

Date of Hearing: July 7, 2021

ASSEMBLY COMMITTEE ON NATURAL RESOURCES

Luz Rivas, Chair

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

SENATE VOTE: 25-10

SUBJECT: Oil and gas: hazardous and idle-deserted wells and production facilities: expenditure limitations

SUMMARY: Authorizes, starting in fiscal year 2022-23, the Geologic Energy Management Division (Division) to make expenditures up to \$5 million to plug and abandon hazardous or deserted wells or hazardous or deserted production facilities and extends related reporting requirements.

EXISTING LAW:

- 1) Renames the Division of Oil, Gas, and Geothermal Resources to the Geologic Energy Management Division (Division).
- 2) Requires the operator of any well, before commencing the work of drilling the well, to file with the Oil and Gas Supervisor (Supervisor) or the district deputy a written notice of intention to commence drilling. Specifies that if the Supervisor or the district deputy fails to give the operator written response to the notice within 10 working days from the date of receipt, that notice is considered approved. Requires the notice to be deemed canceled if operations have not commenced within one year of receipt of the notice.
- 3) Defines “production facility” to mean any equipment attendant to oil and gas production or injection operations, including, but not limited to, tanks, flowlines, headers, gathering lines, wellheads, heater treaters, pumps, valves, compressors, injection equipment, and pipelines that are not under the jurisdiction of the State Fire Marshal.
- 4) Defines "idle well" as any well that has had 24 consecutive months of not producing oil, natural gas, or water to be used in production stimulation, enhanced oil recovery, or reservoir pressure management. Defines "long-term idle well" as any well that has been an idle well for eight or more years.
- 5) Requires an operator who engages in the drilling, redrilling, deepening, or in any operation permanently altering the casing of a well, or who acquires a well to file with the Supervisor an individual indemnity bond for each well in the following amount:
 - a) \$25,000 for each well that is less than 10,000 feet deep; and,
 - b) \$40,000 for each well that is 10,000 feet deep or more.
- 6) Allows an operator to file one blanket indemnity bond with the Supervisor to cover 20 or more wells instead of individual indemnity bonds. Requires the bond to be the following amounts:
 - a) \$200,000 for 20 to 50 wells;

- b) \$400,000 for 51 to 500 wells;
 - c) \$2,000,000 for 501 to 10,000 wells; and,
 - d) \$3,000,000 for more than 10,000 wells.
- 7) Requires an operator to do one of the following:
- a) File with the Supervisor annual fees of the following amounts:
 - i) \$150 for each idle well that has been idle for three to eight years;
 - ii) \$300 for each idle well that has been idle for eight to 15 years;
 - iii) \$750 for each idle well that has been idle for 15 to 20 years; and,
 - iv) \$1,500 for each idle well that has been idle for 20 years or longer.
 - b) File an idle well management plan with the Supervisor for approval that eliminates between 4% and 6% of their long-term idle wells each year.
- 8) Requires a well to be properly abandoned before an individual or blanket indemnity bond can be terminated or canceled.
- 9) Authorizes the Supervisor to require an operator to provide an additional amount of security in an amount not to exceed the reasonable costs of plugging and abandoning all of the operator's wells or \$30 million, whichever is less.
- 10) Authorizes, until fiscal year 2022-23, the Division to make expenditures up to \$3 million to plug and abandon hazardous or deserted wells or hazardous or deserted production facilities.
- 11) Requires the Department of Conservation (DOC) to report in two separate reports to the Legislature on the number of hazardous wells, idle-deserted wells, deserted facilities, and hazardous facilities it has abandoned and decommissioned and the number remaining including the estimated costs and timelines of future abandonment.
- 12) Requires, on or before January 1, 2020, the Supervisor to do all of the following:
- a) Evaluate and estimate the costs associated with the decommissioning, including plugging and abandoning the offshore oil and gas wells under the Supervisor's jurisdiction.
 - b) If necessary, develop a schedule to increase the bond amounts or other financial surety provided by an operator of an offshore oil or gas well to ensure sufficient moneys are available to the state to decommission the well if no other entity is responsible for those decommissioning costs.
 - c) Coordinate with State Lands Commission to ensure the actions required are not duplicative and consistent with the current process of setting and adjusting bonds and securities.
- 13) Requires the Supervisor to submit to the Legislature a comprehensive report on the status of idle and long-term idle wells each year.

- 14) Requires, commencing July 1, 2022, each operator of an oil and gas well to submit a report with specified criteria to the Division that demonstrates the operator's total liability to plug and abandon all wells and to decommission all attendant production facilities, including site remediation, on a schedule determined by the Supervisor.

FISCAL EFFECT: According to the Senate Appropriations Committee (prior version of the bill):

- 1) Ongoing costs of \$9 million annually from the Oil, Gas, and Geothermal Administration Fund (OGGAF) due to increasing the annual spending authority for the Division to plug deserted wells.
- 2) Division estimates costs of \$1,062,000 in the first year and \$989,000 ongoing (OGGAF) 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.
- 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) **Author's statement:**

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) **Idle/orphan wells.** 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.

3) Related/previous legislation.

AB 896 (Bennett) requires the Supervisor to establish a collections unit within the Division. Authorizes the Supervisor to impose a claim and lien upon the real property in the state owned by any operator or responsible party of an oil or gas well under specified conditions. This bill is awaiting hearing in the Senate Natural Resources and Water Committee.

SB 84 (Limón) requires additional reporting on specified oil and gas wells and production facilities including the location of the applicable wells and facilities. This bill is awaiting hearing in the Senate Appropriations Committee.

SB 1012 (Hurtado, 2020) was almost identical to SB 84. This bill was held on the Assembly Floor.

AB 1057 (Limón), Chapter 771, Statutes of 2019, renames the Division of Oil, Gas, and Geothermal Resources to the Geologic Energy Management Division. Authorizes the Supervisor to require an operator to provide an additional amount of security in an amount not to exceed the reasonable costs of plugging and abandoning all of the operator's wells or \$30 million.

REGISTERED SUPPORT / OPPOSITION:

Support

1000 Grandmothers for Future Generations
350 Bay Area Action
350 Butte County
350 Conejo / San Fernando Valley
350 Humboldt
350 Sacramento
350 Silicon Valley
350 South Bay Los Angeles
350 Ventura County Climate Hub
Alliance of Nurses for Healthy Environments
Audubon California
Ban Sup (Single Use Plastic)
California Coastal Protection Network
California Interfaith Power & Light
California League of Conservation Voters
Center for Biological Diversity
Change Begins With Me
Citizens Climate Lobby Ventura
Clean Water Action
Climate 911
Climate First: Replacing Oil & Gas
Climate Health Now
Climate Reality Project, Los Angeles Chapter
Conejo Climate Coalition
County of Santa Barbara
Earthjustice
East Valley Indivisibles
Environmental Defense Center
Environmental Working Group
Facts: Families Advocating for Chemical & Toxins Safety
Feminists in Action
Food & Water Watch
FracTracker Alliance
Greenpeace USA
Indivisible 43

Indivisible Alta Pasadena
Indivisible CA 37
Indivisible CA-33
Indivisible California Green Team
Indivisible Media City Burbank
Indivisible Sacramento
Indivisible San Pedro
Indivisible Sonoma County
Indivisible South Bay LA
Indivisible Stanislaus
Indivisible Ventura
Interfaith Climate Action Network of Contra Costa County
Livermore Indivisible
Long Beach Alliance for Clean Energy
Los Angeles County
Los Padres Forest Watch
Mi Familia Vota
Natural Resources Defense Council
Normal Heights Indivisible
Orinda Progressive Action Alliance
Progressive Democrats of Santa Monica Mountains
Project Super Bloom
Rodeo Citizens Association
Rooted in Resistance
San Francisco Bay Physicians for Social Responsibility
SanDiego350
Santa Barbara County Action Network
Santa Barbara Standing Rock Coalition
Sierra Club
SoCal 350
SoCal 350 Climate Action
South Coast Interfaith Council
Sunflower Alliance
Sunrise Movement LA
Surfrider Foundation
Take Back Our Planet
Together We Will/Indivisible - Los Gatos
Voices for Progress

Opposition

California Independent Petroleum Association
California State Association of Electrical Workers
California State Pipe Trades Council
Western States Petroleum Association

Analysis Prepared by: Michael Jarred / NAT. RES. /