

Inactive Wells

Texas Groups Make Recommendations

By Danny Boyd
Special Correspondent

A working group of Texas oil and gas associations and landowner interests has reached a consensus on financial assurance and cleanup issues involving the state's inactive wells that could result in legislation acceptable to a cross section of operators during the 2009 legislative session.

The compromise in concept on well assurance requirements—dubbed “Prove it, Plug it, or Assure It”—was presented to members of the Texas House Energy Resources Committee on May 20. It offers what supporters say is a menu approach to compliance that takes into consideration the needs of large and small operators with widely different business models and inactive-well inventories.

More than 100,000 of Texas' 370,000 oil and gas wells are inactive, according to Texas Railroad Commission statistics for fiscal 2007.

The consensus proposal is designed to give operators maximum flexibility to comply and encourages operators to prove a well's potential economic worth, plug it, or post prescribed assurance to obtain a plugging abeyance and preserve the well bore, outlines Donna Warndof, director of public affairs for the Texas Independent Producers & Royalty Owners Association.

“This menu-style approach gives the operators multiple options to consider what best fits their business models,” explains Warndof, who chairs the working group. “As an industry we can support increasing assumptions for maintaining inactive wells if operators have more options.”

The working group's recommendations do not involve active production, aban-

doned wells, the state's Oil Field Cleanup Fund, or Texas Railroad Commission funding issues. But supporters say they hope the consensus prevents more inactive wells from being abandoned and left to the state to plug from the OFCF, which is financed by revenue from RRC fees and fines paid by the industry. More than 9,000 wells were considered abandoned in fiscal 2007, according to the RRC's annual report on the Oil Field Cleanup Program.

“If we can cut off the flow of inactive wells into the abandoned category, that is good,” says Ben Shepperd, executive vice president of the Permian Basin Petroleum Association.

Come Together

In addition to TIPRO and PBPA, the Inactive Well Study Group consisted of representatives from the Texas Alliance of Energy Producers, Panhandle Producers & Royalty Owners Association, Texas Oil & Gas Association, the Texas Land & Mineral Owners Association, Doug Robison on behalf of the Oil Field Cleanup Fund Advisory Committee, and attorney Kerry Knorpp, who represented numerous large Texas ranches.

Having agreed in concept on inactive well assurance requirements and equipment issues, the group is working in subcommittees this summer to draft language for legislation, Warndof says. Legislative and RRC staff also are weighing in. Subcommittee work is expected to be completed by Labor Day.

Warndof says the group has been meeting monthly since September 2007, just after the last session of the Texas Legislature ended with two bills on the issues failing in the face of strong industry opposition because they were too broad. Associations then came together to identify the key is-

suess—how to strengthen assurance requirements and gradually clean up inactive well sites only—which represented a major step forward, she says.

“That was the turning point: leaving active wells along and focusing on inactive wells,” Warndof comments.

With the consensus, associations are looking at moving ahead on major issues that have divided them in the past, she adds.

“There is a lot of optimism right now,” Warndof comments. “We are encouraged that the proposal is limited to inactive wells and that there are options for dealing with inactive wells. This proposal also preserves the dominance of the mineral estate under Texas law.”

Adds PBPA President Kirk Edwards, “The proof is in the pudding as to whether we can influence the legislature to pass these proposals. I am cautiously optimistic. I think with the industry doing as well as it is, we need to be stewards of our industry and adequately address these inactive wells.”

2007 Legislative Approach

The working group has been hammering out compromises on issues that generated HB 1904 and SB 1574 in the 2007 legislative session. HB 1904 originally required massive increases in blanket bonds for all wells, Warndof recalls. She says it was negotiated down to strengthening assurance requirements for maintaining inactive wells, while SB 1574 dealt with removing production equipment on inactive wells to satisfy landowners and help with fire prevention.

Currently, operators post a bond, letter of credit or other form of assurance with the RRC for all wells—active or inactive—Warndof points out, but no addi-

tional assurance is required for inactive wells that may decay over time.

Critics of the system say plugging extensions can be granted indefinitely, which effectively allows operators to avoid the expense of plugging wells with little or no economic potential. Irresponsible operators have been known to sell inactive wells before filing for bankruptcy in order to avoid meeting plugging obligations in excess of the value of the bond or letter of credit for maintaining inactive wells. Edwards has said, leaving the state responsible for shouldering up to 85 percent of the cost of plugging the well. For example, a \$250,000 bond could be posted for a plugging obligation that exceeded \$1.75 million, he notes. The balance of the plugging cost is paid from the Oil Field Cleanup Fund.

However, HB 1904 was strongly opposed for what associations saw as a "one-size-fits-all approach" that failed to take into consideration the differences in business models within the industry and the varying characteristics of inventories of inactive wells within producers' portfolios, says Bill Stevens, vice president of government relations for the Texas Alliance.

The bill, sponsored by Representative Myra Crownover, R-Lake Dallas, was tabled after associations opposed it for seeking what industry officials insisted were excessive increases in bonding and assurance requirements for maintaining all wells (*The Reporter*, June 2007, pg. 17). The measure would have expanded the Railroad Commission's three bonding tiers to six.

But the increase would have been too drastic for smaller operators and would have penalized producers who abided by RRC requirements to have and maintain appropriate assurance, says Stevens. "We didn't see that as being a good thing, but we wanted to come back and see what we could do to satisfy Representative Crownover and bring that back in line," he says. "We want to see wells plugged that need to be plugged. However, we need to keep those wells that are inactive but may be economically viable in the future. We have fought long and hard at the Alliance to represent all producers. We felt that for some small producers, more bonding alone was not an option."

Crownover's bill also failed to address the underlying issue that plugging extensions could be granted indefinitely, points out Shepperd.

"PBPA felt provisions of these bills treated the symptom and not the disease," he adds. "Plugging extensions are routinely granted without any real issues that

the operator needs to consider. If he doesn't want to plug a well, he simply files for an extension and it's granted. The last thing we want to do is encourage the commission or anybody else to require premature plugging of a well, but we want operators to consider whether a well is economical. There are many reasons why you want to maintain an inactive well."

Menu Of Options

Under the menu approach developed by the Inactive Well Study Group, options address the risk posed by an inactive well. The options consider the needs of both large and small operators, whether they have numerous inactive wells or only a few, and whether there is future enhanced recovery or other economical potential for the wells, says Stevens.

Among the options available to operators, according to a synopsis from TIPRO, are:

- Plugging or producing 10 percent of inactive wells a year;
- Obtaining an "abeyance of plugging study;"
- Certifying EOR projects;
- Well integrity tests;
- Additional bond or letter of credit amounts based on district plugging costs or ratio of inactive wells; and
- A flat fee.

An operator would select the best option for each inactive well site, the synopsis indicates.

Altogether, there are 11 options, says Stevens, which can be categorized as three involving plugging, three approaches to proving potential economic viability, and five ways to post assurance. "The Alliance believes this menu approach gives everyone an opportunity to minimize the burden," he says. "We think this will go along way toward getting inactive wells plugged, to prove their viability, or to provide more assurance to keep the inactive status."

Adds Warndorf, "Operators are going to have to show more financial assurance, but they have more options. It's good when the operator can assess the actual risk that the well poses rather than require an across-the-board, blanket approach."

An additional goal of the menu approach is to minimize the administrative burden on the RRC, she says.

Well Site Equipment

The Inactive Well Study Group also reached a consensus in concept on issues raised by SB 1574, sponsored by Senator Robert Duncan, R-Lubbock. Following the bill's failure in the 2007 session, meet-

ings were convened to bring together producer associations and Knorpp on behalf of his clients, according to Warndorf.

Among the issues raised were what to do about electric lines, aging surface equipment and/or abandoned equipment on inactive well sites, and how to properly handle pipes across ranch roads.

The consensus calls for putting conditions on extending inactive status at different benchmarks, Warndorf reports. Operators would have to de-energize electric lines starting with the first extension, on up to removing additional equipment for wells inactive for 15 or more years.

Addressing the issue of equipment on inactive wells has been challenging, Warndorf acknowledges, because it often involves legacy issues. Many complaints on aging, idle production equipment involve wells that have been inactive for a long time, and were drilled and produced before modern RRC regulations were adopted, she points out.

"The problems we are seeing today are these really, really old wells," Warndorf remarks. "They weren't addressed and now you have this problem 80 years later."

After the study group subcommittees finish drafting language, the proposals will be submitted for review by the RRC's Oil Field Cleanup Fund Advisory Committee, which is working on policy and funding issues related to the OFCF, Warndorf says.

Spirit Of Cooperation

PPROA Executive Vice President Wayne Hughes points out that the Inactive Well Study Group represents the first time oil and gas producers and surface owners have worked so closely on a critical piece of legislation.

"The largest grass fire in history swept through our area in 2006 and really raised our industry's consciousness about the potential danger posed by abandoned "hot" electrical lines," he recounts. "When the working group was formed, one of its first priorities was to encourage the Railroad Commission to alert operators across the state to the potential disasters of poorly maintained electrical lines. The commission posted a warning on its Web site, and I am convinced it helped encourage responsible operators be more alert."

Hughes says the way everyone in the working group cooperated helped convince the RRC they were serious about the issue. "I am confident that close cooperation will translate into substantial improvements in the way operators deal with surface issues in the next legislative

session," he adds.

Knorpp also praises the dynamic developed within the working group. "It has been said in Austin that the Railroad Commission and the legislature often have viewed the collective oil and gas operator associations like a bunch of cats: You can't tell whether they are fighting or making love," he quips. "Now, they are very impressed with the cooperation that is driving this effort forward."

Hughes credits Knorpp with bridging the traditional gap between large ranchers and the production companies that hold leases on their property. "Kerry convinced me in the last legislative session that there was no way we could continue to do business as usual," Hughes says. "He insisted that people of good will on both sides of the issue could craft legislation that would benefit everyone without punishing everyone in the industry

for the misdeeds of a few irresponsible operators who refused to clean up their messes."

Hughes observes that PPROA has a large contingent of land and royalty owners in its membership, making close cooperation even more important in his part of Texas.

Adds PBPA's Shepperd, "The devil is in the details, but we are moving forward." □

ENERGY

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United Nations reports investments in renewable energy reached \$100 billion in 2007, and Morgan Stanley forecasts that clean energy will be a \$1 trillion market by 2030. Pickens plans to spend \$10 billion building the world's biggest wind farm, Westwood notes, with 2,700 wind turbines and a 4,000-megawatt generation capacity.

Douglas-Westwood's analysts forecast that annual investments in offshore wind power projects will rise from less than \$1 billion in 2007 to nearly \$7 billion in 2012, he reports. "Increasing the use of food crops such as corn to produce first-generation biofuels and consequently driving up food prices is, as stated by

the UK chief scientist, 'totally insane,'" he ventured.

In addition to growing demand and supply shortages, the renewables industry faces a major supply chain problem, Westwood observes. "All energy sectors are competing for the same resources. Energy contractors are overwhelmed with work, and because of booming energy prices, in many cases capacity is sold out for years ahead," he says.

According to Simmons & Company International, the energy industry backlog among major contractors rose from \$23 billion in 2003 to \$68 billion by the fourth quarter of 2007, Westwood notes. Across the world, he says, there are short-

ages of raw materials, skilled people, and in the offshore sector, drilling rigs and construction vessels. The backlog on wind turbines alone is estimated at \$12 billion, and deliveries on large new turbines are delayed one to three years, Westwood reports.

His company's forecast holds that conventional energy supplies cannot meet demand, and unless properly managed this could severely impact world economic growth, says Westwood. "Energy prices will continue to grow, and although this is bad news for the consumer, vast investment will be needed in the years ahead and the good times for the energy supply-chain companies seem likely to continue." □

MMS Plans Renewable Energy Projects

Editor's Note: This article originally appeared in the National Oceanic Industries Association's newsletter.

NEW YORK—On April 17-18, NOIA participated in the first Global Marine Renewable Energy Conference in New York.

International experts on wave and current power (tidal, ocean and river currents) met with leaders from government, nongovernment organizations, environmental advocates, academics, and a range of industries.

The conference agenda explored the overall question of how to create a more sustainable energy future with a diverse power generation portfolio that includes marine renewable energy technologies. Panelists discussed their strategic visions, near-term objectives, and the challenges they face when deploying these technologies.

One of the principal speakers at the conference was Randall Luthi, director of the Minerals Management Service. Luthi used his speech to announce MMS had designated five areas on the Outer Continental Shelf as priority areas for al-

ternative energy research in federal waters.

Nominations

The five areas are offshore New Jersey, Delaware, Georgia, Florida and California. The agency is proposing limited, temporary leases in these areas for data collection and technology testing related to wind, wave and ocean current energy development. There will be no commercial energy production activity associated with the proposed leases.

The agency received more than 40 nominations for alternative energy research projects in response to a November 2007 *Federal Register* notice. Of those, 16 potentially could go forward within the five priority areas. Ten of those proposed projects are related to wind energy and would be located in the areas offshore New Jersey, Delaware and Georgia. Four proposals offshore Florida would be related to ocean current energy, and two off Northern California would be related to wave energy. The remaining nominations still are being considered by MMS, and decisions will be based on the proposed projects' viability.

Prior to leases actually being issued or consideration of specific project proposals, the agency must first determine if competitive interest exists for research in the five areas. MMS also must evaluate other information related to those areas, such as environmental factors and current commercial activities, including fishing and shipping. □

Coming In August

Automation represents the future of oil and gas production operations. *The American Oil & Gas Reporter's* annual Production Automation report looks at the big picture in automation trends, including trends in electronic intelligence, production automation "best practices," purpose-built automated systems for pad drilling operations, economical casing head gas gathering technology, and gathering and treating capacity constraints associated with growing unconventional gas production.