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Oil and Gas Commission threatens to plug wells

by Greg Fladager

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In an unusual display of candor, a financially strapped coal bed methane developer told the Wyoming Oil and Gas Commission of the hardships his company faced because of the dramatic drop in natural gas prices over the past three years.

Eric Kovall, president of Black Diamond Energy, told the commission the bank financing its operation had cut off its line of credit and was in the process selling off some \$32 million in loans, while keeping Black Diamond on the hook, allegedly to avoid liability for the field.

“They are not an oil and gas bank,” Kovall claimed, explaining the downturn was something that he believed could be weathered. “We said don’t panic...they panicked.”



The commission staff told the board the company’s tax standing is “inactive” with the Secretary of State’s Office, 151 of its wells have state ordered “mechanical integrity tests (MIT’s)” pending because they have been out of operation for five years or more, and the Commission should require an additional \$4.2 million in idle well bonds to cover the potential expense of shutting in the field.

During questioning, Kovall said the commission’s five-year time frame for well testing was reasonable, noting a bad well could impact water aquifers used for domestic and livestock use; but, he questioned the \$10/foot testing cost set by the commission, saying he could get it done for less than half of that. It was noted the fee rose and fell with changing oil field costs, and alternative testing methods were allowed in the commission regulations.

Kovall told the Commission that none of the company’s surface agreements, liens and many other expenses have been paid for some time, and the operation has gone from 46 employees down to 6. Most of the company’s 345 wells are not in production because of low gas prices.

“The degradation of the assets is almost complete,” Kovall said, adding, “...there are a lot of angry landowners.”

Kovall said there has been interest from some larger companies operating in the area to buy the field, but partly because of the problems with the bank, the deals have never been made. At the hearing, however, a private purchaser of some of the bank’s loans sat at the table with Kovall, optimistic that his part of the operation (covering about 89 wells) could return to profitable production.

The commission members expressed reluctance to shut-in the wells with overdue MITs, but balked at Kovall’s request to give him until winter to turn the situation around (last week’s hearing was the result of an extension granted last July).

“I’m a little concerned if the summer goes by and nothing has changed,” said Commissioner Don Basko. “If in 60 days nothing has changed... then revoke the bond and plug the wells.”

The Commission agreed to give the company 60 days to come up with a plan of operation acceptable to its staff.

Black Diamond was not the only company out of compliance and coming before the commission last week, though in the case of Loral Production, they even failed to show up for the hearing.

Commission attorney Eric Easton said while he was surprised at Loral’s non-appearance, he also noted there had been no personal contact between the staff and the company since last October. He said he had assumed Loral would come because it has continued to pay monthly installments on \$502,000 in additional well bonding ordered last year.

The commission was told the number of Loral’s wells needing MITs had increased from 88 to 269 over the past year, and all of its 625 state and fee wells were idle. The staff recommended that Loral’s well bonding be increased to \$4 million (of which \$3.5 million would need to be paid), to cover the costs of shutting in the field.

The Commission ordered the leases be terminated for non-production, and the field shut in, unless Loral meets with the Commission’s staff supervisor within 30 days and receives a compliance extension.

While the amount was not mentioned at the meeting, the state has \$1 million dollars in an “idle well fund”, with access to up to \$4 million, for shutting in abandoned wells.

Meanwhile, in other action, the Commission heard from representatives of Ciris Energy, who admitted they did not have a permit when they injected a chemical mix into a coal bed methane well in an innovative effort to boost gas production.

Ciris Attorney Lynn Boomgaarden said Ciris mistakenly thought the owner of the wells had filed the appropriate documents with the DEQ. The matter was further complicated because the new technique crossed into a regulatory “grey area” between the Department of Environmental Quality and the Oil and Gas Commission

“As soon as the issue came to Ciris’s attention, they provided all the information to the DEQ,” Boomgaarden said. The situation had come to the attention of the DEQ through an “anonymous” caller.

Ciris agreed to pay a \$25,922 fine to the DEQ and another \$1,500 to the Oil and Gas Commission for the infraction. USA Exploration, the owner of the well, also agreed to pay a \$1,500 fine to the Commission.

Ciris, a Denver based company, is promoting the new technique as a way to boost production of the microbes that make methane gas in coal. The chemicals injected by Ciris into the wells included ammonium chloride, acetate, sodium phosphate, sodium bromide, potassium chloride, cobalt chloride and nickel chloride.

Representatives of the Powder River Basin Resource Council, a landowner group, addressed the Commission last week with concerns about the negative effects the chemicals might have on groundwater for domestic and livestock use. Two of the chemicals are carcinogens, and two are pathogens.

“The issue is of great concern to the landowners and water users in the Powder River Basin,” Council member Jill Morrison told the Commission, adding she had not yet seen the settlement with the DEQ.

Boomgaarden replied the effect of the chemicals depends on their concentrations, and that USA Energy had agreed to give the DEQ access to the well, and to a sampling and analysis plan.

Calling it a “fairly unusual situation”, Boomgaarden further said she did not think the experimental method required “new rule making” on behalf of the Oil and Gas Commission, but clarification of who had jurisdiction.