

Date of Hearing: August 19, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

SB 47 (Limón) – As Amended June 29, 2021

Policy Committee: Natural Resources

Vote: 8 - 2

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill increases the annual expenditure limit on the Oil, Gas, and Geothermal Administration Fund (OGGAF) that provides moneys to the Geologic Energy Management Division (CalGEM) to plug and abandon hazardous or deserted wells or hazardous or deserted production facilities, and extends related reporting requirements. Specifically, beginning in fiscal year 2022-23, this bill increases the annual expenditure limit from \$1 million to \$5 million.

FISCAL EFFECT:

- 1) Potential ongoing costs of \$4 million annually due to increasing the annual spending authority for CalGEM to plug deserted wells (OGGAF).
- 2) CalGEM estimates costs of \$1,318,000 in the first year and \$1,095,000 ongoing for six positions and limited-term contract authority to administer and oversee the increased spending on plugging and abandonment of hazardous or idle-deserted wells. First year costs include \$150,000 to contract with experts to conduct financial investigations and set up appropriate forensic accounting practices (OGGAF).
- 3) OGGAF is funded by fees on oil and natural gas produced in California. Any state costs supported by OGGAF are recovered from operators of oil and gas wells.

COMMENTS:

- 1) **Purpose.** Oil and gas wells that are not operated and maintained on a regular basis present several hazards to the environment as well as public health and safety. Deteriorating wells can create a conduit for contaminants such as hydrocarbons, lead, salt and sulfates to enter freshwater aquifers and pose potential risks to surface water, air quality, soils and vegetation.

Idle and orphan wells also present a liability risk to California. Operators with a large inventory of idle wells may be postponing the cost to permanently plug and abandon the wells for financial reasons. If the operator becomes insolvent, the idle wells may become orphan wells and the state may inherit liability to plug those idle wells.

According to the author:

Without a responsible operator, taxpayers will be the funding source of last resort for environmental remediation. The 2018 California Council on Science and Technology Report estimated California might already have 5,540 wells without a viable operator, resulting in taxpayer costs ranging from \$500 million to billions of dollars. These wells are hazardous both to surrounding communities and the environment.

SB 47 is a significant step to ensure that the oil and gas industry pays for the remediation of hazards that the industry has historically left behind and those the State and taxpayers continue to inherit.

- 2) **CalGEM.** CalGEM, a division within the Department of Conservation (DOC), regulates onshore and offshore oil, natural gas and geothermal wells. Once a well or related production facility is identified as orphan, deserted or hazardous, CalGEM has multiple options to fund plugging and abandonment or decommissioning. Options include any existing and available indemnity bond or other financial surety provided by an operator covering their well or facility, seeking funds from a previous operator and using certain moneys available from three separate accounts.

Since 1976, CalGEM has had the authority to expend funds up to a certain cap from OGGAF for the plugging and abandonment of orphan wells and related facilities. OGGAF is funded by fees paid by oil and gas well operators based upon the amount of oil and or natural gas produced annually. Prior to fiscal year 2008-09, the cap was set at \$500,000 annually. The Legislature raised the cap to \$2 million annually from 2008-09 until 2014-15 when the cap was lowered to \$1 million annually. The cap was since raised to \$3 million annually. It is due to reset to \$1 million annually this fiscal year (2021-22).

Operators pay certain fees for idle wells not covered by an idle well management plan. These fees are deposited into the Hazardous and Idle-Deserted Well Abatement Fund (HIDWAF). HIDWAF moneys can be used to plug and abandon hazardous and idle-deserted wells and decommission related production facilities. In 2019, CalGEM collected about \$4.2 million in idle well fees. As of June 30, 2020, the HIDWAF account had a balance of over \$13 million. The Department of Finance subsequently made a temporary loan of \$10 million from that account to the General Fund as steps were taken to address the COVID-19 pandemic.

Moneys available from certain civil penalties deposited in the Oil and Gas Environmental Remediation Account (OGER Account) can also be used to plug and abandon orphan and hazardous wells, decommission related facilities, and remediate sites. The current baseline budget appropriation from the OGER Account is about \$200,000 annually.

- 3) **Orphaned and Abandoned Wells.** In November 2019, DOC released the first annual idle well report for calendar year 2018. Among the report's findings was a significant increase in the plugging and abandonment of idle and long-term idle wells (about 1,346 total) as intended, although over 29,000 idle wells remain, including about 17,575 long-term idle wells.

In March 2021, DOC released the second annual idle well report for calendar year 2019. Among the report's findings, the number of idle wells increased (by about 8,000) to 37,095,

while the number of long-term idle wells remained about the same at 17,560. In 2019, CalGEM identified 3,265 wells as potentially deserted because the operator failed to pay idle well fees for the associated wells.

At CalGEM's request, the California Council on Science and Technology (CCST) investigated the status of the state's oil and gas wells in order to estimate the potential cost to the state should the wells become orphaned. The potential liability to the state was estimated to be roughly \$500 million. While there are indemnity bonds in place for many of these wells, the sum of the bond amounts is much less than the likely costs to plug and abandon the wells.

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