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SB-1147 Offshore oil and gas wells. (2017-2018)

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Date Published: 09/20/2018 09:00 PM

Senate Bill No. 1147

CHAPTER 607

An act to amend Sections 3205.1 and 6829 of, and to add Sections 3205.6 and 6829.3 to, the Public Resources Code, relating to oil and gas.

[Approved by Governor September 20, 2018. Filed with Secretary of State September 20, 2018.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1147, Hertzberg. Offshore oil and gas wells.

(1) Existing law requires a person engaging in the drilling, redrilling, or deepening, or in any operation permanently altering the casing, of one or more wells located in submerged lands under ocean waters within the jurisdiction of the state to file with the State Oil and Gas Supervisor a blanket indemnity bond for a specified amount to cover all of the operator's operations in any of those wells. Existing law requires a person who operates one or more of those wells to provide an additional amount of security acceptable to the supervisor covering the full costs of plugging and abandoning all of the operator's wells. Existing law requires the supervisor to determine the additional amount of the security required of each operator based on his or her determination of the reasonable costs of that plugging and abandonment.

This bill would require the supervisor to provide the operator with an opportunity to submit a cost estimate for his or her consideration before he or she determines the requisite additional amount of the security.

This bill would require the supervisor, before July 1, 2020, to evaluate and estimate the costs associated with the decommissioning of offshore oil and gas wells under its jurisdiction and, if necessary, to develop a schedule to increase the bond amounts or other financial surety provided by an operator of an offshore oil or gas well to ensure sufficient moneys are available to the state to decommission the well if no other entity is responsible for those decommissioning costs.

(2) Existing law vests with the State Lands Commission control over certain public lands. Existing law requires certain executed oil and gas leases to include specified provisions, including terms, conditions, and provisions that will protect the interests of the state with reference to securing the payment to the state of the proper amount or value of production. Existing law authorizes, with respect to oil, gas, and mineral leases, the assignment, transfer, or sublet as to all or any part of certain leased or permitted lands, as prescribed, subject to approval by the commission, to any person, association of persons, or corporation, who at the time of the proposed assignment, transfer, or sublease, possesses certain qualifications.

This bill would require those assigned, transferred, or sublet oil and gas leases to also include the specified provisions included in those executed oil and gas leases. The bill would require the commission to seek additional infrastructure bonding or other financial assurance, as feasible, under its jurisdiction when lease terms are negotiated or renegotiated for offshore oil and gas leases.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

- (a) Due to the recent bankruptcies of two independent oil companies, the state faces costs of at least \$100,000,000 to prepare to remove and decommission offshore oil and gas wells and associated infrastructure.
- (b) The existing bonding for Platform Holly and Rincon Island is inadequate to meet the related necessary decommissioning costs, and efforts to obtain additional moneys under lease transfer terms will be subject to negotiation and possible litigation and are unlikely to fully cover all of the state's costs.
- (c) Given their inclusion in the California Coastal Sanctuary, and the age of the associated oil and gas fields and infrastructure, additional nonwell infrastructure bonding may not be readily available.
- (d) Additional actions are needed to ensure the state is not financially responsible for the decommissioning of private oil and gas infrastructure.

SEC. 2. Section 3205.1 of the Public Resources Code is amended to read:

3205.1. (a) Notwithstanding Sections 3204 and 3205, a person who engages in the drilling, redrilling, or deepening, or in any operation permanently altering the casing, of one or more wells located on submerged lands under ocean waters within the jurisdiction of this state, shall file with the supervisor a blanket indemnity bond for one million dollars (\$1,000,000) to cover all his or her operations in drilling, redrilling, deepening, or permanently altering the casing in any of his or her wells located on those submerged lands. The bond shall be executed by the person, as principal, and by an authorized surety company, as surety, and the conditions of the bond shall be the same as the conditions stated in Section 3204, except for the difference in the amount.

(b) In addition to providing the bond required by subdivision (a), a person who operates one or more wells that are located on tide or submerged lands within the jurisdiction of this state shall provide an additional amount of security acceptable to the supervisor, covering the full costs of plugging and abandoning all of the operator's wells. The supervisor shall determine the amount of the security required of each operator, based on his or her determination of the reasonable costs of that plugging and abandonment, after providing the operator with an opportunity to submit a cost estimate for consideration by the supervisor. The supervisor may not adjust the amount of security required of each operator more frequently than once every three years, to reflect changes in those costs. An operator may self-insure this security obligation if the supervisor, at his or her discretion, determines that the operator has sufficient financial resources to plug and abandon the wells for which the operator is responsible. The security shall remain in effect until all wells are plugged and abandoned in accordance with Section 3208, but the supervisor shall reduce the amount of the security required of an operator to reflect reduced obligations as wells are plugged and abandoned.

(c) If the state lease or other agreement that sets forth obligations or performance requirements under the lease provides security that is equal to, or greater than, the total of the additional security required pursuant to subdivision (b), plus all other liabilities under the lease or other agreement, the supervisor shall not require the additional security.

SEC. 3. Section 3205.6 is added to the Public Resources Code, to read:

3205.6. Before July 1, 2020, the supervisor shall do all of the following:

- (a) Evaluate and estimate the costs associated with the decommissioning, including plugging and abandonment pursuant to Section 3208, of the offshore oil and gas wells under its jurisdiction.
- (b) If necessary, based on the estimates made pursuant to subdivision (a), develop a schedule to increase the bond amounts or other financial surety provided by an operator of an offshore oil or gas well to ensure sufficient moneys are available to the state to decommission the well if no other entity is responsible for those decommissioning costs.
- (c) Coordinate with the State Lands Commission to ensure the actions taken pursuant to this section and Section 6829.3 are not duplicative and are consistent with Section 3205.1.

SEC. 4. Section 6829 of the Public Resources Code is amended to read:

6829. Every oil and gas lease executed under this chapter, and any oil and gas lease assigned, transferred, or sublet, pursuant to Section 6804, shall include all of the following:

- (a) Terms, conditions, and provisions that will protect the interests of the state with reference to securing the payment to the state of the proper amount or value of production.

(b) Terms, conditions, and provisions that will protect the interests of the state with reference to the spacing of wells for the purpose of properly offsetting the drainage of oil and gas from state lands by wells drilled and operated on and within privately owned lands; diligence on the part of the lessee in drilling wells to the oil sands and requirements as to depth of those wells for the purpose of reaching the oil sands and producing oil and gas therefrom in commercial quantities.

(c) Provisions specifying methods of operation and standard requirements for carrying on operations in a proper and professional manner, the prevention of waste, the protection of the safety and health of workers, and the liability of the lessee for personal injuries and property damage.

(d) Security, or other financial assurance, for faithful performance by the lessee, including provisions for the forfeiture of the lease, as set forth in Section 6805, and the requirement that the lessee shall, at the time of execution of the lease, including any amendments thereof, furnish and thereafter maintain a good and sufficient bond in such sum as may be specified by the commission, in favor of the state, guaranteeing faithful performance by the lessee of the terms, covenants, and conditions of the lease and of the provisions of this chapter, including for the costs of plugging and abandoning wells and decommissioning all associated production facilities.

(e) Other covenants, conditions, requirements, and reservations as may be deemed advisable by the commission in effecting the purpose of this chapter and not inconsistent with any of its provisions, provided that any provision of an oil and gas lease executed under this chapter that purports to deprive the state or a lessee of any right or benefit secured by law, or is otherwise inconsistent with the provisions of this chapter, shall be void and shall be deemed separable from and without effect upon the valid provisions of the lease.

SEC. 5. Section 6829.3 is added to the Public Resources Code, to read:

6829.3. (a) The commission shall seek additional infrastructure bonding or other financial assurance, as feasible, under its jurisdiction when a lease term is negotiated or renegotiated for an offshore oil or gas lease.

(b) The commission shall coordinate with the State Oil and Gas Supervisor to ensure the actions taken pursuant to this section and Section 3205.6 are not duplicative.