

Date of Hearing: August 6, 2020

ASSEMBLY COMMITTEE ON NATURAL RESOURCES

Laura Friedman, Chair

SB 1012 (Hurtado) – As Amended June 18, 2020

SENATE VOTE: 39-0

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

SUMMARY: Requires additional reporting on hazardous, idle-deserted wells and facilities including the location of the applicable wells and facilities. Requires the Geologic Energy Management Division (Division) to undertake all reasonable steps to recover plugging and abandonment costs for oil and gas wells, the costs for decommissioning attendant facilities, and other costs to remediate sites from the current registered owner of any well identified.

EXISTING LAW:

- 1) Renames the Division of Oil, Gas, and Geothermal Resources the Geologic Energy Management Division.
- 2) Requires the operator of any well, before commencing the work of drilling the well, to file with the 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, re-drilling, 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 years but less than eight years;
 - ii) \$300 for each idle well that has been idle for eight years or longer, but less than 15 years;
 - iii) \$750 for each idle well that has been idle for 15 years or longer, but less than 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 Oil and Gas Supervisor (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 the Division to make expenditures up to \$3 million for four years 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 both of the following:
- a) Evaluate and estimate the costs associated with the decommissioning, including plugging and abandoning the offshore oil and gas wells under its 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.

THIS BILL:

- 1) Makes numerous findings, including it is necessary to focus state resources for the decommissioning and plugging and abandonment of any hazardous and idle-deserted wells and associated facilities in the southern central valley area.
- 2) Requires the DOC, in two separate reports, to provide the Legislature with the location, including the county in which they are located, of hazardous wells, idle-deserted wells, deserted facilities, and hazardous facilities it has abandoned and decommissioned and the number of wells and facilities that still need abandonment and decommissioning including the estimated costs and timelines of future abandonment.
- 3) Requires the two separate reports to identify wells that are registered to an operator that has reported no active, injection, or production operations for that well in the prior five years and that did not either pay the required annual fee for each idle well or have a valid idle well management plan.
- 4) Requires the Division to undertake all reasonable steps to recover plugging and abandonment costs for oil and gas wells, the costs for decommissioning attendant facilities, and other costs to remediate sites from the current registered owner of any well identified by the Division, including seeking enforcement in other state jurisdictions.

FISCAL EFFECT: According to the Senate Appropriations Committee, the DOC 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.

COMMENTS:**1) Author's statement:**

Historically and to 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 are not being properly decommissioned, which contributes 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 are 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.

Although the State has strengthened regulations to provide funds to clean up and “plug” abandoned wells, more work needs to be done to safely plug and abandon oil wells to protect vulnerable communities. The State has addressed this issue before. The Legislature enacted SB 44 (Jackson), Chapter 645, Statutes of 2017, which established a program and fund source for coastal abandoned legacy oil and gas wells cleanup through the year 2028. However, there is no analogous program for retirement and protection of public health, safety, and the environment for abandoned hazardous and idle-deserted wells in the southern Central Valley region of the state where oil and gas production occurs.

SB 1012 establishes a program for the plugging and abandoning of hazardous or idle-deserted wells and decommission of associated facilities in Kern County. SB 1012 is critically needed in a region of the state where public health outcomes are impeded by toxic emissions and pollution.

- 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 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. The Division has identified more than 2,500 potential orphan wells that require further investigation. 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.

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 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 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 newspaper the Desert Sun, 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.

- 3) **This bill.** SB 1012 seeks for the Legislature to have a better understanding of idle and orphan wells locations including locations where the Division is plugging and abandoning orphan wells. The bill also requires the Division to take all reasonable steps to recover costs from the current owner of a well. This provision is inconsistent with other requirements and practices by the Division. The Division is not limited to the current owner when recovering costs. It can seek to recover costs from past owners as well. The author and committee *may wish to consider* removing this provision to ensure all avenues of cost recovery can be pursued. This bill does not have an impact on the number of wells being plugged and abandoned. SB 724 (Lara), Chapter 652, Statutes of 2017, increased the Division's budget for the plugging and abandonment of orphan wells from \$1 million to \$3 million for four fiscal years. Absent action from the Legislature, the Division will have fewer resources to plug and abandon orphan wells in the future. In addition to the amendment mentioned above, the author and committee *may wish to consider* the following amendments:

- a) Remove the reference to current registered operators from the findings;

- b) Clarify that the Division can expend more than the its statutory limit to plug and abandon orphan wells when using other fund sources such as federal funds;
- c) Move the reporting requirement relating to idle well fees and idle well management plans to the comprehensive idle well report; and,
- d) Clarify responsibilities for plugging an abandoning wells between SLC and the Division.

4) **Previous/related legislation.**

AB 1057 (Limón), Chapter 771, Statutes of 2019, renames the Division of Oil, Gas, and Geothermal Resources 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.

AB 3214 (Limón) doubles the certificate of financial responsibility for tank and nontank vessels to ensure that vessels have adequate financial resources to pay cleanup and damage costs in the event of an oil spill. Doubles specified maximum and minimum financial penalties for specified violations, including failing to notify specified state and federal agencies of the discharge of oil and the discharging of oil into waters of the state. This bill has been referred to the Senate Natural Resources and Water Committee and is awaiting hearing.

REGISTERED SUPPORT / OPPOSITION:

Support

African American Farmers of California
 Associated Builders and Contractors - Central California Chapter
 Bizfed Central Valley
 Central Valley Business Federation
 Central Valley Latino Mayors and Elected Officials Coalition
 City of Hanfor Vice Mayor Francisco Ramirez
 Democratic Women of Kern
 Fresno Chamber of Commerce
 Greater Bakersfield Chamber of Commerce
 Kern Citizens for Energy
 Kern County Board of Supervisors
 Kern County Taxpayers Association
 Kern Economic Development Corporation
 National Association of Royalty Owners - California
 Nisei Farmers League
 Selma Councilmember Jim Avalos
 Si Se Puede
 Western States Petroleum Association
 Yemen Society of Fresno

Opposition

Audubon California

Azul

Center for Biological Diversity

Earthjustice

National Audubon Society

Sierra Club California

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