



2020 Readiness Whitepaper FAQs

Introduction:

The Colorado Oil & Gas Conservation Commission (COGCC) is committed to ensuring the protection of the public health, safety, welfare, wildlife and the environment in its regulation of the state's oil and gas development and production. Last year, the Governor signed SB 19-181, which changed COGCC's mission from "fostering" to "regulating" oil and gas in a protective manner. The COGCC's mission will not change or be compromised during the unprecedented global pandemic, or as a result of the historically low oil and gas commodity prices. The COGCC will continue its commitment to regulate oil and gas activity and protect all Coloradans.

Below are frequently asked questions received from the community about safety, COGCC's resources, regulatory framework in place, and ability to address an influx of issues related to the current oil and gas downturn.

Budget:

"With the downturn in the oil and gas market, will COGCC have the budget to continue its critical operations and have enough funds to carry out its oversight duties for the foreseeable future?"

- Yes. COGCC is monitoring revenue projections and managing its budget as it has through other commodity price downturns. COGCC will continue to meet its duty to regulate oil and gas operations so that public health safety, welfare, wildlife and the environment is protected.

"As a number of oil and gas operators face financial strain, can COGCC continue to inspect and provide necessary oversight of all oil and gas operations in the state to ensure the protection of public health and safety?"

- Yes. COGCC is poised to continue its regulatory oversight work and will continue to be staffed appropriately to do so. The COGCC Field Operations Unit includes:
 - 25 field inspectors and supervisors located throughout the state.
 - 5 reclamation specialists and a reclamation unit supervisor. The reclamation staff is frequently on producing oil and gas locations performing interim reclamation inspections and can report issues with producing wells.
 - 12 environmental protection specialists and 2 integrity inspectors who are routinely in the field at producing sites.

Monitoring Operators During a Downturn:

How many times a year are producing wells required to be inspected?

- There is no mandate as to inspection frequency; however COGCC has adopted a prioritization program along with other internal policies that results in wells being inspected on average every 1.8 years.

How many times a year are abandoned wells inspected?

- After a well is properly plugged and the surface reclamation completed, no further inspections are performed.

“How will COGCC ensure that operators won’t begin to or increase flaring and venting in the current environment?”

- Operators are required to notice COGCC prior to flaring.
- Suspended drilling operations do not pose a threat to the public or the environment once they are properly shut-in or temporarily abandoned. Cemented casing and surface valves prevent the product from leaving the well, which also prevents gas venting from the well.
- There is no incentive for operators to vent or flare a shut-in well as doing so depletes the reservoir pressure. The reservoir pressure must be maintained in order for the well to resume production.

“What is a “distressed operator”? What are the current and projected number of distressed operators?”

- COGCC does not have access to operators’ confidential financial information required to determine whether or not an operator is "distressed." However, COGCC monitors all operators’ compliance with its rules, news outlets, and bankruptcy filings. Failure to report production, file required notices, return informational inquiries or follow up on corrective actions noted during inspections can provide the COGCC with a sense of the operator's capabilities.
- COGCC increases the administrative oversight for operators that fail to comply with the rules.
 - Long-term shut-in or temporarily abandoned wells may have a higher potential for being abandoned by the operator.
 - COGCC pursues enforcement for shut-in and temporarily abandoned wells with delinquent mechanical integrity tests (MITs).
 - Operators with a high percentage of long-term shut-in or temporarily abandoned wells are required to provide additional financial assurance. COGCC has secured additional bonding in excess of \$90,000,000 over the last 5 years.

“Has the COGCC taken any steps to address the effects of the economic downturn on industry?”

- Yes. Due to the COVID-19 outbreak, COGCC has recently released a revised corrective action matrix. This did not extend the deadlines associated with any matters that directly affect public health, safety, and welfare, the environment or wildlife resources, but did extend some reporting and administrative deadlines.
- In addition, three new Notices to Operators (NTOs) were published to the COGCC website on May 1. The NTOs address COVID-19 and working from home challenges for operators and allow for the acceptance of electronic service and signatures, the extension of approval periods for notices of intent to abandon wells, and the delay of non-health and safety sampling, monitoring or reporting associated with ongoing soil or groundwater remediation projects. The NTOs can be found here: <https://cogcc.state.co.us/reg.html#/policies>.

“Can the COGCC order operators to stop producing?”

- This depends. The COGCC has the authority to require oil and gas operators to cease operations if that action is deemed necessary to protect public health, safety, and welfare, the environment, and wildlife resources in the event the owner/operator refuses, or is unable, to comply with Commission rules
- The COGCC cannot by law order operators to stop producing because the price of oil and gas has fallen.

“What happens to the wells of an operator that goes bankrupt?”

- This depends. The wells may be bought in the course of the bankruptcy and in some bankruptcies the operator reorganizes debts and remains responsible for operating the wells. Any purchaser must comply with the Commission’s rules for operating a well regardless of whether the wells are purchased through bankruptcy or a private transaction. That includes continuing the maintenance and safety measures necessary to maintain a well.
- If an operator is unable to find a buyer for the wells and unable to continue to pay for the operation of the wells, the wells will become a part of the COGCC’s orphaned well program. The orphaned well program oversees the orphaned wells to ensure that the wells pose no threat to public health, safety, and welfare, the environment or wildlife resources until the wells are plugged and abandoned.
- All Orphaned Well Program expenditures are funded by oil and gas operators through financial assurance, a levy on oil and gas production, and penalty revenue. The Orphaned Well Program **does not** receive personal or corporate tax revenue from the state’s General Fund, in other words tax dollars do not fund plugging of wells.

Commission Authority and Regulation:

“Does the Commission have a plan in place to address worst case scenario situations such as operators walking away from wells in the midst of drilling or completion operations in close proximity to residential areas?”

- Yes. There have been a number of inquiries as to the safety of wells should an operator be suddenly unable to continue operations due to economic conditions. While

the specific response may vary depending on the particular operator involved, the basic response remains the same and that is the wells must be shut in.

- If the operator does not shut-in their wells prior to abandoning their operations, then COGCC staff will do so. Once the well is properly shut in, it presents no risk to the public or environment.
- The COGCC will then work to recover the Financial Assurance bond associated with the well.

“Does the Commission believe it has the necessary authority to address the worst case scenario of an operator walking away from their wells under the current rules?”

- Yes. The Commission has the authority to address and protect the public’s health, safety, welfare, wildlife and the environment.

“We would like to hear from staff regarding what they see as the chief risks associated with low commodity prices?”

- The boom and bust cycle of the oil and gas industry is not new. The COGCC has in the past shifted resources to address this and will continue to reallocate if and as necessary. For example, additional resources were added to review permit applications during booms and now these resources may be readily available to assist in other functions of the COGCC.

Orphaned Well Program:

“Does staff anticipate an increase in orphaned wells? How does the Commission plan to address the inevitable increase in orphaned wells given the recent economic hit to the industry?”

- The Commission created and developed an Orphaned Well team, within the Engineering Unit, which has a process for working with potential orphaned wells and sites, as well as those already identified. As the number of orphaned wells or sites grows or shrinks, COGCC will respond accordingly.

“What is the current and projected number of orphaned wells and sites?”

- As of July 1, 2019, COGCC had a total of 275 orphaned wells remaining to plug and 422 associated orphaned sites (July 1 is the annual orphaned well reporting date). As of May 2020, the counts are 234 wells remaining to plug and 458 associated orphaned sites. COGCC cannot project numbers of orphan wells and sites, but will respond as the number of changes.
- Work at Orphaned Sites lags behind plugging Orphaned Wells on those sites because equipment removal and environmental remediation may be necessary before reclamation commences, and reclamation may take two years or more once the wells are plugged and all equipment is removed from the site.
- The Orphaned Well Annual Report provides updates on the progress achieved each year. Link to 2019 Annual Orphaned Well Report:
https://cogcc.state.co.us/documents/library/Technical/Orphan/Orphaned_Well_Program_FY2019_Annual_Report_20190830.pdf

What is the average cost for an orphaned well?

- COGCC tracked orphaned well program costs over a five year period from 2012 through 2017 and found the average cost to plug and reclaim an orphaned site with a single well as \$82,500. This includes an average cost to plug a well as \$35,000, and the average cost to reclaim an orphaned site without any wells as \$47,500.

“Will the Orphaned Well program remain a priority?”

- Yes. COGCC has worked to appropriately staff up this program due to the identified statewide need and benefits provided from it.
- In addition to public health and safety and significant environmental benefits realized by this program, ancillary benefits include economic job creation benefits, especially in many of our rural areas, as the COGCC hires contractors to perform the work.

Shut-in Wells:

What is a shut-in well?

- COGCC defines a “shut-in well” to mean a well which is capable of production or injection by opening valves, activating existing equipment or supplying a power source.

“Does an operator need to notify the COGCC of a shut-in well? What is this process?”

- Yes, an operator must report the production or status, including a “shut-in” status, of each well monthly on a Form 7. Form 7s are due 45 days from the end of the month being reported.

“Are shut-in wells dangerous?”

- No. COGCC rules require operators to construct oil and gas wells so that the wells can be reliably “shut-in” with valves that safely stop the flow of product at the well.
- Commission rules ensure shut-in wells are safely maintained and mechanical integrity is not lost.
- Commission rules require that the registered operator of a shut-in well perform a mechanical integrity test periodically to ensure that there is no down-hole loss of integrity.
- The operator must comply with Commission rules and ensure that the shut-in well is secure and will not affect public health, safety, and welfare, the environment, or wildlife resources.

Is a “shut-in” well the same as a “temporarily abandoned” (TA) well?

- No. Wells may be “temporarily abandoned” with COGCC approval on a Sundry Notice by removing production equipment, disconnecting production equipment, setting a plug in the well to isolate the oil or gas producing zones without completely plugging the well and performing a successful MIT. These steps often precede final plugging and abandonment of the well.

- Operators must seek approval from COGCC annually to maintain a well in a TA condition. Successful MIT's must be performed on a periodic basis as well. Any well that lacks integrity must be repaired or plugged properly.
- Commission rules ensure TA wells are safely maintained and mechanical integrity is not lost.

"If an operator temporarily abandons a well, do they just walk away from it?"

- No. The operator must comply with Commission rules and ensure that the TA well is secure and will not harm public health, safety, welfare, wildlife and the environment.
- The operator must also continue to verify the mechanical integrity of the well with periodic mechanical integrity tests.
- An operator must report the production or status, including a "temporarily abandoned" status, of each well monthly on a Form 7. Form 7s are due 45 days from the end of the month being reported.

"Why doesn't the COGCC require wells that aren't producing be plugged and abandoned?"

- There are many reasons a well that is shut-in should not be plugged and abandoned. There may be economic reasons that prevent the well from being produced and being shut-in allows the operator to return to production.
- When a well is plugged and abandoned it will no longer be able to produce. A shut-in well can be brought back into production in accordance with Commission rules.
- The operator of a shut-in well may have contractual or lease obligations to produce the well and requiring the abandonment of the well could jeopardize those private contracts.

What else does the COGCC do if a well is shut-in?

- The operator must continue to inspect the mechanical integrity of the well and maintain the Oil and Gas Location in compliance with other Commission rules.
- The COGCC's field inspections and enforcement continue.
- Operators do not cease being responsible for a well that is shut-in.

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