FACT SHEET: Recent Legislation Tightens Management of Idle Wells

A recent joint story by the *Center for Public Integrity* and *Los Angeles Times* overstated the risk to the state of idle wells in California and falsely implied taxpayers would be held liable for plugging these wells. The story neglected to account for legislation recently enacted to strengthen management of idle wells.

INDUSTRY PAYS FOR 100% OF THE COSTS OF WELL PLUGGING: Taxpayers do not foot the bill for plugging onshore wells that no longer have a viable owner (called “orphan wells”). The oil and natural gas industry funds 100% of those costs. The California Geologic Energy Management Division (CalGEM) has plugged 1,350 such wells since 1977. All costs incurred to plug those wells were paid for by fees levied on all California oil producers. CalGEM has identified only 35 unplugged orphan wells that remain statewide. There is a $3 million industry-financed state fund to address those wells.

OPERATORS MUST PLUG A PERCENTAGE OF WELLS ANNUALLY: AB 2729 (Williams) requires oil and natural gas producers to shrink their inventory of idle wells annually. It is important to note that idle wells are not unattended wells. Oil and natural gas producers are required by law to ensure that idle wells are safely managed and inspected and CalGEM requires regular testing to ensure that idle wells are not hazardous to people or the environment. Last year, the highest number of permits issued by CalGEM weren’t for drilling new wells, they were for plugging idle wells. California companies plugged 1,346 idle wells in 2018 and 9 operators decommissioned more wells than state law requires. Industry paid 100% of those costs. The article also mischaracterizes an unfortunate incident in Arvin that had nothing to do with an idle well, it was a pipeline leak.

BONDS SERVE AS INSURANCE ONLY IF A COMPANY SHUTS DOWN: Bonds are insurance protecting the state from the financial liability of plugging a well without a viable owner. Bonds are only used if an oil producer goes out of business. This presumes that another oil producer does not acquire the assets and continue to operate them. Ultimately, bonds are only necessary if the state embarks on a large scale shut down of all in-state oil operations. Otherwise, when operators plug wells, they use their capital, not bonds.

A HEALTHY ENERGY INDUSTRY WILL ENSURE RESOURCES ARE AVAILABLE TO MANAGE ASSETS: California oil and natural gas producers operate under the toughest regulations on the planet, generate billions of dollars annually in tax revenue to fund vital public services, and provide more than 55,000 well-paying careers. In-state production is NOT naturally on the decline. It is declining because regulators are refusing to permit new operations. Roughly 2,000 permits are impacted by the delay, which threatens the state’s energy security, thousands of jobs, as well as the tax base they create. A vibrant energy industry will ensure that there are ample resources available to manage well assets.

RECENT LEGISLATION ENACTED RELATED TO IDLE WELLS

AB 2729 (Williams): This bill increases idle oil and natural gas well fees and blanket indemnity bonds to provide a disincentive for operators to maintain large numbers of idle wells. It also requires operators to plug between 4-6% of their idle wells annually.

AB 1057 (Limón): The bill allows the State Oil and Gas Supervisor to require any operator in the state to post an additional security bond or alternative compliance mechanism up to $30 million to cover the future estimated cost of remediating all that operator’s wells and facilities.

AB 1328 (Holden): This bill requires an independent study commissioned by CalGEM and the California Air Resources Board (CARB) to review emissions from idle and abandoned wells.

SB 551 (Jackson): This bill requires operators to give CalGEM an estimation of their future plugging obligations as well as their plan to financially meet those future obligations. CalGEM will review and certify the operator’s estimation. CalGEM then has the ability to require bonding for any shortfall, up to $30 million.

Last updated: February 12, 2020