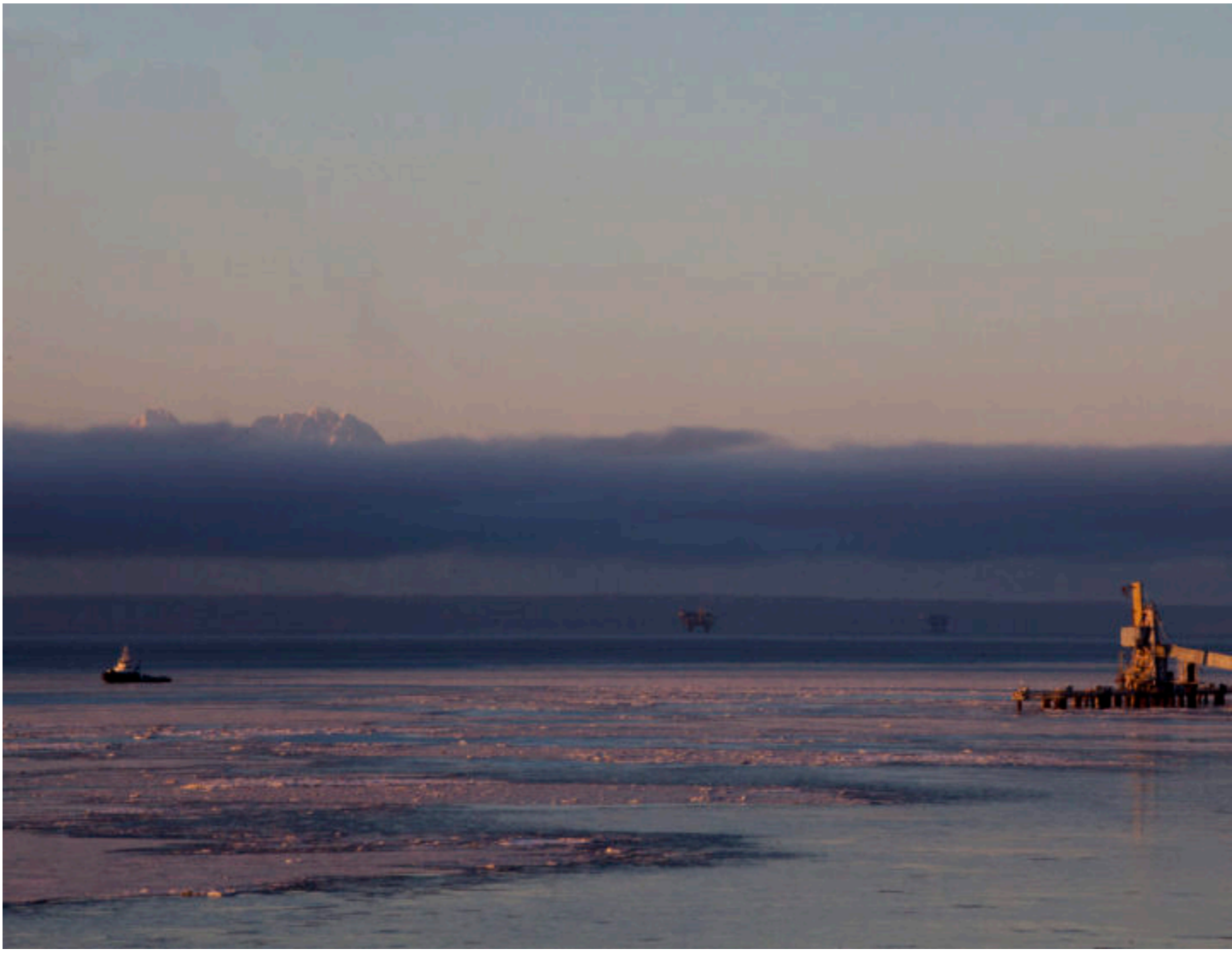
State agencies at odds over new law to address ‘orphan’ oil wells

By Elizabeth Harball, Alaska's Energy Desk May 22, 2019 Alaska's Energy Desk, Economy, Energy & Mining, Environment, Southcentral, Southwest, State Government



Cook Inlet oil platforms are visible from shore on Dec. 13, 2016, near Kenai, Alaska. (Photo by Rashah McChesney/Alaska’s Energy Desk)

A few small oil companies have gone bankrupt in Alaska in recent years, leaving the state or other landowners on the hook for cleaning up the wells they left behind.

So this month, the Alaska Oil and Gas Conservation Commission started requiring oil and gas companies to put up substantially higher bonds to cover the wells they have drilled. After a years-long push to update the law, the commission raised the bond amount to between $400,000 and $30 million, depending on how many wells a company has. Previously, the bond requirement was capped at $200,000.

But a different state agency — the Department of Natural Resources — is criticizing the new law and asking for it to be rescinded.

Dan Seamount, who sits on the commission, said the cost of cleaning up an abandoned oil well varies widely, but it can be in the millions of dollars. He said the new law is intended to help make sure the landowner — which is often the state — is covered.

“These wells that were very expensive to plug, it would be left up to the state to plug them,” Seamount said. “And my agency would have to scramble around trying to see how we could get them plugged without having the taxpayers pay for it.”

Seamount said Alaska has less than 20 such problem wells, but the commission wants to make sure the issue doesn’t get worse. Other states are dealing with thousands of abandoned, or “orphan,” wells.

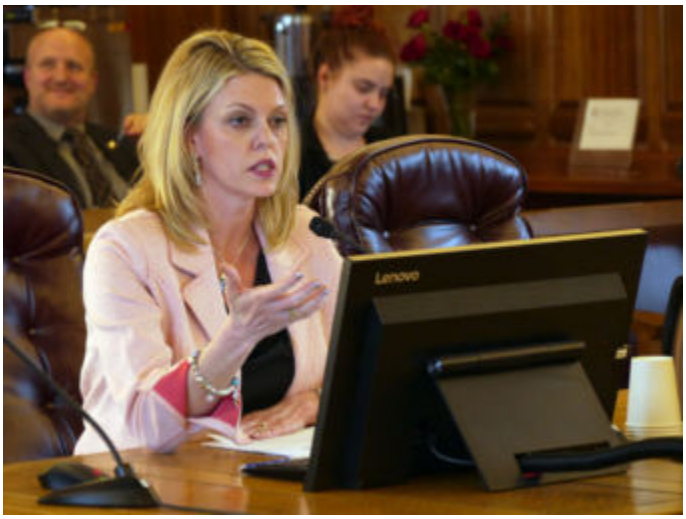
And even though the bond amounts have gone up significantly, Seamount said the new law doesn’t go as far as some would have liked.

“The amount of bonding we’re doing right now is a step in the right direction, but if a company left a whole bunch of wells, their bonds may not be sufficient to cover it, even at these higher bonds that we’ve enacted,” Seamount said.

The state Department of Natural Resources also requires an up to $500,000 bond from oil companies to cover potential cleanup costs. In an Oct. 16, 2018, comment letter to AOGCC, sent under the Walker administration, the agency called the previous bond amounts “grossly inadequate.”

But on May 1, DNR sent another letter to the commission objecting to the new regulation, writing that it “goes too far, by orders of magnitude.” DNR is requesting that AOGCC rescind and rewrite the law, saying it creates “unduly burdensome” requirements for oil companies and potentially overlaps with financial assurances that DNR also has secured.

“We feel like the AOGCC regulations are shortsighted, because it didn’t take into consideration other bonding requirements,” said DNR deputy commissioner Sara Longan.



Kara Moriarty, president and CEO of the Alaska Oil and Gas Association, testifies in the House Finance Committee in the Alaska Capitol on April 11, 2018. (Photo by Skip Gray/360 North)

The Alaska Oil and Gas Association made similar arguments.

“The AOGCC bonds are very duplicative,” said AOGA president Kara Moriarty.

AOGA has long argued small operators will bear the brunt of increased bonding amounts. Moriarty said she doesn’t know of any oil company that is going to leave Alaska because of the new rule. But she added, “it is a major cost burden now, especially for smaller companies that aren’t a big multi-national company that have a much larger balance sheet.”

The commission declined to comment on whether it will consider DNR’s request. In an email, Seamount said the regulations became law after two public hearings and a public workshop in which all interested parties provided input.

The Cook Inlet Regional Citizens Advisory Council, a regional oil industry watchdog group, supported the change.

“While we appreciate that the new amounts may make it difficult for smaller companies to access the necessary bonds, at the same time we are concerned that a company unable to access a bond may also be one that is unable to properly manage the end-of-life of their wells and other infrastructure,” Michael Munger, the council’s executive director, wrote in a comment letter to AOGCC.

One environmental group is among those arguing that AOGCC’s new bonding law falls short.

Bob Shavelson, advocacy director at Cook Inletkeeper, cited a section in the new regulation that states, “upon request of an operator, or on its own motion, the commission may increase or decrease the amounts … based on evidence that engineering, geotechnical, environmental, or location conditions warrant an adjustment of those amounts.”

“They leave too much discretion to the agency,” Shavelson said.

“There’s nothing stopping the agency from again going with numbers that are too low for actual reclamation purposes,” he said.