May 20, 2020

Honorable Gavin Newsom
Governor of California
State Capitol
Sacramento, CA 95814

Re: No New Wells Without Oil Companies Posting Bonds For Clean Up Costs

Dear Governor Newsom,

We were shocked to learn that state oil regulators are willing to allow California's oil industry to postpone submitting plans to manage thousands of idle oil wells and to forgo paying fees owed for keeping them idle. This will not only allow these wells to continue to threaten groundwater and air quality, but also will potentially push billions of dollars onto the state to ultimately close and clean up sites. https://www.kqed.org/news/11817384/with-oil-industry-in-slump-state-offers-a-break-on-some-well-regulations

This reprieve is exactly the wrong policy decision in light of a whopping $9.2 billion that the oil industry owes to California to plug and close wells at the end of their useful lives. Companies have put up only a total $110 million in bonding for those wells, according to a recent report by the California Council on Science & Technology. See: https://ccst.us/wp-content/uploads/CCST-Orphan-Wells-in-California-One-Pager.pdf

Given the state's grave deficit, it's imperative that no new wells be approved without full bonding for their clean-up and a requirement to plug a certain number of idle wells in exchange for a new permit.

This is particularly true now that oil companies are on the verge of bankruptcy and collapse. We cannot afford to have them leave any more costs with taxpayers. But your budget also cuts funding for new positions to oversee greater bonding responsibility.

Oil producers keep wells idle in California more often than not in order to avoid the cost of permanently plugging and closing them.

In California, out of a total of 107,000 active wells, roughly 35,000 wells are idle and another 35,000 are barely producing. Many companies don't want to spend the money to plug either idle or marginally productive wells. The state abets them by allowing idle wells to stay that way for decades.

The average per well cost for plugging is roughly $86,000. However California's seven largest drillers, controlling more than 75% of the state's oil and gas wells, have only posted bonds amounting to about $230 on average for each well they will have to plug, according to the LA Times/Public Integrity investigation. This is scandalous. See: https://www.latimes.com/environment/story/2020-03-05/deserted-oil-wells-los-angeles-toxic-fumes-cleanup-costs

Since you took office in January 2019, CalGEM has issued a total of 6,168 new permits, excluding for well plugging and closure. Based on average decommissioning costs of $86,000 per well, these companies should have put up $530 million.

The oil industry has been in decline since 2014 due to an oil glut and sharp drop in oil prices. The latest crisis threatens to put it over the edge. Now is not time for charity to companies heading to bankruptcy but time to make sure we can collect on the money they owe us to close their abandoned wells.

Take the California Resources Corporation (CRC), one of the biggest producers in the state. CRC, an Occidental Petroleum spinoff, is teetering on the edge of bankruptcy. CRC owns 20% of the idle wells in the state, according to the Carbon Tracker Initiative, and has the worst financial books. See: https://carbontracker.org/california-gives-new-meaning-to-stripper-wells/

Out of CRC's 17,000 wells, roughly 44% of its onshore wells are idle—and more than half of those have been idle for more than eight years. More than 1,600 of them have been idle for more than 20 years.

Using CCST's figures, the Initiative estimates that the cost to retire CRC's onshore wells is $1.4 billion. Closing its offshore wells would cost another $2.3 billion. But the company was required to put up "a mere $3 million blanket bond as security for its billion-dollar-plus environmental debt to plug onshore wells," according to the Initiative. On top of that, "CRC pays about $3.5 million per year in idle well fees to defer more than 285 times that amount in environmental cleanup costs that it will likely never be able to afford."

CRC has since racked up $283 million in cash losses and faces nearly $5 billion worth of debt due at the end of 2022. See: https://ieefa.org/ieefa-report-california-schemin/

CRC is not alone, dozens of other oil companies operating in California could face the same fate. In the past five years, six smaller California oil companies have gone bankrupt, leaving debts totaling $125 million after a glut of oil halved prices in 2014. See: https://www.haynesboone.com/-/media/Files/Energy_Bankruptcy_Reports/Oil_Patch_Bankruptcy_Monitor

Mountains of debt are coming due during a historic crash in oil prices. A trickle could become a flood. Nearly 100 US oil and gas producers could file for Chapter 11 over the next year, according to the Houston law firm Haynes and Boone. See: https://www.cnn.com/2020/04/02/business/oil-crash-bankruptcies-whiting/index.htm

The only prudent move, to spare the state billions in clean-up costs, is to issue an executive order stopping any more permits for wells without oil companies putting up the requisite amounts of money first to plug each one. Taxpayers deserve nothing less.

Sincerely,

Jamie Court
President

Liza Tucker
Energy Project Director