California Independent Petroleum Association
California's Small, Homegrown Oil Producers

2024

How to Best Protect California Taxpayers From Financial Liability From Oil & Gas Operations

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How to Best Protect California Taxpayers from Financial Liability from Oil and Gas Operations

Industry and the State Share the Same Objective

CIPA, its members, and CalGEM share a common objective of protecting the State of California and its taxpayers from the financial liability of plugging and abandoning orphan wells by ensuring operators decommission their own assets.

AB 1057 Does Not Require Additional Assurance

While Assembly Bill 1057 authorizes the State Oil and Gas Supervisor to require operators to provide additional financial security beyond the statutory minimums established in PRC §3204 up to a maximum of $30 million, no additional monetary assurance is required by the law.

The bill also does not specify the form that any additional financial security must take. In its July 31, 2023, Notice to Operators (NTO 2023-09), CalGEM stated it may accept a combination of financial assurances, including a binding work plan to reduce asset retirement obligations, a sinking fund, or other equally effective assurances approved by the Supervisor.

The State Currently Maintains Considerable Assurance Under Existing Law

When a company deserts its wells and those wells become orphaned, the state currently has several tools to ensure the state is not financially responsible for the plugging and abandoning of those orphaned wells. First, the state can utilize existing bonding that company maintains.

Second, CalGEM is empowered under PRC § 3237 to go back in the chain of title to any prior operator who owned the assets post 1996 to obtain reimbursement for P&A costs. Therefore, the assurance from those operators who have transferred assets to CIPA members after 1996 also provides assurance for CIPA member wells.

Third, the state can utilize existing orphan well funds, which currently enjoy record balances.

Fourth, in the extremely unlikely event that all orphan well funds were drained by the State in plugging and abandoning deserted wells and all past operators in the chain of title were pursued yet the State still had a deficit, any remaining operator in the state would be on the hook for funding orphan well abandonment through the oil and gas assessment fee. CalGEM is a specially funded department that receives no General Fund allocations. Therefore, any budgetary shortcoming can be added to the oil and gas assessment operators pay annually to fund CalGEM.

The State Orphan Wells Funds are Flush with Record Balances

According to CalGEM's October 17, 2023, Methane Task Force presentation, the State has secured $100 million in state funds, $25 million in federal funds, and has eligibility to receive an additional $140 million in federal funds ($38 million of which was allocated to the state in May 2024) to plug and abandon orphan wells.

This is in addition to the funds deposited by operators into the Hazardous and Idle-Deserted Well Abatement Fund which has a balance of $25,550,585 as of February 22, 2024, as well as the OGER fund which has a balance of $1,724,387, and can be replenished annually with $5,000,000. The cumulative total of all these funds is $292,274,972 available to the State to plug orphan wells.

CalGEM's Current Program is Working

In just the last two years, operators have plugged a record 11,032 wells. This is a result of the state's Idle Well Management Program, a program CIPA negotiated with the passage of AB 2729 in 2016. CalGEM's program is working. The State should continue to encourage operators to remediate their own assets.

Table 1 on the following page estimates idle wells that CIPA members have committed to plugging and abandoning in the next few years in accordance with their approved Idle Well Management Plans. Table 2 estimates the number of idle wells CIPA members have committed to plugging and abandoning as part of their approved Idle Well Testing Waiver plans. As shown in the two tables, CIPA members have already committed to plugging and abandoning 28% of the current inventory of idle wells held by CIPA members.

Note: This document contains publicly available information regarding well abandonments. However, through member surveys, CIPA is aware that many more wells have been plugged than WellStar has listed because of a delay in CalGEM updating their website with the latest information.

Table 1. Idle Well and Abandonments for CIPA members with Idle Well Management Plan

Operator Name	Number of LTIW at time the IWMP was approved	IWMP term/end date	Annual LTIW Elimination Rate	Number of LTIW Wells to be plugged annually	Estimate of LTIW to be plugged between 2024 and IWMP end date
SPR*	624	5 years/2027	6%	37	148
CalNRG*	662	5 years/2027	5%	33	132
Bridge Energy*	142	4 years/2026	4%	6	18
Matrix*	65	1 year/2024	4%	1	1
E&B*	686	5 years/2027	5%	34	136
Holmes Western	110	5 years/2027	4%	4	16
San Joaquin Facilities Management	85	5 years/2027	4%	3	12
The Termo Company	37	5 years/2027	4%	1	4
Longbow	0	3 years/2025	4%	0	0
Pacific Coast Energy Company	62	3 years/ 2025	4%	2	4
LBTH	18	5 years/2027	4%	1	4
Crimson Resource Mgmt	236	4 years/2026	5%	12	36
B.E. Conway	2	5 years/2027	4%	1	2
Bellaire Oil Co.	41	5 years/2027	4%	2	8
Total LTIW to be plugged by CIPA Members by 2027					521

**Included in CalGEM's first group of operators to meet regarding bonding requirements*

Table 2. Idle Well P&A Obligations under Idle Testing Waiver Plan

Operator Name	Number of Idle Wells in the TWP Plan	TWP term/end date	Average Number of Idle Wells to be plugged annually	Estimate of Idle Wells to be plugged between 2024 and TWP end date
Sentinel Peak Resources*	1,051	8 years/2029	131	1,051
CalNRG*	8	8 years/2031	1	8
Bridge Energy*	102	8 years/2027	12	102
E&B*	116	8 years/2027	14	116
Holmes Western	86	8 years/2028	10	86
San Joaquin Facilities Management	32	5 years/2024	6	32
The Termo Company	18	7 years/2029	2	18
Longbow	3	3 years/2025	1	3
Pacific Coast Energy Company	7	7 years/2030	1	7
LBTH	13	7 years/2029	1	13
Crimson Resource Mgmt	18	6 years/2027	3	18
Bellaire Oil Co.	24	8 years/2030	3	24
Total idle wells to be plugged by CIPA Members by 2027				1478

**Included in CalGEM's first group of operators to meet regarding bonding requirements*

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The State's Exposure to Financial Risk from CIPA Members is Nearly Nonexistent

As of April 2, 2024, there are 59,366 active wells and 29,952 idle wells in the State of California. The cumulative total of active and idle wells owned by CIPA producer members is 13,048 active (23% of total) and 6,341 idle (21% of total). By comparison, 68% (40,564) of the active wells are owned by either Chevron or California Resources Corporation (which recently acquired Aera Energy).

Of the 6,341 idle wells CIPA members own, a minimum of 1,231 of them will be plugged in the next three years as the table above shows. That will leave roughly 5,110 owned by CIPA members in 2027. Using an industry average of $51,000 per well, the total cost to plug all CIPA member idle wells is $260,610,000, nearly identical to CalGEM's current orphan well funds.

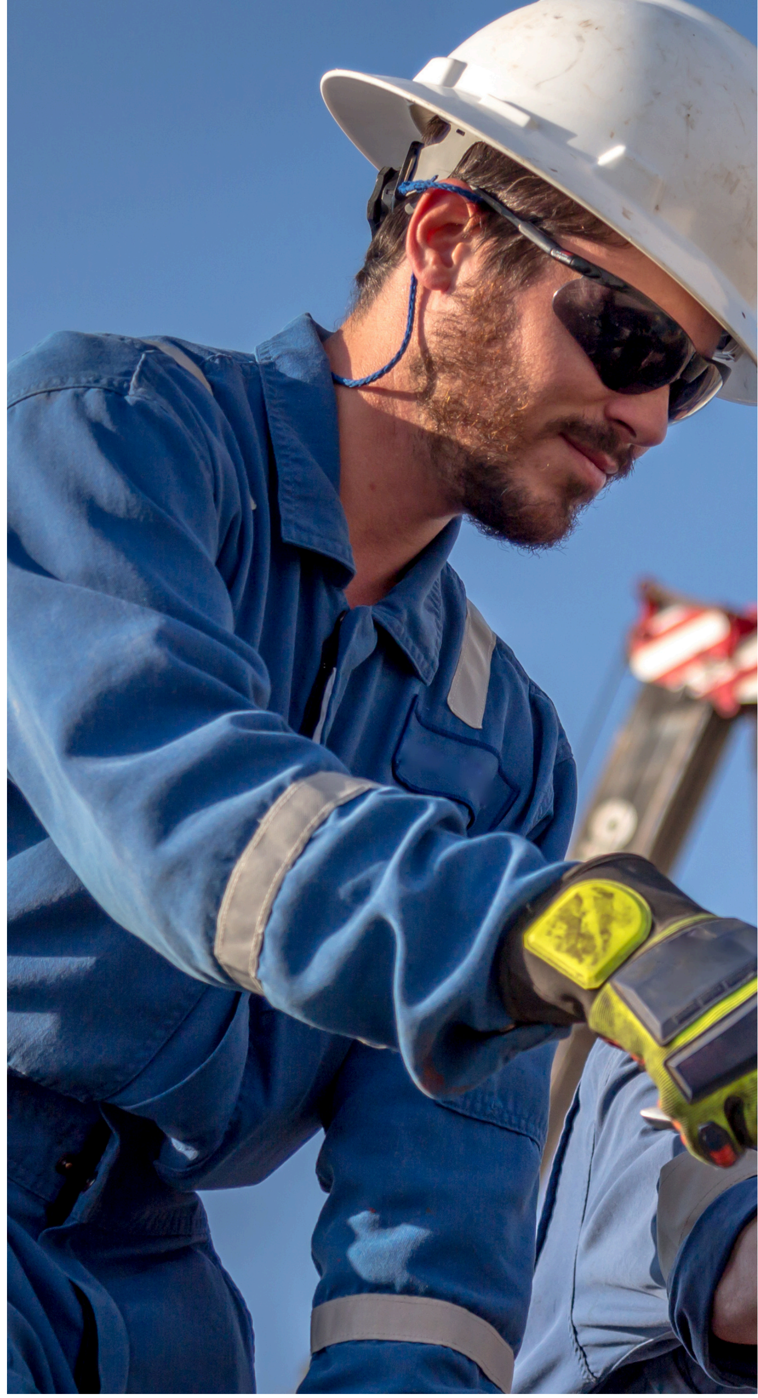
As CalGEM is discovering through its interactions with operators regarding the implementation of AB 1057, CIPA member operators maintain hundreds of millions of dollars in sinking funds, real estate land value, and other enterprise value that further protect against desertion.

A brief look at the data clearly demonstrates the inequity of any proposition that would require CIPA members to obtain multimillion-dollar bonds when the two largest companies in California own 65% of all active and idle wells in the state. Given the writing of AB 1057, the maximum bonding either of these operators would ever have to put forth is $30 million. It is presumed that both those operators will propose no additional assurance and instead rely on corporate guarantees or existing bonding. Therefore, it would be completely inequitable of the State to require the numerous operators that collectively own 18% of the idle well count to put up hundreds of millions of dollars of new assurance.

The State's Best Protection Against Financial Exposure is Viable Operators

The State's best protection is for operators to continue to be viable and compliant, and to remediate their own assets. Active wells are assets that give the State assurance. First, they provide operators with the revenue necessary to remain compliant with their Idle Well Management Plans and take care of their own liabilities. Second, in the event of desertion, an operator's producing wells can be sold to another operator. For these reasons, one critical aspect of ensuring the State is not exposed to financial liability is for CalGEM to solve its permitting backlog so that operators can stay viable and provide the energy Californians demand.

Under California's current operating environment, traditional bonding is not commercially available to most operators. Instead, CalGEM should focus on keeping operators viable by issuing permits in a timely manner, ensuring operators are compliant with their IWMPs, and confirming operators' capacity to meet their own future financial liabilities. This is the best recipe for success.



California Permit & Production Activity