



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 837** HLS 16RS 1213
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: April 20, 2016 8:32 AM	Author: GISCLAIR
Dept./Agy.: Department of Natural Resources, Office of Conservation	
Subject: Amends or Adds Regulations to Oilfield Site Restoration	Analyst: Mason Hess

MINERALS/LEASES OR INCREASE GF EX See Note Page 1 of 2
Relative to the Oilfield Site Restoration program

Present law authorizes the establishment of a site-specific trust account for an oilfield site that is transferred from one operator to another operator. Proposed law amends present law to read from one operator or record to another operator, rather than from one party to another party as is written in present law. Proposed law requires that DNR notify all operators, previous and current, prior to declaring an oilfield site orphaned. Proposed law stipulates that if the last operator of record fails to respond to or fails to close and restore an oilfield site when ordered by DNR, then DNR must inform the former operator of record in reverse chronological order from the date of notice to close and restore the oilfield site. Proposed law provides for penalties and the recovery of site restoration costs to be assessed against the operator of record to close and restore the oilfield site. Proposed law amends present law by stating that DNR is not authorized to recover restoration costs from operators unless the restoration costs for the orphaned oilfield site and supporting facility exceeds \$50,000, rather than the \$250,000 limit in present law.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$270,555	\$270,555	\$270,555	\$270,555	\$270,555	\$1,352,775
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$270,555	\$270,555	\$270,555	\$270,555	\$270,555	\$1,352,775

EXPENDITURE EXPLANATION

Proposed law will cause a material increase of expenditures from the SGF and the Statutory Dedication – Oilfield Site Restoration (OSR) Fund for the Department of Natural Resources (DNR).

Site Transfers

Proposed law calls for a Site Specific Trust Account (SSTA) to be created within the Oilfield Site Restoration Fund (as allowed in present law) every time an oilfield site is transferred from one operator to another. If the well site is abandoned, the SSTA will provide for the funding required to plug the site. DNR projects proposed law will result in an expenditure increase of approximately \$1,558,281 with funds originating from both the SGF (\$1,287,726) and from the Statutory Dedication - Oilfield Site Restoration (OSR) Fund (\$270,555) annually. DNR projects an increase in Other Charges expenditures in an amount of \$270,555 from the OSR Fund annually for costs associated with plugging wells and with site restoration activities and oversight. DNR reports it will require at least one additional T.O. position (Engineering Technician) at an annual salary and related benefits cost of \$56,528 SGF for activities associated with analyzing well histories, issuing notices, and coordinating with contractors and operators for site restoration activities. To the extent that DNR may be able to re-task existing staff and resources, the potential projected expenditures may decrease accordingly.

According to OSR estimates from the last 4 years, an average of 2,160 wells are transferred between operators annually. Each transfer will now require an SSTA pursuant to proposed law. In order to assess the value of an SSTA, an engineer must travel to the site, observe the area surrounding the site, catalog the equipment used and the equipment’s condition, estimate the cost to plug/remove the well, and then catalog the well into DNR’s tracking system. The average salary and related benefits associated with the engineers responsible for administering the account equal approximately \$118,560 annually. DNR estimates each SSTA will require 10 man-hours to administer the account, totaling approximately 21,600 hours. DNR estimates that up to 10 new T.O. positions will be required in addition to existing and proposed staff, resulting in an anticipated additional expenditure impact of approximately \$1,231,200 SGF.

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REVENUE EXPLANATION

Proposed law allows DNR to seek reimbursement of site restoration costs from past operators in the chain of ownership of a well when restoration cost exceeds \$50,000, significantly lower than the \$250,000 limit established in present law. DNR predicts a potential net increase in reimbursements deposited into the Statutory Dedication - Oilfield Site Restoration Fund of approximately \$270,555 annually based on historical average projects falling within the prescribed cost range.

Senate	Dual Referral Rules	House	
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	<i>Evan Brasseaux</i>
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	Evan Brasseaux Staff Director



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CONTINUED EXPLANATION from page one: Page 2 of 2

Expenditure Explanation Continued from Page 1

It should be noted that this projection is based upon every site transfer being done individually, not accounting for multiple wells being involved in a single transfer, therefore expenditures could potentially be lower. If 10 oilfield sites are transferred from one operator to another, each oilfield site will still require an SSTA, but rather than taking 100 man-hours to process the transfer, it may only take 40 man-hours because the wells are transferred in one transaction.

Plug and Abandon/Restoration of Orphaned Sites

According to DNR data over the past 10 years, 131 of 1,126 orphaned well sites incurred restoration costs over \$50,000 but less than \$250,000, accounting for 11.6% of all orphaned sites. There are currently 3,008 orphaned well sites in the OSR program. To the extent that a similar percentage of the current wells within the program cost between \$50,000 and \$250,000, 389 of the 3,008 sites will meet the criteria. Under proposed law, DNR will notify former operators of record in reverse chronoloigcal order of the need to restore the site, which may result in an indeterminable reduction in state expenditures for the OSR program as operators take on more of the direct costs to plug the orphaned sites. According to DNR, an average of 112 sites are plugged per year with an average restoration cost of \$30,550 per well. Thus, proposed law may only impact a small percentage of operators.

Due to the small number of oilfield sites affected by the OSR program (plug and abandon/restoration) annually compared to the number of sites transferred between operators per year, the anticipated expenditure increase to process the SSTAs would likely exceed the expenditure reduction due to the decreased cost threshold for orphaned wells, resulting in a net expenditure increase.

Senate Dual Referral Rules House

- ☒ 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
- ☒ 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
- ☐ 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}
- ☐ 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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