

The Battle for the Tennessee Bond

- The bonding requirements for oil and gas wells in Tennessee. 0400-52-01-.01
- Single Plugging Bond Requirements
- 0 to 2500 feet - \$2000
- 2500 to 5000 feet - \$3000
- Wells drilled deeper than 5000 feet will be and additional \$1.00 per foot.

The Battle for the Tennessee Bond

- In lieu of individual bond per well an operator may submit a blanket plugging bond as follows:
- For 10 wells from 0 to 5000 feet the amount is \$20,000 bond.
- For 10 wells from 5000 to 10,000 feet the amount is \$30,000.

The Battle for the Tennessee Bond

- A \$1500 Reclamation Bond is required for all wells prior to receiving a permit. The Reclamation bond remains in effect for the duration of the well and up to year after the well is plugged.

The Battle for the Tennessee Bond

- 05 Execution
- Bonds can be executed in four ways
- 1. Surety Bonds
- 2. Cash
- 3. Certificate of Deposit (CD); a CD must be made out as follows; The operator's name and the Tennessee Oil and Gas Board or The Tennessee Oil and Gas Board.
- 4. Irrevocable Letter of Credit

The Battle for the Tennessee Bond

- 0400-52-01-.04 Relief of Responsibility
- A permittee's bonds and other responsibilities to a well or wells shall be relieved upon approval by the Supervisor of a successor's application for a Change of Operator or Owner's Permit, furnishing bonds, and the tendering of authority by the permittee requesting the Supervisor to approve the successor's application.

The Battle for the Tennessee Bond

- A person who is granted a drilling permit can only transfer the permit and attendant rights to another person after submitting an Application to Change Operators (Form CN-237) and receiving approval of the application from the Supervisor. The person to whom the permit is being transferred shall file an Organization Report (Form CN-0219), post a well plugging bond and a reclamation bond, if needed, and pay a fee of \$100. The transfer of a permit from the original permittee to another operator, with or without the approval of the Supervisor, does not relieve the original permittee of obligations occurring before the transfer, and the bond shall not be released until all material at the time of transfer has been submitted.

The Battle for the Tennessee Bond

Significant Changes to Bonding

- Significant Changes in bonding: Until 1986 and Operator could put as many wells as he or she wanted on a \$10,000 blanket plugging. This created many wells without proper financial bonding.
- In 1988 The Oil and Gas Board determined the oil and gas program needed to have a reclamation bond for all future permitted sites. A set amount of \$1500 for each was placed into the law.
- In 1998 William Goodwin conducted a research of all of our oil and gas wells and viable operators and determined there were approximately 4634 wells that are abandoned.

The Battle for the Tennessee Bond

Significant Changes to bonding continued

- Significant Changes to Bonding: In 2010 the oil and gas program went through a rule change to increase the plugging bond and tie it to depth. The reason for this change was the current bonding amount was insufficient to cover the future plugging contracts with the blanket bonds with ten wells for \$10,000.
- 3. Current plugging requirements is sufficient to cover well plugging but the reclamation is not sufficient to cover site reclaiming.

The Battle for the Tennessee Bond

- How the oil and gas program has dealt with abandoned wells and bonding issues since 1999.
- 1. Investigate abandoned wells based on the William Goodwin report from 1999.
- 2. Send out notices.
- 3. Foreclose on bonds.
- 4. Conduct plugging contract.

The Battle for the Tennessee Bond

- Since 2000 the Tennessee Oil and Gas Program has plugged through plugging contacts approximately 430 abandoned wells. The average cost to plug a well on the plugging contract is approximately \$3000.
- 1. At first this process was slow and difficult because of all the necessary steps to go through to investigate each well, send out the Notices of Non-Compliance (NONC) and foreclose on the bonds.
- 2. In 2007 The Division of Financial hired D A McGovern to speed up the process of bond foreclosure, which helped tremendously.

The Battle for the Tennessee Bond

- Financial Responsibility has foreclosed on approximately 2.2 million dollars in bonding for oil and gas wells abandoned by in-active operators and some active operators over a 7 to 10 period.
- However, since 2010 the TN legislature took approximately 1.4 million of the plugging fund to balance the state budget because the oil and gas program did not conduct a plugging contract for a particular year or did not have a large enough plugging contract to affect the taking of the plugging fund. The legislature consider this inactivity of a fund.

The Battle for the Tennessee Bond

- The strategy for well plugging was to plug just enough wells to so the oil and gas program could work off the interest of the 2 million dollars in the plugging fund.
- 1. However as just stated, the funds were taken for balancing the state budget.
- 2. Currently we have approximately \$700,000 in the plugging fund to plug future abandoned O&G wells in the state. This fund has been added to since about 2011.
- 3. There is enough bond fund to plug approximately 350 wells.

The Battle for the Tennessee Bond Exchange Mutual Inc.

- A typical bonding and abandoned well problem in Tennessee.
- 1. In 2003 the insurance company Exchange Mutual Inc. went into receivership at Commerce and Insurance with The State of Tennessee.
- 2. This Company had approximately \$400,000 in Bond liability with TDEC.
- 3. These bonds covered 52 different operators for 390 wells.
- 4. Notices were sent immediately to all operators who had bonding with this company

The Battle for the Tennessee Bond Exchange Mutual Inc.

- 5. Some operators did replace their bonds with either cash or CDs. to cover the well liability with the State of Tennessee.
- 6. However many operators did not replace their bond because they could not be found.
- 7. This left TDEC and the Tennessee Oil and Gas Program with a well liability of 253 wells to plug. The TN Oil and Gas Program has plugged approximately between 50 to 60 of these wells.
- 8. The oil and gas program received \$500 for each plugging bond in receivership for a total of \$26,000 to replace the \$400,000 in surety bonds.

The Battle for the Tennessee Bond

- There are other examples the oil and gas program is currently addressing:
 - 1. Sequatchie Power; No bonds to foreclose 72 wells.
 - 2. Glen Wright; \$10,000 bond foreclosed 93 wells; 31 wells found to be abandoned well locations (never drilled)
 - 3. J B S Operating; \$30,000 in bonding foreclosed to plug 71 wells. Most wells have been plugged to date.
 - 4. Coffee Development Corp.; \$10,000 plugging bond foreclosed to plug 72 wells; All but 12 wells plugged.

The Battle for the Tennessee Bond

- One more issue to consider;
- 1. Currently the plugging bond is \$500 for a domestic landowner gas well.
- 2. The oil and gas program have number of these type wells currently bonded.
- 3. When the landowner no longer wants the well, the state will more than likely have to plug the well.
- 4. We are considering an increase of bonding up to \$1500 for a plugging bond for a landowner to plug all future gas domestic gas wells left abandoned in the future.



Tennessee Oil and Gas Bonding

- Any Questions?