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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/18

SPONSOR Martinez LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Assurance for Plugging Oil & Gas Wells SB 189

ANALYST Jorgensen

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	NFI	NFI	NFI	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Energy, Minerals and Natural Resources Department (EMNRD)  
State Land Office (SLO)

### SUMMARY

#### Synopsis of Bill

Senate Bill 189 amends the Oil and Gas Act to increase the amount of financial assurance the Oil Conservation Division (OCD) could require of well operators and align financial assurance requirements of Section 70-2-12 and Section 70-2-14. Under current law, the OCD cannot require financial assurance in an amount exceeding \$50 thousand. Enactment of SB189 would allow OCD to require assurance of up to \$250 thousand.

### FISCAL IMPLICATIONS

EMNRD did not report any fiscal impact resulting from enactment of SB82.

### SIGNIFICANT ISSUES

During the 2015 legislative session, Section 70-2-14(A) of the Oil and Gas Act was amended to allow for blanket bonds for temporarily abandoned wells in amounts greater than \$50 thousand. That amendment created a conflict with Section 70-2-12, which prohibits the OCD from accepting bonds greater than \$50 thousand. SB 189 would eliminate the conflict between Sections 70-2-12 and 70-2-14.

SB 189 increases the maximum amount of a blanket financial assurance that the OCD may require from \$50 thousand to \$250 thousand. The maximum amount for blanket financial assurance has not been increased for approximately 40 years.

## **OTHER SUBSTANTIVE ISSUES**

SLO notes:

A recent review by SLO found approximately 600 oil and gas wells on state trust lands that have been continuously inactive for a year or more and have not been plugged, as required by law and OCD regulations. In Fiscal Year 2017, OCD plugged only one of the 600 abandoned wells on state trust lands. To the extent that the bill increases the ability of the OCD to ensure that abandoned wells are properly plugged, it will have a positive impact on state land office revenues and expenses and the value of state trust lands.

It should be noted that a blanket bond (as opposed to a single bond) is established to provide assurance for the proper plugging of all of a particular operator's wells, as opposed to just one particular well. The cost of plugging a single well varies greatly depending on the depth and the condition of the well and can be as much as \$2 million. Thus, the \$250,000 cap for a blanket bond may not provide adequate assurance where an operator has abandoned multiple wells.

CJ/jle