

**DEPARTMENT OF FINANCE BILL ANALYSIS**

**AMENDMENT DATE:** Original  
**POSITION:** Oppose

**BILL NUMBER:** AB 1167  
**AUTHOR:** Carrillo, Wendy

**BILL SUMMARY: Oil and gas: acquisition: bonding requirements.**

This bill requires a person who acquires the right to operate a well or production facility to file a bond with the Oil and Gas Supervisor (Supervisor) within the Department of Conservation (Department) in an amount sufficient to cover all costs of plugging, abandoning, and restoring the site. The bill authorizes the Supervisor to determine whether the bond is sufficient and requires the Department to maintain all records and make them available on its website.

**FISCAL SUMMARY**

The Department of Conservation estimates the bill will require \$706,000 in the first year from the Oil, Gas, and Geothermal Administrative Fund, followed by \$658,000 ongoing to support 4 positions for field inspections, bond calculations, and to receive and process transfers. In addition, there would be funding required to modify WellSTAR to accommodate the additional records that must be posted and maintained on the department website.

The Department of Justice estimates unknown, but potentially significant costs associated with this bill. This is based on the assumption that it will receive increased referrals from the Department of Conservation related to implementation and potential legal challenges. This will have an impact on the Legal Services Revolving Fund, however, costs will be reimbursable through direct billings to the client agency.

Finance notes that any future request for resources will be analyzed for justification during the annual budget process.

**COMMENTS**

The Department of Finance is opposed to this bill because it may not address the problem it intends to solve and could actually have unintended consequences of increasing the number of orphan wells in California, which will also result in increased financial liability to the State.

The bill asserts that wells are transferred from more solvent operators to less solvent operators which increases the likelihood that public funds will need to be used to plug and abandon those wells. However, under Public Resources Code 3237, if CalGEM determines the current operator does not have the financial resources to fully cover the cost to plug the well, previous operators that made a valid transfer after January 1, 1996 may be held responsible for the cost to plug the well.

In recent years there are also larger operators purchasing wells from smaller operators. In these instances, the purchasing company also inherits non-producing or idle wells and has the financial resources to properly plug and abandon them to then focus on higher producing wells. As an

Analyst/Principal (610) Hull, Andrew	Date	Program Budget Manager Almy, Matt	Date
Department Deputy Director		Date	
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

**BILL ANALYSIS--(CONTINUED)****Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

Carrillo, Wendy

AB 1167

**COMMENTS** (continued)

example, Sentinel Peak purchased operations from Seneca in 2020 and cited that the comparatively high costs were still worth it at that time given that California is phasing-out oil and gas operations and that there was no incentive for Sentinel Peak to wait for lower prices.

This bill will prohibit companies from utilizing their existing indemnity bonds and require new, individual bonds for any well that is purchased or transferred. The additional costs could unintentionally act as a disincentive for larger operations to purchase smaller operations, which are the operators that are more likely unable to cover the cost of plugging idle or orphan wells in the first place. Further, according to CalGEM, bonding companies are becoming hesitant to approve indemnity bonds due to California's current regulatory environment and future outlook for oil and gas operations, and this bill could also increase that problem.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)					Fund Code
	LA	(Dollars in Thousands)					
	CO	PROP	FC	2023-2024 FC	2024-2025 FC	2025-2026	
	RV	98					
3480/Conservation	SO	No	C	0 C	706 C	658	3046
Fund Code 3046	Title Oil, Gas and Geothermal Administrative						