

SUBJECT: Requirements for extending deadline to plug inactive oil or gas wells

COMMITTEE: Energy Resources — committee substitute recommended

VOTE: 8 ayes — Keffer, Crownover, Crabb, Craddick, Farabee, Gonzalez
Toureilles, Hardcastle, Strama

0 nays

1 absent — Rios Ybarra

WITNESSES: For — Ross Hardwick; Wayne Hughes, Panhandle Producers and Royalty Owners Association; Kerry Knorpp, Historic Texas Ranches, Masterson Estate, Batson/Bivins Minerals, 6666 Ranch, and others; Joe Leathers, Burnett Ranches LLC 6666; Ben Sebree, Texas Oil & Gas Association; Ben Shepperd, Permian Basin Petroleum Association; Bill Stevens, Texas Alliance of Energy Producers; Donna Warndof, Inactive Well Study Group, Texas Independent Producers and Royalty Owners Association; (*Registered, but did not testify:* David Blackmon, El Paso Production Company; Trey Blocker, Texas Association of Manufacturers; Julie W. Moore, Occidental Petroleum; Steve Perry, Chevron USA)

Against — None

On — Kitty-Sue Quinn, Texas Land & Mineral Owners Association;
Arthur Uhl, Texas and Southwestern Cattle Raisers Association

BACKGROUND: Natural Resources Code, ch. 89, and Railroad Commission rules address the duties of an operator to plug an inactive oil or gas well and the orphaned well reduction program. Oil and gas well operators are required to renew annually operating permits with the Railroad Commission (RRC). Those with wells inactive for over 12 months must file for an extension of deadline for plugging the inactive well. There currently are no requirements that must be met in order to be granted an extension.

DIGEST: CSHB 2259 would amend the Natural Resources Code by requiring the RRC to implement requirements for an extension of a deadline for plugging an inactive well, and adding requirements for surface cleanup.

Financial assurance requirements for an extension of deadline for plugging an inactive well. For every year an operator applied for an extension of deadline for plugging an inactive well, the operator would be required to provide one of the following:

- documentation that in the past year 10 percent of their inactive wells were either restored to active operation or were plugged;
- an abeyance of plugging report, certified by a licensed engineer or geoscientist, that showed that the well had a future value in excess of the cost of plugging the well and had a beneficial use that would prevent the waste of oil and gas, and a fee of \$100 per well to be deposited in the oil-field cleanup fund;
- a statement that the well was part of an enhanced oil recovery project;
- documentation of a successful fluid level or hydraulic pressure test of the well, and a fee of \$50 per well to be deposited in the oil-field cleanup fund;
- a supplemental bond, letter of credit, or cash deposit that was of an amount at least equal to the cost calculation for plugging each inactive well;
- documentation of an escrow account that was at least 10 percent of the total cost calculation for plugging each inactive well; or
- if the operator was a publicly traded entity, various financial accounting documentation, or a bond in the amount of the cost calculation for plugging any inactive well, or \$2 million, whichever was less.

Requirements for surface cleanup. An application for an extension of the deadline for plugging an inactive well would have to include affirmation by the operator that:

- electric service to the well's production site had been terminated;
- if the well has been inactive for five to 10 years, the electric service had been terminated and the equipment had been purged of production fluid; and
- if the well had been inactive for at least 10 years, the electric service had been terminated and the surface equipment had been removed according to RRC rule.

The operator of an inactive well would be required to leave a clearly visible marker at the wellhead.

Exception to requirements. An operator would be eligible for a temporary extension of the deadline for plugging an inactive well or a temporary exemption from the surface cleanup requirements if there were safety concerns or required maintenance of the well.

An operator would be eligible for an extension of the deadline for plugging an inactive well without removing the surface equipment if the well and the equipment were part of an enhanced oil recovery project.

The RRC could revoke an extension if it determined, after notice and opportunity for hearing, that the applicant was ineligible under RRC rules.

The bill would take effect September 1, 2009.

SUPPORTERS
SAY:

Under current law, it is too easy to maintain a well as inactive. The oil field cleanup fund has been successful, but there still is a problem. The intent of CSHB 2259 is to bring in bad actors who are not plugging their wells. The bill would force operators to make business decisions on the future viability of their wells.

CSHB 2259 is an industry-driven solution that would place more requirements on operators who leave their wells inactive year after year. Today's inactive wells become tomorrow's abandoned wells. The bill will also require the eventual cleanup of unusable surface equipment.

This program would be supplemental to the existing requirements for financial assurance, and effectively would supplant the RRC's existing program requirements for inactive wells, which have been in place for years and no longer are effective in handling the problem as it exists today.

The bill initially may require some administrative changes by the RRC, but any added cost to the agency would be made up for in potential fees to be deposited in the oil field cleanup account.

OPPONENTS
SAY:

While CSHB 2259 would establish a program intended to address the problem of inactive wells, it likely would have a minimal impact on potential problems associated with perpetually inactive wells because the problem is so widespread.

The bill would create an administrative burden at the RRC due to the need to amend rules and forms, perform fairly substantial computer programming, and add personnel to handle the review of the documentation for all of the options, to verify compliance, and to handle hearings resulting from denial of extensions.

NOTES:

In the fiscal note, the LBB projects costs to the RRC totaling \$1,956,598 in fiscal 2011, including one-time costs, with around \$1.5 million in annual costs thereafter. An estimated \$1,540,160 in revenue to the Oil Field Cleanup Account No. 145 per fiscal year, beginning in fiscal 2011, would be generated by the fees associated with the option to have a hydraulic pressure test or an abeyance of plugging report. However, those are two of seven options that would be available to operators requesting an extension. The other five options would not require fees.

The committee substitute differs from the bill as filed by providing:

- a six month transition period for a new owner of an inactive well, notwithstanding current law;
- a five-year phase-in of the RRC's duty to remove surface equipment from wells that have been inactive for at least 10 years;
- a \$50 per well fee to the successful fluid level or hydraulic pressure test; and
- that publicly traded companies would be able to submit a bond capped at \$2 million.

The companion bill, SB 1378 by Duncan, was reported favorably, as substituted, by the Senate Natural Resources Committee on April 17.