

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 03/25)

Fiscal Year 2025-26	Business Unit Number 3480	Department Department of Conservation
Hyperion Budget Request Name 3480-081-BCP-2025-MR		Relevant Program or Subprogram 2425010-Regulation of Oil and Gas Operations

Budget Request Title
 Oil and Gas Environmental Remediation Account

Budget Request Summary

The Department of Conservation's (Department) California Geologic Energy Management Division (Division) requests an annual ongoing appropriation of \$1 million Oil and Gas Environmental Remediation (OGER) Account, an increase of \$950,000 to the existing \$50,000 annual appropriation, to remediate wells that pose a danger to life, health, water quality, wildlife or natural resources.

Additionally, the Department is requesting budget bill language that would authorize the Department of Finance to augment the appropriation if it concurs with a finding by the Department and Division that expenditures above that amount are necessary to prevent or respond to a danger to life, health, water quality, wildlife, or natural resources. This language would also include notice to the Joint Legislative Budget Committee 10 days prior to authorization of any augmentations.

Requires Legislation (submit required legislation with the BCP) <input checked="" type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language	<input type="checkbox"/> N/A	Code Section(s) to be Added/Amended/Repealed Click or tap here to enter text.
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO Click or tap here to enter text.	Date Click or tap to enter a date.
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For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.

Project No. Click or tap here to enter text. **Approval Date:** Click or tap to enter a date.
Project Approval Document: Click or tap here to enter text. **Total Project Cost:** Click or tap here to enter text.

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Doug Ito	Date 4/15/2025	Reviewed By Clayton Haas	Date 4/15/2025
Department Director Jennifer Lucchesi	Date 4/15/2025	Agency Secretary Wade Crowfoot	Date 4/15/2025

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

Principal Program Budget Analyst

Zach Lierly

Date submitted to the Legislature

5/14/2025

A. Problem Statement

As California makes progress toward realizing its 2045 carbon neutrality goals, more than 100,000 oil and gas wells remain, including both producing and nonproducing wells that will eventually reach the end of their lifespans. If not properly plugged and abandoned (sealed), these wells and their production facilities can contaminate groundwater and soil, emit greenhouse gases and air pollutants, and present physical hazards to people and wildlife. While many operators manage their idle wells in accordance with state regulations, including maintenance, reporting, and fees, many wells have become “orphaned”.

While it is the responsibility of every oil and gas well operator to properly plug and abandon their wells, decommission attendant facilities and conduct site remediation, many operators in California may not be financially solvent to support the costs of doing this work, which can leave the responsibility and costs of plugging and abandonment, decommissioning, and environmental remediation to the state. The Division utilizes many enforcement tools to hold operators accountable and to mitigate future burdens to taxpayers. Unfortunately, based on the Division's experience, some wells do become “orphaned” even with aggressive enforcement actions.

The Division (per Division 3 of the Public Resources Code) supervises oil and gas operations, administers laws for the conservation of petroleum and geothermal resources and ensures the safe development and recovery of the energy resources. CalGEM regulates onshore and offshore field operations by evaluating permit applications to drill, rework, and plug and abandon wells, and by providing permit conditions to prevent damage to state resources and protect oil field workers and surrounding communities. The Division's statutory mission is to protect public health and safety, and environmental quality, including the reduction and mitigation of greenhouse gas emissions associated with the development of hydrocarbon and geothermal resources in a manner that meets energy needs.

The Division's statutory authorities provide various circumstances under which the Division may order a well to be plugged and abandoned and attendant production facilities to be decommissioned. Mainly, the Division may rely on evidence the well has been deserted (Section 3237 of the Public Resources Code) or may determine the well to be hazardous or idle-deserted (Sections 3251 and 3255 of the Public Resources Code). If the Division determines a well has been deserted, or is a hazardous or idle-deserted well according to Section 3251 of the Public Resources Code, the Division may order the plugging and abandonment of the well, decommissioning of deserted production facilities, and any necessary remedial work (i.e. Plug and Abandonment Order). If an operator fails to commence the ordered work, the Division may undertake the plugging and abandonment of the well and associated decommissioning and remedial work and seek reimbursement from any solvent responsible party (Section 3226 of the Public Resources Code).

The Division has limitations on whom it may hold responsible for wells. The statutory definition of operator may include a person or company that owned or operated the well. If the mineral rights owner does not retain control over the operation of the well, meaning they give control over to another entity to operate, then the mineral interest owners are shielded from responsibility for plugging and abandonment (Sections 3009 and 3237(c)(3) of the Public Resources Code). Where surface rights and mineral rights are severed, surface property owners have no ownership rights to the oil and gas wells and, therefore, cannot be held responsible for plugging and abandoning the wells under the Division's authorities.

If the Division determines that the most recent operator does not have sufficient financial resources, then the Division can look to previous operators until an operator is found that the Division determines has the financial resources to cover the cost of plugging and abandoning the well or decommissioning deserted production facilities. However, the Division may not hold an operator responsible that made a valid transfer of ownership of the well before January 1, 1996 (Section 3237(c)(2) of the Public Resources Code).

If the Division issues a plug and abandonment order, and the order is not complied with, the Division may appoint agents to perform the work. In those instances, the Division will attempt to collect the cost of the state abandonment from responsible parties, including levying any bonds posted by those responsible parties. Under Section 3237 of the Public Resources Code, operators responsible for the plugging and abandonment include the most recent operator of the well and any previous operators who operated the well after January 1, 1996. The Division will use any assets recovered to fund or partially fund the abandonment work.

The Division developed a methodology to prioritize orphan wells to be plugged and abandoned that aims to ensure monies expended for state abandonment maximize benefits to California communities. This includes reflecting climate benefits, equity, environmental protection, community perspective, public health and safety, and ensuring industry responsibility and the efficient use of limited resources. The Division's methodology includes a two-phased approach to prioritize wells for state plugging and abandonment that may pose the greatest risk to public health, safety, and the environment, while also taking into consideration the concerns of the local jurisdictions and communities, and economic efficiencies associated with the ordering of well abandonments. The final methodology was issued in February 2023.

Following the completion of its screening and prioritization efforts, the Division conducted a thorough review of the highest priority wells and identified a package of early projects to kick off its expanded state abandonment program. Finalized in October 2023, Phase One included the plugging and abandonment of 378 wells and the decommissioning of 51 attendant production facilities across California. The majority of these wells are some of the highest-risk wells in the State, as they rank in the top two tiers of the Division's risk-based initial screening method used to help prioritize wells statewide. These wells were identified as higher risk because they have had a history of leaks or compliance issues, and because they are located near California communities (within 3,200 feet of schools, homes, and health care facilities). Phase Two, finalized in October 2024, includes the remaining highest-risk wells and production facilities along with wells in close proximity to these highest-risk wells. Phase 2 is comprised of 217 wells and 74 facilities in 17 counties.

There are multiple sources of funds currently available to be used by the Division to permanently seal wells when there is not a responsible operator:

1. The Oil, Gas, and Geothermal Administrative Fund (OGGA) is funded by operator assessment fees. Expenditures from this fund to plug and abandon wells are capped at \$5 million per year (Section 3258(a) of the Public Resources Code). In addition, Section 3258(a)(2)(A) and (B) provides \$7.5 million in fiscal year 2024-25 and \$7.5 million in fiscal year 2026-27, a total of \$15 million.
 - a. The OGER Account, which is established in the OGGA Fund, receives funding from civil penalties associated with enforcement actions. Upon appropriation, the Division may use moneys in the OGER Account to plug wells, decommission attendant facilities, or otherwise remediate sites that pose a danger to life, health, water quality, wildlife, or natural resources. The Legislature set the appropriation for the OGER Account at \$54,000 in 2018 and 2019. The fund balance is \$9,775,756 as of April 2025.
2. The Hazardous and Idle-Deserted Well Abatement Fund (HIDWAF) is funded by operator idle well fees and continuously appropriated to the Division to plug and abandon wells to mitigate a hazardous or potentially hazardous condition.
3. As part of the California state budget process, CalGEM received the \$50 million, appropriated from the General Fund in the Budget Act of 2022 and has the funds under contract.
4. There is funding available from the federal government's orphan well program from the bipartisan Infrastructure Investment and Jobs Act.

- a. Initial Grant: In August 2022, California was awarded \$25 million in Initial Grant funds.
- b. Formula Grant: California is also eligible for \$140 million in Formula Grant funding. California has been awarded the first \$35 million in Formula Grant funds and there is an application for the second tranche of \$53 million under review. The final funds are anticipated to be applied for later in 2025.
- c. Matching Grant: California has also received a \$9 million Matching Grant and will be applying for an additional \$20 million in Matching Grant funds later this year.

The costs of plugging and abandoning orphan wells are highly variable and, in many cases, difficult to predict. When an operator plugs and abandons one of their wells, they are generally aware of the conditions of the well, including problems with obstructions within the well that they may encounter. When the Division plugs and abandons an orphan well, it may lack critical information about the condition of the well. For example, the well could have been drilled 100 years ago, and the Division may not know if the previous operator attempted to plug and abandon the well in the past; the well may contain undocumented oil field and household refuse; the well may have been damaged, collapsed, or have a severed casing; or other information that is critical to understanding potential cost drivers in a plugging and abandonment project may be lacking.

Based on the Division's experience over the past couple of years working on state abandonment projects from recently available state and federal funds, the cost to plug an individual well can vary significantly, with recent costs ranging from \$220,000 per well up to \$900,000 per well. To provide some examples of well costs that influenced the cost range noted, the first phase of the State Abandonment program, which focuses on the most critical wells, includes 378 wells, many of which are in the HVI Cat Canyon oil field. The cost to plug those wells near Santa Maria was \$220,000 per well. CalGEM also recently completed plugging 25 high-risk wells in the city of Bakersfield at a total cost of \$16 million. The wells were in an urban setting near homes, offices, and parks, which resulted in an average of \$640,000 per well (Griffin Resources, LLC site). At the AllenCo site in downtown Los Angeles, 19 wells are currently being plugged and sealed. These costs are estimated to run up to \$900,000 per well.

To address the state's future liability and to hold operators accountable, AB 631 (Hart, Ch. 337, Statutes of 2023) strengthens the enforcement authorities of the Division by making changes to the Public Resources Code and Code of Civil Procedure to enable the Division to pursue increased compliance by oil and gas operators accountable for violations. The bill enhances criminal penalties, authorizes the Superior Court to assess civil penalties, establishes injunctive relief authority, and increases opportunities for joint prosecution with City, County, and state prosecutors. The bill also includes cost recovery provisions to ensure operators associated with violations are held fiscally responsible for those costs. The bill also authorizes the State Oil and Gas Supervisor (Supervisor) to create standardized penalties for certain violations. Additionally, AB 1866 (Hart, Ch. 548, Statutes of 2024) increases fees for idle wells and additionally imposes fees for each idle well that has been an idle well for less than three years, as provided.

Resource History
(Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY-1	PY	CY
Authorized Expenditures	54	200	50	50	50	50
Actual Expenditures	0	0	0	0	0	0
Revenues	48	29	1,490	58	6,542	1,719
Authorized Positions	0	0	0	0	0	0
Filled Positions	0	0	0	0	0	0
Vacancies	0	0	0	0	0	0

Workload History (only include workload measures relevant to the request for resources.)

Workload Measure	PY - 4	PY - 3	PY - 2	PY-1	PY	CY
OGER funds spent on contractors to plug and seal wells and decommission facilities.	0	0	0	0	0	0

B. Justification

The Division has responded to emergencies with existing funds sources other than OGER. In recent years, there has been significant state and federal investments to address wells with no operator. However, these are one-time funds that will be expended in the coming years, leaving the Division with fewer options to respond to an emergency.

A recent example is in the Bakersfield area. The Division issued emergency remedial orders to Griffin Resources, LLC in recent years responding to wells and facilities in an urban area that were impacting the community's health and safety. The wells were pressurizing, meaning that some of the wells had the potential for blowout. The Division obtained a court order allowing the Division to permanently seal and decommission all of the Griffin Resources' wells and facilities in that area. In order to act expeditiously, the Division combined a number of non-OGER funding sources, including HIDWAF funds, federal funds, and state general funds, for a total of \$27 million for needed remediation. Accessing the OGER funds in a timely manner would allow the Division access to an additional funding solution in similar situations.

Another example for the need for the Division to respond in an emergency to wells that pose a danger to life, health, water quality, wildlife, or natural resources occurred in 2022. The Division issued an emergency contract in response to rising pressure in two wells on the AllenCo Energy, Inc. oil drilling facility site. Work to permanently seal two wells was completed in late 2022 for a total cost of \$1.225 million (St. James 10 at \$590,000 and St. James 14 at \$635,000). The wells are located in a high-traffic urban area in the University Park neighborhood of Los Angeles and are considered high-risk due to elevated shut-in casing pressures.

Additionally, with the new authority provided in recent legislation that strengthened the Division's enforcement authorities and increased penalties amounts for oil and gas operators' violations may result in increased OGER Account funds.

C. Departmentwide and Statewide Considerations

The Division continues to prioritize ensuring safe oil and gas operations, with a focus on the management and safe decommissioning of the oil and gas assets. If this request is approved, the Division will have the ability to quickly and timely access funds in the event of an emergency to protect life, health, water quality, wildlife, or natural resources.

D. Outcomes and Accountability

Funds made available from the OGER account would be used to fund contractors to permanently seal wells and decommission facilities that pose the greatest threat to public health and safety in communities throughout the state in accordance with the expenditure requirements of the OGER account by the Division.

Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
OGER funds spent on contractors to plug and seal wells and decommission facilities.	\$50,000	\$1,000,00	\$1,000,000	\$1,000,000	\$1,000,00	\$1,000,00

E. Implementation Plan

Funds are anticipated to be encumbered in the coming years. Thereafter, the fund balance will be continuously evaluated, coupled with determinations of emergency needs of the funds.

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BCP Fiscal Detail Sheet

(Dollars in Thousands)

BCP Title: Oil and Gas Environmental Remediation Account Appropriation

BR Name: 3480-081-BCP-2025-MR

Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
5340 - Consulting and Professional Services - External	0	950	950	950	950	950
Total Operating Expenses and Equipment	\$0	\$950	\$950	\$950	\$950	\$950

Total Budget Request

Total Budget Request	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Total Budget Request	\$0	\$950	\$950	\$950	\$950	\$950

Fund Summary

Fund Source

Fund Source	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
State Operations - 3299 - Oil and Gas Environmental Remediation Account	0	950	950	950	950	950
Total State Operations Expenditures	\$0	\$950	\$950	\$950	\$950	\$950
Total All Funds	\$0	\$950	\$950	\$950	\$950	\$950

Program Summary

Program Funding

Program Funding	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
2425010 - Regulation of Oil and Gas Operations	0	950	950	950	950	950
Total All Programs	\$0	\$950	\$950	\$950	\$950	\$950