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To: Alaska Oil and Gas Conservation Commission (AOGCC)
Re: Comments on Proposed Changes on Bonding in the Regulations

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Via electronic mail: aogcc.customer.svc@alaska.gov

AOGCC

I am commenting on this because my interests could be affected by being within the boundaries of the state program Southcentral Regional Exploration.

The proposed changes to the bonding regulations are in the best interests of the state. Their approval is important in order for the AOGCC to carry out its statutory mandates. "Orphaned" wells, i.e. improperly or no plugged wells, have the potential in this state to be a multi-billion dollar problem for the state. We are a relatively young oil and gas industrial state. The potential from aging infrastructure and increased drilling activities means without a solution the problem could and will get worse.

Just one example from the North Slope exemplifies that. BLM estimates that there are 26 more abandoned wells that need cleanup at a cost of \$90-100 million. BLM has no money to do that nor does it have plans to do anything. Thus, there is no money to clean up that and other legacy wells. As Commissioner Foerster has stated *we don't want the state to become a legacy well collection site.*

The state has about 5300 wells, approximately 4,000 on the North Slope and 1,000 in the Cook Inlet area. 900 of these wells are idle. The current bonding to cover plugging and abandonment activity is blatantly inadequate. A \$200,000 bond to cover all of BP's Prudhoe Bay wells is totally ineffectual and verges on the irresponsible. This is especially true if a large company like BP sells its interests to smaller companies with less financial sureties to be able to plug wells when leases are relinquished.

We are seeing the trend of larger companies selling assets to smaller companies when production dips. Along with that trend, is the state's Division of Oil and Gas exploratory incentives program that encourages smaller companies to lease. These are licensed explorations on state lands outside of known hydrocarbon basins in areas far from existing infrastructure with relatively low or unknown hydrocarbon potential. And *where there is a higher risk to the operator.*

On 5/9/16, the Director created the Southcentral Regional Exploration area of 76,000 square miles. This includes all state-owned acreage subject to the provisions of AS 38.05.132. Small companies can and probably will participate. It is important that there is the financial surety to cover plugging and abandonment costs. An increase in operator bankruptcies increases landowner liabilities for plugging and abandonment costs. And in many cases the landowner is the state of Alaska.

Smaller companies are also more vulnerable to market swings. An example from the lower 48 western states shows this. In 2008, gas prices plunged which caused bankruptcies of small companies producing marginal amounts of methane from coal seams. Thousands of these coal bed methane wells were orphaned.

Orphaned wells are more likely than plugged wells to leak pollutants. The pollutant methane gas can trigger explosions and contaminate groundwater on state and private land.

I support the proposed bonding proposals.

