Straight Talk

Small Operator Society

COGCC Hearing 05/26/2021

www.smalloperatorsociety.org

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Straight Talk with Small Operator Society

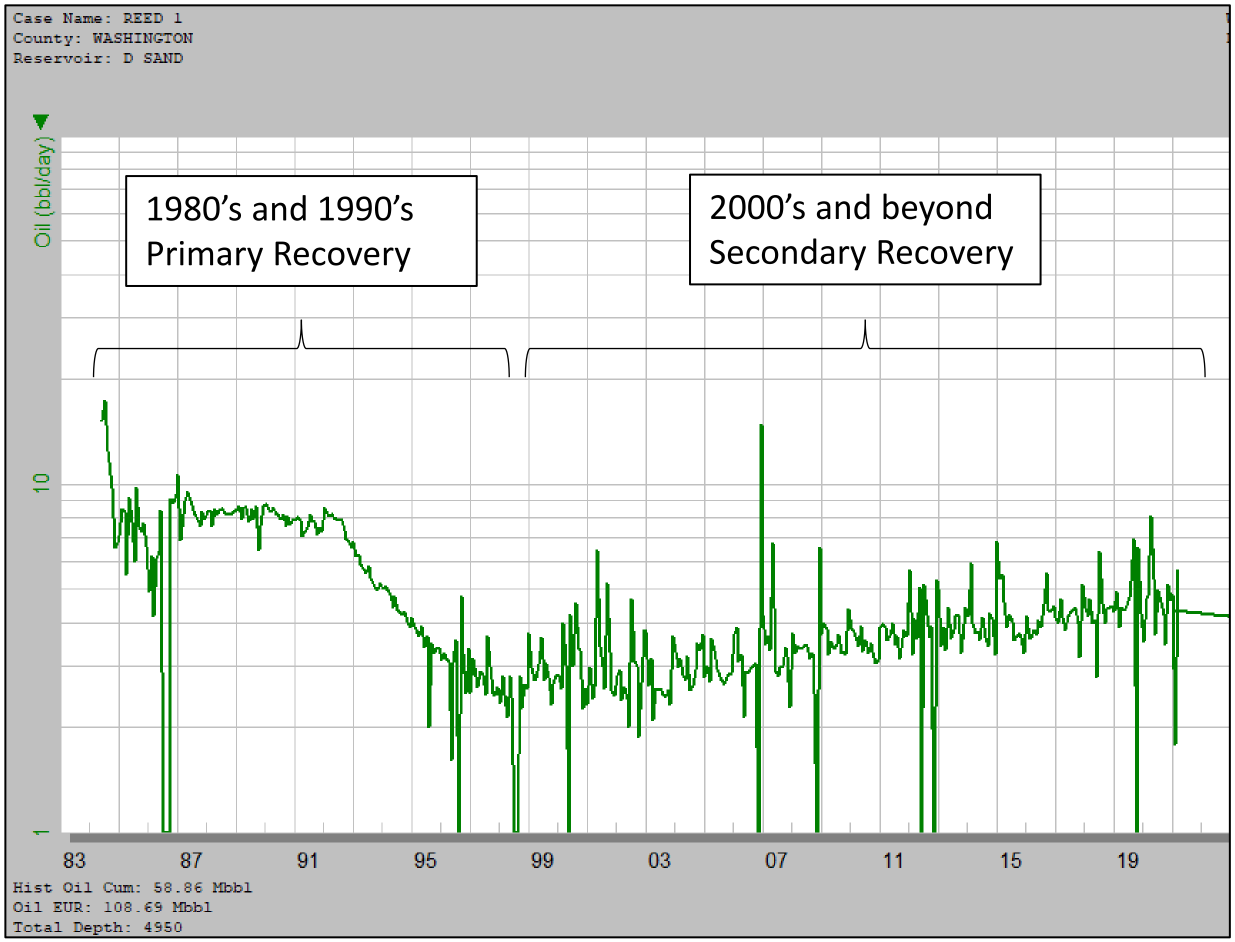
- Stripper operator overview
- Stripper well overview
- Colorado NOAV overview
- Orphan well program look back
- Colorado P&A cost overview
- Current SOS financial assurance proposals
- False assumptions
- Q&A

Stripper Operator Overview

- 86% of operators in Colorado are stripper operators
  - Average well makes less than 15 BOED
- Stripper operators did NOT create orphan wells in 2020.
  - PetroShare was NOT a stripper operator (average well did 27 BOED)
- Stripper operators are critical to the wellbeing of rural citizens
  - >$100,000,000 in county/local taxes in 2021 used DIRECTLY for the wellbeing of citizens
- Small operators are more financially efficient than large operators
  - Corporate cost structure is orders of magnitude lower
  - Not focused on drilling new wells
  - Time and creativity to get more production out of the wellbore
- Stripper operators are not a unique compliance risk
  - 50% of all NOAV's in the last 3 years were from 23 operators (10% of statewide operators)
  - Roughly even split of these 23 operators between stripper and non-stripper operators

Stripper Well Overview

- Stripper wells are NOT automatically at the end of life
  - Many stripper wells are conventional and have decades of life remaining (oil and gas)
- Economic life is extended by recompletes and secondary recovery



This well is a conventional oil well over 40 years old.

This well has another 40 years of life.

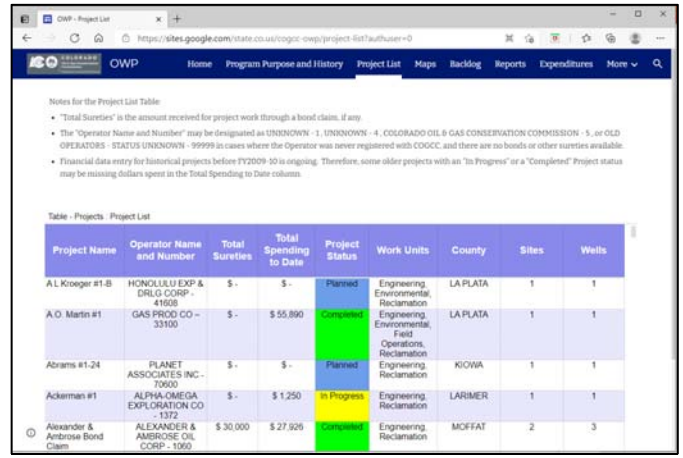
This well is not a unique situation.

More on NOAV’s

- Consider the last 3 years (May 2018 to May 2021)
  - 912 NOAV’s in the COGCC database
- Only 1 in 7 NOAV’s are Environmental (14%)
  - Remaining 86% are mostly record keeping and reporting violations
- 50% of total NOAV’s are from only 23 operators
  - Said different, 10% of operators account for 50% of NOAV’s
  - Roughly half of these operators are stripper well operators
  - Remaining 50% of NOAV’s are spread across 154 operators
- What's the point?
  - The “bad apple” operators in the state are a minority and are not unique to being a stripper operator

Orphan Well Program Look Back

- COGCC data directly from the website
  - [OWP - Project List (google.com)]
  - Project list with status and spend
- What does the data show cost to COGCC is?
  - "Completed" net cost of ~$5,325 /well or /site
  - "In Progress" net cost of ~$26,500 /well or /site



OWP - Project List

https://sites.google.com/state.co.us/cogcc-owp/project-list?authuser=0

OWP Home Program Purpose and History Project List Maps Backlog Reports Expenditures More

Notes for the Project List Table:

- "Total Sureties" is the amount received for project work through a bond claim, if any.
- The "Operator Name and Number" may be designated as UNKNOWN - 1, UNKNOWN - 4, COLORADO OIL & GAS CONSERVATION COMMISSION - 5, or OLD OPERATORS - STATUS UNKNOWN - 99999 in cases where the Operator was never registered with COGCC, and there are no bonds or other sureties available.
- Financial data entry for historical projects before FY2009-10 is ongoing. Therefore, some older projects with an "In Progress" or a "Completed" Project status may be missing dollars spent in the Total Spending to Date column.

Table - Projects : Project List

Project Name	Operator Name and Number	Total Sureties	Total Spending to Date	Project Status	Work Units	County	Sites	Wells
A L Kroeger #1-B	HONOLULU EXP & DRLG CORP - 41608	$ -	$ -	Planned	Engineering, Environmental, Reclamation	LA PLATA	1	1
A.O. Martin #1	GAS PROD CO – 33100	$ -	$ 55,890	Completed	Engineering, Environmental, Field Operations, Reclamation	LA PLATA	1	1
Abrams #1-24	PLANET ASSOCIATES INC - 70600	$ -	$ -	Planned	Engineering, Reclamation	KIOWA	1	1
Ackerman #1	ALPHA-OMEGA EXPLORATION CO - 1372	$ -	$ 1,250	In Progress	Engineering, Reclamation	LARIMER	1	1
Alexander & Ambrose Bond Claim	ALEXANDER & AMBROSE OIL CORP - 1060	$ 30,000	$ 27,926	Completed	Engineering, Reclamation	MOFFAT	2	3

- What's the point?
  - The data does not support an estimate of $80,000+ per well liability

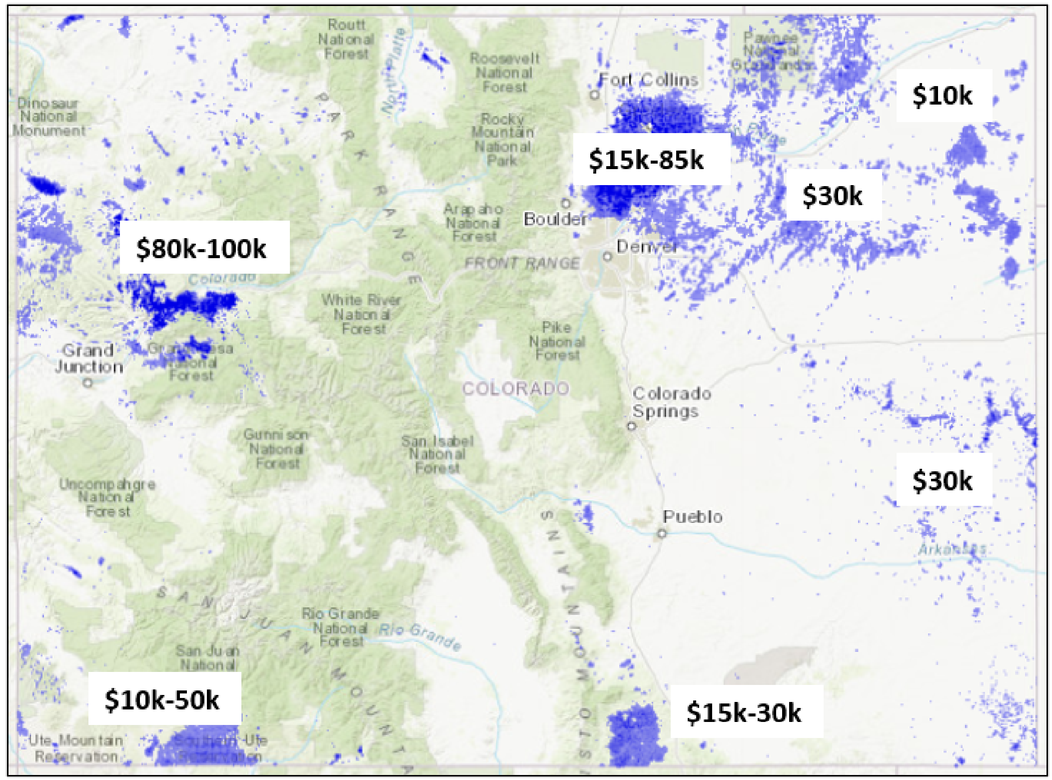
Row Labels	Sum of Sites	Sum of Wells	Sum of Total Sureties	Sum of Total Spending to Date	Sum of Sureties Less Spend (COGCC Net)	Average of Absolute Spend $/well	Average of Absolute Spend $/site	Average of Net Spend $/well	Average of Net Spend $/site
Completed	246	225	$ 407,771	$ 941,990	$ (534,219)	$ 6,971	$ 7,154	$ (5,238)	$ (5,411)
In Progress	1,417	1,366	$ 2,154,757	$ 9,610,734	$ (7,455,977)	$ 24,582	$ 34,407	$ (22,026)	$ (31,326)
Planned	223	128	$ 469,078	$ 62,363	$ 406,715	$ 421	$ 421	$ (137)	$ 295
Grand Total	**1,886**	**1,719**	**$ 3,031,606**	**$ 10,615,087**	**$ (7,583,481)**	**$ 9,482**	**$ 12,360**	**$ (8,075)**	**$ (10,632)**

Plugging and Remediation / Reclamation Cost

- Costs are dominated by a few factors
  - Topography, location, environment
  - Well depth
  - Multi-well vs single well batteries
  - Remediation / reclamation regulations
  - Company procedures

- SOS estimates SINGLE WELL costs vary greatly across the state as indicated on the map

- What's the point?
  - Understand the complexity of the issue being discussed



Current Financial Assurance Proposals

- Mimic the LUST Trust from CDLE division of Oil & Public Safety (OPS)
  - Pro's
    - Not re-inventing the wheel
    - Proven by the gas station industry to achieve several key goals:
      - Equitable to large and small companies
      - Addresses orphan assets
      - Encourages assets to be remediated
      - Encourages redevelopment
  - Con's
    - Implement / administer
    - Requires legislation?
- NEW: Operator specific pay as you go
  - All operators "save" 0.5% of annual gross revenue per well (1/2 of 1%)
  - COGCC has capability to pull from all operators to address orphan wells
    - Pro's
      - Simple and easy to implement
      - Addresses orphan wells
    - Con's
      - Does not encourage operators to P&A
      - Does not encourage redevelopment

Bonding "Bear Trap" a.k.a. False Assumptions

- "Large operators are more financially stable than small operators"
  - Several large Colorado operators filed for bankruptcy in 2020
- "Large operators have other assets to go after in the case of an orphan well problem"
  - CA operator spun off assets to isolate the rest of the company
  - OK operator did the same to give orphan wells to NE
- "Large operators are more compliant than small operators"
  - NOAV data shows the "Bad Apple" operators are not unique to size
- "Stripper wells are bad for the environment"
  - Bad operators are bad the environment… it is the archer not the arrow
- "Colorado has an orphan well problem"
  - 2020 was the worst for the industry in history. PetroShare turned out pretty good… other operators took a bunch of the wells, and the state had a full bond to plug the rest.