

BONDING RULE REVISION DISCUSSION DRAFT – OVERVIEW

New Mexico State Land Office's (NMSLO) discussion draft of the proposed bonding rule (19.2.100.23 NMAC) would increase minimum bond requirements and make other changes to the existing rule, including:

- Replacing current rule structure which provides insufficient bond minimums for different categories - \$10,000 (single lease bond)/\$20,000 (blanket lease bond)/\$25,000 ('megabond')
- Increasing new minimum bonding requirement to \$150,000 per lease
- Providing for heightened bond requirements based on risk categories including inactive wells, unremediated spills, extremely marginal wells, history of bond claims, and other compliance-related factors
- Allowing lessees to bundle financial assurance for multiple leases, with a modest discount available for leases in full compliance with NMSLO requirements
- Establishing annual report requirement so that lessees are in regular communication with NMSLO about lease infrastructure, status of operations (e.g. inactive wells, plugged wells, spills) and other conditions that may affect bonding requirements
- Providing for periodic inflationary adjustments as a matter of course, and confirming that individual bonds also may be adjusted based on changes to compliance profile or other circumstances that would affect bonding requirements
- Offering downward adjustments to bond requirements in the event NMSLO gains access to use of Oil Conservation Division plugging bonds in the future
- Specifying which alternative forms of financial assurance are permitted
- Detailing the mechanism by which NMSLO files claims against bonds, and the consequences for a lease/lessee if NMSLO is paid out on a bond
- Explaining the prerequisites for release of a bond
- Providing a phased-in schedule for implementation of the rule