

**U.S. Department of the Interior
Minerals Management Service
Office of Communications**

NEWS RELEASE

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RELEASE:

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**SURETY BOND REQUIREMENTS AMENDED
MMS ISSUES FINAL RULE**

The U.S. Department of the Interior's Minerals Management Service (MMS) will publish a final rule to amend the regulations governing the surety bond provisions for Outer Continental Shelf (OCS) leases. The rule, which will appear in the May 22, 1997, Federal Register, is the product of MMS's continuing effort to provide optimum flexibility for a lessee to meet its lease bond requirements and to insure that lessees adequately fund their lease abandonment and clearance obligations.

"Our objective was to develop a rule that would provide protection from a default by a lessee, permittee, or pipeline right-of-way holder and to do so by selecting a method that would be equitable to all affected parties," remarked MMS Director Cynthia Quarterman. "This rule will ensure that a lessee is financially capable of performing all end of lease obligations."

At the end of operations, lessees must plug and abandon wells, remove platforms and other facilities, and clear the lease site sea floor. The rule clarifies MMS's position that co-lessees and operating rights owners are liable for compliance with the terms and conditions of their OCS oil and gas or sulphur leases. The transfer of OCS leases from large producing companies to smaller producers, some of which are marginally financed, increases the risk that the current lessee will not be able to satisfy end-of-lease obligations. This rule continues the provision that the assignor of an OCS lease, as well as the new lessee, are responsible for compliance with the lease abandonment obligations associated with the facilities the assignor installed.

The rule establishes December 8, 1997, as the deadline for every lessee to comply with the bond coverage requirements which were established in 1993. This rule also establishes a regulatory framework for acceptance of lease-specific abandonment accounts and third-party guarantees. In addition, the rule sets a higher level of bond coverage for the holder of a geological and geophysical (G&G) 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.

MMS is the federal agency that manages the Nation's natural gas, oil, and mineral resources on the Outer Continental Shelf, and collects, accounts for, and disburses about \$4 billion in revenues each year from offshore mineral leases and from onshore mineral leases on federal and Indian lands.

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