



October 16, 2018

*Submitted via email*

Ms. Jody Colombie  
Alaska Oil and Gas Conservation Commission  
333 West 7<sup>th</sup> Avenue  
Anchorage, Alaska 99501  
[aogcc.customer.svc@alaska.gov](mailto:aogcc.customer.svc@alaska.gov)

***Re: Proposal to Change 20 AAC 25.025 on Well Bonding***

Dear Ms. Colombie:

On behalf of our organizations and representing our thousands of members in Alaska, we are writing in support of the Alaska Oil and Gas Conservation Commission's (AOGCC's) proposed changes to 20 AAC 25.025 of the Alaska Administrative Code. The proposed requirements will help ensure that companies causing actual or potential oil spills or other forms of contamination from operating or abandoned wells have the resources needed to address those concerns. These changes greatly improve the likelihood that state government will not have to pay the high costs of problematic well operations or abandonment throughout Alaska, including in remote parts of the state where it is very expensive to conduct industrial activities such as plugging and abandoning wells.

**Structure of the Proposed Changes**

Bonding is required "to ensure that each well is drilled, operated, maintained, repaired, and abandoned...in accordance with this chapter."<sup>1</sup> The new proposal makes three important improvements over the existing bonding regulations in Alaska<sup>2</sup>:

1. It establishes a tiered bonding schedule that increases the bond amounts required based on the number of wells an operator has,
2. It removes "blanket" bonding where a single bond of \$200,000 would cover all of an operator's wells throughout Alaska, and
3. It provides minimum bonding amounts that more accurately reflect the costs of plugging and abandoning wells in Alaska.

<sup>1</sup> 20 AAC 25.025. Bonding. (a). Language from both the existing and the proposed regulations.

<sup>2</sup> Note that the National Petroleum Reserve Alaska has its own bonding requirements established in 43 CFR 3134.1 - Bonding. According to the Government Accountability Office, "the minimum amount of a NPR-A bond is set in regulation—not less than \$100,000 for a single lease or not less than \$300,000 for a reservewide bond (submitted separately or as a rider to an already existing nationwide bond)." (Government Accountability Office. (2010, January) *Oil and Gas Bonds: Bonding Requirements and BLM Expenditures to Reclaim Orphaned Wells*, p. 13. Retrieved from <https://www.gao.gov/new.items/d10245.pdf>).



Each of these improvements is discussed below.

Tiered bonding schedule: Very sensibly, AOGCC has established a bonding schedule where operators must hold higher bond amounts if they operate more wells. Since each well has the potential for considerable plugging and abandonment costs, we support this tiered approach. Notably the bonding schedule includes a lower per well cost as the number of wells operated increases as there may be some economies of scale.

Removing blanket bonding: Blanket bonding covers all of an operator's wells throughout the state, regardless of the number. This approach does not make sense from an economic standpoint, in contrast to a tiered bonding schedule which comes closer to reflecting actual costs.

New minimum bonding amounts: While AOGCC's notice of proposed changes on bonding does not provide background information on how the required bonding amounts were developed, we assume that AOGCC is trying to reflect the high costs of plugging and abandoning wells in remote areas where there often are no roads to wells. The cost of mobilizing equipment to Alaska's remote areas of the Arctic and Cook Inlet often is very high, necessitating air transportation, temporary camps, and possibly barging, as well as removal of wastes following well abandonment.

As an example, in the National Petroleum Reserve – Alaska, the Bureau of Land Management reported in 2016 that it was spending \$40 million to plug and abandon 18 wells, including surface cleanup.<sup>3</sup> This cost of over \$2 million to plug and abandon and provide surface cleanup for each well may be at the high end for Alaska, but it nevertheless shows that costs for remote operations in Alaska are very high, especially compared to other states that may have lower bonding requirements.

While the plugging and abandonment costs for wells throughout Alaska will be variable, it is important for AOGCC to ensure that the state has sufficient funds to address the most expensive situations, especially since the state currently has yearly deficits of hundreds of millions of dollars in unrestricted funds for its annual budget.

Thank you very much for your consideration of these comments. If you have any questions, please contact Lois Epstein, P.E., of The Wilderness Society at the number below.

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<sup>3</sup> Bureau of Land Management. (2016, February 17). *BLM Announces Major Clean-up Effort of Legacy Wells in the National Petroleum Reserve in Alaska*. Retrieved from <https://www.blm.gov/press-release/blm-announces-major-clean-effort-legacy-wells-national-petroleum-reserve-alaska>



Sincerely,

Lois Epstein, P.E.  
Arctic Program Director  
The Wilderness Society

Susan Culliney  
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Audubon Alaska

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Cook Inletkeeper