



It's Past Time for Well Bonding Reform at the Railroad Commission: Support HB 2868 by Longoria

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All oil and gas wells in Texas are required to file bonds or other forms of financial security before they may drill a well to tap Texas's vast mineral resources. Despite previous efforts, the Legislature has not changed statutory caps on bonding amounts since 1989. While most oil and gas companies follow the law, and take care of plugging their wells and cleaning up their sites in compliance with the law, many do not, leaving the state with a legacy of abandoned wells, which can lead to serious injuries and death and can lead to leakage of ground and air emissions, including dangerous levels of methane pollution.

Currently, for individual wells, costs are set statutorily at \$2 per foot of well depth, meaning a 1,000 foot well costs oil and gas companies only \$2,000, or less than 10 percent of the cost of well plugging, which in recent years has averaged \$23,000. On blanket bonding, for drilling 10 wells or less, oil and gas companies only have to pay a blanket bond of \$25,000, again about \$2,500 per well approximately, while some bond more than 100 wells for only \$250,000.

HB **2868** reforms these amounts by leaving it up to the Railroad Commission of Texas to determine the dollar per foot on individual wells on an annual basis, and adjusting the amounts of the blanket bonds to better reflect more reasonable bonding levels.

In addition, the bill would have the Commission determine the cost of plugging wells on an annual basis, to help provide information to operators and the legislature about the needs of the program.

The Sierra Club supports HB **2868** because it will:

- Increase revenues to the RRC for well plugging and other activities:
- Provide a greater incentive for operators to do the right thing so they don't leave the state holding the bag

- Provide an annual study of the cost of well plugging so RRC can better determine an appropriate level of bonding and financial security;
- Provide more discretion to the agency on individual bonding
- Lead to more plugging of abandoned wells, which are a safety and environmental hazard.

Current Level of Abandoned Wells and the OGRCF

Currently, all bonding amounts flow into the GR-D fund known as the GR Account 5155 – GR Account - Oil and Gas Regulation and Cleanup Fund. This fund also captures monies from many permit fees and the fund and can be used for a variety of purposes, including the regulation of oil and gas development, including oil and gas monitoring, inspections, remediation and well plugging, public information and services related to those activities, and administrative costs and state benefits for personnel involved in those activities.

In recent years, due to the efforts of the Legislature to increase funding from both the OGRCF and from general revenue, the RRC has been able to plug more abandoned wells, last year plugging nearly 1,500 wells.

Unfortunately, the relative lack of revenues into the OGRCF has stymied further efforts. In the current version of HB 1 being discussed today in the House Committee on Appropriations, the account is being allocated for \$75.4 million in 2022, and \$69.7 million in 2023. About \$57 million per year is being used to plug about 1,000 wells per year, and the RRC overall budget is relying on approximately \$54 million in General Revenue to help pay for core agency functions. Thus, GR is helping to provide basic functions like plugging wells.

The RRC is doing a good job at plugging abandoned wells, and the number of abandoned wells has generally declined from more than 13,000 in 2004 to around 6,200 today. However, with recent bankruptcies and financial problems in the industry, **the number of abandoned wells is expected to increase in the coming years.**

According to the FY 2020 report from the RRC:

*Inactive, shut-in oil and gas wells account for 33 percent of the total well population. The majority of these inactive wells are compliant with Commission rules. Operators of record plug most of the compliant inactive wells and some of the non-compliant inactive wells as required by the Commission. Of the 146,428 inactive wells, **6,208 are defined by the Commission as orphaned wells.** An orphaned well is any oil or gas well that is inactive and not backed by an operator's financial assurance represented by a P-5 with the Commission.*

These 6,208 orphaned wells eventually require plugging by the Commission with OGRC funds and/or other state and federal funds. These wells are plugged through the Commission's State Managed Plugging Program.

In addition to these orphaned wells, the number of known inactive wells not in compliance with Commission rules as of August 2020 totals 19,267. The number represents wells that remain shut-in beyond the initial 12-month shut-in period authorized by Commission 16 Texas Administrative Code §3.14(b)(2) [Statewide Rule 14(b)(2)] and do not have a plugging extension, regardless of whether the operator's Organization Report is active or delinquent.

It is important to note that inactive and orphaned wells are found throughout Texas, and virtually every legislative district has some abandoned wells from South Texas to West Texas to the Northeast and even areas around the DFW metroplex. Thus, this is a statewide issue and needs a statewide solution. HB 2868 is an important first step toward reformation of our bonding amounts and should lead to plugging more abandoned wells.