UNDERSTANDING FINANCIAL ASSURANCE OBLIGATIONS

Potentially reduce bonding requirements by 50-90%

To operate in Colorado, oil and gas operators are required to provide financial assurance, commonly referred to as a bond, to demonstrate their ability to fulfill regulatory obligations related to well closure, land reclamation, and environmental protection. This requirement is enforced by the Colorado Energy and Carbon Management Commission (ECMC), formerly the Colorado Oil and Gas Conservation Commission (COGCC).

Under ECMC rules, operators must submit and maintain adequate financial assurance to ensure they can plug wells, reclaim disturbed land, and address other end-of-life site responsibilities. If an operator fails to meet these obligations, the ECMC may forfeit the bond to fund necessary cleanup and closure activities. Once the operator satisfies all requirements, the bond is released. These requirements are set forth in the 700-Series Rules and were significantly revised in 2022 following the passage of SB19-181.

The Problem: Default Financial Assurance Is Often Too High

The ECMC's default bonding requirement for land reclamation is $100,000 per well site. For most operators, this amount far exceeds the actual cost of reclaiming their sites, especially for low-producing wells or facilities in less complex geological settings. Paying more than necessary in bonding ties up capital that could otherwise be used to maintain or expand operations.

The Solution: Demonstrated Costs

Rather than accept the default bond amount, operators may submit a plan based on demonstrated costs—a detailed, site-specific estimate of the actual expenses associated with plugging and abandonment.

Demonstrated cost estimates typically consider:

- Well depth and location
- Geological complexity
- Surface topography and vegetation
- Past plugging practices
- Historical cost data
- Labor, materials, and equipment

Understanding Financial Assurance for Oil & Gas Operators

Potentially reduce bonding requirements by 50-90%

If the demonstrated costs are lower than the default figure—and are supported by credible data—the ECMC may approve a lower financial assurance amount, potentially reducing bonding requirements by 50–90%.

However, this approach requires significant regulatory knowledge, documentation, and credibility. Demonstrated cost plans must withstand regulatory scrutiny, and insufficient or unsupported estimates may be rejected or challenged by the ECMC.

How Our Team Can Help

We specialize in helping oil and gas operators navigate ECMC's financial assurance process with confidence. Our multidisciplinary team includes:

- An ECMC regulatory expert
- A reclamation cost specialist
- A seasoned oil and gas attorney and legal team

Together, we've developed a proven and cost-effective system for preparing financial assurance packages that are both accurate and defensible.

We've helped multiple operators lower their required financial assurance by millions of dollars, freeing up capital and ensuring compliance without overpaying.

Each Plan is:

- Customized to your specific assets
- Built on detailed, site-specific cost data
- Designed to hold weight with regulators

If you're currently operating under default bonding requirements or are preparing to submit or resubmit a financial assurance plan, contact us today. Let our team help you reduce your bonding obligations and protect your bottom line.

Set up a meeting with us to learn more and see if we would be a good fit to assist your operations. Contact Kent Holsinger at kholsinger@holsingerlaw.com or by phone at 303 722-2828.