



Governor Mark Gordon, Chairman | Tom Kropatsch, State Oil and Gas Supervisor
Commissioners Jenifer Scoggin | Erin Campbell | Ken Hendricks | Jimmy E. Goolsby

Memorandum

To: The Honorable Drew Perkins
The Honorable Bob Nicholas
Chairmen, Joint Appropriations Committee

From: Tom Kropatsch, Oil and Gas Supervisor, OGCC

Date: January 10, 2022

RE: OGCC Orphan Well Program Summary – Requested at the OGCC December 2021 Budget Hearing

Thank you for the opportunity to present the Oil and Gas Conservation Commission's (OGCC) proposed FY23/24 budget at your December 16, 2021 Joint Appropriations Committee meeting. During the OGCC's budget review a discussion was held regarding the orphan well plugging program and a request was made of the OGCC to provide a written summary of the program. The following information provides background on the OGCC authority to operate an orphan well plugging program, funding of the operations, brief historical information on program activities, and an update for 2020 and 2021 on program activities.

The OGCC authority to operate an orphan well plugging program is granted in W.S. § 30-5-104 (d)(vii) "to use funds collected under W.S. § 30-5-116(b) to plug wells and seismic holes and reclaim the area affected by them, if the commission is unable to enforce its regulations and laws requiring the owner, seismic contractor, or hole plugger to plug and reclaim and if the owner, seismic contractor or hole plugger does not have an adequate surety bond or other guaranty to cover the cost of plugging and reclamation."

The OGCC has operated an orphan well plugging program for many years. Since electronic record keeping began in 1997, the OGCC has completed work on approximately 5,050 sites. Most often, this work consists of plugging and abandoning the well and reclaiming the surface. The program has also reclaimed locations and/or removed equipment where the operator may have plugged the well but neglected the surface, cleaned up spills or leaks, closed pits, and removed other associated infrastructure. In certain cases, orphan wells may be transferred to landowners and re-permitted as water wells.

In the earlier days of the program, only a small number of wells were identified as orphan in a given year and were typically plugged and abandoned shortly thereafter. Electronic record keeping of the orphan well projects began in 1997. Between 1997 and 2014, a total of 425 wells were plugged through the program (25/year average) with very few wells carrying over from year to year.

Beginning in about 2010, the coalbed methane (CBM) industry in Wyoming experienced a significant downturn and numerous operators went bankrupt. This in turn created increasing numbers of orphan

wells in the state. Since 2010, the OGCC has identified approximately 6,020 orphan wells, largely CBM wells. Due to the increasing numbers of orphan wells, in cooperation with the Governor and the Legislature, the OGCC implemented an accelerated orphan well plugging program in 2014. Since 2014, the OGCC has permanently plugged and reclaimed approximately 4,625 orphan wells.

Since 1997 the OGCC has spent approximately \$38 million dollars on the orphan well program. The funding for this work has two sources, as noted above, and described in W.S. §30-5-104(d)(vii). The first source of funding is bonds posted by the owner/operator. These consist of operator blanket bonds, individual well bonds, idle well bonds, pit bonds, or other facility bonds. If an operator refuses to comply with Wyoming statutes or OGCC rules and regulations or no longer exists due to bankruptcy or other reasons, the OGCC may forfeit that operator's bonds following a hearing and order of the Commission.

Since 1997, the OGCC has forfeited a total of approximately \$22 million in operator's bonds to be used for the plugging and reclamation of wells, well locations, pits, and other associated infrastructure. When bonds are forfeited they are placed into the orphan well program and utilized to pay costs plugging wells, reclaiming sites, and/or closing or removing other associated infrastructure.

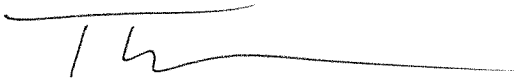
The second source of funding utilized by the orphan well program is the conservation tax. As noted above, the OGCC is authorized to collect the conservation tax in W.S. § 30-5-116(b) and authorized to utilize the conservation tax in the orphan well program in W.S. § 30-5-104(d)(vii). The maximum amount of conservation tax that may be charged is set in statute at eight-tenths of one mill, but the amount actually charged is set by Commission order and is currently set at five-tenths of one mill. Approximately \$16 million of the \$38 million spent on the orphan program was sourced from the conservation tax.

Though the state has experienced increasing numbers of orphan wells since 2010, nearly 4,300 of these orphan wells came from only five operators. The majority of industry fulfills their responsibilities by plugging their wells when they are at the end of their economic life. The oil and gas operators in Wyoming have plugged and reclaimed over 12,000 CBM wells and over 5,000 conventional wells since 2010.

In 2020, at the urging of the Governor and the Joint Minerals, Business, and Economic Development Committee of the Wyoming Legislature, the OGCC significantly increased its efforts to complete work in the orphan well program. This was done in an effort to provide service companies work and in turn keep people employed at a time when industry was suffering from a historic downturn. The OGCC prepared bids and contracted with plugging contractors to P&A over 1,500 wells in 2020. Due mainly to weather, contractor availability, and staff availability the OGCC and its contractors actually plugged 1,073 orphan wells during the year. The remaining wells carried over the winter season to the 2021 plugging effort. This effort utilized over half of the OGCC inspection staff and additional support staff such as engineers, office administrative staff, attorneys, etc. during the summer and fall of 2020 to prepare bids and contracts, prepare well specific plugging procedures, conduct landowner communication, provide contractor and plugging oversight, etc. The OGCC began the 2020 accelerated effort in June 2020 and the agency staff who planned and coordinated the 2020 projects did a remarkable job in such a short time to contract for plugging of over 1,500 wells and the actual plugging of over 1,000 wells.

In 2021, the OGCC plugged 662 wells. Some of these wells were carried over from contracts that were not completed in 2020. 662 wells plugged and reclaimed is the average number of wells the OGCC has completed per year since 2014, although the average numbers were significantly increased based on 2020 and 2021 efforts. For example, in 2017 the OGCC plugged 358 wells, 333 wells in 2018, and 529 wells in 2019.

The Infrastructure Bill that recently passed in Congress and signed into law by President Biden includes funding in the form of grants for states to address orphan oil and gas wells. The OGCC continues to evaluate the funding and requirements of the grants to determine whether to apply for or accept any funding as part of this program. Nevertheless, the OGCC will continue to prioritize the orphan well program.

A handwritten signature in black ink, consisting of a horizontal line above the letters 'TK' followed by a long, sweeping horizontal stroke.

Tom Kropatsch
Supervisor, OGCC