



COLORADO

Oil & Gas Conservation Commission

Department of Natural Resources

1120 Lincoln Street, Suite 801
Denver, CO 80203

November 30, 2009

Guidance Document for
Inactive Well Bond Policy stated in
FINANCIAL ASSURANCE AND OIL AND GAS CONSERVATION AND ENVIRONMENTAL RESPONSE
FUND COGCC Rule 707. Inactive wells

Presented here is a guidance document related to COGCC Rule 707 for the financial assurance of inactive wells. An inactive well shall mean any shut-in well from which no production has been sold for a period of twelve (12) consecutive months; any well which has been temporarily abandoned for a period of six (6) consecutive months; or, any injection well which has not been utilized for a period of twelve (12) consecutive months.

Section 707.a. states that an operator can modify the required amount of financial assurance if a Plan is approved by the Colorado Oil and Gas Conservation Commission.

To have such a Plan approved, the Plan needs to meet the nine criteria defined by the second paragraph of 707.a. The nine criteria are:

1. The number of excess inactive wells; *The Plan needs to present an accounting of all inactive wells operated by the operator.*
2. The cost to plug and abandon such wells; *The Plan needs to state the cost to plug, abandon, remove equipment, and reclaim the site surface per COGCC rules.*
3. The proportion of such wells to the total number of wells held by the operator; *The Plan needs to summarize the current status of all inactive wells relative to the operator's active wells.*
4. Any business reason the operator may have for shutting-in or temporarily abandoning such wells; *The Plan needs to summarize the operating and develop reason for maintaining the wells in inactive status relative to future field maintenance and development plan.*
5. The extent to which such wells may cause or have caused a significant adverse environmental impact; *The Plan needs to summarize if environmental impacts are potential and how they will be managed and mitigated.*
6. The financial condition of the operator; *A summary of the operator's potential to meet the financial commitment to operate per this Plan and COGCC rules.*
7. The capability of the operator to manage such plan in an orderly fashion; *The Plan needs to summarize the current and future status of all inactive wells and how the inactive wells will be maintained.*
8. The availability of plugging and abandonment services. *Summarize the availability of needed services.*
9. If an increase in financial assurance is ordered pursuant to this subsection, the operator may, at its option and in compliance with these 700 Series rules, submit new financial assurance or supplement its existing financial assurance. *For bonding purposes and based on the Plan, the operator may present a numerical accounting of the inactive wells, reducing the number by the number of wells to be plugged and wells cover by another bond (COGCC rule 706). The required inactive bond amount is then computed based on this reduced inactive well count, multiplied by the required well plugging cost per the first paragraph of 707.a. The well plugging cost stated in item 2 above can be used as the cost to plug a well. If all of the conditions above can be met, the Inactive Well Bond liability can be further reduced by 33% for the total additional plugging bond liability.*

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