

Rule 707
Excess Inactive Wells:
Additional Bonding
IOGCC Annual Business Meeting
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COLORADO
Oil & Gas Conservation
Commission
Department of Natural Resources

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Rule 706 - *The “Plugging” Bond*

Financial Assurance to Ensure:

1. Protection of the Soil
2. Proper Plugging and Abandonment of the Well
3. Reclamation of the Site

- The bond assures that the operator is financially capable of fulfilling all the obligations of the Act and the rules.
- The bond protects the State from financial risk.

Rule 706 - *The “Plugging” Bond*

Individual and Blanket Plugging Bonds Amounts

Individual Well < 3000' Total Measured Depth	\$10,000
Individual Well \geq 3000' Total Measured Depth	\$20,000
State-wide Blanket Bond < 100 Wells	\$60,000
State-wide Blanket Bond \geq 100 Wells	\$100,000

Rule 707 - Requires Additional Bonding for Excess Inactive Wells

"...to the extent that an operator's inactive well count exceeds such operator's financial assurance... such additional wells shall be considered "***excess inactive wells.***"

"...For each excess inactive well, an operator's required **financial assurance amount under Rule 706 shall be increased...**"

“Inactive” Wells

COGCC Rules Inactive Well Definition:

1. Well with No Sales for 12 Consecutive Months
2. Temporarily Abandoned (TA) Well - TA'd for 6 Consecutive Months
3. Injection Well - Not Used for 12 Consecutive Months

“Inactive” Wells

- Are not generating revenue for the operator.
- Pose a threat of financial liability to the State.
- Rule 707 reduces the potential financial risk to the State by requiring additional bonding when an operator has too many inactive wells.

Determination of “Excess Inactive Wells”

	Number of Inactive Wells	Assurance per Well	Assurance for Inactive Wells
Shallow Wells < 3000' TMD	5	\$10,000	\$50,000
Deep Wells \geq 3000' TMD	4	\$20,000	\$80,000
Required Inactive Well Financial Assurance			\$130,000
Blanket Plugging Bond			\$60,000

- The financial assurance required for the inactive wells is *greater* than the operator’s Blanket Plugging Bond
- Plugging Bond must be increased by **\$70,000** for the *Excess Inactive Wells*

Review for Operators with Excess Inactive Wells

- Financial Assurance staff reviews Colorado operators for compliance with Rule 707.
- Colorado has almost 500 active operators.
- Focus the review on operators with a greater likelihood of having Excess Inactive Wells
- Analyze well and production data to identify those operators.

Colorado Operator Size Distribution

Well Counts	Number of Operators	Number of Wells
1 - 3	226	342
4 - 20	130	1,199
21 - 100	74	3,013
101 - 500	35	8,270
501 - 1000	7	5,491
> 1000	11	35,395
Total	483	53,710

Proactive Review for Excess Inactive Wells

Well and Production Data Analyzed in June 2015:

1. Percentage of Total Number of Wells that are Shut In or Temporarily Abandoned
2. Wells with Delinquent Mechanical Integrity Tests (MIT)
3. Decline in Production from 2012 to 2014

Enforcement for Excess Inactive Wells

If staff's analysis determines an operator has Excess Inactive Wells, a Warning Letter for inadequate financial assurance is sent.

Failure to respond to a Warning Letter results in the issuance of a Notice of Alleged Violation (NOAV) for Rule 707.

2015 -16 "Excess Inactive Wells" Audit

Operators Reviewed	122
Operators in Compliance	81
Warning Letters Issued	41
NOAVs Issued	6
Operator's Bond Claimed	2
Operators Brought into Compliance	37
Total Additional Financial Assurance Secured	\$4,350,000

Additional Amount Range: \$20,000 - \$960,000 per operator
Average Amount: \$160,000 (from 27 operators)

Compliance Plan

- Rule 707 allows an operator to submit a plan for achieving compliance.

- A plan to reduce the operator's inactive wells count:
 - Return well(s) to production
 - Sell product from wells
 - Plug and abandon wells
 - The plan must accomplish all the required work on an acceptable schedule.

Compliance Plan

- The operator presents their plan to COGCC staff:
 - Financial Assurance Unit Supervisor
 - Engineering Unit Manager & Area Supervisor
 - Enforcement Staff

- Compliance plans were accepted from 4 operators
 - 3 have been successfully completed
 - 1 is in process

Proactive Review for Excess Inactive Wells

Well & Production & Operator Data Analyzed

May 2016:

1. Wells with Delinquent MITs
2. Decline in Production from 2014 to 2015
3. Wells with No Production Reported in 2015
4. Wells with Marginal Production in 2015
< 5 BOE/day
5. Unresolved Violations
6. Unpaid 2014 Levy

Thank You!!

Do you have any questions?



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