



INTERSTATE
Oil & Gas
COMPACT COMMISSION

ORPHAN WELL APPROPRIATED FUND DISBURSEMENT POLICY

FEBRUARY 28, 2008

INTRODUCTION

The following fund disbursement framework is prepared as part of a cooperative agreement with the United States Department of Energy (DOE) National Energy Technology Laboratory. The agreement includes the development of model matching award criteria, guidelines, program explanations, accountability and reporting requirements and forms.

BACKGROUND

Section 349 of the Energy Policy Act of 2005 provides for the establishment of a program to provide technical and financial assistance to oil and gas producing states to facilitate remediation of environmental problems caused by orphaned or abandoned oil and gas exploration or production well sites on State or private land.

The Act endorses the Secretary of Energy to work with the states, through the Interstate Oil and Gas Compact Commission (IOGCC), for the development of a program that quantifies and mitigates environmental risks associated with onshore that includes mechanism to facilitate (a) identification of persons currently providing a bond or other form of financial assurance for an oil or gas well that is orphaned or abandoned (b) criteria for ranking orphaned or abandoned well sites (c) information and training practices on best practices for remediation of different types of sites and (d) funding of state mitigation efforts on a cost-shared basis. \$25,000,000 per year for fiscal years 2006 through 2010 is authorized to be appropriated to carry out these activities and the Federal Reimbursement for Orphaned Well Reclamation Pilot Program

The Orphan Well Task Force, comprised of IOGCC volunteer representatives from member states, was formed in order to address the requirements related to section 349 of the Act, leveraging the combined experience and expertise of oil and gas community members to create comprehensive guidance documents that encompass all management aspects, including regulatory, legal, economic, environmental, and educational issues.

POLICY STATEMENT

The appropriation fund disbursement policies are designed to be used in conjunction with IOGCC Orphan Well Appropriation Fund Award and Administration procedures. It is the recommendation of the Task Force that in-depth procedures be developed upon receipt of the funds and that a web-based application be developed to facilitate efficient and effective fund disbursement, data collection and analysis, recordkeeping and reporting.

Recognizing our responsibility as representatives of the oil and natural gas producing states of the nation, the Task Force disbursement guidelines are based upon the following principles:

1. The protection of public safety and the environment;
2. The appropriate stewardship of federal funds;
3. A fair and equitable distribution of funds based upon the greatest need;
4. Respect for the jurisdiction of the participating states; and
5. The efficient distribution of funds with a minimum of bureaucratic red tape.

DEFINITIONS

1. **APPROPRIATED FUNDS:** funds which may be appropriated by Congress for the plugging of orphaned wells authorized by the 2005 Energy Policy Act.
2. **AUTHORIZED REPRESENTATIVE:** the administrative official who, on behalf of the state oil and gas agency is empowered to make certifications and assurances and can commit the agency to the conduct of the project as well as adhere to various policies and requirements
3. **FUND ADMINISTRATOR:** The Interstate Oil and Gas Compact Commission (IOGCC)
4. **MODEL PLUGGING PRIORITIZATION SCHEDULE:** Model developed by the task force
5. **ORPHAN WELL:** a well that is not producing or injecting, has not received state approval to remain idle, and for which the operator is unknown or insolvent.
6. **PLUGGING:** permanently sealing a wellbore to prevent fluid migration.
7. **SITE RESTORATION:** the removal of equipment, trash and debris, repair of erosion, removal of hydrocarbons and closing pits
8. **STATE AGENCY:** the state oil and gas agency that receives the disbursement and assumes legal and financial responsibility and accountability both for the awarded funds and the performance of funded activities.

ELIGIBILITY REQUIREMENTS

In order to qualify for disbursement of appropriated funds participating states must:

1. Have an operational plugging fund and plugging prioritization processes in place for the plugging of abandoned wells
2. A United States oil and gas producing state
3. An IOGCC member state or associate member state

DISBURSEMENT OF FUNDS - GENERAL

Funds will be pre-allocated to eligible states based on:

1. The number of orphan wells estimated by participating state
2. The number of orphan wells that have the most potential to graded potentially damaging
3. Spending cap per individual well: spending caps will be evaluated based upon industry and regional averages upon receipt of appropriated funds and reevaluated on a regular basis to be determined by the Task Force.

PRIORITIZATION SCHEDULE

It is recommended that state agencies incorporate the Model Plugging Prioritization Schedule into plugging and site restoration policies or procedures. State will be required to submit the Model Plugging Prioritization Schedule with reimbursement requests to assist with data collection.

COST-REIMBURSEMENT AWARD

IOGCC will reimburse the participating state for work performed and/or costs incurred by the state agency

State Oil and Gas Directors and their authorized agents may request reimbursement for expenditures related to the plugging and/or site restoration of abandoned or orphan wells within their jurisdiction.

Requests for reimbursement must include at a minimum:

1. Model Plugging Prioritization Schedule
2. Copies of supporting documentation for expenditures
3. Signature of certifying official

COST-MATCHING REQUIREMENTS

Cost-matching will be determined by state plugging policies. The maximum amount of reimbursement funds shall not exceed the Task Force designated spending cap per well.

Participating agencies agree to report the entire cost of well plugging and site remediation for the purposes of data collection, analysis and reporting.

CERTIFICATIONS AND ASSURANCES

Participating state agencies will certify and agree to:

1. Participate in output and outcome measurements and reporting requirements including but not limited to the number of wells plugged, plugging criteria factors adapted from the Model Plugging Prioritization Schedule, and the amount of matching funds.
2. To carefully consider hazards to health, safety and the environment when prioritizing wells to be remediated utilizing appropriated funds.
3. Submit an statement to the Fund Administrator certifying appropriate use of federal funds
4. Certify that a prioritization process is in place in applicable plugging policies and procedures
5. Certify that cost-sharing and matching will be in applicable plugging policies and procedures
6. Share success stories, and participate for public outreach information dissemination efforts

ATTACHMENTS

1. Section 349 of the Energy Policy Act of 2005
2. Model Fund Plugging Prioritization Schedule