

SB18-063 Financial Assurance—Reasons to Support

Submitted by Brad Gibson, Broomfield, Colorado, February 1, 2018

COGCC Rules and Regulations Section 700

Current Insurance Requirements are grossly inadequate:

\$1,000,000 General Liability Insurance-for third party bodily injury and property damage liability claims. Does not cover environmental damage or cleanup.

\$0 Pollution Liability Insurance currently required

Current Bonding Requirements:

Soil Protection, Plugging and Abandonment and Inactive Wells: \$20,000 per well.

Important Information:

The cost to plug and remediate an abandoned vertical well is on average \$82,500.

Bankrupt companies own many of the orphaned wells and bonds cannot be obtained from them.

Horizontal drilling and fracking for new wells has increased dramatically. It is common for one new horizontal well to cost over \$5 million to drill, frac and complete. Development of large, multi-well pad horizontal drilling increases risk.

COGCC insurance and bond requirements do not account for the difference between rural and urban/suburban environments.

Why this bill is so important:

Requires a risk-based review of oil and gas operations based on number of wells, proximity to people, property and natural resources.

Operators will be required to maintain appropriate limits of liability insurance and adequate bond amounts.

Increasing the required bond amounts will reflect "real world" costs and potential exposures. With the current low bond requirements, it is cheaper for an operator to forfeit their bond than to clean up the well site.

Costs should be borne by the oil and gas operator who creates the exposure, not Colorado taxpayers. A legislative remedy must be implemented this session. Time is of the essence!

The following information is from the:

DEPARTMENT OF NATURAL RESOURCES
FY 2018-19 JOINT BUDGET COMMITTEE HEARING

Tuesday, December 12, 2017

“From July 1, 2016 to December 6, 2017 the COGCC has responded to 23 fires, two well control events, a site damaged by hail and wind, two sites where the gas-well head was damaged by farming operations, and two equipment failures.

The OGCC does not currently have adequate financial resources to fully remediate all orphaned oil and gas locations and facilities. As discussed more thoroughly in the response to Question #25, the OGCC would need approximately \$5.3 million per year over a period of 5 years to address the current inventory of orphaned wells and locations. A multi-well pad with an associated tank battery, production pits, dehydration, and in-field compression, could cost hundreds of thousands of dollars to plug wells, decommission equipment, remediate environmental contamination, close pits, re-grade the location, import topsoil, and re-establish vegetation.

The \$5.3M per year estimate over five years to eliminate the September 2017 backlog of 244 wells on 300 locations did not include the costs to address the unknown number of orphan wells that will almost certainly be added to COGCC’s inventory over the next 5 years. COGCC has added an average of 57 orphan wells per year to its inventory over the past four years. If this trend continues, an additional 285 wells/locations will be added to COGCC’s inventory over the next five years. Plugging and reclaiming these 285 potential orphan wells/locations—necessary to reduce the state’s backlog of orphaned wells to zero—would likely require a similar amount per year (\$5.3M) as addressing the state’s existing backlog of 244 orphan wells and 300 associated locations over five years.”

Attachment A: Bond Claims

SUMMARY OF BOND CLAIMS WITH ACTIVE FIELD WORK IN FY2015, FY2016, AND FY2017

OGCC Bond Project Code	Bond Amount Claimed	Actual Expenditures OR Total Estimated Project Cost	Project Complete as of 12/07/2017?	Bond Amount is Sufficient?
ATOM	\$ 60,000	\$ 247,500		
BENC	\$ 620,000	\$ 3,430,000		
CMPR	\$ 67,849	\$ 2,430,000		
DOLP	\$ 55,000	> bond	YES	
EDTB	\$ 6,745	\$ 81,887	YES	
LORD (Halcyon)	\$ 6,272	\$ 7,980	YES	
NEUG (Halcyon)	\$ 21,486	\$ 11,868	YES	YES
MONU	\$ 80,231	\$ 1,280,000		
PREM	\$ 16,778	\$ 46,676	YES	
PROV	\$ 5,000	\$ 5,000	YES	
REDM	\$ 72,831	\$ 4,332,500		
REDW	\$ 30,000	\$ 172,525	YES	
RETT (Ranchers)	\$ 24,473	\$ 800,000		
RIVE (Ranchers)	\$ 38,951	\$ 35,130	YES	YES
RMOU	\$ 92,015	\$ 495,000		
RUTH	\$ 4,826	\$ 76,916		
TATO	\$ 30,000	\$ 94,026	YES	
TTEA	\$ 71,850	\$ 660,000		
THK1	\$ 7,542	\$ 78,167		
THK2	\$ 5,029	\$ 73,497	YES	
WAL1	\$ 5,000	> bond	YES	
WAL2	\$ 5,000	> bond	YES	
WAL3	\$ 5,000	> bond	YES	
Total Amount as of December 2017	\$ 1,331,877	\$ 14,358,672		

Note

The Project Complete column indicates projects for which the work is 100% finished or only minor maintenance works remains.