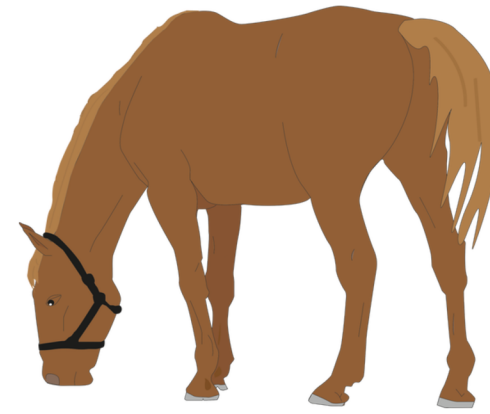




# OIL & GAS BONDING

→ NOT ONE SIZE FITS ALL



# First Order Question: What do we care about?

1

Protecting human life

2

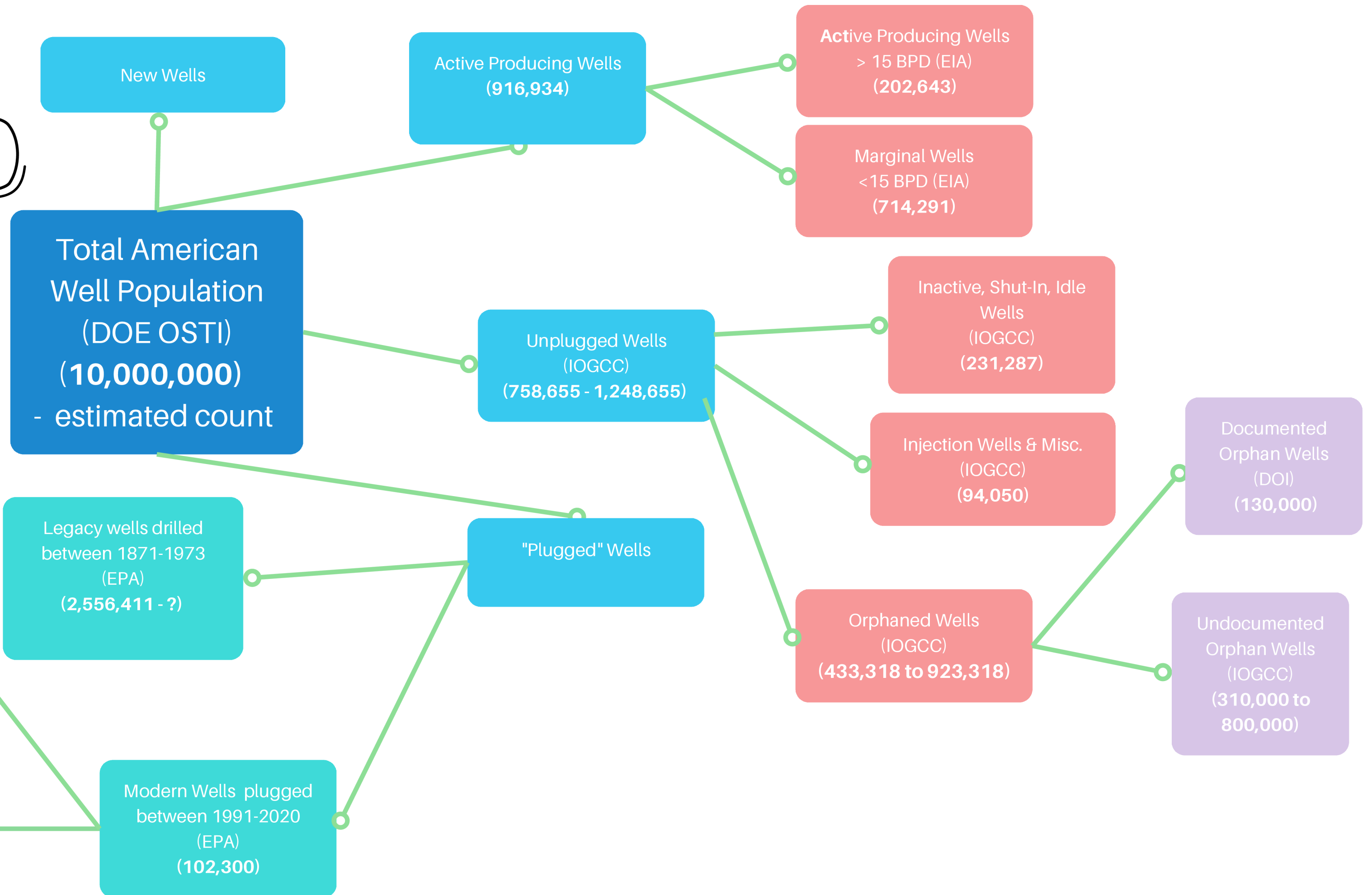
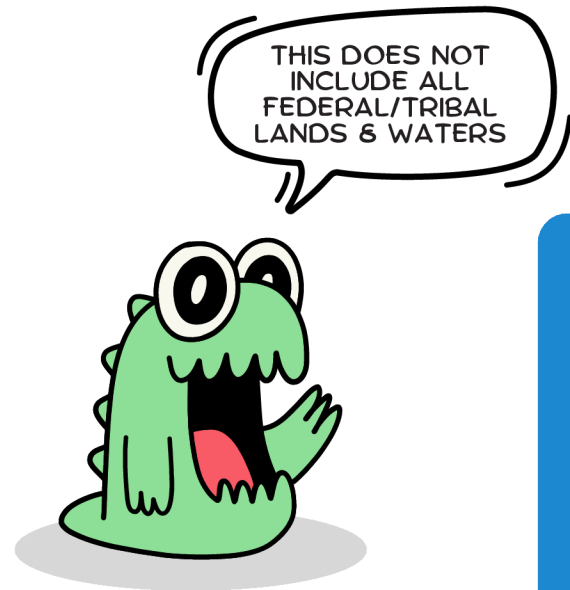
Reducing methane & other pollution

3

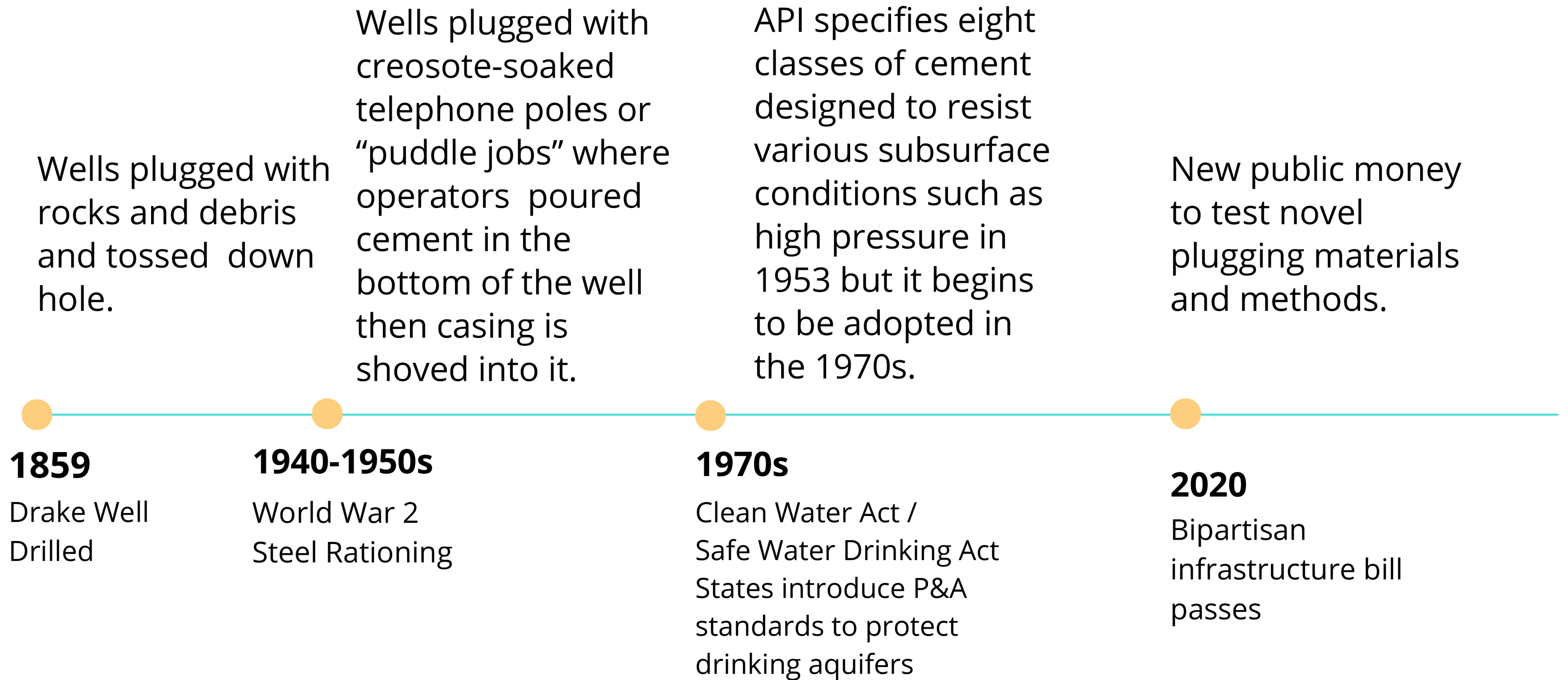
Making polluters pay

# Shared Framing

- 1 There are different categories of wells
- 2 Wells move between those categories (e.g. plugged to legacy; idle to orphaned)
- 3 Each category presents unique risks
- 4 Policy prescriptions must be crafted to address those unique risks. Therefore, multiple policies!



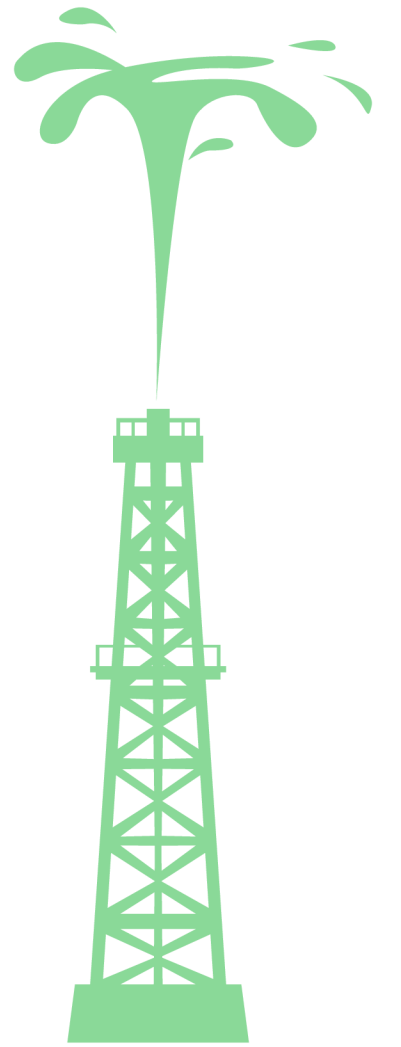




# New & Producing Wells:

enough production remains to cover P&A.

- Single well bonding would be appropriate only for this class of wells.



**But today's producing well is tomorrow's idled well and that well is a future orphaned well.**

- Single well bonding is still inadequate.

# Surety Companies constitute their own risks



January 14, 2022

Ms. Julie Murphy  
Director  
Colorado Oil & Gas Conservation Commission (COGCC)  
1120 Lincoln Street, Suite 801  
Denver, CO 80203

**RE: Comments on Colorado Oil & Gas Conservation Commission Staff December 7, 2021 Draft  
Financial Assurance Rules, Financial Assurance Rulemaking, Docket No. 210600097**

*Submitted electronically via: COGCC's eFilings Portal*

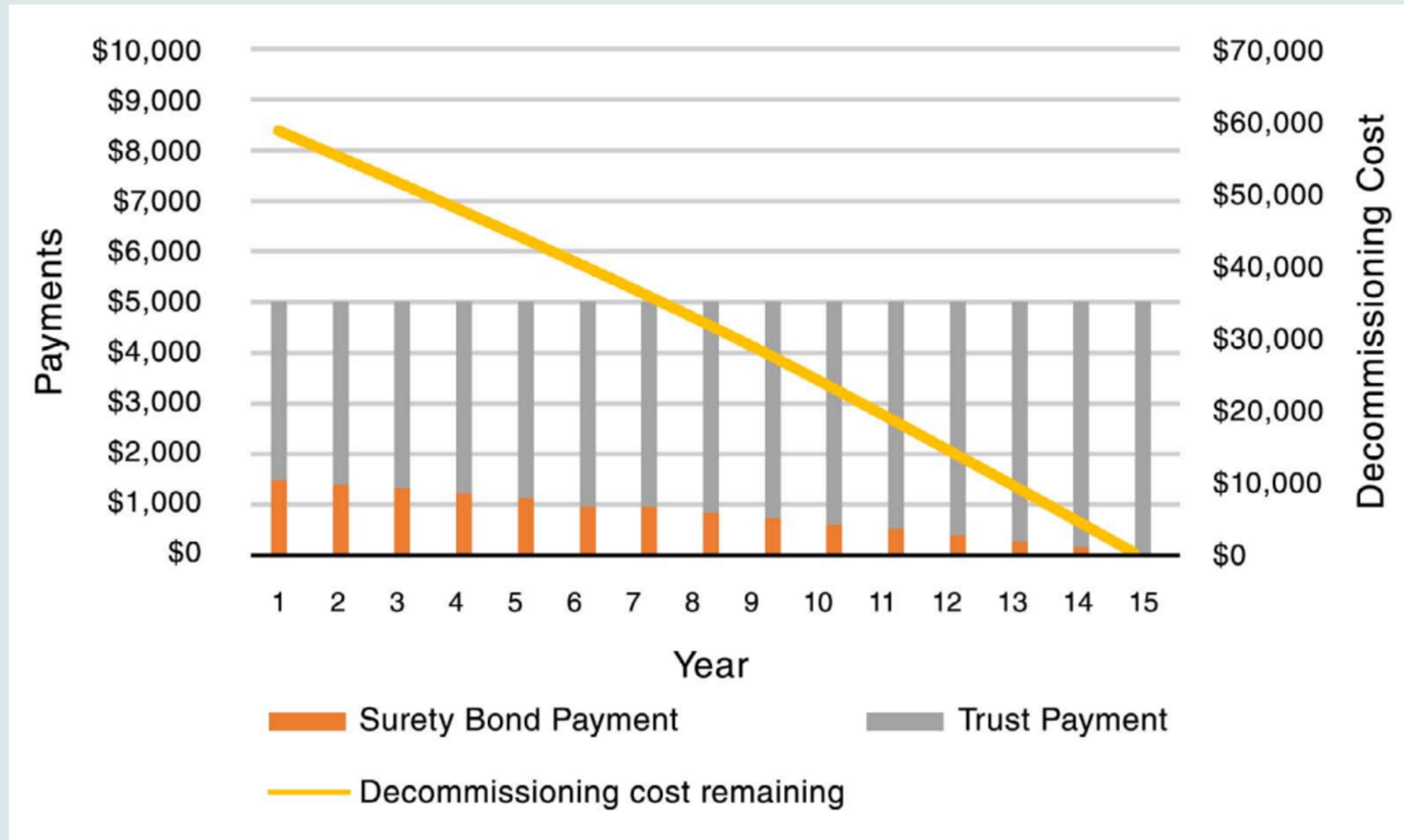
**Argonaut Ins. Co. v. Falcon  
V, L.L.C. (In re Falcon V,  
L.L.C.)**

# New & Producing Wells:

- For new wells and producing wells require individual, sinking trust funds (bankruptcy remote) with regulator as beneficiary for each permitted well, pipeline and supporting infrastructure. Trust funds should be pegged to State NOI's.
- Operators would be able to choose either a lump-sum payment upon establishment of the trust that reflects the estimated full costs of decommissioning, or pay an annual payment into a sinking trust fund until it reaches the estimated full cost.
- Operators opting for an annual trust fund payment must also purchase a full cost surety bond for each individual well. The surety bond required amount is gradually reduced as the amount in the trust fund with annual payment increases. The surety bond amount should be pegged to state NOI's. The two accounts will be inversely proportional to minimize the federal government's exposure to the leases's risks. The less funds in the trust fund, the more surety that is required. As the holdings in the trust fund increase, the required annual bonding amount also decreases.



*Figure 9: A hypothetical example of a sinking trust fund with full cost bonding.*



*Assumes a total decommissioning cost of \$65,000, an initial trust payment of \$2,500, a surety bond rate of 2.5%, and a 15-year term.*

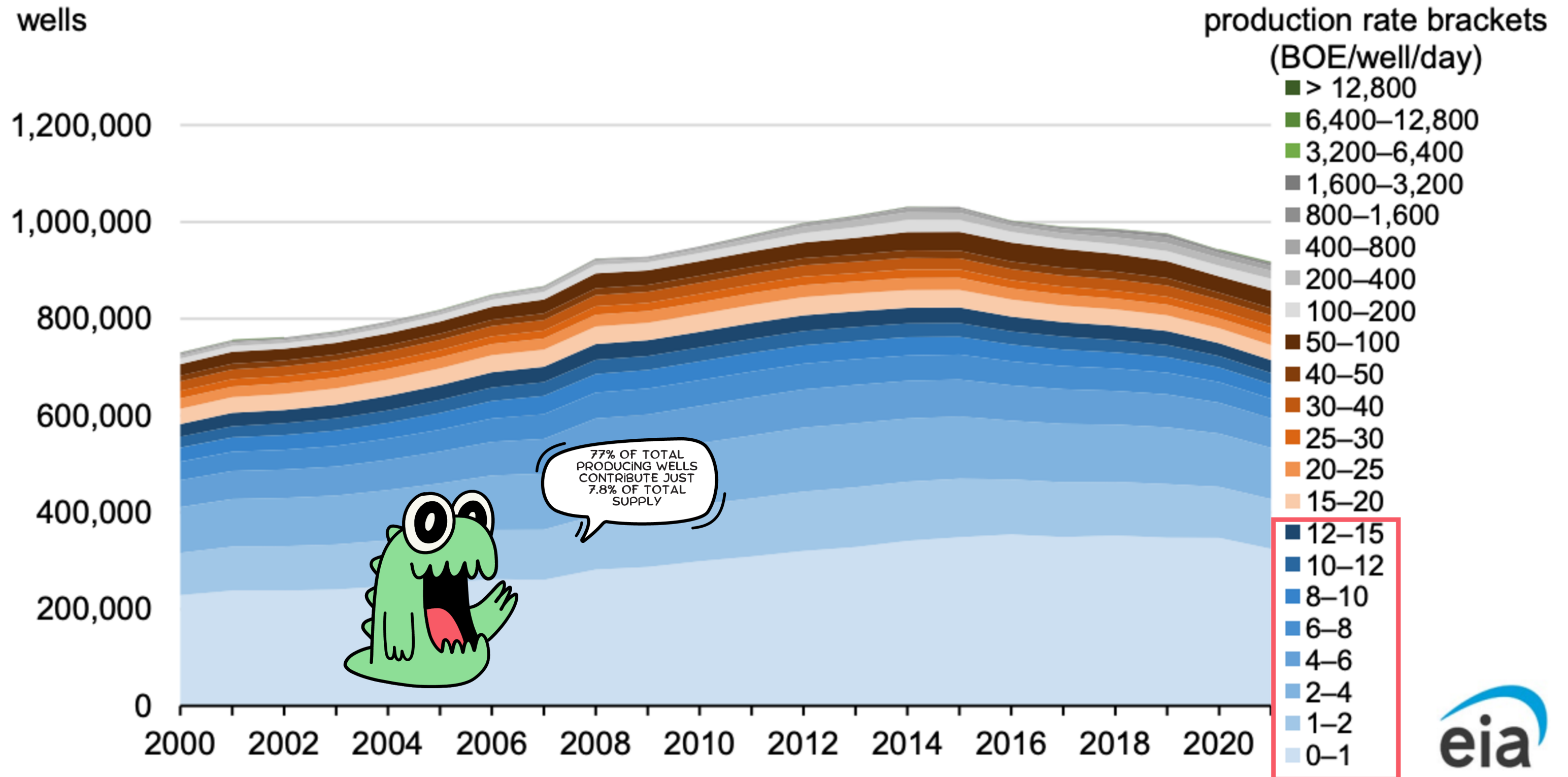
# Marginal/ Stripper Wells:

Essentially insolvent. Not enough production remains to cover P&A.



- These are the wells that everyone is worried about pushing into bankruptcy.

**Figure 1. U.S. total wells by production rate brackets**

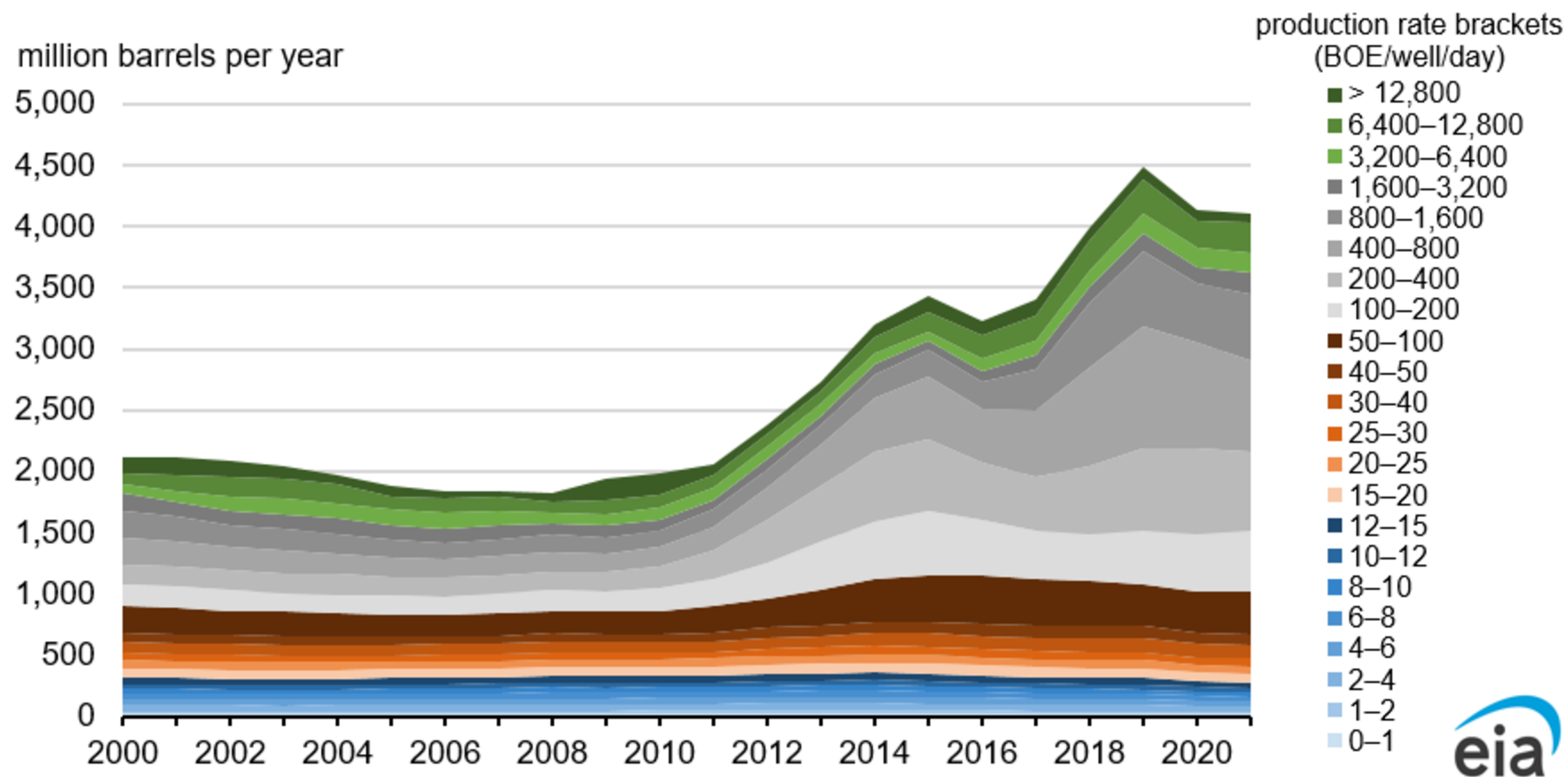


Data source: U.S. Energy Information Administration and Enverus

Note: BOE=barrels of oil equivalent



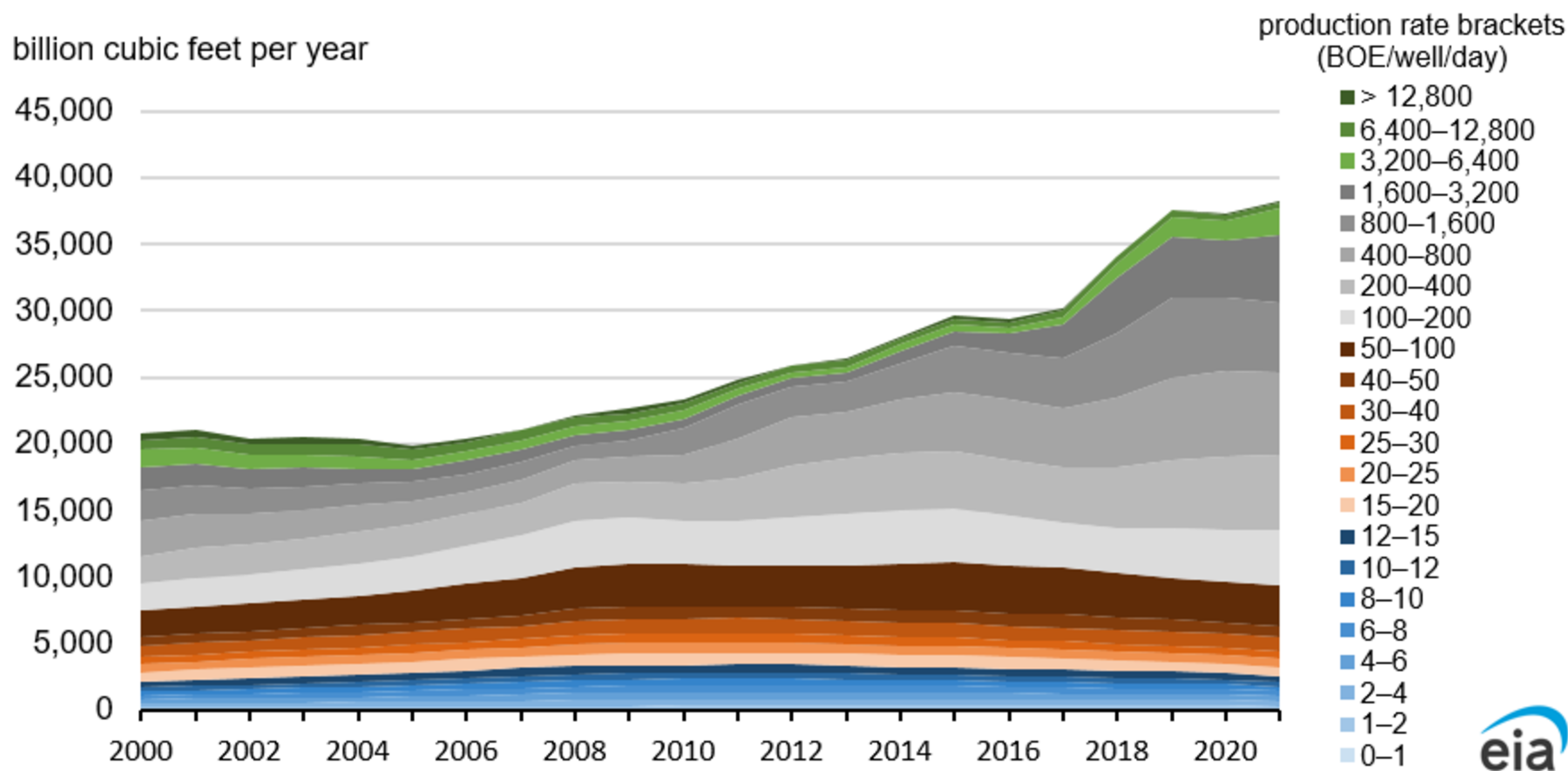
**Figure 3. Oil production from U.S. wells by production rate brackets**



Data source: U.S. Energy Information Administration and Enverus

Note: BOE=barrels of oil equivalent

**Figure 4. Natural gas production from U.S. wells by production rate brackets**



Data source: U.S. Energy Information Administration and Enverus

Note: BOE=barrels of oil equivalent

# Marginal/ Stripper Wells:

- Raise Production Thresholds
- Repeal Inactive Well Plugging Extensions (future beneficial use)
- Repeal low-producing tax incentives
- Receiverships

# Inactive Wells:

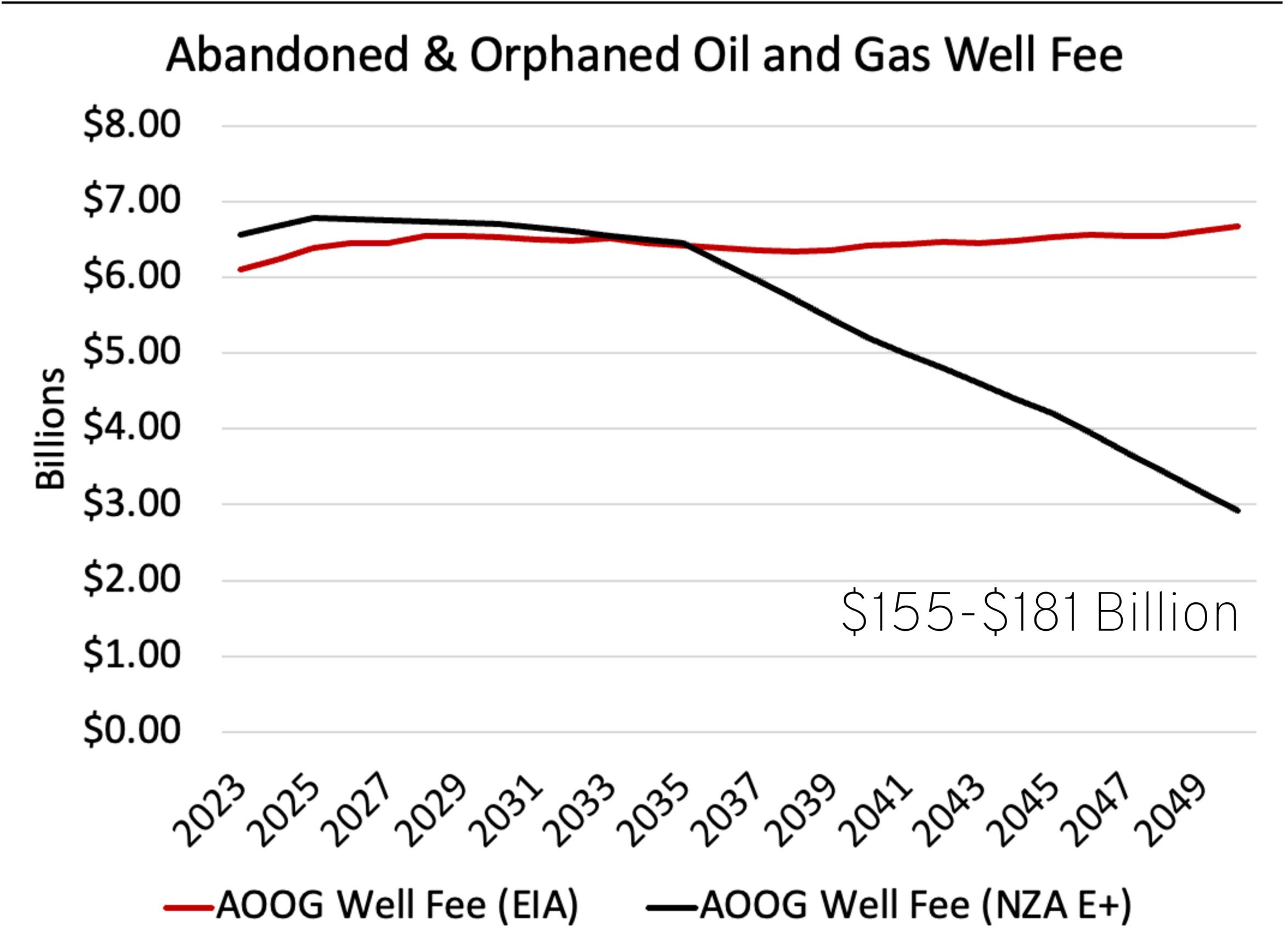
- Mineral Lien
- Maritime Lien
- Keeper Attachment
- Receiverships

# Orphaned Wells & Everything Else:

- Industry-wide levy that goes into a separate trust fund, similar to the federal Abandoned Mine Land Fund
- Predecessor Liability in new permits

# National Orphaned Well Trust Fund

AML Fee 1978	\$0.35
1978 avg price of coal	\$21.86
AML Tax Rate in 1978 on Coal	1.6%
Abandoned Orphaned Oil and Gas (AOOG) Nat Gas Fee Rate (2023)	\$0.054
Abandoned Orphaned Oil and Gas (AOOG) Oil Fee Rate (2023)	\$0.93
AOOG Wells (unplugged)	2,203,075
P&A Cost (2022)	\$63,500
Total AOOG P&A Cost	\$139,895,262,500





# Future Leaks & Failures of Plugged Wells

- quasi-CERCLA program, in which operator liability for a well extends beyond the time of bond return, for environmental damages that do not appear until after well decommissioning.
- AWA

