

Correspondence



October 30, 2023

Commissioner Monique M. Edwards
Commissioner of Conservation
Office of Conservation
Department of Natural Resources
State of Louisiana
Post Office Box 94396
Baton Rouge, Louisiana 70804-9275

RE: LORA Financial Security

Dear Commissioner Edwards,

It was a pleasure to meet with you recently, and I thank you again for taking the time to discuss the Louisiana Oilfield Restoration Association Inc. d/b/a LORA Financial Security ("LORA").

We discussed preparing a redline of the Cooperative Agreement between the Louisiana Office of Conservation ("OOC") and LORA. In anticipation of working together towards an agreeable agreement, there are some background issues and context that we believe are integral in order to prepare a final document which are included in this letter for your review and further discussion.

Brief Overview of LORA's Inception

The consequences of orphan wells have been an ongoing issue for many years that we continue to face today. In 2014, the Legislative Auditor elevated the seriousness of the issue and recommended identifying additional sources of funding to address orphan wells.¹

The Governor's Office, the Department of Natural Resources, the OOC and the Oilfield Site Restoration ("OSR") program worked in coordination to find potential solutions to the orphan well problem. These parties sought to find a way that the oil and gas industry could contribute to solving this problem.

Thus, in a report to the Governor's Office in 2018 (the "2018 OOC Report"), the OOC proposed a number of solutions to the orphan well problem, including the establishment of a non-government organization ("NGO") "that would perform the same task as the OSR program, simultaneous to and as a supplement to the current OSR program."² This public-private partnership would be

¹ *Regulation of Oil and Gas Wells and Management of Orphan Wells*, Louisiana Legislative Auditor, Performance Audit issued May 28, 2014.

² *Report on Oil and Gas Wells and Management of Orphan Wells*, Prepared for the Office of the Governor, John Bel Edwards by the Office of Conservation, Richard Ieyoub, July 31, 2018, page 28.

voluntary and allow oil and gas well operators that needed financial security to pay fees to the non-government organization in exchange for financial security coverage. The NGO would then use a portion of these fees to pay local Louisiana companies to plug orphan wells in Louisiana.

The 2018 OOC Report noted that sending annual premiums and fees of \$22.6 million to out-of-state banks and insurance companies in exchange for an annual return of just \$200,000 in financial security payments from those premiums and fees was excessive. In the years since that report, the OOC is still only collecting \$300,000 to \$500,000 from standard financial security providers, which is a bare minimum compared to the millions of dollars in annual premiums and fees being paid to these providers.

The NGO concept envisioned using a substantial portion of these monies, which would otherwise be sent to out-of-state insurance companies and banks, to be paid directly in Louisiana to properly plug and abandon wells.³

The 2018 OOC Report also noted the significant difficulties the OOC has faced in collecting financial security from banks and insurance companies, stating that most financial security providers "would far sooner challenge our claim than pay what they owe."⁴

Additionally, the 2018 OOC Report highlighted that a final advantage of the proposed NGO is that it could be "implemented by the Commissioner of Conservation with no additional rules or Legislation."⁵ Thus, the NGO was intended to be a public-private partnership overseen by the OOC to provide affordable financial security and use industry funds generated from those operations to plug wells.

In its 2020 progress report, the Legislative Auditor noted that the OOC had entered into a Cooperative Agreement, effecting the Commissioner's proposed solution and establishing LORA as the NGO to provide financial security and assist the OSR in plugging wells.⁶

LORA's Key Functions

LORA has two primary roles, as defined in the 2018 OOC Report: (1) to provide financial security to oil and gas well operators, and (2) to plug orphan wells. Providing financial security to operators is the sole source of funding for LORA's plugging operations.

The provision of financial security to operators is how LORA generates funds from the oil and gas industry to plug wells in Louisiana. LORA is not funded by any public money; 100% of the funds it uses for its operations, including the plugging and abandonment of orphan wells, is from funds generated from oil and gas well operators for the provision of financial security.

³ Id., pages 26, 28.

⁴ Id., page 26.

⁵ Id., page 30.

⁶ *Progress Report: Regulation of Oil and Gas Wells and Management of Orphan Wells*, Louisiana Legislative Auditor, issued March 11, 2020.

LORA functions subject to the terms of the Cooperative Agreement. We collect annual fees from oil and gas well operators in Louisiana and send proof of the financial security provided to the OOC. If wells covered by LORA are orphaned, LORA may choose to pay the total amount of the financial security it has provided for such wells to the OOC just as a traditional financial security provider would. LORA has, in fact, done this with respect to one of its clients, EnergyQuest Operating, LLC, for which LORA paid the full \$50,000 face amount of its financial security LORA-E-E4682-1.

The other of LORA's two main purposes is to plug wells. As such, the Cooperative Agreement authorizes LORA to plug the wells of its orphan clients rather than just pay the face amount of the financial security. In keeping with its mission to plug wells, LORA has consistently stepped forward to plug the orphan wells of its clients.⁷ In more than one instance, the cost borne by LORA to plug orphan wells has exceeded the stated amount of the financial security. If LORA had not undertaken the responsibility to plug those wells, those additional costs would have fallen to the OSR.⁸

Under the Cooperative Agreement, 64% of every dollar paid to LORA in annual fees for financial security is dedicated to plugging wells in Louisiana.⁹ While LORA's clients are given priority, any funds not used on plugging LORA clients are used to plug wells from the OSR orphan well list in consultation and coordination with the OOC.

LORA began plugging wells in the early summer of 2022. We have prepared a detailed report on LORA's 2022 plugging and abandonment budget for 2022, and we are proud to report that for the year 2022, LORA spent \$2,436,542.74 to plug 88 wells, 66 of which were non-LORA orphan wells. Please see the attached report regarding same. Additionally, please note that our 2022 plugging and abandonment budget of \$2.4 million is almost 5 times the roughly \$500,000 collected by the OSR program from all other financial security providers combined last year.

As discussed in our meeting, there are areas in which the LORA program can be improved to offer additional stability, greater wherewithal to increase LORA's financial reserves, and enhanced remediation of orphan wells.

Increase the LORA Reserves

Pursuant to the Cooperative Agreement, LORA currently maintains a \$5 million reserve (the "LORA Reserve"). This reserve is in addition to its annual plugging and abandonment budget.

⁷ Except as noted above, and not including the other orphan wells from the OSR orphan well list that LORA has plugged for which it had no responsibility.

⁸ You may recall the example of the Hawkeye wells I raised in our meeting. Hawkeye had \$50,000 in financial security through LORA and went orphan. The lowest bid LORA received was substantially more than that amount. Instead of just paying the \$50,000 to OSR, LORA plugged all of the Hawkeye wells (and an additional non-LORA orphan well nearby) for roughly \$200,000.

⁹ Note that this is on gross dollars collected. All of the other costs and expenses, including taxes, insurance, administration and other such costs and expenses are paid out of the remaining 36% of the funds collected.

LORA is not an insurance company, nor does it operate like an insurance company. However, solely for the purpose of discussing an appropriate level of reserves for LORA, how an insurance company establishes loss reserves could be seen as somewhat analogous.

Insurance reserves are generally established based on a percentage of the anticipated insurance claims in any given year.¹⁰ The specific percentage applicable depends on the type of insurance, the type of insurance company, the type of insurance policy, the state regulatory requirements and a myriad of other factors. Because LORA is intended to be a supplement to the OSR, perhaps the best source of information regarding "anticipated claims" for LORA is the OSR's past operations.

The following table¹¹ provides a snapshot of total funds collected by the OSR, the total funds expended by the OSR and the total number of wells plugged by the OSR for the fiscal years 2013/2014 through 2021/2022.

	Total OSR Funds Collected	Total OSR funds Expended	Orphan Wells Plugged
FY 13/14	\$4,410,037.00	\$2,795,244.00	88
FY 14/15	\$3,851,081.00	\$6,263,220.93	50
FY 15/16	\$3,208,078.25	\$3,039,480.60	58
FY 16/17	\$4,790,377.50	\$1,694,496.70	77
FY 17/18	\$6,397,954.00	\$3,088,414.53	219
FY 18/19	\$10,609,954.00	\$10,258,350.72	177
FY 19/20	\$10,304,059.28	\$8,120,876.06	135
FY 20/21	\$10,779,060.60	\$6,281,425.77	133
FY 21/22	\$7,146,207.21	\$4,083,832.50	84
Average	\$6,832,978.76	\$5,069,482.42	113

For the time period above, the OOC has collected roughly between \$200,000 and \$500,000 in financial security annually from all financial security providers for all of the orphan wells covered by all of those providers. The remainder of the total OSR funds collected, being the vast majority of those funds, comes from other fees assessed to oil and gas well operators by the OOC. Thus, funds collected from traditional financial security providers is only a small fraction of the funds collected and expended by the OSR to plug orphan wells.¹²

As the chart indicates, the OSR collected an average of \$6.8 million per year (predominantly from sources other than financial security providers) over the last 10 years. The total amount of funds

¹⁰ See, for example, *Glossary of Insurance Terms*, "Loss Reserve" https://content.naic.org/consumer_glossary; *Loss Reserves: What They Are and Examples*, Investopedia, <https://www.investopedia.com/terms/l/loss-reserve.asp>.

¹¹ This information was compiled from OOC/OSR public data.

¹² These numbers show why the Legislative Auditor recommended finding other sources of funding to plug orphan wells and why the OOC partnered with LORA to use industry funds from providing financial security to do so.

expended by the OSR over that same time period to plug orphan wells covered by all financial security providers averaged about \$5 million per year.

LORA's current \$5 million reserve backs up the financial security that it provides for only a portion of the total wells covered by all financial security providers in the State. That \$5 million LORA Reserve is roughly 99% of the average annual OSR funds expended over the last 10 years, and roughly 73% of the average annual OSR funds collected for all orphan wells over the last 10 years.

Therefore, the current LORA Reserve of \$5 million seems generally aligned in comparison to the roughly \$6.8 million average annual collections and roughly \$5 million average annual expenditures of the OSR for all orphan wells in the State.

More significantly, LORA's annual plugging and abandonment budget was \$2.4 million for the year 2022. Thus, LORA's annual budget for plugging wells last year is almost half the total average funds expended annually by OSR over the last ten (10) years.

LORA's 2022 plugging budget was roughly 36% of average annual OSR funds expended over the last 10 years, and roughly 48% of the average annual OSR funds collected for all orphan wells over the last 10 years.

As noted above, LORA's 2022 annual plugging budget of \$2.4 million is almost 5 times larger than the roughly \$500,000 that the OSR collected from all other financial security providers in 2022.

Considering the foregoing, we believe LORA currently has a sufficient reserve as well as a reasonable annual budget to plug wells; however, LORA acknowledges that the cost to plug wells is increasing, and the current economic conditions are uncertain. Therefore, we are proposing an increase to the LORA Reserve.¹³

The current LORA Reserve of \$5 million is roughly 3% of LORA's approximate total outstanding financial security amount of about \$160 million. We propose to increase the LORA reserve from a static \$5 million to a dynamic 5% of LORA's total financial security amount outstanding, adjusted annually. Based on the approximately \$145 million in financial security that LORA has outstanding as of the date of this letter, the LORA Reserve would increase under this proposal to about \$7.25 million.

The current Cooperative Agreement states that LORA, at its inception, would reserve 80% of every dollar it received in annual fees until it reached a minimum reserve of \$5 million dollars. LORA reached this minimum reserve in July of 2022. Thereafter, LORA maintains the \$5 million reserve, and uses 64% of every dollar it receives in annual fees to plug wells.

We suggest that we revise the Cooperative Agreement to provide, as follows:

- Before December 1st of each year, LORA will determine how much in total outstanding financial security it has in effect with OOC ("Total Financial Security Amount").

¹³ Notably, we are not aware of any other financial security provider that is actively plugging wells like LORA is on an annual basis.

- LORA will then compare the Total Financial Security Amount to the total amount it has in the LORA Reserve.
- If the amount of the LORA Reserve is less than 5% of the Total Financial Security Liability as of December 1st, then beginning on the following January 1st:
 - 50% of each dollar received in annual fees will go to the annual plugging budget;
 - 20% will go to the LORA Reserve; and
 - 30% will go to administrative fees and related costs and expenses.
- This allocation will remain in place until the LORA Reserve reaches 5% of the Total Financial Security Amount.
- LORA will review the LORA Reserve and the Total Financial Security Amount at least monthly until the minimum 5% reserve is reached.

Once the minimum 5% LORA Reserve is reached, the allocation will return to the current allocation of 64% to plugging wells and 36% to administrative expenses until December 31st of the then-current year.¹⁴

In the event the Total Financial Security Amount decreases during any given year such that the LORA Reserve rises above 6% of the Total Financial Security Amount, LORA, in its discretion, may maintain such additional reserve, or it may direct any or all of any funds in the LORA Reserve above 6% of the Total Financial Security Amount to the plugging of orphan wells in Louisiana.

Protect the LORA Reserve

In our meeting, you made it clear that you had seen the effects of companies making bad investments, and what happens when the economy turns and those investments collapse. We strive to be good stewards of the LORA Reserve monies to ensure those funds are available if necessary.

We propose that we include a provision in the Cooperative Agreement that requires LORA to maintain at least 75% of the LORA Reserve solely in those investments permitted under La. R.S. 33:2955, as it may be amended from time to time, that dictates the permitted investments by political subdivisions of the State of Louisiana. While LORA is not a political subdivision of the State, we believe that using these guidelines will help the safety, security and future availability of LORA Reserve to address its obligations.

Annual Fees

Currently, the Cooperative Agreement caps the amount of the annual fee LORA is allowed to charge its clients for financial security at 3.5% of the total financial security provided. We propose to change this from a static cap to dynamic language such as "a reasonable market rate" in order to give LORA more flexibility in what amounts it may charge its clients based on current market rates, as well as any other risk factors or similar considerations that should be built into such pricing.

¹⁴ Again, this would be on gross dollars. Taxes, insurance and all other costs, fees and expenses of administering LORA come out of the remaining 36%.

The 3.5% fee cap was a reasonable market rate at the time the Cooperative Agreement was executed, as general interest rates in the marketplace were at or below 1%. Even the 2018 OOC Report mentioned a rate range of 3% to 7% based on the then-current industry average.¹⁵ Since then, interest rates have increased significantly in the past few years, and the current industry average has increased as well.

Another consideration is that the cost to properly plug and abandon wells has increased over the past few years, as well—partly as a function of rising interest rates and other associated costs. We believe LORA should have the flexibility to adjust its annual fee pricing based on current market conditions, and tailor specific fees based on increased scrutiny of its potential clients.

While LORA will likely maintain the current annual fees it has in place for the majority of its clients under their current LORA contracts, this will give LORA the ability to charge market rates on new business. As current clients seek to increase or amend their financial security with LORA in the future, LORA will also have the option to review the rates in place with such clients and determine whether such rates are adequate.

Collateral

Although LORA has the right and authority to require collateral from its financial security clients, we generally do not require such. Part of the impetus behind the LORA program was to address concerns raised by oil and gas operators regarding the high cost of financial security.¹⁶ The previous administration at OOC directed LORA, generally, to avoid requiring collateral from its clients in order to make it easier for small and medium-sized operators to obtain financial security through LORA.

We propose that LORA should evaluate new applicants for financial security and determine whether, based on the size of the financial security required, as well as any other reasonable factors, and, in its discretion, require collateral for clients seeking significant amounts of financial security through LORA.

Increased Scrutiny of Potential Clients

As mentioned above, the direction LORA received from the previous administration was that LORA should generally be a "financial security provider of last resort." In other words, we were directed to keep the bar to accepting new clients low, so that small and medium-sized operators that could not find financial security through traditional means would have an avenue to obtain such financial security through LORA.

We currently have in place several standards and requirements for new applicants. Primary among those requirements is that a new applicant cannot have any outstanding compliance issues with the OOC. Increased scrutiny of potential applicants, along with the ability to charge increased annual

¹⁵ *Report on Oil and Gas Wells and Management of Orphan Wells*, Prepared for the Office of the Governor, John Bel Edwards by the Office of Conservation, Richard Ieyoub, July 31, 2018, page 29.

¹⁶ *Id.*, page 26.

fees and require collateral, will give LORA additional tools to weed out potential problem operators.

Additional Tentpole Clients

One of the main goals of the LORA/OOC public-private partnership is to use oil and gas industry funds to plug orphan wells in Louisiana. In order to do that, LORA has several large "tentpole" clients—large commercial oil and gas operators that do a significant amount of business in Louisiana and generate significant revenue from that business in our State.

These operators obtain financial security at a competitive rate, and LORA receives a significant cash flow to bolster its plugging operations. The key to these tentpole clients is to find large clients with good wells such that, even if the company itself were to go out of business, the covered wells have a large enough production value that another operator will come in and purchase the wells, rather than having the wells go orphan.

Most of our tentpole clients have Site-Specific Trust Accounts (SSTAs) to cover their wells. The SSTA method of calculating financial security is generally more accurate than the blanket or by-depth methods because the amount of funding for an SSTA is based on a site assessment that estimates the cost of restoring the site.

The 2014 Legislative Auditor Report suggested that SSTAs should be encouraged, noting that, as of the date of that report, no wells associated with SSTAs had ever been orphaned.¹⁷ Therefore, SSTAs are generally one of the safer financial security coverages.

As such, we propose that LORA bring in one or more new large "tentpole" clients with SSTA financial security arrangements. While this will increase LORA's total financial liabilities, it will also increase LORA's gross revenue. The proposed changes to the allocation of LORA's revenue to increase the LORA Reserve detailed above will reduce LORA's annual plugging budget, but additional annual fees will offset this cost to some extent and allow LORA to continue plugging a meaningful number of wells each year.

For example, suppose LORA collects \$3 million in gross annual revenue for the year 2024. Under the current allocation, 64% of those funds would go to the 2024 plugging and abandonment budget for a total plugging budget of \$1.9 million. Under the revised allocation set forth herein above, 50% of those funds, only \$1.5 million, would go to plugging wells and \$600,000 would go to the LORA Reserve. That would reduce the funds available to plug wells for the year 2024 by \$400,000.

If LORA was able to bring in additional annual fees such that its total gross annual revenue for the year 2024 is \$3.8 million, it would be able to maintain an annual plugging budget of \$1.9 million and increase the funds going into the LORA Reserve.

¹⁷ *Regulation of Oil and Gas Wells and Management of Orphan Wells*, Louisiana Legislative Auditor, Performance Audit issued May 28, 2014, page 30.

We would be more than glad for the OOC to review any potential tentpole SSTA clients before LORA undertook said business, such that the OOC could evaluate the financial condition of the operator, the condition of the wells, the level of production from those wells, and so forth, in order for the OOC to make its own assessment.

Increased Reporting to the OOC

As a public-private partnership with the OOC, LORA invites increased transparency and reporting. As such, we propose to begin providing quarterly status reports to the OOC regarding LORA's operations in addition to our annual reports.

We also invite you, Commissioner, or your designee, to attend the LORA annual board meetings to obtain additional information regarding LORA's management and operations.

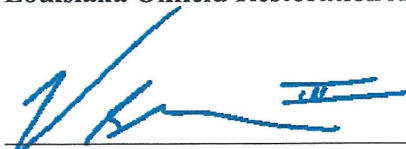
Conclusion

In conclusion, the LORA partnership with the OOC has been a highly successful endeavor, and we are very proud of the work LORA has done plugging and abandoning orphan wells in the State of Louisiana, as well as providing financial security to oil and gas well operators. We are grateful for the opportunity to work with you to improve LORA's operations to ensure it has a long future of plugging orphan wells for many years to come. We look forward to reviewing the foregoing proposed changes and solutions with you and your staff.

Please let me know if you have any questions or concerns. Very truly yours,

Sincerely,

Louisiana Oilfield Restoration Association, Inc.



Van R. Mayhall, III
President/CEO

JEFF LANDRY
GOVERNOR



TYLER PATRICK GRAY
SECRETARY

MONIQUE M. EDWARDS
COMMISSIONER OF CONSERVATION

State of Louisiana

DEPARTMENT OF ENERGY AND NATURAL RESOURCES
OFFICE OF CONSERVATION

VIA EMAIL & REGULAR MAIL

February 16, 2024

Mr. Van Mayhall, III
Louisiana Oilfield Restoration Association, Inc.
PO Box 82016
Baton Rouge, LA 70808

Dear Mr. Mayhall,

Under the 20-004 Cooperative Agreement, executed by you on November 1, 2019, along with the Act of Correction executed between you and Commissioner Richard P. Ieyoub on September 7, 2022, you are in violation of the agreement. Said violation is your failure to plug orphan wells as designated by the Office of Conservation, and not providing financial security or plugging wells for which you have provided financial security and the Office has made you aware of for the 2023 calendar year.

Furthermore, in accordance with R.S. 30:4(T), any organization entering into a cooperative endeavor agreement for assisting in plugging orphaned wells must include a provision allowing full access to their operations and financial records. This provision is essential for any audits conducted by the legislative auditor. The amendment is attached. Thus, you will be considered out of compliance until this is signed complying with the statutory requirement.

The Office of Conservation will seek any and all remedies available to it in order to avoid adding to the number of orphaned wells.

Sincerely,

Handwritten signature of Monique M. Edwards in blue ink.

Monique M. Edwards
Commissioner of Conservation

Handwritten signature of Tyler P. Gray in blue ink.

Tyler P. Gray
Secretary

SECOND AMENDMENT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

This Second Amendment shall be incorporated by reference into Cooperative Agreement No. 20-004, by and between the Office of Conservation, State of Louisiana (OCC) and Louisiana Oilfield Restoration Association, Inc. (LORA), said Agreement entered into on November 1, 2019, as first amended through an Act of Correction, on September 7, 2022.

The following paragraphs are incorporated into the Agreement on page 2, immediately before the paragraph beginning “NOW, THEREFORE . . .”:

WHEREAS, the Commissioner has the authority pursuant to R.S. 30:4(R) to establish rules, regulations, and orders that are necessary to require reasonable bond with security for the performance of the duty to plug each dry and abandoned well and the closure and to perform the site cleanup, including the entering of this cooperative endeavor agreement with LORA.

WHEREAS, LORA is an organization which has this cooperative endeavor agreement with the Commissioner to assist with plugging orphaned wells, in order to alleviate the burden on operators in meeting financial security requirements, and shall, in compliance with R.S. 30:4(T), allow full access to its operations and financial records for the purpose of any audit conducted by the legislative auditor.

The following sentence is incorporated into the Agreement on page 4, immediately after the phrase “LORA does hereby agree to submit an annual report of contributions, expenses and reserves to OCC and allow inspection of its records by OCC at any time to verify the reports are accurate.”:

Moreover, LORA understands and agrees to allow full access to its operations and financial records for the purpose of any audit conducted by the legislative auditor.

All other terms and conditions of the Agreement shall remain unchanged.

THUS DONE AND SIGNED on the date stated before the undersigned witnesses:

Witnesses:

Sign: 

Print: Claudia Bush

Sign: 

Print: Alexis Grant

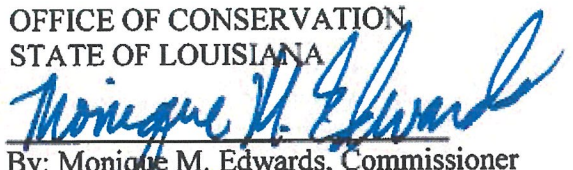
Sign: _____

Print: _____

Sign: _____

Print: _____

OFFICE OF CONSERVATION
STATE OF LOUISIANA


By: Monique M. Edwards, Commissioner

Date: 2/16/2024

LOUISIANA OILFIELD RESTORATION
ASSOCIATION, INC. (LORA)

By: Van R. Mayhall, III, President

Date: _____

ACKNOWLEDGMENT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

BEFORE ME, the undersigned Notary Public, duly commissioned and qualified in and for said Parish and State aforesaid, personally came and appeared:

VAN R. MAYHALL, III,

President of the Louisiana Oilfield Restoration Association, Inc.

to me known, who declared and acknowledged to me, Notary, that he executed the foregoing instrument as his own free and voluntary act and deed and for the object and purposes therein set forth.

IN TESTIMONY WHEREOF, the said appearer has executed this instrument in my presence this __ day of _____, 2024.

Louisiana Oilfield Restoration Association, Inc.

Van R. Mayhall, III, President

NOTARY PUBLIC

My commission expires: _____

ACKNOWLEDGMENT

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

BEFORE ME, the undersigned Notary Public, duly commissioned and qualified in and for said Parish and State aforesaid, personally came and appeared:

MONIQUE M. EDWARDS

to me known, who declared and acknowledged to me, Notary, that she is the Commissioner of Conservation, State of Louisiana, and that as such duly authorized officer, by and with authority of said state agency, she signed and executed the foregoing instrument as the free and voluntary act and deed of said state agency, for and on behalf of the Office of Conservation, State of Louisiana, and for the object and purposes therein set forth.

IN TESTIMONY WHEREOF, the said appearer has executed this instrument in my presence this 16th day of February, 2024.



Monique M. Edwards
Commissioner of Conservation



NOTARY PUBLIC

My commission expires: at death



James B. Canfield
Notary No. 85001
State of Louisiana
Commissioned for Life



May 20, 2024

Secretary Tyler Gray
Department of Energy and Natural Resources
State of Louisiana
P.O. Box 94396
Baton Rouge, Louisiana 70804

Commissioner Benjamin C. Bienvenu
Commissioner of Conservation
Office of Conservation
Department of Energy and Natural Resources
State of Louisiana
Post Office Box 94275
Baton Rouge, Louisiana 70804

RE: LORA Financial Security

Dear Secretary Gray and Commissioner Bienvenu,

We understand there are many changes already underway, and even more proposed, with respect to the Department of Energy and Natural Resources ("DENR") and the Office of Conservation ("OOC"). A number of these changes will address financial security and orphan wells in the state of Louisiana. As such, we felt it was important to give you some information and background about the Louisiana Oilfield Restoration Association, Inc., d/b/a LORA Financial Security ("LORA"). LORA was created according to guidelines and requirements provided by the OOC to address concerns regarding financial security and orphan wells in Louisiana. LORA sincerely wants to continue to work with DENR and OOC, and continue to serve as part of the solution to these ongoing issues. More importantly, *we believe LORA can do more to help.*

Background

Going back more than a decade, the orphan well issue has been a significant issue for the state of Louisiana. In the 2014 report (the "LLA Report") issued by the Louisiana Legislative Auditor (the "LLA"), the LLA found that, overall, the OOC "has not always effectively managed the current orphaned well population" and the OOC was "unable to reduce the total population of orphaned wells."¹ The LLA Report suggested that the Louisiana Legislature should "consider increasing funding or identifying additional sources of funding to address and reduce the state's current population of orphan wells."²

As of 2013, "there were 2,836 known orphaned wells in Louisiana," and the number of wells plugged each fiscal year "decreased to an average of 33 wells from fiscal years 2011 through 2013."³

¹ *Regulation of Oil and Gas Wells and Management of Orphan Wells*, Louisiana Legislative Auditor, Performance Audit issued May 28, 2014, page 2.

² *Id.*

³ *Id.*, pages 2, 23.

The LLA Report suggested that "increasing production fees and identifying other sources of funds would generate additional funds to help reduce the current population of orphaned wells."⁴ Later in that same report, the LLA again emphasized that "additional sources of revenue for the OSR Fund" was a priority.⁵

As part of their response to the LLA Report, then-Commissioner of the OOC James H. Welsh and his staff put together a pilot program known as LOPAC that was the forerunner of LORA. LOPAC was only operational for a few weeks before former Commissioner Richard Ieyoub was appointed, and Commissioner Ieyoub halted all of the ongoing Commissioner Welsh programs, including LOPAC.

From 2016 through 2018, Commissioner Ieyoub and his staff were under increasing pressure to resolve the ongoing orphan well issue as outlined by the LLA Report. For example, Senate Concurrent Resolution (SCR) 89 of the 2015 Legislative Session formed a task force to address the issues outlined in the LLA Report. Numerous concerns and issues were presented and discussed by the various stakeholders at the SCR 89 Task Force meetings, including the LLA's recommendation that "additional sources of revenue" be found for the OSR Fund.⁶

Additionally, OOC staff held several public meetings across the state of Louisiana in an effort to maintain an open dialogue with operators. "During those meetings, operators repeatedly emphasized several points:

1. the premiums for the required financial security were prohibitively expensive and in some areas completely unavailable;
2. the cost to the OSR Program to plug wells was significantly greater, specifically, three to four times greater than their cost to plug wells;
3. as a result of the state bid law requirements, although they are completely capable of plugging wells in compliance with Conservation regulations, they do not qualify to bid on OSR packages."⁷

After considering the ongoing orphan well issue, as well as the concerns expressed by operators regarding financial security and plugging wells, Commissioner Ieyoub and his staff issued the *Report on Oil and Gas Wells and Management of Orphan Wells, Prepared for the Office of the Governor, John Bel Edwards by the Office of Conservation*, on July 31, 2018 (the "OOC Report").

The OOC Report noted that, as of July 31, 2018, "3,633 orphaned oilfield sites remain on the orphaned oilfield site list. The number of orphaned wells has increased over the past five years, even with the large number of wells that have been plugged, as more wells have been orphaned during this time period than have been plugged or otherwise removed."⁸

⁴ Id., page 30.

⁵ Id., page 33.

⁶ *Report on Oil and Gas Wells and Management of Orphan Wells, Prepared for the Office of the Governor, John Bel Edwards by the Office of Conservation, Richard Ieyoub*, Office of Conservation, July 31, 2018, pages 13-14, 20.

⁷ Id., pages 27-28.

⁸ Id., page 8.

Significantly, the OOC Report estimated that the aggregate premiums for financial security paid by Louisiana oil and gas operators was about \$22,600,000 annually. Yet, as the OOC Report noted, "the average amount of financial security collected each year is about two hundred thousand dollars." The OOC Report recognized that requiring "industry to pay annual premiums of twenty-two point six million (\$22,600,000) seems excessive for an annual two hundred thousand (\$200,000) return."⁹

As a result of the LLA Report, the continued increase in orphan wells from 2014 to 2018, the SCR 89 Task Force meetings, the OOC's meetings with operators and the OOC's own internal search for solutions, certain key points were identified:

- The number of orphan wells on the orphan well list continued to grow;
- The suggestion to find additional funding sources to plug orphan wells;
- The difficulty of certain Louisiana oil and gas well operators to obtain affordable (or even any) financial security; and
- The estimated \$22 million or more spent by the industry in financial security premiums versus annual collections of roughly \$200,000 in financial security payments.

Thus, the OOC developed a solution to these problems, a solution intended to:

1. Provide financial security for operators struggling to find it; and
2. Use private, industry dollars from the foregoing to properly plug and abandon orphan wells in the state of Louisiana.

The OOC Report provided five (5) separate proposals to address the issues raised in the LLA Report, including the creation of a non-governmental organization to supplement the OOC's Oilfield Site Restoration ("OSR") program.¹⁰ This solution became LORA.

This proposed solution was "to establish a not for profit, non-government organization (NGO) that would perform the same tasks as the OSR program, simultaneous to and as a supplement to the current OSR program, but as [an] NGO, it would not be subject to the state bid laws and could hire small local operators to perform the work."¹¹

This NGO program would "allow for operators drilling or acquiring new wells to pay their premiums to the NGO, who will then use them to pay local operators to plug wells." The OOC Report noted that one advantage of the NGO solution was that "the money that otherwise goes in the form of premiums to out of state banks would remain in Louisiana and would be paid directly to 'mom and pop' operators who need it the most." Another advantage was that as an NGO, "small operators that would otherwise be disqualified under the state bid laws would be available for participation." "Since more operators would be available to bid on the work, the competition would drive prices down significantly lower than what the OSR can entice."¹²

⁹ Id., page 26. Note that the \$200,000 figure refers only to the amounts collected from financial security providers on financial security obligations for orphan wells.

¹⁰ Id., pages 23, 27.

¹¹ Id., page 28.

¹² Id., page 28-29.

As "an incentive to encourage participation," the OOC Report determined that "the required premium contributions could be set at the low end of the current industry average of three to seven percent."¹³

The OOC Report finds that a "final advantage of this program is that it could be implemented by the Commissioner with no additional rules or Legislation. It should be set up so that the Commissioner has complete authority to review the funding and expenditures at any time."¹⁴

Creation of LORA

The OOC Report proposing the NGO solution was issued in July of 2018. More than a year later, the Commissioner and his staff began interviewing candidates to run the proposed NGO. Thereafter, the OOC selected a candidate, the undersigned, who is the current President and Chief Executive Officer of LORA. The OOC drafted a Cooperative Agreement between the OOC and LORA, which was executed and effective in November of 2019 (the "Cooperative Agreement"). LORA began financial security operations shortly thereafter.

In its 2020 Progress Report, the LLA noted that the OOC had entered into a Cooperative Agreement, effecting the Commissioner's proposed solution and establishing LORA as the NGO to provide financial security for operators and to supplement the OSR in plugging orphan wells.¹⁵

LORA Operations

In the 2019 Cooperative Agreement, the OOC required LORA to build and maintain a \$5 million reserve before beginning plugging operations. LORA reached this \$5 million reserve on June 28, 2022, and this reserve has been maintained at or above that level ever since.

LORA's first year of plugging operations under the Cooperative Agreement was from June 28, 2022 through December 31, 2022. During that time, LORA received \$3,807,098.03 in gross annual security fees from operators. Pursuant to the Cooperative Agreement, LORA is required to spend 64% of those gross dollars to plug orphan wells.

For its fiscal year ("FY") 2022, LORA expended \$2,436,542.74 to plug and abandon ("P&A") eighty-eight (88) orphan wells in Louisiana. Only 22 of those wells were from former LORA clients and the other 66 were directly from the OSR orphan well list.

The OSR's average annual expenditure from FY 13/14 through FY 21/22 was estimated to be \$5,069,482.42 to plug an average of 113 wells annually.¹⁶ The OSR expended an estimated

¹³ Id., page 29. Note that LORA is capped at a maximum 3.5% annual fee under its Cooperative Agreement with the OOC.

¹⁴ Id., page 29.

¹⁵ *Progress Report: Regulation of Oil and Gas Wells and Management of Orphaned Wells*, Office of Conservation, Department of Natural Resources, Louisiana Legislative Auditor, Performance Audit issued March 11, 2020, page 17.

¹⁶ We believe this average annual expenditure is the basis the OOC used to set the LORA reserve at \$5,000,000.00.

\$4,083,832.50 in FY 21/20 to plug 82 wells.¹⁷ The LORA numbers and the OSR numbers cannot be directly compared, as the OSR was, more than likely, plugging more costly wells and plugging wells with significant and expensive hazards to address. Nevertheless, this does show that LORA is fulfilling its role as a supplement to the OSR.

The Hawkeye Wells

A specific example of the benefit of LORA's operations to the state is the Hawkeye Drilling Co. ("Hawkeye") wells. LORA provided Hawkeye with financial security in the amount of \$50,000.00 to cover seven (7) wells on an up-to-ten well blanket. Hawkeye was orphaned by the OOC, and LORA reached out to local Louisiana contractors to get bids on plugging the wells. During this process, the OOC indicated that there was another orphan well (not previously covered by LORA) in the same vicinity of the Hawkeye wells and asked that LORA plug this well as part of the project.

LORA determined that it would cost LORA approximately \$200,000.00 to properly P&A all the seven (7) Hawkeye wells plus the additional well. Any other financial security provider would have written a check to the OOC for \$50,000.00 and let the OOC and the Louisiana taxpayers cover the remaining \$150,000.00 (or more) it would cost to P&A these wells. However, LORA is specifically structured to actually P&A wells, and it has an annual budget dedicated to this function.

Therefore, LORA used a part of its annual P&A budget to spend the \$203,000.00 it ultimately cost to P&A wells. All eight (8) of the Hawkeye wells were properly plugged and abandoned in a timely manner by LORA.

LORA Reporting

LORA provides the OOC with an Annual Report each year. As shown in those reports, LORA plugged 57 total wells in calendar year 2022 and 52 total wells in calendar year 2023.

LORA has also begun providing the OOC an annual P&A budget report with more information regarding P&A operations. As noted above, the FY 2022 report shows that LORA plugged 88 wells under the 2022 P&A budget. To date, LORA has plugged 21 wells from the 2023 P&A budget so far, and 2023 P&A is ongoing.

LORA is glad to provide the OOC with any additional reporting or information it may require.

Additionally, LORA recently met with the LLA on more than one occasion in connection with the LLA's ongoing audit of orphan wells in Louisiana. In an effort to assist the LLA with its audit of the orphaned well program in Louisiana, we have also voluntarily provided the LLA with extensive information and documentation regarding LORA and its operations.

¹⁷ These OSR numbers were provided by a third-party researcher based on publicly available information.

Improving LORA

LORA is a unique and innovative concept. We are proud of the work we have done to provide financial security to Louisiana operators and to plug orphan wells in the state. LORA has plugged all of these wells using Louisiana contractors *without the use of any public funds* at no cost to the state or its taxpayers – this frees public dollars to plug other wells, and it benefits the state of Louisiana, as well as the environment.

LORA is open and eager to work with the DENR and the OOC to improve the LORA program. LORA was created by a prior OOC administration based on the needs and requirements deemed most important by that administration. We welcome the opportunity to address any concerns of the current administration. We believe LORA is part of the solution to the orphan well issue currently and going forward on a long-term basis, but we recognize it must adapt and improve to continue to be that solution.

As evidenced by our willing compliance with the current LLA audit, LORA is open to amending its Cooperative Agreement to authorize audits of LORA by the LLA, but we do not believe that LORA should bear the cost of such audits.¹⁸

We also believe the LLA will have some suggestions for improving the LORA program. We are open to meeting with the DENR and the OOC to go through those suggestions and address them as appropriate.

We also have a number of other points we would like to discuss with DENR and OOC that we believe, based on lessons learned from the past several years of operations, could improve LORA. Of course, we want to hear any DENR and OOC suggestions for improvement, as well.

LORA Can Do More

Finally, we believe there is more that LORA can do to aid the OSR and the OOC in addressing the issues concerning the oil and gas industry in Louisiana. We understand that HB 810 (Geymann) is currently proceeding through the legislature, and if enacted, the new law will not only provide for the reorganization of the DENR, but it will also create the Louisiana Natural Resources Trust Authority ("LNRTA") which will be empowered and authorized to develop a strategic plan outlining the financial challenges facing energy and natural resources-related projects in the state, and the plans and goals for addressing those challenges.

LORA has been a success for the industry, the state and the environment. We believe we have more to offer the DENR, the OOC and the LNRTA in addressing the financial challenges of the natural resources industry.

For example, LORA analyzes the orphan wells of its clients seeking ways to move those wells to other operators and has successfully done so on previous occasions. LORA maps out nearby

¹⁸ LORA has no objection to being subject to the LLA audit authority; however, we do not agree with the suggestions of the previous OOC administration that LORA is "out of compliance" because the Cooperative Agreement does not currently have such a provision. LA. R.S. 30:4(T) is not retroactive and thus does not expressly apply to LORA.

operators to its client's orphan wells and encourages those other operators to pick up the orphan oil, gas and saltwater disposal wells that are still viable to avoid having good wells plugged and preventing additional wells from being added to the orphan well list. LORA has also sought alternative ways of plugging orphan wells. We have worked with a third-party that is currently seeking to generate carbon credits from plugging a few LORA orphan wells.

We believe we can expand the above operations here to include all orphan wells in the state, not just former LORA clients. This will free LORA to use more of its annual plugging budget on truly nonviable wells and decrease the number of wells otherwise on the OSR orphan well list.

LORA is also aware of a number of marginal conventional wells that may be available for consideration for the Methane Emissions Reduction Program ("MERP") under the federal Inflation Reduction Act. We would like to discuss the extent to which LORA could help the DENR and the OOC with facilitating the MERP program in Louisiana.

Finally, LORA is eager to discuss possible innovations in financial security pricing and P&A funding that the OOC could implement in pilot programs through LORA. Potential concepts like this could include:

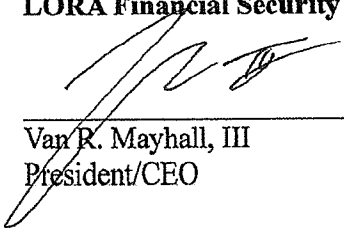
- Single-well SSTAs (rather than blankets) to provide more accurate estimates of the amount of actual financial security required to P&A each specific well.
- A fixed, limited term rate funding earmarked to a specific well that would fulfill the full future P&A liability of that well that would secure the well even if/when it was transferred to another operator.
- Any other similar models to better secure P&A liability and protect the state.

Conclusion

LORA is a public-private partnership created and operated according to the guidelines and requirements laid out by the OOC in the OOC Report and the Cooperative Agreement. LORA is open and eager to work with the DENR and the OOC to improve the LORA program, and we are looking forward to doing more to assist the state and the industry in dealing with the many challenges we are all currently facing in the oil and gas industry.

Sincerely,

LORA Financial Security



Van R. Mayhall, III
President/CEO

TYLER PATRICK GRAY
SECRETARY

DUSTIN H. DAVIDSON
DEPUTY SECRETARY



MARK NORMAND, JR.
UNDERSECRETARY

MANNY ACOSTA
OIL SPILL COORDINATOR

KEITH O. LOVELL
ASSISTANT SECRETARY
COASTAL MANAGEMENT

AMANDA MCCLINTON
ASSISTANT SECRETARY
ENERGY

ANDREW B. YOUNG
ASSISTANT SECRETARY
MINERAL RESOURCES

STEVEN M. GIAMBRONE
INTERIM DIRECTOR
CONSERVATION

DEPARTMENT OF ENERGY AND NATURAL RESOURCES

December 10, 2024

Van Mayhall, III, President
Louisiana Oilfield Restoration Association, Inc.
P.O. Box 82016
Baton Rouge, LA 70884

via U.S. Mail and e-mail to
vanmayhall@lora-inc.com

RE: Request for Records and Information

Dear Mr. Mayhall,

As you are likely aware, the Louisiana Department of Natural Resources ("LDENR") and the Louisiana Oilfield Restoration Association ("LORA") are the focal point of two reports recently issued by the Louisiana Legislative Auditor – one scrutinizing the Office of Conservation's oversight of LORA, and the other providing a progress report on the State's efforts to address orphan wells. LDENR has also been monitoring media reports that LORA had custody of funds that may have been used to purchase a private residence for an individual who was in a position to have influence on matters related to LORA. In light of these reports, it is of vital importance that LDENR confirm LORA's compliance with and accomplishment of goals and objectives set forth in the cooperative endeavor agreement executed between LORA and former Commissioner of Conservation Richard Ieyoub in November of 2019. Accordingly, LORA must provide the following records, documentation, information, and requested answers to LDENR no later than the due dates provided below.

REQUEST FOR RECORDS – Due Date of December 23, 2024:

1. Copies of banks statements and/or investment statements for LORA's reserve account from September 30, 2019 to October 31, 2024;
2. Copies of bank statements and/or investment statements for LORA's operating account from September 30, 2019 to October 31, 2024;
3. Copies of bank statements and/or investment statements for any other accounts in which "Fees" from oil and gas operators collected in exchange for Letters of Credit or membership as outlined in the 2019 CEA have been deposited from November 4, 2019 to October 31, 2024;
4. Copies of records showing any payment or transfer of funds from or to LORA (including any bank accounts in the name of LORA) from or to Arkus Management Services, LLC; Chromos Wealth Solutions, LLC; Willow Lake Well Services; and Silver Bell Services, LLC (including any bank accounts in their respective names); and
5. Copies of any records associated with withdrawals by counter check from those accounts referenced in items 1-3 above occurring between November 4, 2019 to October 31, 2024.

REQUEST FOR INFORMATION - Due Date of January 13, 2025:

1. Does LORA actively monitor the obligors of their letters of credit for financial health to alert them of potential problems? If so, how?
2. What is LORA's method(s) for determining and mitigating financial risks?
3. As for investment of funds collected by LORA, does LORA have (or has it previously had) a written investment policy or guidelines? If not, what guides LORA's investment decisions? Is LORA acting as its own fiduciary or is LORA employing an outside firm to advise and perform these duties? If LORA is employing an outside firm, provide the name and address of the firm, and the name and contact information for the responsible account officer. Please provide a copy of LORA's written investment policy or guidelines, if there are any.
4. Are operator obligors being charged different rates by LORA for provision of an LOC? If so, what are the bases for determining this rate?
5. Has LORA required any of its current client operator obligors to provide collateral? If so, how has LORA perfected or secured an interest in such collateral and how has LORA determined whether the collateral was appropriate or adequate?
6. How has LORA determined if any applicants for an LOC from LORA have outstanding compliance issues and what, if any, are the cure periods or remedies for such violations?
7. If LORA plans to change its past practices going forward for any of the items in Request for Information #1 – 6, provide specific information about those proposed changes.
8. Provide a list of current and past owners and officers of LORA.

Please provide the above records and information to:

Secretary Tyler Gray
La. Department of Energy & Natural Resources
c/o Ha Lewis, Internal Auditor
617 North Third Street, 12th Floor
Baton Rouge, Louisiana 70802

OR

Via e-mail to Ha.Lewis@la.gov

Yours very truly,



Tyler Patrick Gray
Secretary



January 10, 2025

Secretary Tyler Gray
Department of Energy and Natural Resources
State of Louisiana
Post Office Box 94396
Baton Rouge, Louisiana 70804-9396

**RE: LORA Financial Security
Request for Records and Information
Part II (Due January 13, 2025)**

Dear Secretary Gray,

Your letter of December 10, 2024 to Louisiana Oilfield Restoration Association, Inc. d/b/a LORA Financial Security ("LORA") requests certain records and information regarding LORA (the "Request"). On December 20, 2024, LORA made certain records and information available for inspection to the Department of Energy and Natural Resources ("DENR") responsive to Part I of your Request (those records and information requested by the due date of December 23, 2024). At the request of DENR, LORA made the same records available for subsequent inspections in January 2025.

LORA hereby provides you with its responses to Part II of the Request (those records and information requested by the due date of January 13, 2025), as follows:

- 1. Does LORA actively monitor the obligors of their letters of credit for financial health to alert them of potential problems? If so, how?*

Yes, LORA generally monitors the operations, well status, compliance issues and production of clients¹ on an ongoing basis. LORA's standard process here, as initially suggested by former Commissioner Richard Ieyoub of the Office of Conservation ("OOC") at LORA's inception, is that an operator in compliance with the OOC rules and regulations and that has active wells producing oil and/or gas, is a good operator which will be a good client for LORA.

Before taking on an operator as a new client, LORA reviews the operator's public information listed on the SONRIS data portal. LORA's first concern is to determine if the potential client has any outstanding compliance issues with OOC. LORA does not take on any new client if LORA is aware of an outstanding compliance issue.²

¹ LORA generally refers to obligors of their letters of credit as "clients" and will use this term herein.

² LORA has received, on at least one occasion, approval by OOC to make an exception to this rule and engage a new client operator with an outstanding compliance issue when the compliance issue was considered minor and in the process of being addressed.

If an operator has compliance issues, LORA directs the operator to OOC to address those issues prior to providing financial security for that operator.

LORA also uses SONRIS to review the historical productivity of the wells of potential new operators to determine their general commercial viability. This includes the depth, location, sands perforated, number of wells under the lease, and other relevant information. LORA reviews any past history of compliance issues of the operator. If LORA has any concerns with any of these issues, LORA reaches out to the prospective client regarding those issues and what the operator intends to do to address them.

LORA frequently assesses the prospective operator's experience in the oil and gas industry, its financial capacity and its business and maintenance plans with respect to the wells. LORA often reaches out to the local OOC district offices ("District Offices") for additional information on the prospective operator and/or the wells at issue in these situations.

For example, if a review of the SONRIS data indicates that some of the prospective client's wells do not have current Lease Facility Inspection Reports ("LFIRs") or have unresolved deficiencies, LORA works with the prospective client and the local District Office to get updated LFIRs on the wells to be covered and resolve any deficiencies.

On certain well concerns, LORA works with third-party consultants and/or current clients that have familiarity with the prospective wells and/or operator at issue.

LORA also generally monitors ongoing compliance and production issues of its current clients. LORA typically makes these reviews when the client's fee payments are due but may review clients at any time or if an issue is raised by OOC. Any time a client seeks to add additional wells to its coverage, LORA commonly reviews both the new wells and the current wells for productivity, compliance and other issues, such as aged LFIRs or unresolved deficiencies.

If LORA notes any issues of potential concern from its monitoring of current clients, it may reach out to the client directly. For example, if LORA detects that a client has a large percentage of status changes to their well portfolio, LORA often contacts the client to determine how the client plans to get the wells back in active status, plug the wells or otherwise address them (transfer to another operator, etc.). If LORA detects that a client has wells with compliance issues, including unresolved organizational red flags, LORA requests that the client address the compliance issue as soon as possible. Depending on the particular issue, LORA may also reach out to the respective District Office or DENR employees for additional information regarding the issue.

Addressing the financial health of its current and prospective clients is something LORA has long sought to discuss and address with DENR and OOC.

When LORA was formed, OOC and former Commissioner Ieyoub envisioned LORA as a “financial security provider of last resort.” In OOC’s 2018 Report (the “2018 OOC Report”) to former Governor John Bel Edwards, in which the concept of LORA was first proposed, the OOC noted its concerns that the costs for financial security were prohibitively expensive and, in some areas, completely unavailable from traditional financial security providers.³

Thus, from its inception, LORA generally sought to provide financial security to any operator seeking coverage, with some exceptions – such as clients with compliance issues, etc.⁴ More than one of LORA’s clients have expressed their gratitude for LORA and acknowledged the vital important role of LORA in their operations.

Subsequently, LORA met with former Commissioner Monique Edwards once on September 21, 2023, regarding the LORA program and possible improvements thereto. In that meeting, Commissioner Edwards questioned the original “financial security provider of last resort” vision with respect to the LORA program. LORA followed up that meeting with a letter to OOC on October 30, 2023, suggesting a number of possible improvements to the LORA program.⁵ One of those suggested improvements was increased scrutiny of current and potential LORA clients. While LORA did not receive a response to that letter, LORA has worked to increase its active monitoring of current and potential clients.

Again, this is an issue LORA has been eager to discuss with DENR and OOC, as well as the Natural Resources Trust Authority (“NRTA”), to determine their expectations and concerns, as well as strategies and solutions to address these issues.

2. *What is LORA’s method(s) for determining and mitigating financial risks?*

LORA’s primary financial risk is clients that are unable to pay their annual fees and maintain their financial security through LORA. These clients are typically orphaned by OOC for failure to secure or maintain financial security, and LORA then becomes responsible for addressing their wells.

The primary way LORA determines and mitigates this risk is set forth under the response to Item 1 above: analysis and monitoring of potential and current clients, their wells and productivity. The concerns raised in the response to Item 1 above also complicate LORA’s ability to mitigate financial risk here.

³ *Report on Oil and Gas Wells and Management of Orphaned Wells*, Prepared for the Office of the Governor, John Bel Edwards, Governor, by the Office of Conservation, Richard P. Ieyoub, Commissioner, July 31, 2018; page 27.

⁴ Of course, neither LORA nor OOC intended for LORA to have no discretion in providing financial security – LORA would not take on an operator with major compliance issues or currently in bankruptcy, for example, if it was aware of those issues.

⁵ A copy of that letter is attached hereto as **Exhibit A**.

With respect to orphaned wells covered by LORA, LORA undertakes a number of efforts to mitigate its financial risks. For example, after it receives notice that a client's wells have been orphaned, LORA actively reaches out to operators in the same or adjacent fields of those wells to determine their interest in taking over those wells. If a new operator takes over an orphaned well, that well is removed from the orphaned well list and LORA does not need to address it, allowing its plugging budget to be directed to other orphaned wells.

LORA has also worked with other third parties interested in plugging orphaned wells, such as companies seeking to plug wells using their own funds in order to generate carbon credits.

Another effort that LORA has undertaken to mitigate its financial risks is restricting and analyzing the type of financial coverage it provides. From inception, LORA took on a number of wells through "by depth" financial coverage. Typically, this translates to \$2 per foot of depth of a land well for the financial security. As the oil and gas industry and the general economy have changed over the last few years, it has become increasingly difficult to address an orphaned well for anything near \$2 per foot.

Thus, LORA stopped taking new clients "by depth" and began restricting them to blanket financial security instruments.⁶ LORA has also sought to replace the "by depth" coverage of certain current clients to coverage by blanket instrument.

LORA has also stopped offering new "unlimited" blankets for wells. LORA's rate structure was generally designed for smaller and medium-sized operators. An operator seeking to cover 3,000 land wells on a \$500,000 unlimited blanket is not economically viable under LORA's current rate structure. Although LORA does have some unlimited blankets from earlier clients, LORA has begun reaching out to some of these clients to restructure these agreements and replace the unlimited blankets with limited blankets for financial security.

LORA has generally avoided open water wells, even from its early years, although it does currently cover certain open water wells. This is because it is extremely expensive to plug an open water well, generally much more than the total financial security required for such a well. At this time, LORA generally no longer takes on new open water wells.

Further, LORA has increased its scrutiny of new inland water wells. Again, this concern has risen because of the continually increasing cost to actually plug inland water wells. Access problems, well depth, well age, weather restrictions, environmental hazards, boat travel and even scuba diver costs are just a few examples of circumstances that drive up the costs to plug these wells significantly.

The increasing cost of plugging wells in general is another risk LORA looks forward to working to address and develop strategies and solutions with DENR/NRTA.

⁶ LORA has taken one "new" client by depth recently, but it is one well operated by the same principals behind a long-standing current "by depth" client under special circumstances.

Additionally, LORA makes decisions about prioritizing orphaned wells – seeking to address those wells that are non-commercially viable before using its funds to plug a commercially viable well from which another operator may be able to generate production.

When LORA began its plugging operations (under Phase Two of its operations set forth in the CEA), LORA only had a few LORA operators that had been orphaned by OOC, so it did not have a significant number of wells to address at that time. Thus, LORA worked with the OOC and its District Offices to find unsecured orphaned wells that LORA could plug with its annual plugging budget under the CEA.

Additionally, certain of the secured LORA wells that were orphaned at that time appeared to be economically viable with certain operators interested in possibly taking over said wells. Thus, a significant amount of LORA's first annual plugging budget was directed at unsecured non-LORA orphaned wells. However, as time passed, additional LORA clients were orphaned, and LORA began shifting the vast majority of its plugging budget to LORA orphaned wells.

OOC approved LORA's plugging of each well plugged by LORA since its inception. LORA has also addressed certain high-risk wells identified by the OOC on an expedited basis. LORA has historically worked with OOC and the DENR to prioritize the plugging of orphaned wells out of its annual plugging budget and seeks to continue to do so.

Financial liability is a risk associated with any financial security provider. Few, if any, traditional financial security providers maintain reserves on a one-to-one basis to address such financial liabilities. The \$5 million Special Reserve maintained by LORA was set under the CEA with OOC, and LORA has previously suggested to OOC that this Special Reserve may need to be increased.⁷

LORA currently has approximately \$150 million in financial security with OOC. LORA funds its obligations to address the financial liabilities that may come due under this financial security on an ongoing basis from its annual plugging budget. As long as LORA is able to generate material revenue from providing financial security, it can continue meeting its obligations to address orphaned wells on a successive basis.

Another potential risk to LORA is outside political or public pressure to address orphaned wells on an unreasonable timetable.

LORA has efficiently addressed orphaned wells on a relatively timely basis. Some projects have taken more time than others for various reasons. Plugging wells is often a very lengthy and involved process. It can easily take from 6 months to 2 years to develop procedures, seek quotes to perform the job, acquire the permits, mobilize the equipment, perform the job, demobilize the equipment, perform site clearance, and have the state provide the final inspections to declare the site fully abandoned. A number of factors can contribute to delays, such as well site access, weather, landowner concerns, well prioritization, etc.

⁷ See, for example, the letter to OOC, October of 2023, attached as Exhibit A.

Therefore, LORA may need time to address large financial security obligations. LORA has thus far generally addressed its obligations in a timely manner on par with the OSR program.

Additionally, if some major catastrophes were to occur, LORA's ability to address a massive financial security obligation may be compromised. However, this exact same risk is faced by any traditional financial security provider.

As long as LORA is generating material revenue, it will be able to continue funding its annual plugging budget and spending that budget to address orphaned wells.

LORA notes that the "tentpole" client strategy discussed in more depth in response to Item 4 hereof may also be a risk to LORA if the oil and gas industry and the general economy continues to decline.

LORA is further subject to general business risks like any other private business, such as operational risk, legal risk, general business and economic risks, and so forth. LORA maintains appropriate insurance to address these risks to the extent possible to do so.

3. *As for investment of funds collected by LORA, does LORA have (or has it previously had) a written investment policy or guidelines? If not, what guides LORA's investment decisions? Is LORA acting as its own fiduciary or is LORA employing an outside firm to advise and perform these duties? If LORA is employing an outside firm, provide the name and address of the firm, and the name and contact information for the responsible account officer. Please provide a copy of LORA's written investment policy or guidelines, if there are any.*

LORA does not currently have a written investment policy, but it does have certain unwritten guidelines it uses with respect to its investments, and LORA has contracted with Morgan Stanley Smith Barney LLC ("Morgan Stanley") to provide investment services and advice.⁸

When LORA was first created at the end of 2019, its cash flow was relatively low and interest rates were extremely low. Thus, LORA was primarily focused on protecting its assets. LORA's funds were maintained in its two accounts with Investar Bank, National Association ("Investar"). In August of 2020, LORA opened an investment account with Morgan Stanley. LORA's central directive to Morgan Stanley was to invest the funds in safe investments that would protect the assets.

⁸ Contact information for Morgan Stanley: Sergio D. Collette, CFP, Vice President, Financial Advisor, The Feld Weinstein Group, Morgan Stanley Wealth Management, 225.237.3119, Sergio.Collette@morganstanley.com, 400 Convention St. Suite 400, Baton Rouge, LA 70802

LORA operates as a not-for-profit C corporation. Other than the \$5 million special reserve (the “Special Reserve”) required under the Cooperative Endeavor Agreement with OOC (the “CEA”), LORA does not generally maintain significant assets for investment over a long period of time. LORA maintains a cash reserve in its Investar operating account to meet its ongoing obligations to address orphaned wells on an annual basis.

Initially, in Phase One of its operations, every dollar LORA received as “Fees” under the CEA for providing financial security was split: 80% was allocated to fund the Special Reserve and 20% was allocated to administrative fees.⁹ As noted above, LORA opened the Morgan Stanley Account in August of 2020 to pool the majority of the assets allocated to the Special Reserve. When the Special Reserve reached \$5 million, LORA entered Phase Two of its operations: 64% of every dollar it received in fees was allocated to an annual plugging budget to address orphaned wells, and 36% was allocated to administrative fees.

LORA works to expend its annual plugging budget efficiently and effectively. LORA’s goal is to expend the plugging budget collected from any particular year within 12 to 24 months of that collection year. Those funds are generally maintained in LORA’s Investar operating account to facilitate cash flow.

In addition, LORA has made certain loans to its management company, Arkus Management Services, LLC (“Arkus”) and Chromos Wealth Solutions, LLC, for investment purposes.

In its October 2023 letter to the OOC, LORA proposed amending the CEA to require LORA to maintain at least 75% of the Special Reserve solely in those investments permitted under La. 33:2955, which governs the permitted investments by political subdivisions of the state. While LORA is a private company and not a political subdivision of the state, LORA asserted in that letter that using those guidelines would address the safety, security and future availability of the Special Reserve. LORA did not receive a response to that suggestion.

Generally, LORA has sought to invest the majority of the Special Reserve in relatively short-term investments at moderate interest rates with the primary goal of protecting the principal. Currently, more than 90% of the Special Reserve is invested in the Morgan Stanley Institutional Liquidity Funds Treasury Securities Portfolio fund which Morgan Stanley represents qualifies as a “government money market fund” under federal regulations.¹⁰ A “government money market fund” is a money market fund that invests at least 99.5% of its total assets in cash, securities issued or guaranteed by the United States or certain U.S. government agencies or instrumentalities and/or repurchase agreements that are collateralized fully by the foregoing.¹¹

⁹ The administrative fees were paid to Arkus Management Services, LLC, under the management agreement between LORA and Arkus.

¹⁰ As of the date of this correspondence.

¹¹ As set forth in the *Morgan Stanley Institutional Liquidity Funds Prospectus*; February 28, 2024; page 18. In addition, this fund has adopted a policy that provides, under normal circumstances, at least 80% of the fund’s assets will be invested in U.S. Treasury obligations, which are backed by the full faith and credit of the United States. Our understanding is that, as of 01/09/25, approximately 100% of the fund’s assets are invested in such U.S. Treasury obligations.

4. *Are operator obligors being charged different rates by LORA for provision of an LOC? If so, what are the bases for determining this rate?*

Approximately four (4) of LORA's clients are being charged a rate less than the maximum 3.5% rate set by the OOC under the CEA. Generally, these lower rates were determined by negotiation with the client, considering the amount of business the client was bringing to LORA, as well as the fees the client was being charged by its previous financial security provider.

One of LORA's main purposes is to provide affordable financial security to small and medium oil and gas operators in Louisiana. Its other main purpose is to use private industry funds from financial security to plug orphaned wells in the state. To accomplish both of these goals, and as originally envisioned by the OOC, LORA sought a certain number of larger "tentpole" clients – large commercial oil and gas operators that do a significant amount of business in Louisiana and generate significant revenue from that business.

These larger operators often operate in multiple states and can obtain financial security at a much more competitive rate than small operators in Louisiana. The concept was that LORA secure large tentpole clients with productive wells such that, even if the company itself were to have financial issues, the covered wells would have a large enough production value that another operator would come in and purchase the wells rather than having the wells go orphan.

This also has the advantage of bringing in significant amounts of additional revenue to the LORA program, increasing the amount of assets available for plugging orphaned wells in Louisiana and effectively subsidizing the smaller "mom and pop" operators in the state.

Therefore, on a few of these larger tentpole clients, LORA has offered rates more in line with the competitive rates these larger clients could find in the open market. Even at the reduced rate, these tentpole clients still generate significant revenue to fund LORA's plugging efforts in Louisiana.

LORA has previously suggested to OOC in its October 2023 letter that the CEA should be amended to increase the maximum rate it can charge for financial security. Although no response was received to that letter, LORA looks forward to working with DENR/NRTA to address this issue, as well as the tentpole client strategy.

5. *Has LORA required any of its current client operator obligors to provide collateral? If so, how has LORA perfected or secured an interest in such collateral and how has LORA determined whether the collateral was appropriate or adequate?*

No, LORA does not currently require its clients to provide collateral.¹² At its inception, the general business plan of LORA as conveyed by the administration of OOC at the time was that LORA would provide affordable financial security to operators on an annual fee basis.

In its 2023 letter to OOC, LORA suggested beginning to require collateral from potential clients based on the amount of financial security at issue and other reasonable factors. LORA received no response to that suggestion.

LORA looks forward to working with DENR/NRTA to develop guidelines regarding collateral requirements for LORA clients.

6. *How has LORA determined if any applicants for an LOC from LORA have outstanding compliance issues and what, if any, are the cure periods or remedies for such violations?*

As noted in the response to Item 1, LORA reviews compliance issues of potential clients and generally does not engage new financial security for operators with outstanding compliance issues. LORA periodically monitors current clients and addresses compliance issues that it may detect as otherwise set forth in the response to Item 1 above.

While this topic addresses “applicants” to the LORA program, LORA notes the current lack of enforcement tools it has to address current clients with compliance issues.

Due to the particular nature of financial security for oil and gas operators in Louisiana, LORA remains obligated to provide financial security for covered wells until the operator engages replacement financial security for those wells – either through another financial security provider or in a deposit with OOC. Thus, even if LORA determines that a current client is in financial difficulty or has significant compliance issues, LORA cannot simply cancel the financial security and terminate its obligation to cover those wells.

LORA looks forward to working with DENR/NRTA to develop strategies and solutions to address this issue.

¹² LORA is in negotiations with one operator at the time of this letter and has requested a deposit to secure its obligations under the draft agreement based on the size and relative risk of the wells at issue. LORA also required a deposit in cash from a former client based on the size of the financial security and risk of the wells at issue.

7. *If LORA plans to change its past practices going forward for any of the items in Request for Information #1—6, provide specific information about those proposed changes.*

LORA was conceived, as far back as the 2018 OOC Report, as a supplement to the OOC's OSR program. Attached as **Exhibit B** hereto is a detailed discussion of the history and background of LORA and the impetus behind its creation, for additional information.

LORA is a private company created and dedicated to assisting DENR in its efforts to plug orphaned wells in Louisiana, and to provide financial security to Louisiana oil and gas operators. LORA has always sought to follow the direction of the OOC in its operations.

For over a year, LORA has repeatedly sought direction from the OOC regarding a number of issues, as LORA did not want to independently make significant changes to its operations without conferring with OOC on these issues. In addition to the October 2023 letter to the OOC, LORA also sent a letter to the OOC in May of 2024 reiterating LORA's desire to work with the OOC to improve the LORA program, including some suggested additional efforts LORA may be able to undertake to further assist OSR and its OSR program.¹³ Recently, the DENR has directed LORA to meet with the NRTA to discuss these issues, and LORA looks forward to doing so.

It is very important to LORA and LORA's management to make these changes in coordination with OOC, as well as DENR/NRTA, and their vision for LORA.

As noted in the previous responses, there are a few areas that LORA has begun making some strategic changes, and several more areas LORA would like to make further changes. Those areas include, but are not limited to, the following:

- Working with DENR/NRTA to determine the extent of LORA's discretion in taking on new clients – i.e., whether LORA should remain the “financial security of last resort” envisioned by Commissioner Ieyoub, accepting essentially all operators who are in good standing with OOC, or if LORA may scrutinize potential clients more rigorously and reject those that do not meet certain guidelines agreed upon between LORA and OOC.
- Working with DENR/NRTA to determine what additional mechanisms and enforcement protocols LORA and/or DENR/NRTA could employ to address current LORA clients that develop financial hardship or compliance issues.
- Developing guidelines acceptable to DENR/NRTA regarding the investment and protection of the Special Reserve and further discussing the issue of the adequacy of the current amount of the Special Reserve.

¹³ A copy of this letter is attached hereto as **Exhibit C**.

- Amending the CEA to increase the maximum rate LORA is authorized to charge its clients and developing guidelines with DENR/NRTA for implementing new rates.
- Discussing LORA's authorization to require collateral from clients and developing guidelines with the DENR/NRTA for how/when LORA determines, requires, protects and employs such collateral moving forward.
- Discussing increased reporting to the DENR/NRTA to provide additional information regarding LORA and its operations.

In addition to the foregoing, the recent performance audit report regarding LORA (the "LLA Report") issued by the Louisiana Legislative Auditor ("LLA") touched on a number of topics.¹⁴ LORA believes many of these findings are opportunities for improvement to the LORA program with DENR/NRTA. LORA looks forward to working with DENR/NRTA on the following issues, among others:

- Developing a contingency and wind-down plan with DENR/NRTA to address financial and safety risks to the state if the CEA is terminated or LORA cannot cover its obligations.
- Formalize guidelines with DENR/NRTA for prioritizing the wells on which LORA spends its annual plugging budget, as well as developing timelines for the expenditure of the annual plugging budget. The drastic difference in cost between plugging a land well in North Louisiana and plugging an inland water well on the gulf coast of Louisiana has a significant effect on the number of wells LORA is able to plug using its annual budget. A number of other factors must be considered in prioritizing wells to be plugged, such as the economic viability of the well, accessibility to the well and the environmental impact of the well, just to name a few. LORA seeks to work with DENR/NRTA to develop a strategy suitable to address these concerns and maximize LORA's annual plugging budget.
- Developing guidelines with DENR/NRTA with respect to transferring viable secured orphaned wells to new operators, including criteria and processes related to determining secured orphaned wells' viability.
- Developing guidelines with DENR/NRTA for the provision of SSTAs by LORA and mitigate risks associated therewith.
- Discussing with DENR/NRTA if some or all of the interest generated by the investment of the Special Reserve should be devoted to plugging orphaned wells and amending the CEA to clarify same.

¹⁴ *Oversight of the Louisiana Oilfield Restoration Association's Efforts to Address Orphaned Oil and Gas Wells; Office of Conservation – Department of Energy and Natural Resources; Louisiana Legislative Auditor Performance Audit; October 2024; Audit Control 40240018.*

- Developing guidelines with DENR/NRTA regarding “high-risk” operators and scrutinizing potential clients.
- Developing guidance with DENR/NRTA regarding the terms or conditions under which the Special Reserve should be accessed to plug orphaned wells to help LORA protect its ability to fulfill long-term obligations while also preventing unnecessary delays to plugging orphaned wells.
- Develop additional metrics with DENR/NRTA for reporting LORA’s cost to plug wells as well as the specific characteristics of wells plugged.

One of the driving forces behind the development of the LORA concept by the OOC was the difficulty the OOC had previously faced in collecting financial security from traditional financial security providers. As the 2018 OOC Report states:

In practice, collecting the financial security from financial institutions has proven to be difficult. Most financial institutions would far sooner challenge [OOC’s] claim than pay what they owe. In one instance, a bank itself went bankrupt and the FDIC refused to honor the two hundred fifty thousand dollar (\$250,000) letter of credit. As a result, the average amount of financial security collected each year is about two hundred thousand dollars (\$200,000). Requiring industry to pay annual premiums of twenty-two point six million (\$22,600,000) seems excessive for an annual two hundred thousand dollar (\$200,000) return.¹⁵

Rather than send millions of dollars in premiums to out-of-state financial institutions to build up large reserves and hope those financial institutions would honor their commitments, LORA was designed to actively plug wells on an ongoing and annual basis. That is why 64% of every dollar LORA receives from its financial security Fees is directed to its annual plugging budget to address orphaned wells.

LORA’s directive to plug wells has benefited Louisiana and its citizens. A specific example of the benefit of LORA’s operations to the state is the Hawkeye Drilling Co. (“Hawkeye”) wells. LORA provided Hawkeye with financial security in the amount of \$50,000.00 to cover seven (7) wells on an up-to-ten well blanket. Hawkeye was orphaned by the OOC and LORA reached out to local Louisiana contractors to get quotes on plugging the wells. During this process, the OOC indicated that there was another orphaned well (not previously covered by LORA) in the same vicinity as the Hawkeye wells and asked that LORA plug this well as part of the project.

LORA determined that it would cost LORA approximately \$200,000.00 to properly plug all eight (8) of these wells. Any other financial security provider would have written a check to the OOC for \$50,000.00 and left the OOC and the Louisiana taxpayers to cover the remaining \$150,000.00 (or more) it would cost to plug those wells. However, LORA is specifically structured to plug wells with an annual budget dedicated to this function.

¹⁵ *Report on Oil and Gas Wells and Management of Orphaned Wells*; page 26.

Therefore, LORA used a part of its annual plugging budget to spend the \$203,000.00 it ultimately cost to plug these wells. All seven (7) of the LORA wells, as well as the additional non-LORA well, were properly plugged and abandoned in a timely manner by LORA.

However, the continuing increase in the cost to plug orphaned wells threatens this model. In the Hawkeye wells example, LORA's total cost to plug the wells at issue was approximately four (4) times the face amount of the financial security provided, and significantly greater than the amount of actual Fees LORA had collected from the operator regarding those wells.

In recent years, LORA has had to make some difficult decisions about how to allocate its plugging budget, including when to make a payment of the face amount of the financial security to OOC versus when to plug wells based on estimates of plugging costs significantly higher than that face amount. LORA has sought to be a good steward of its plugging budget in making these decisions, but it seeks to work with DENR/NRTA for further guidance here.

LORA looks forward to working with DENR/NRTA to develop solutions and guidelines to address these issues.

8. *Provide a list of current and past owners and officers of LORA.*

Van R. Mayhall, III	Shareholder	Director	President/CEO
Andrew Berthelot	Shareholder	Director	Treasurer/CFO
Jacob Dickinson	Shareholder	Director	Secretary/CAO/VP
Lance Chad Lott, Sr.	Shareholder	Director	COO/VP
Philip Marchiafava	Shareholder	Director	—

Conclusion

Your letter stressed that it is of vital importance that DENR confirm LORA's compliance with and accomplishment of goals and objectives set forth in the CEA. LORA agrees and looks forward to working with DENR/NRTA on these issues.

LORA notes the recent LLA Report recognizes the two main goals and objectives of LORA under the CEA: "to (1) provide affordable financial security to help more operators comply with state regulations, thereby preventing more wells from becoming orphaned, and (2) use a portion of financial security fees collected from operators to supplement OSR's efforts to plug orphaned wells."¹⁶ These two goals are the core purpose of LORA as laid out by former Commissioner Ieyoub's report to former Governor Edwards when the LORA concept was first proposed by OOC as one of several solutions to address the ongoing orphaned well issue.¹⁷

¹⁶ *Oversight of the Louisiana Oilfield Restoration Association's Efforts to Address Orphaned Oil and Gas Wells; Office of Conservation – Department of Energy and Natural Resources; Louisiana Legislative Auditor Performance Audit; October 2024; Audit Control 40240018; page 3, History of LORA, second sentence, footnotes omitted.*

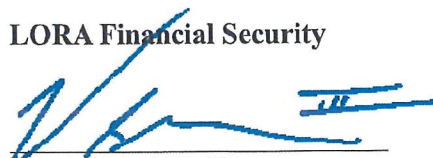
¹⁷ See the 2018 OOC Report; pages 27 to 30.

As you know, many small and medium oil and gas well operators, including “mom and pop” operators throughout the state, rely on LORA for affordable financial security that they would not likely be able to obtain from another source. Additionally, LORA has plugged a number of orphaned wells and continues to expend its annual plugging budget on an ongoing basis to address orphaned wells.

Thus, LORA has met, and continues to meet, its primary goals of providing affordable financial security and using private industry funds to plug orphaned wells. LORA very much looks forward to working with DENR/NRTA to develop strategies and solutions to address the foregoing concerns and improve the LORA program to the benefit of the state and its environment.

Sincerely,

LORA Financial Security



Van R. Mayhall, III
President/CEO

CC: Ha Louis
Ha.Lewis@la.gov



January 14, 2025

Secretary Tyler Gray
Department of Energy and Natural Resources
State of Louisiana
Post Office Box 94396
Baton Rouge, Louisiana 70804-9396

**RE: LORA Financial Security
Follow Up Request for Records and Information
Dated January 6, 2025**

Dear Secretary Gray,

Your letter of December 10, 2024 to Louisiana Oilfield Restoration Association, Inc. d/b/a LORA Financial Security ("LORA") requested certain records and information regarding LORA (the "Request"). As you know, LORA made records and information available to you and your staff in response to Part I and Part II of that Request. On January 6, 2025, you sent LORA a follow up request (the "Follow Up Request") for additional records and information. We hereby provide you with the following response to that Follow Up Request.

Your Follow Up Request included the following:

1. "Page 9 of the Legislative Auditor performance audit report titled *Oversight of the Louisiana Oilfield Restoration Association (LORA) Efforts to Address Orphaned Oil and Gas Wells* dated October 24, 2024, references "\$1.7 million in collateral that was collected in an exceptional circumstance as being 'fees accrued or received.'" Is this the remaining funds that were part of the funds set aside as part of the "Poydras Energy" deposits in the Morgan Stanley accounts? Did LORA accept any other collateral in any of their accounts, and if so, how or where is it accounted for?"

Yes, the \$1.7 million referred to in the referenced audit report is the remaining funds set aside as part of the "Poydras Energy" deposits.

LORA does not require any of its current clients to provide collateral.¹ At its inception, the general business plan of LORA as conveyed by the administration of the Office of Conservation ("OOC") at the time was that LORA would provide affordable financial security to operators on an annual fee basis. Thus, LORA does not currently have any operator collateral in any of its accounts.

¹ LORA is in negotiations with one operator at the time of this letter and has requested a deposit to secure its obligations under the draft agreement based on the size and relative risk of the wells at issue.

2. "The 12 month financial reports previously provided by LORA for 2020 and 2021 contain a balance sheet and a profit and loss sheet. These were not provided in the 2022 or 2023 reports. Please provide the same for those reports."

LORA prepared balance sheets and profit and loss sheets for 2022 and 2023, and submitted them to you by electronic mail on January 10, 2025. LORA will also make copies of those sheets available for inspection.

3. With reference to the \$780,000 investment with Chromos Wealth Solutions, you asked us to "Please provide the transactions that show the return of the principal and interest earned to the Reserve Fund, as well as a copy of the monthly statements provided from Chromos to LORA for the investment."

We have made available for inspection the records showing the \$780,000 Chromos investment being transferred out of LORA's account on April 14, 2023. We have also made available the records showing the return of the \$780,000 principal to LORA on August 9, 2023, October 5, 2023, and October 23, 2023. The interest earned on said investment was transferred to LORA as part of a lump sum true-up on August 13, 2024, and those records have also been made available for inspection. LORA will make specific excerpts of the documents regarding these specific transactions available for inspection.

LORA notes that the \$780,000 investment with Chromos did not reduce or "leave" the \$5 million special reserve² account allocation.

Chromos did not provide monthly statements to LORA regarding this investment as it was on an annual term.


4. Finally, did LORA make any other unconventional or non-traditional investments such as this for any of their accounts? If so, please provide the supporting documentation for those investments.

LORA will make the documentation regarding LORA's loans available for inspection.

Please let us know if you have any additional questions or concerns. With kindest regards,

Sincerely,

LORA Financial Security



Van R. Mayhall, III
President/CEO

² As required by the CEA between LORA and OOC.

John Shiroda

From: Sergio.Collette@morganstanley.com
Sent: Wednesday, January 29, 2025 3:17 PM
To: John Shiroda
Cc: vanmayhall@lora-inc.com
Subject: RE: [EXTERNAL] investment portfolio

EXTERNAL EMAIL: Please do not click on links or attachments unless you know the content is safe.

Hey John,
See answers below.

- 1.) Did you charge fees for the accounts monthly, quarterly, or annually, and if so, were the fees billed directly to LORA for payment or deducted from the accounts at Morgan Stanley?
 - a. LORA was not charged maintenance or custody fees.
- 2.) Was the fee charged for investment advice or custody, or simply per transaction?
 - a. No direct fees or commissions were charged for transactions.
- 3.) If you did not charge a fee as listed in item #1, were the only fees collected built into the purchase price of each security, meaning the firm was paid upon settlement of each security purchase?
 - a. For some investments, yes.
- 4.) Is the account a client directed account or does Morgan Stanley have discretion over the investments? If Morgan Stanley has discretion, when did they begin this role for LORA?
 - a. LORA is client directed.

Sergio D. Collette, CFP®
Vice President
Financial Advisor
The Feld Weinstein Group
Morgan Stanley Wealth Management

225.237.3119
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NMLS#509688

www.morganstanleyfa.com/thefeldweinsteingroup



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