



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS
550 WEST 7TH AVENUE, SUITE 1100
ANCHORAGE, ALASKA 99501-3563
Main: 907.269-8800
Fax: 907.269-8939

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Hollis French, Chair
Alaska Oil and Gas Conservation Commission
333 West 7th Ave
Anchorage, AK 99501

Re: Proposed Well Operator Bonding – DOG Comments

Dear Chairman French:

The Department of Natural Resources (DNR), Division of Oil and Gas (Division) is providing comments in response to the Notice of Proposed Changes on Bonding in the Regulations of Alaska Oil and Gas Conservation Commission. The DNR manages nearly 100 million acres of State-owned subsurface of which nearly five million acres are currently leased for oil and gas exploration and development. The Division is charged with protecting the state's interest and abiding by the terms of lease and unit agreements on state lands in Alaska. The Division manages state oil and gas resources from the initial lease stage to the end of field life. Thus, the Division is responsible for ensuring the public is protected throughout the life of an oil and gas field.

The DNR works with oil and gas companies as operations are winding down to return state lands to a condition satisfactory to the Commissioner. Companies who are conducting operations on a state oil and gas lease must provide DNR with a bond. When companies satisfactorily complete the plugging and abandoning (P&A) of wells and surface rehabilitation work, their bonds will be returned.

The AOGCC and DNR collect bonds as security against lessees or operators breaching their contractual duty to dismantlement, removal, and restoration (DR&R) a lease site. Currently, oil and gas companies conducting exploration or development operations in Alaska are subject to a maximum \$500,000 statewide bond to cover DR&R responsibilities and \$200,000 to cover P&A responsibilities. These bond amounts have proven to be grossly inadequate in most cases where the DNR is faced with handling DR&R and P&A duties.

For example, in cases where companies abandon leases through bankruptcy or otherwise fail to fulfill obligations to plug and abandon wells, the AOGCC holds the subsurface landowner responsible for plugging and abandoning wells. In most cases, the AOGCC would order the DNR to plug and abandon wells. The DNR would also have to manage and fund DR&R of surface facilities and pipelines in these cases. Funding for such operations will come through the Alaska legislature, which means every Alaskan will help fund the clean-up of oil and gas sites. The Division and the AOGCC must promote the interest of promoting exploration and development activities while protecting against financial liability and harm to state lands. In recent years, the Division has been addressing financial assurance of DR&R activities after negative experiences from bankruptcies of oil and gas companies operating in the state. These

experiences, teamed with the authority provided through current statutes and regulations, have shaped the actions of the Division. The Division has an opportunity to evaluate financial stability of companies being assigned interest in oil and gas leases. In making these evaluations, an assignee of an oil and gas lease makes a showing of financial health to the Division. The Division will determine whether a parental guarantee or financial assurance agreement is appropriate prior to approving a lease assignment. The guarantee or financial assurance agreement sets forth the terms and conditions for funding obligations to cover DR&R responsibilities of the assignee. The agreements are intended to ensure the DR&R obligations are met and a lessee has the financial capacity to meet DR&R commitments while having capital available for advancing exploration and development activities.

Current financial assurance agreements contemplate financial coverage for DR&R of facilities, on-lease pipelines, and other surface equipment and improvements. The agreements also incorporate funding for wells that are not plugged and abandoned because the responsibility is transferred to the subsurface landowner when the lessee or operator is unable to fully comply with their obligation to return the land to a condition acceptable to the DNR Commissioner. The AOGCC issues a notice of violation to the offending landowner with an order to plug and abandon the well. While entities like the DNR, Mental Health Trust, Arctic Slope Regional Corporation, and Cook Inlet Regional Inc. are subsurface owners of oil and gas lands, these entities are not equipped in the practice of plugging and abandoning wells.

Legal action can be taken against the lessees or operators to compel compliance with leases and unit agreements; however, legal action may be complicated by bankruptcy and corporate law protections. The potential end result is the landowner expending millions of dollars to clean up sites in the absence of a lessee or operator. Thus, the AOGCC and DNR are devising ways, through establishing bonds and trust accounts, to ensure the State and its citizens are not paying to rehabilitate abandoned oil and gas fields. The Division holds DR&R bonds in trust; the bonds are returned to lessees and operators after their operations in Alaska have ceased and all lands are returned to a condition acceptable to the Commissioner. We would expect the well operator bonds would operate similarly; essentially securing against a party unable or unwilling to perform under its lease contract. The proposed regulations should serve as an opportunity to set forth some guidance on circumstances for which a bond may be utilized by or returned to a lessee or landowner upon commencing P&A operations.

The DNR anticipates restructuring some of its current financial assurances agreements in light of the AOGCC's increased bonding level. The DNR understands the AOGCC's interest in increasing bond amounts, and we will work with lessees to modify current DR&R agreements where necessary. Well operator bonds have been a consideration in determining the DNR financial assurances agreement structure and obligations.

Thank you for the opportunity to comment on these proposed regulations.