

June 1, 2020

House Natural Resources Subcommittee on Energy and Mineral Resources, “NRDems Forum: Reclaiming Orphaned Oil and Gas Wells – Creating Jobs and Protecting the Environment by Cleaning Up and Plugging Wells”

Executive Summary

House Natural Resources Subcommittee on Energy and Mineral Resources Democrats met virtually on Monday (June 1) to discuss the issue of orphan wells in the United States. The lawmakers heard from Lyn Helms, the Director of North Dakota’s Department of Mineral Resources, who spoke on behalf of the Interstate Oil and Gas Compact Commission (IOGCC) and discussed the number of orphan wells in the U.S. and the average cost it takes to plug them. Adrienne Sandoval, the Director of the Oil Conservation Division of New Mexico’s Energy, Minerals and Natural Resources Department also spoke about the varying costs of plugging orphan wells, and she mentioned 40 percent of New Mexico’s state budget comes from the oil and gas industry. Daniel Raimi, Senior Research Associate at Resources for the Future, reported on his research looking at individual states and their statistics regarding orphan wells. Sara Kendall, Program Director as the Western Organization of Resource Councils mentioned the specific environmental impacts that orphan wells can have. All of the panelists emphasized the need for increased funding and that plugging these wells would create hundreds if not thousands of jobs.

Chairman Alan Lowenthal (D-CA) began by expressing his disappointment in the lack of bipartisan representation in the meeting. He discussed the environmental effects of the orphan wells and how the burden of paying for their closure is often relegated to taxpayers rather than the operating businesses as those likely went bankrupt.

Rep. Jared Huffman (D-CA) noted his interest in what can be done to hold companies responsible beyond bond reform. Other lawmakers on the committee emphasized their concern that the costs of plugging wells will fall to taxpayers, as well as their interest in what programs the federal government can implement to help address the problem. Sandoval reiterated throughout the forum that programs should be left up to the states.

Member Statements

Subcommittee Chairman Alan Lowenthal (D-CA)

I am disappointed that this is not a full subcommittee hearing as I like to run these meetings in a bipartisan way, and I will miss the input of my Republican colleagues. Oil and gas development has broad environmental and public health impacts, and these wells still have those impacts when they are no longer in use. Plugging and cleaning these wells can create jobs and help the environment and so we require that companies plug the wells when they are done being used. Doing so helps restore the land, provides better wildlife habitats, prevents methane leaks, and stops groundwater contamination.

Additionally, methane leaks can cause local air pollution problems and even explosions. The reclamation of oil and gas wells does not often happen the way it should. Many wells that are orphaned are owned by companies that go bankrupt, and there is normally a lack of adequate financial incentive to clean them up. Taxpayers are often on the hook to cover these costs.

The Interstate Oil and Gas Compact Commission (IOGCC) says that there are at least 56,000 known orphan wells in the United States. California reported that there are more than 5,500 orphan wells and they have around \$26 million in bonds to pay for what is expected to cost around \$500 million. Reforming bonding is necessary, but it will not address the tens of thousands of existing orphan wells. Given the international oil price war and the pandemic, we could be looking at huge numbers of oil and gas companies going bankrupt leaving behind more orphan wells and costing a lot of jobs. It is also an opportunity for Congress to create a program to plug these wells which would create countless jobs for oil and gas workers who have lost their job.

Witness Statements

Lynn Helms, Director of the North Dakota Department of Mineral Resources, On behalf of the Interstate Oil and Gas Compact Commission

This year, IOGCC published an updated report on strategies for idle and orphan wells. We gathered the number of wells and info on the types of insurance and funds used to plug wells, and states have estimated there are over 220,000 orphaned wells that are undocumented.

The average cost to plug a well in the U.S. is \$18,000. Funding is direly needed to plug these wells and it is a shovel-ready program that has the potential to create thousands of jobs.

Adrienne Sandoval, Director of the Oil Conservation Division, New Mexico Energy, Minerals and Natural Resources Department

In 2019, oil and gas revenue provided over 40 percent of New Mexico's budget, but the slumping market is resulting in large numbers of unemployment in the industry. Federal dollars are needed to help close these wells. On average, it costs \$35,000 to close wells in New Mexico.

Daniel Raimi, Senior Research Associate, Resources for the Future

A federally-supported program to help fund the closure of these wells has the potential to create jobs in a market that will be hard-hit by the pandemic and price war. Plugging the wells in the U.S. would create roughly 13,000 jobs in a year.

Sara Kendall, Program Director, Western Organization of Resource Councils

Delayed reclamation of wells has negative impacts on the environment and the surrounding property, and they impede farming and ranching activities. We support the creation of a fund to give money to states for the reclamation of these wells. Addressing bond reform can help prevent an influx in orphan wells down the line and the wells we use today will cost much more than the wells we are currently discussing.

Key Exchanges

Chairman Alan Lowenthal (D-CA): Congress tried to set up a program in 2005 to close orphan wells. Why didn't it work and what can we learn from it?

Helms: Congress authorized the program but never appropriated funding. DOE has assisted us in plugging efforts but that was the only funding they got.

Sandoval: It had a very extended definition of “idle” at seven years which is far too long.

Lowenthal: What is the overlap between the skills and the knowledge of recently laid-off oil and gas workers, and the skills and knowledge needed to plug and reclaim wells?

Helms: North Dakota has used some of the CARES Act funding to identify 368 wells for reclamation. We estimate that each job will employ around 30 workers.

Rami: This is a shovel-ready job

Jared Huffman (D-CA): In addition to bond reform, what else can we do to help keep these companies accountable?

Rami: We would need to look at it from a federal level and a state level. Some states use severance taxes to raise funds for programs, and so states could increase those taxes and the federal government could raise royalties. The downside of those is that it will raise costs not just for the companies that might abandon wells but for all companies. That is why increasing bonds is usually the best way to go.

Helms: North Dakota has been dialing back the number of wells that can be on blanket bonds. We also need to reform regulations to restrict the transfer of ownership of wells, so they are not passed around.

Huffman: How common is unsuccessful reclamation and who has to fix that?

Sandoval: In New Mexico, we hold the current operator accountable and if they are not in the picture then the state takes control of the process. With current wells, the state is involved no matter what.

Kendall: At the federal level, funding for inspection and enforcement is needed as it is the only way to ensure that proper plugging has occurred.

Vice Chair Deb Holland (D-NM): Mr. Helms and Ms. Sandoval, if the federal government gave funds to states to put people to work cleaning the wells, how quickly could the work start?

Sandoval: It could start tomorrow. New Mexico has contractors in place that would help work.

Helms: North Dakota could be ready by July 1.

Holland: Mr. Helms, North Dakota has looked at using CARES funding to close some of its wells and while I do not question your decision as we know the threat that unremediated wells can pose health risk. However, I presume that absent the orphan wells problem, North Dakota could use the money to address other societal problems. Especially with the Indian country having one of the highest COVID-19 infection rates per capita across the country. In normal times, where does this funding go? And what steps could states and the federal government take to ensure that tax dollars don’t go to plugging these wells.

Sandoval: New Mexico gets its funding from a variety of sources and funds. These come from taxes on operators, operators themselves, and other taxes.

Helms: In North Dakota there are fees and penalties that make up our funding, but it is not adequate. Gross production taxes are going into the plugging fund to compensate for that but if they weren't, we would normally see around 50 percent of the money from those taxes go to Tribal programs whether it is K-12 education or others.

Rep. Xochitl Torres Small (D-NM): Ms. Sandoval, you mentioned that New Mexico's program does not have enough funding to plug all of the existing orphan wells, so how would you design a program to close all of our wells.

Sandoval: New Mexico recommends that all of these programs be handled by the states. It is important that there is an administrative cost to this program as well as the physical plugging costs. An administrative grant would ensure that there is appropriate staffing.

Torres Small: How many workers do you think we could put back to work in New Mexico in plugging wells this year?

Sandoval: Around 100 workers that would be well-paid. This would also create jobs in lab testing and other industries.

Torres Small: With enough funding, how long would it take to plug all of the wells in New Mexico?

Sandoval: It depends on how many crews could be deployed but I would say about three years.

Rep. Ben Ray Luján (D-NM): Would it make more sense to create a federal pilot program to plug these wells or just cut a check to each state and let them do it on their own?

Sandoval: We would recommend leaving it up to the states.

Helms: IOGCC has a cooperative agreement with the DOE and they have the authority to administer that kind of program. The capacity is there to immediately issue block grants to states.

Kendall: There are some unique issues with federal and tribal wells that would require federal involvement. There are also regulatory obstacles like the seven-year definition of idle wells.

Rami: Trying to stand up a federal project could create more administrative challenges.