SENATE THIRD READING
SB 47 (Limón)
As Amended September 3, 2021
Majority vote

SUMMARY

Authorizes, starting in fiscal year 2022-23, the Geologic Energy Management Division (Division) to make expenditures up to $5 million for the plugging and abandoning of hazardous or idle-deserted wells, decommissioning hazardous or deserted facilities, or otherwise remediating well sites of hazardous or idle-deserted wells.

Major Provisions

COMMENTS

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 ground water, 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. Many of these are "buried-idle" wells with antiquated, vague, or nonexistent records below densely-built and populated urban areas in southern California. Some of these wells may never result in problems or may be remediated as a condition of permitting new construction projects as downtown Los Angeles and other areas are redeveloped. However, with so many wells, some dating back to the turn of the last century, it is probable that some will present health or safety concerns. Just one or two in any given year in an urban environment has the potential to consume the Division's entire hazardous deserted idle well budget, leaving it unable to plug more than a few orphan wells every year throughout the entire state. Since 2011, the Division has plugged and abandoned 117 wells (and some attendant facilities) across the state with a total cost of over $13 million.

In March 2021, the Division 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, the Division identified 3,265 wells as potentially deserted because the operator failed to pay idle well fees for the associated wells.

In a related effort, and at the Division'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. In January 2020, the CCST report was released; it suggested that there were about 5,540 wells that were either likely to be orphaned or at high risk of becoming orphaned soon. The potential liability to the state was estimated to be roughly $500 million for these two categories alone. 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.

CCST recommended, among other things, that its methodology should be refined to improve its predictive ability, that the ownership history of wells should be assessed, and the potential environmental impacts of the orphaned wells should be investigated.

On July 15, 2020, California Resources Corp., the state's largest oil and gas production company with more than 2 million acres of reserves spanning four major basins, filed for Chapter 11 bankruptcy protection, seeking relief from $5 billion in debt and looming interest payments. According to the Desert Sun newspaper, oil and gas company bankruptcies have been rising in recent years, and the demand downturn caused by business closures and stay-at-home orders has only exacerbated the issue.

The Division is authorized to spend $3 million a year for plugging and abandoning hazardous or idle-deserted wells and decommissioning hazardous or deserted facilities. In fiscal year 2022-23, that amount will go down to $1 million a year. The Division can also spend idle well fees and penalty revenues on this work. Instead of allowing the amount to decrease to $1 million, this bill would increase it to $5 million a year permanently. In addition, this bill would extent the related reporting requirements on how the funding is spent.

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.

Arguments in Support
According to the California League of Conservation Voters, California has an idle-deserted oil well problem. When responsible oil operators become insolvent, an oil well is considered "deserted" or "orphaned" and the state is then responsible for remediating them and recouping the clean-up costs from the oil and gas industry. In California, almost 70,000 wells are at risk of being deserted because they are either idle or economically marginal. And more than 5,500 wells are deserted or have no viable operator. In 2018, a California Council on Science & Technology ("CCST") report estimated that to remediate all 70,000 idle and economically marginal wells (and the more than 5,500 deserted wells) could cost about $5.8 billion dollars to remediate. California is expected to see more deserted wells in the future. Leaving wells idle is often done out of desire to defer decommissioning costs. Some operators may eventually declare bankruptcy and forfeit any requirements to decommission their wells. When this happens, the costs of plugging and abandoning the wells get passed on to the State.

In 2022, the amount the Division can spend on remediating deserted wells will drop from $3 million per year to $1 million. This is wholly insufficient to help the State respond to the possible 5,540 deserted wells.

Arguments in Opposition
CIPA, in opposition to this bill, states its members are already funding millions upon millions of dollars for the remediation of orphaned wells. This is on top of the money our members pay to

remediate their own idle well stock according to AB 2729. And now, CIPA members are paying, by mandate of AB 1057, for what is akin to a life-insurance policy against their entire well stock via bonds to protect the state against oil companies going out of business.

Prior to requiring California's oil producers to pay more now, the Department of Finance should immediately return the $10 million they took from the Hazardous and Idle-Deserted Well Abatement Fund (HIDWAF). And, since the Governor and Legislature are contemplating another $200 million investment in this effort, those dollars should be considered before any additional dollars are taken from California producers who are already paying millions each year.

CIPA's members believe that the current body of law and high costs surrounding remediating orphaned wells is working well and does not need to be modified. Instead, the state needs to fully reimburse the HIDWAF and allow the Division to do its job of remediating orphaned wells using the money oil producers have paid towards this important effort.

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

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.

VOTES

SENATE FLOOR: 25-10-5
YES: Allen, Archuleta, Atkins, Becker, Cortese, Dodd, Durazo, Eggman, Glazer, Gonzalez, Hertzberg, Hueso, Kamlager, Laird, Leyva, Limón, McGuire, Min, Newman, Portantino, Roth, Skinner, Stern, Wieckowski, Wiener
NO: Bates, Borgeas, Bradford, Dahle, Grove, Jones, Nielsen, Ochoa Bogh, Rubio, Wilk
ABS, ABST OR NV: Caballero, Hurtado, Melendez, Pan, Umberg

ASM NATURAL RESOURCES: 8-2-1
YES: Luz Rivas, Chau, Friedman, Cristina Garcia, McCarty, Muratsuchi, Stone, Wood
NO: Mathis, Seyarto
ABS, ABST OR NV: Flora

ASM APPROPRIATIONS: 12-4-0
YES: Lorena Gonzalez, Bryan, Calderon, Carrillo, Chau, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Kalra
NO: Bigelow, Megan Dahle, Davies, Fong

UPDATED

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