

Oil and Gas Technical Advisory Board
Bonding Program Workgroup Meeting Summary
December 21, 2004

The Workgroup meeting began at 10:00 AM and concluded at approximately 1:30 PM. A list of attendees is attached.

Surety Issues: Michael A. Toppi and Mathew M. Raino from St.Paul/Travelers Bond Insurance were connected by phone for a portion of the meeting and provided their perspective on PA's current and proposed bonding system structure. Their input is summarized as follows:

- 1) Sureties see Oil and Gas drilling as relatively high risk
- 2) Small producers need to provide acceptable financial assurance to secure a bond
- 3) PA's proposed bond structure/categories looks good to them
- 4) The penal bond should approximate the anticipated plugging cost
- 5) They prefer to have the option of either paying the penalty **or** plugging the well

Bond Matrix: The following modifications were suggested to the draft Matrix dated 8/10/04 (**an updated proposed matrix is attached**):

1) Add a third dimension for different types of casing plans as described in the regs:

- Coal area wells – surface/coal protective casing cemented (78.92)
- Coal area wells – casing anchored with packer or cement (78.93)
- Non-coal area – casing not cemented (78.94)
- Non-coal area – casing cemented (78.95)

(Basically – if the production casing is not cemented (open hole) it takes a larger rig to pull the casing; whereas if the well has production casing cemented, the “retrievable casing” is less and can be pulled with a smaller rig – less costly.

- 2) Change length to depth (laterals are relatively inexpensive to fill with gel)
- 3) Modify depth ranges to (based on rig capabilities):
 - 0-2500 feet
 - 2500-6000 feet
 - 6000-12000 feet
 - >12000 feet
- 4) Split the 1-25 Blanket category to 1-5 and 6-25; leave the rest as is
- 5) Eliminate Homeowner Post Act category and allow a phase-in period
- 6) Only forfeit bond in individual bond matrix category
- 7) Bond amount should be discounted as the number of wells increases to provide industry with an incentive to use blanket bonds
- 8) Consider salvage value in determining bond rates (~\$1000/well/increases with depth)

Plugging Insurance Concept: The Oil Well Life (OWL) Powerpoint presentation on plugging insurance was presented and discussed. General consensus is that this is a

worthwhile option/concept and we should pursue it. It will require legislation in PA. If we can develop it, it would be an option to bonding. Either create our own plugging insurance program that includes well plugging, water supply replacement and site restoration or go with OWL-like system (plugging only) and have separate bond for water supply replacement and site restoration.

Plugging Cost: Dave Lind provided the Department with a summary of PGE cost data for plugging 9 wells.

Future Workgroup Meetings: The January 6 meeting was cancelled due to a conflict and will be rescheduled to February 17 at the Moshannon District Office. The next meeting will be January 27 at the Moshannon District Office and will focus on industry post-1984 plugging cost.