
THIRD READING

Bill No: SB 1012
Author: Hurtado (D)
Amended: 6/18/20
Vote: 21

SENATE NATURAL RES. & WATER COMMITTEE: 7-0, 5/19/20
AYES: Stern, Jones, Allen, Caballero, Hertzberg, Hueso, Monning
NO VOTE RECORDED: Borgeas, Jackson

SENATE APPROPRIATIONS COMMITTEE: 7-0, 6/18/20
AYES: Portantino, Bates, Bradford, Hill, Jones, Leyva, Wieckowski

SUBJECT: Oil and gas wells: hazardous or idle-deserted wells and facilities

SOURCE: Author

DIGEST: This bill enhances the California Geologic Energy Management Division's (division's) idle well program by instituting additional reporting requirements and requiring the division to take all reasonable steps to recover costs related to orphaned wells and equipment.

ANALYSIS:

Existing law:

- 1) Establishes the division within the Department of Conservation (department). The division is the state's oil and gas production regulator, and the division's leader is the State Oil and Gas Supervisor (supervisor).
- 2) Requires the operator of an oil and gas well, or oil and gas production facility to notify the supervisor or applicable district deputy of the sale, assignment, transfer, conveyance, exchange, or other disposition of the well or production facility as soon as it becomes final, as specified. (Public Resources Code (PRC) §3201)

- a) The acquirer also has certain associated reporting requirements to the division. (PRC §3202)
- 3) Classifies wells based upon their use.
 - a) An idle well is a well that is not in use, and has not been in use for at least 24 consecutive months, as specified. (PRC §3008)
 - b) An idle well that has no operator or other responsible party to pay for its costs becomes an “idle-deserted” or “orphan” well which is then the responsibility of the state to formally shutdown and remove (i.e. plug and abandon). (PRC §3251, §3206.3)
 - c) Long-term idle wells are those wells that have been idle for at least 8 years. (PRC §3008)
 - 4) 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 so drilled, redrilled, deepened, permanently altered, or acquired in specified amounts depending upon the depth of the well. (PRC §3204) For operators who own 20 or more wells, blanket bonds covering all of an operator’s wells are acceptable. (PRC §3205)
 - 5) Requires a well to be properly abandoned before an individual or blanket indemnity bond can be terminated or canceled. (PRC §3207) The division is also authorized to impose a life-of-facility bond in certain circumstances of an amount to cover, among other things, the decommissioning of a production facility. (PRC §3270.4)
 - 6) Authorizes the supervisor to order the plugging and abandonment, or decommissioning of an idle-deserted well or facility, as specified. (PRC §3251, §3255)
 - 7) Requires an operator to either file with the supervisor certain annual idle well fees per well that increase the longer the well has been idle, or file an idle well management plan with the supervisor that eliminates between 4% – 6% of the long-term idle wells each year. Failure to pay idle well fees or file a plan is sufficient evidence for the well to be considered legally deserted.
 - 8) Phases in the requirement that each operator of an oil or gas well submit a report to the supervisor that demonstrates the operator’s total liability to plug

and abandon all wells and to decommission all related production facilities, as specified.

- a) Initial reports will be filed starting July 1, 2022, as specified, and there are periodic ongoing reporting requirements thereafter. (PRC §3205.7)
- 9) Requires the department or the supervisor to provide certain reports to the Legislature regarding idle and long-term idle wells as recent changes to state law go into effect.
- a) Starting July 1, 2019 and annually through July 1, 2026, the supervisor shall submit a comprehensive report to the Legislature on the status of idle and long-term idle wells for the preceding calendar year, as specified. (PRC §3206.3)
 - b) On April 1, 2021, the department is required to issue a report to the Legislature that includes the number of hazardous wells and facilities, idle-deserted wells and deserted facilities remaining, the estimated costs of abandoning and decommissioning those wells and facilities and related information, among other things. (PRC §3258)
 - c) On October 1, 2023, the department is required to provide an update to the April 1, 2021 report that describes the total costs, average costs and number of wells and facilities addressed, projects completed, and other related information. (PRC §3258)

This bill enhances the division's idle well program by instituting additional reporting requirements and requiring the division to take all reasonable steps to recover costs related to orphaned wells and equipment. Specifically, this bill:

- 1) Requires that the location of hazardous well and facilities, idle-deserted wells and deserted facilities be included in the report due April 1, 2021, and requires that the report update, due October 1, 2023, also include information on the location of applicable wells and facilities, as specified.
- 2) Requires that the report and update identify wells that are registered to an operator that has reported no active injection or production operations for that well in the prior 5 years and that did not pay the required annual fee for each idle well or have a valid idle well management plan, as specified.
- 3) Requires the division to undertake all reasonable steps to recover costs for plugging and abandonment oil and gas wells, for decommissioning attendant facilities and for remediating sites from the current registered owner of any well

identified, as specified, including seeking enforcement in other state jurisdictions.

4) Makes numerous relevant legislative findings.

Background

California is a major oil and gas producing state; at the end of 2019, California ranked 7th and 14th among all fifty states for oil and natural gas production, respectively. About 80% of the state's active wells are located in Kern County, and produce collectively about 70% of both the state's oil and natural gas.

There are about 107,000 active or idle oil and gas wells in the state. Active wells are those currently in use that either produce or inject fluids related to hydrocarbon production. As wells are expensive to drill and to seal ("plug and abandon"), operators may prefer to keep wells idle – sometimes for extended periods of time. Idle wells are more likely to become orphan wells.

In the last few years, multiple bills have substantially revised and updated several outdated elements of state law governing oil and gas operations. For example, these bills made changes to the law regarding idle and orphan wells, and to the requirements regarding indemnity bonds.

In November 2019, the division released the first annual idle well report for calendar year 2018. Among the report's findings, there 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. The division estimates that an additional 1,200 – 2,400 wells started the transition to idle status during 2018.

Based upon operator responsiveness to the new idle well management requirements in 2018, the division estimates that approximately 957 operators may have deserted about 2,555 idle wells. Given the large number of operators and wells to be assessed, the division has a backlog of work to do to try to find any potential responsible parties to pay for the plugging and abandonment of these wells. Initially, the division prioritized 14 operators responsible for 35 wells for assessment.

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. The CCST report 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 net 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.

Comments

Enhanced transparency. The changes proposed by this bill will help to provide public transparency in the required hazardous and related wells and facilities report and update described above. The change needs to be made this legislative year to apply to the report due on April 1, 2021.

Evaluation of the CCST methodology. While the data required to be collected will presumably be over a different range of years than those used in the CCST report, the information required to be provided in the report and update will be useful to evaluate the CCST methodology for identifying wells that are likely orphan or at high risk of becoming orphan for the given conditions. This helps to implement one of the recommendations in the CCST report, and may yield insight into an improved assessment methodology.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- The Department of Conservation estimates costs of approximately \$296,000 in the first year and approximately \$292,000 ongoing (special fund) to perform the regulatory and administrative work that would be required under this bill.

SUPPORT: (Verified 6/18/20)

African American Farmers of California
Associated Builders and Contractors of Central California
California Independent Petroleum Association
California Royalty Owners
Central Valley Business Federation
Central Valley Latino Mayors and Elected Officials Coalition
City of Bakersfield
Councilmember Jim Avalos, City of Selma

Democratic Women of Kern
Fresno Chamber of Commerce
Greater Bakersfield Chamber of Commerce
Kern Citizens for Energy
Kern County Board of Supervisors
Kern County Economic Development Corporation
Kern County Taxpayers Association
Nisei Farmers League
Si Se Puede
Vice Mayor Francisco Ramirez, City of Hanford
Western States Petroleum Association
Yemen Society of Fresno

OPPOSITION: (Verified 6/18/20)

None received

ARGUMENTS IN SUPPORT: According to the author, “[h]istorically and to the present day, most of the state’s oil and gas development and production is located in the southern Central Valley region of the state. In those communities, a number of idle and abandoned oil wells not being properly decommissioned are contributing to public health and environmental concerns.”

“According to the California Council on Science & Technology (CCST), there are approximately 107,000 active and idle oil and gas wells in California. Additionally, according to their estimate, there are 5,540 wells in California that may have no viable operator or be at high risk of becoming orphaned in the near future. As a result, those wells will continue to release toxic emissions to the surrounding area. [...] SB 1012 is critically needed in a region of the state where public health outcomes are impeded by toxic emissions and pollution.”

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