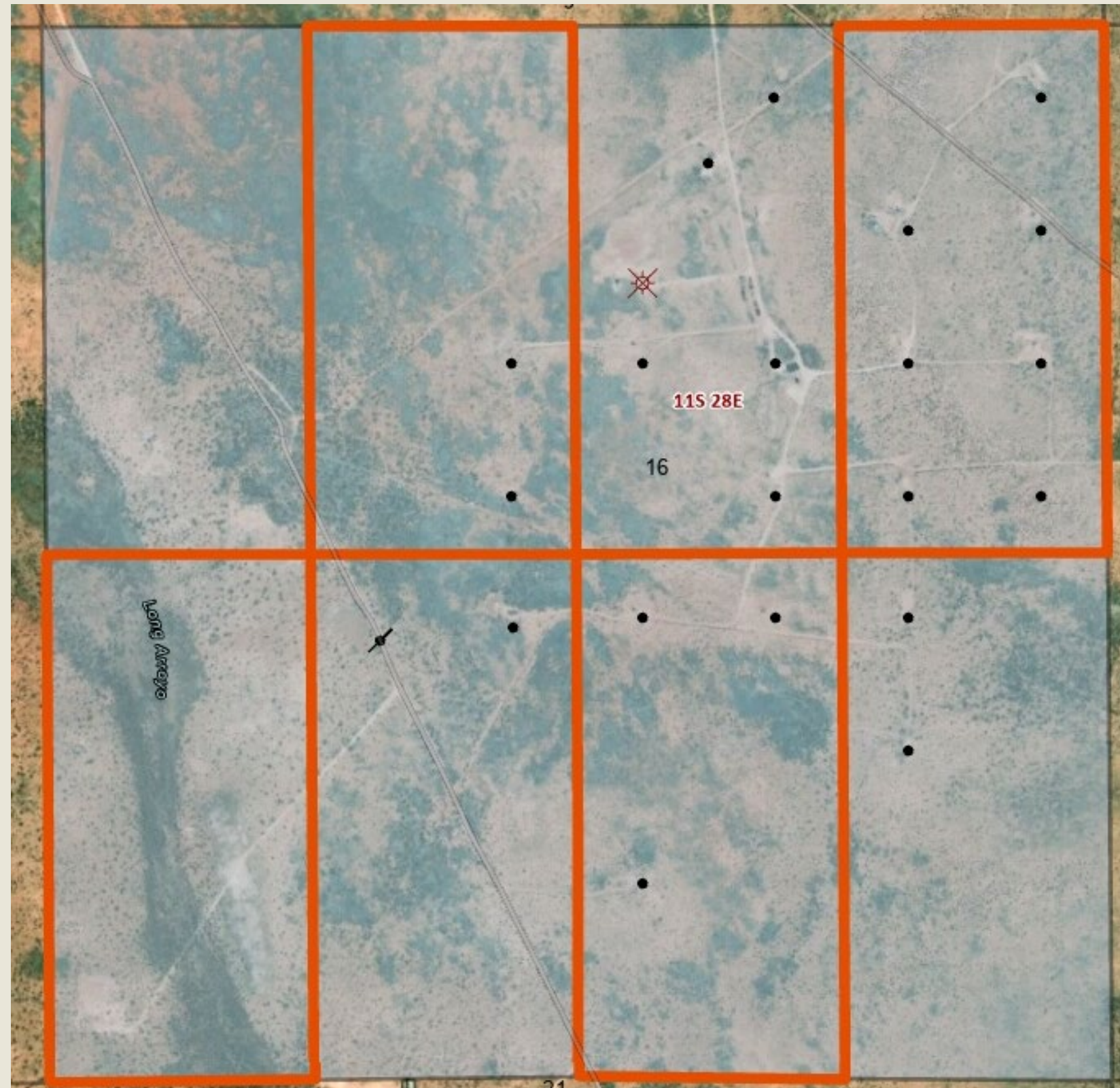
2025 (EW)





# Lease 7

- Full Estate
- 320 acres in 16-11S-28E
- Twelve Wells
- One operator.
- All twelve wells have been producing less than 200 BBL per year since 2017 and production has been declining.
- Approximately half of these wells appear to have possible staining around the wellhead.





# Proposed Rule: Other Provisions

## PERIODIC ADJUSTMENT

- Inflationary adjustment every five years
- Review of bonding adequacy based on compliance factors at least every five years
- Allows for downward adjustments if NMSLO obtains access to OCD plugging bonds in the future

## FORMS OF FINANCIAL ASSURANCE

- Surety bonds
- Letters of credit subject to certain requirements
- Cash deposit
- Allows for possibility of alternative future forms of FA





# Proposed Rule: Other Provisions

## OTHER PROVISIONS

- Waivers and riders
- Describes process for claims against FA and release of FA

## IMPLEMENTATION SCHEDULE

- Heightened risk – within 90 days
- Large lessees (50 or more leases) – December 1, 2026
- All other leases – May 1, 2027
- Annual reporting requirement – July 1, 2027





# Questions and Public Comment

**Questions?**

505-827-5760

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**Thank You!**