



**OIL FIELD CLEANUP PROGRAM
ANNUAL REPORT — FISCAL YEAR 2004**

**OIL AND GAS DIVISION
RAILROAD COMMISSION OF TEXAS**

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RAILROAD COMMISSION OF TEXAS

OIL AND GAS DIVISION

July 22, 2005

To The Legislature:

S.B. 1103, 72nd Legislature, 1991 and S.B. 310, 77th Legislature, 2001 (§91.112(b), Natural Resources Code) requires the Railroad Commission to submit an Annual Report to the Legislature on the Oil Field Cleanup Program. The information required by S.B. 1103 and as amended by S.B. 310 is contained in this report. This report covers the period from September 1, 2003 through August 31, 2004.

The Railroad Commission remains committed to the success of the Oil Field Cleanup Program and to the protection of the State's land and water resources through activities funded by the Oil Field Cleanup Fund. This report is posted on the Commission's website; however, should you have any questions about the material presented, please contact Joe Mayorga, Assistant Director of the Commission's Oil and Gas Division, Field Operations Section, at 463-6830; John Tintera, Assistant Director of the Commission's Oil and Gas Division, Site Remediation Section, at 463-6765; Boyd Johnson, Assistant Director of the Commission's Office of General Counsel, Enforcement Section, at 463-6843; or Rebecca Trevino, Director of the Commission's Administration Division, at 463-7124.


Chairman Victor G. Carrillo


Commissioner Michael L. Williams


Commissioner Elizabeth A. Jones

**RAILROAD COMMISSION OF TEXAS
OIL FIELD CLEANUP PROGRAM
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INTRODUCTION:

The Oil Field Cleanup Fund was created by the adoption of S.B. 1103 (72nd Legislature, 1991) and modified by the adoption of S.B. 310 (77th Legislature, 2001). Under S.B. 1103 the State of Texas, through the Railroad Commission ("Commission"), increased its financial ability to plug abandoned oil and gas wells and to remediate abandoned oil field sites throughout the State. S.B. 1103 replaced the previous Well Plugging Fund with the Oil Field Cleanup Fund and increased the fund balance cap to \$10 million. S.B. 310 increased several existing fees associated with oil and gas industry activity and increased the Oil Field Cleanup Fund balance cap from \$10 million to \$20 million.

The impact of the Oil Field Cleanup Fund is clearly demonstrated by the increase in the number of wells plugged and sites remediated. From fiscal year 1984 to fiscal year 1991, the Commission plugged 4,078 wells under the previous Well Plugging Fund. From fiscal year 1992 through fiscal year 2004, the Commission has plugged 18,466 wells (22,544 wells since fiscal year 1984) and cleaned up, assessed, or investigated 2,765 sites using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2004, the Commission was tracking approximately 356,069 wells compared to 355,089 in August 2003. Of this number, approximately 110,658 were inactive, shut-in oil and gas wells. Of the 110,658 wells, 20,105 were compliant inactive wells that had been shut-in less than 12 months and 68,434 were compliant inactive wells that were shut-in for more than 12 months, but were covered by a bond, letter of credit, or an approved plugging extension. The remaining 22,119 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 22,119 non-complaint wells, 6,814 wells belonged to operators with an active Organization Report on file with the Commission and 15,305 wells belonged to operators with delinquent Organization Reports. The Commission defines these 15,305 wells as orphan wells. These figures are represented on a percentage basis in Figure 1 and the distribution of wells monitored by the Commission is shown in Figure 2.

The operators of record plug most of the compliant inactive wells and some of the non-compliant inactive wells as required by Commission rules and regulations. However, some currently compliant and many of the orphan wells may eventually require plugging by the Commission with Oil Field Cleanup funds and/or other state and federal funds.

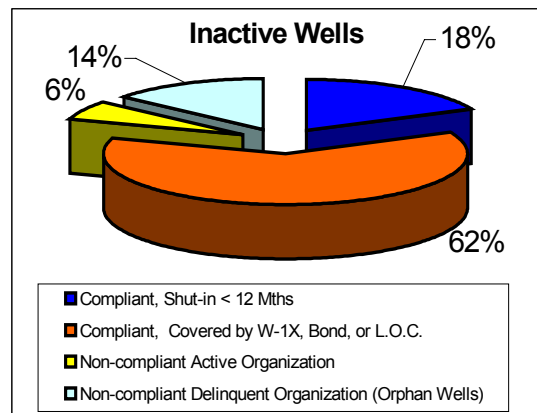


Figure 1

Distribution of Wells Monitored by the Railroad Commission
As of August 25, 2004

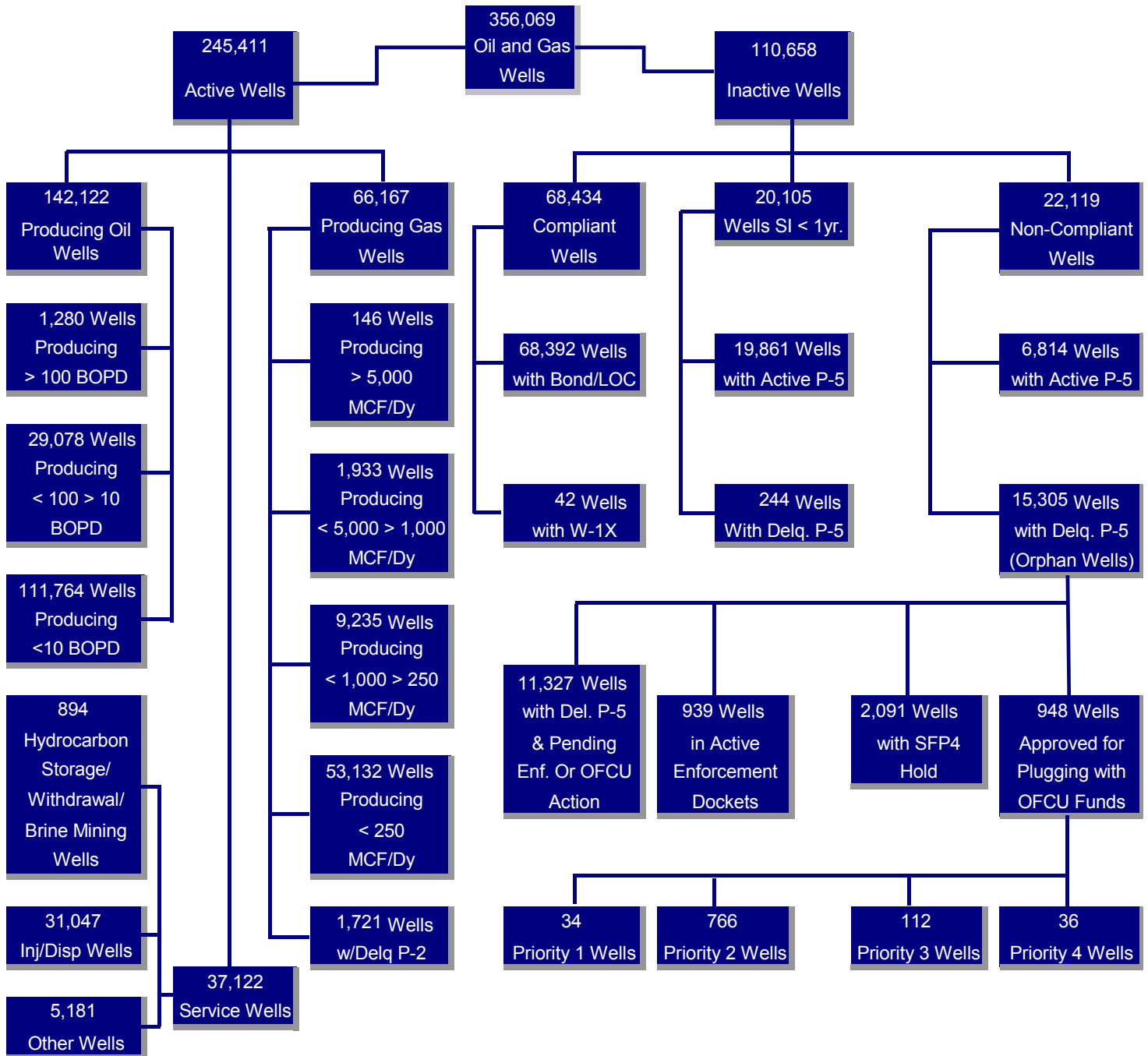


Figure 2

It is important to understand that the number of orphan wells is a dynamic number that changes daily, as wells are placed into and out of compliance. The Commission attempts to capture the dynamics occurring within the orphan well population on a monthly basis and depicts these changes in Table 1. Table 2 depicts the yearly dynamics beginning with fiscal year 2003 (September 1, 2002). The data illustrates that the number of orphan wells decreased by 1,465 in

fiscal year 2004 and has decreased by 2,666 wells since September 2002. However, the make-up of the orphan wells has changed. A total of 11,830 wells were removed from the fiscal year's beginning inventory, but 10,365 new wells were added to the population of orphan wells throughout the fiscal year. Since the beginning of fiscal year 2003, 25,975 orphan wells have been removed from the inventory and 23,309 new orphan wells have been added to the inventory. The Commission's regulatory goals are to eliminate the threat of pollution posed by inactive unplugged wells and to minimize the number of orphan wells requiring plugging with Oil Field Cleanup funds or other state and federal funds. This decrease in number of orphan wells is illustrated in Figure 3.

Month of Activity	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Total
Beginning Population (from previous month)	16,770	17,040	16,062	18,725	16,253	16,249	16,387	15,992	15,344	15,607	15,266	15,383	16,770
Plugged	(337)	(94)	(66)	(123)	(48)	(122)	(190)	(182)	(135)	(125)	(86)	(218)	(1,726)
Returned to Active Status	(7)	(14)	(12)	(13)	(11)	(20)	(21)	(12)	(11)	(8)	(6)	(25)	(160)
Operator Change	(342)	(118)	(80)	(193)	(50)	(53)	(120)	(315)	(175)	(155)	(84)	(92)	(1,777)
P-5 Renewal	(619)	(1,149)	(218)	(2,292)	(444)	(585)	(642)	(499)	(249)	(700)	(331)	(416)	(8,144)
Other Reasons	(5)	(2)	(1)	(2)	(2)	0	(3)	(1)	(1)	0	(6)	0	(23)
Wells Added to Population	1,580	399	3,040	151	551	918	581	361	834	647	630	673	10,365
Ending Population	17,040	16,062	18,725	16,253	16,249	16,387	15,992	15,344	15,607	15,266	15,383	15,305	15,305

Definitions:
Plugged = Plugged and abandoned.
Returned to Active Status = Active producing or service well.
Operator Change = P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal = The operator of record renews their P-5.
Other Reasons = Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population = Wells not considered orphaned at end of previous month, but considered orphaned at the end of this month.

Table 1

Month of Activity	FY 2003	FY 2004																	Total
Beginning Population (from previous FY)	17,971	16,770																	17,971
Plugged	(1,527)	(1,726)																	(3,253)
Returned to Active Status	(646)	(160)																	(806)
Operator Change	(3,110)	(1,777)																	(4,887)
P-5 Renewal	(8,581)	(8,144)																	(16,725)
Other Reasons	(281)	(23)																	(304)
Wells Added to Population	12,944	10,365																	23,309
Ending Population	16,770	15,305																	15,305

Definitions:	
Plugged =	Plugged and abandoned.
Returned to Active Status =	Active producing or service well.
Operator Change =	P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal =	The operator of record renews their P-5.
Other Reasons =	Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population =	Wells not considered orphaned at end of previous FY, but considered orphaned at the end of this FY.

Table 2

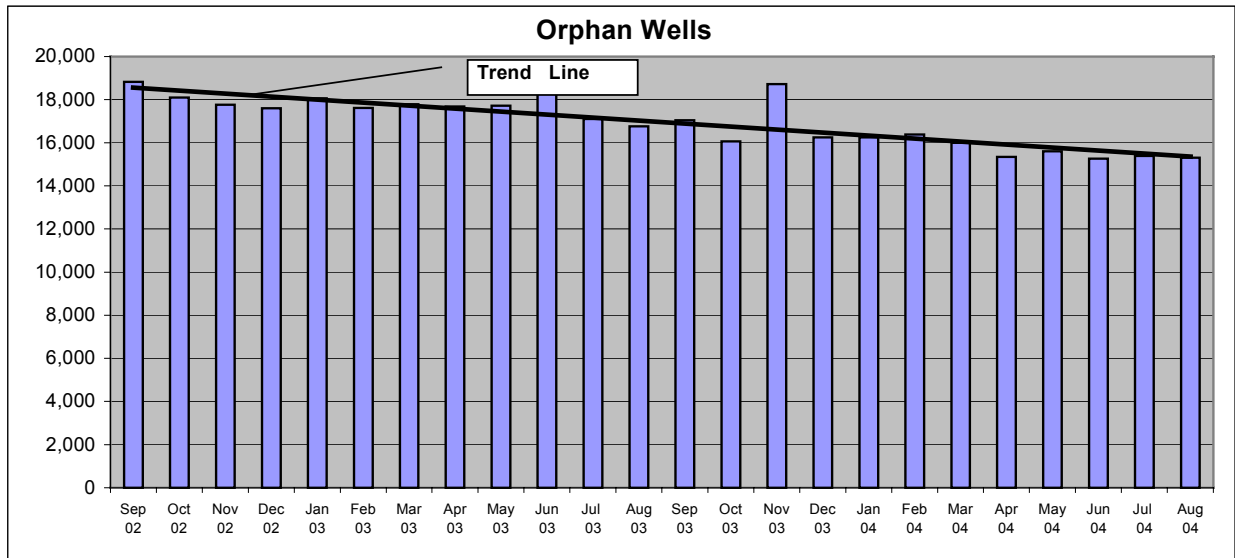


Figure 3

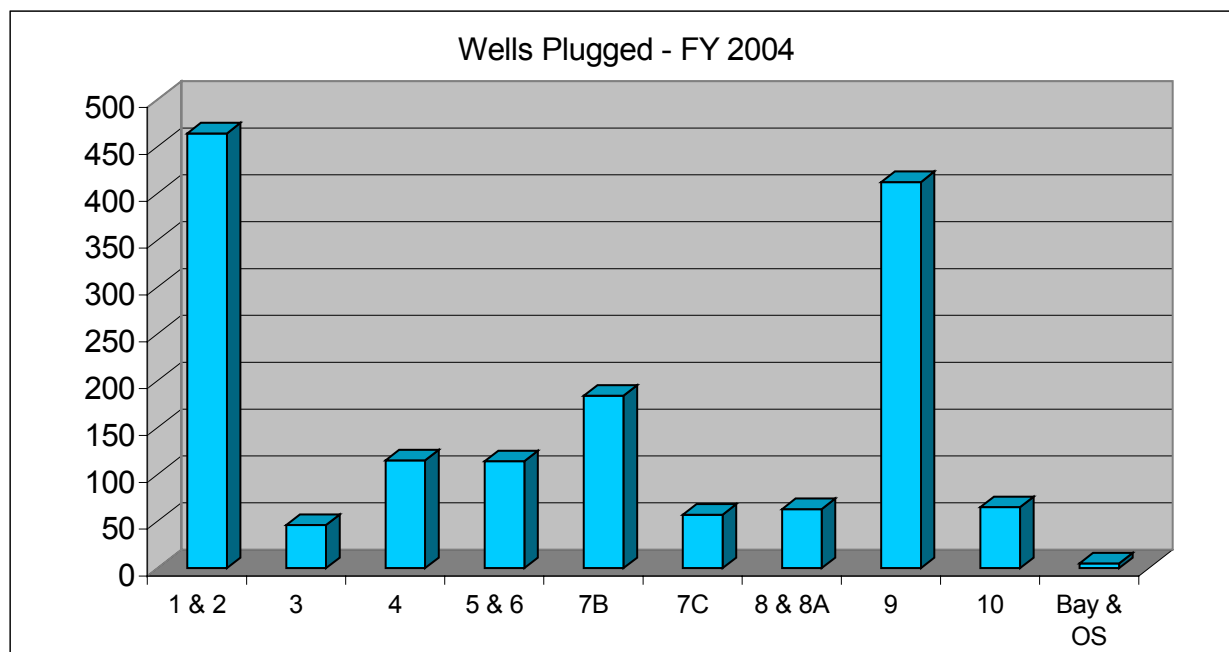
Revenue into the Oil Field Cleanup Fund is derived primarily from fees paid by the oil and gas industry; but significant revenue is also contributed from enforcement penalties, reimbursements, salvaged equipment and hydrocarbons from well plugging and site remediation operations, and interest on fund balances. Additionally, the Commission seeks other sources for funds from state and federal agencies to supplement the activities of the Oil Field Cleanup Program. Although the Oil Field Cleanup Fund finances the majority of the Oil Field Cleanup Program activities, the number of wells plugged and sites remediated contained in this report are inclusive of all sources of funds.

The following information on the Oil Field Cleanup Program is to be reported annually as required by S.B. 1103 and amended by S.B. 310.

I. NUMBER OF WELLS PLUGGED BY DISTRICT:

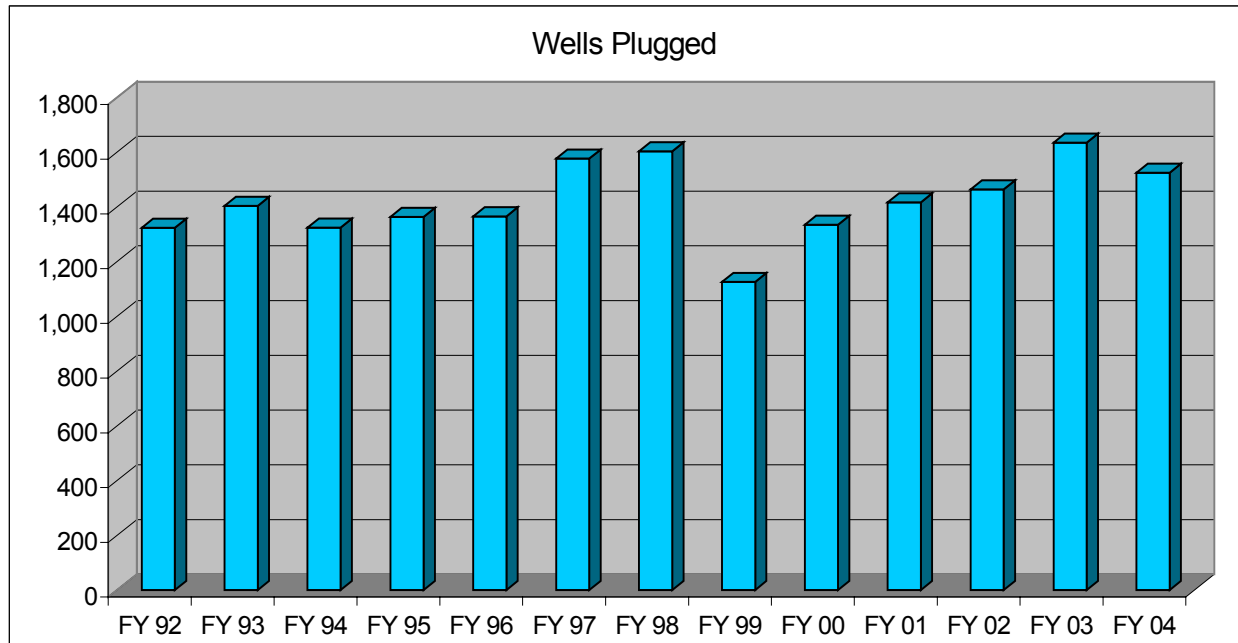
In fiscal year 2004, the Commission plugged **1,525** wells with Oil Field Cleanup funds and other state and federal monies. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors before August 31, 2004. Figure 4 illustrates the numbers of wells plugged by district during fiscal year 2004 and Figure 5 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program.

During fiscal year 2004, another well plugging record was surpassed. The 464 wells plugged in District 1 & 2 represents the most wells plugged in one year by a district. The previous mark was 457 wells plugged by District 1 & 2 in fiscal year 2003.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay & OS	Total
Wells Plugged	464	46	115	114	184	57	63	412	65	5	1,525

Figure 4



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	Total
Wells Plugged	1,324	1,404	1,325	1,364	1,366	1,577	1,604	1,126	1,335	1,417	1,464	1,635	1,525	18,466

Figure 5



Photograph 1



Photograph 2



Photograph 3

Another milestone reached during fiscal year 2004 was the plugging of the first two offshore wells. The first well in photograph 1 is the Shoreline Liftboats, Inc., State Tract 660-L, in Matagaorda IS-LB County. A shrimping boat hit this well and bent the wellhead. Fluids could not be pumped into the well in this condition and developed a leak at the bend when contract personnel attempted to straighten the wellhead. The only viable solution for proper plugging was removal of the bent wellhead. The well was stable initially when the wellhead was removed. However, the well blew out shortly thereafter (photograph 2). A stinger (photograph 3) was required to pump fluid into the well and bring the well under control. This offshore well was plugged at a cost of \$588,000.

II. NUMBER OF ABANDONED WELLS BY DISTRICT:

As of August 2004, the number of abandoned wells was **15,305**. These are the wells the Commission defines as orphan wells because they have been inactive for at least 12 months and the responsible operator's Organization Report is delinquent. The number of orphan wells is a subset of the number of known inactive wells not currently in compliance with the Commission's plugging rule that is referenced in Section III of this report. Figure 6 illustrates the number of orphan wells by district at the end of August 2004.

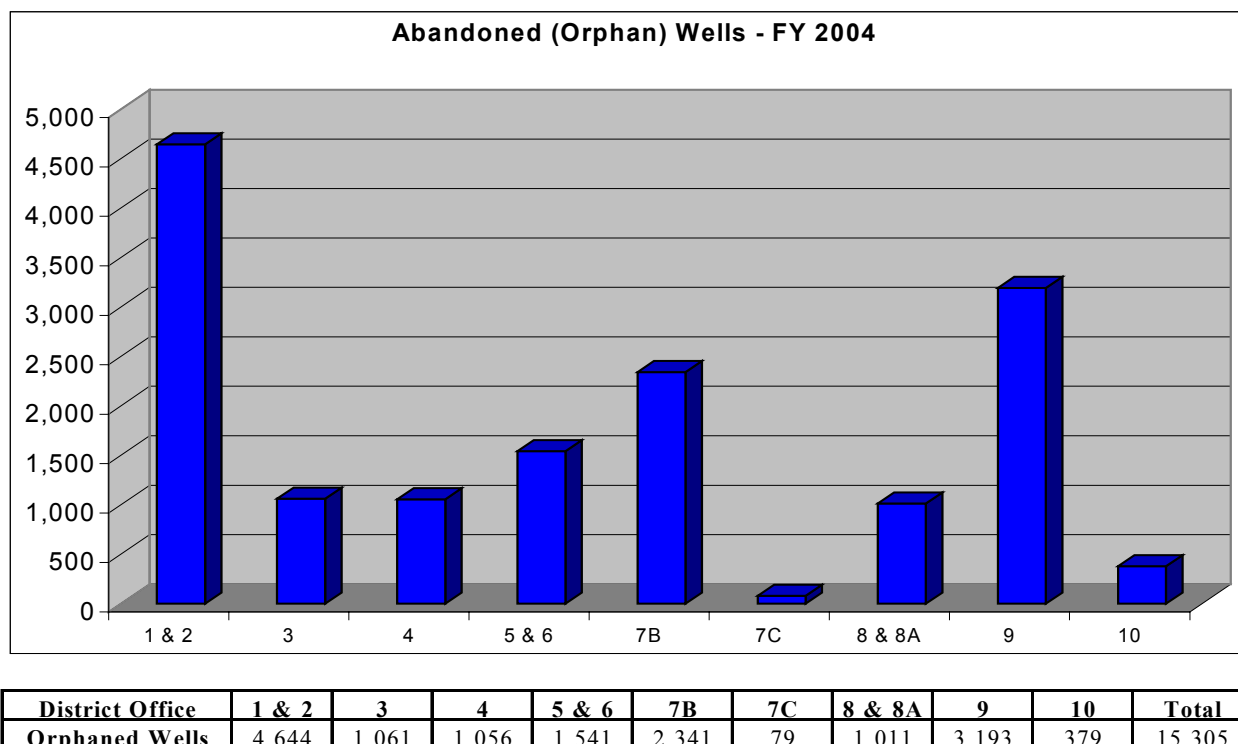


Figure 6

In addition to the 15,305 orphan wells, there are also an unknown number of old unidentified wells in Texas, which have no records. As these wells are identified, the Commission initiates plugging operations in accordance with the well plugging priority system, which is based on the threat the well poses to protection of public safety and the environment. In fiscal year 2004, 34 unidentified abandoned wells were plugged with Oil Field Cleanup funds, which account for 2.2% of all wells plugged by the Commission in FY 04.

III. NUMBER OF NON-COMPLIANT INACTIVE WELLS BY DISTRICT:

The number of known inactive wells not in compliance with Commission rules as of August 2004 totals **22,119**. The number of known inactive wells not currently in compliance with the Commission's plugging rule is determined from the Commission's computerized records. The number represents wells that remain shut-in beyond the initial 12 month shut-in period authorized by Commission rule and do not have a plugging extension, regardless of whether the operator's Organization Report is active or delinquent. Wells that are shut-in for less than 12 months are

deemed compliant inactive wells. Wells are also authorized to remain inactive beyond the initial 12-month period in compliance with Commission rules because the operator has sufficient bonding on file with the Commission to cover the shut-in wells and the wells are in compliance with all other laws and Commission rules. Figure 7 shows the number of non-compliant wells by district at the end of August 2004. Figure 8 shows the number of non-compliant wells in August, at the end of each fiscal year since 1992. Like orphan wells (subset of the inactive non-compliant wells), the number of inactive non-compliant wells is a dynamic number that changes daily, as wells are placed into and out of compliance.

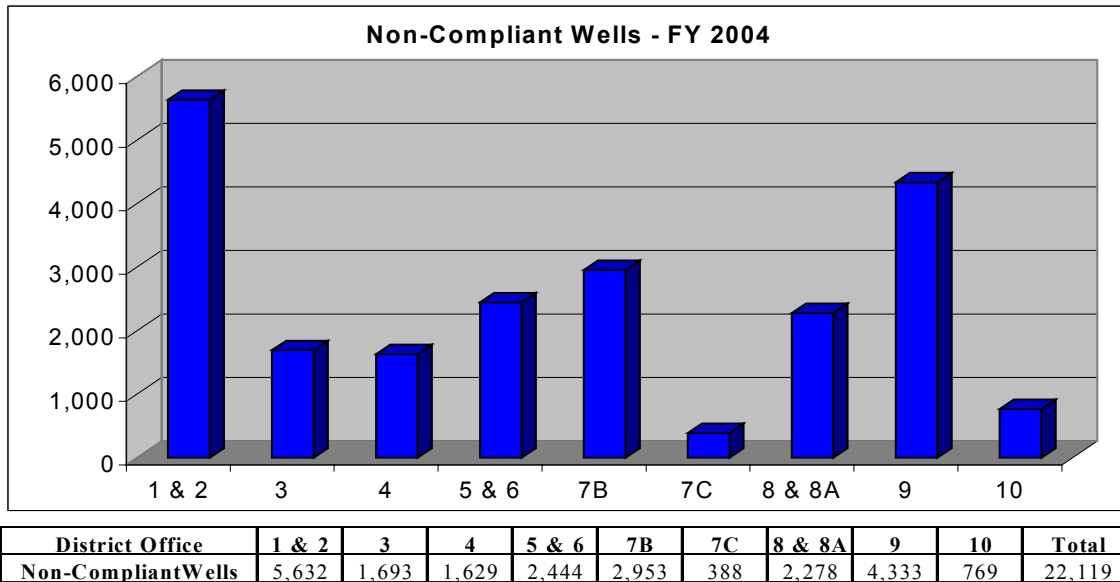


Figure 7

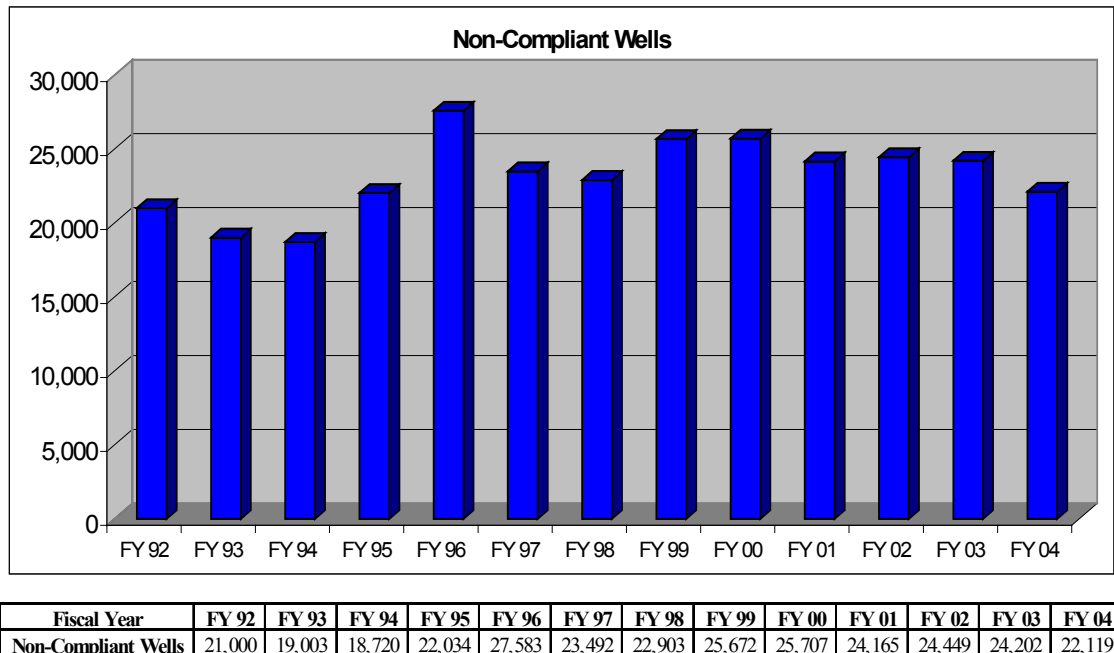
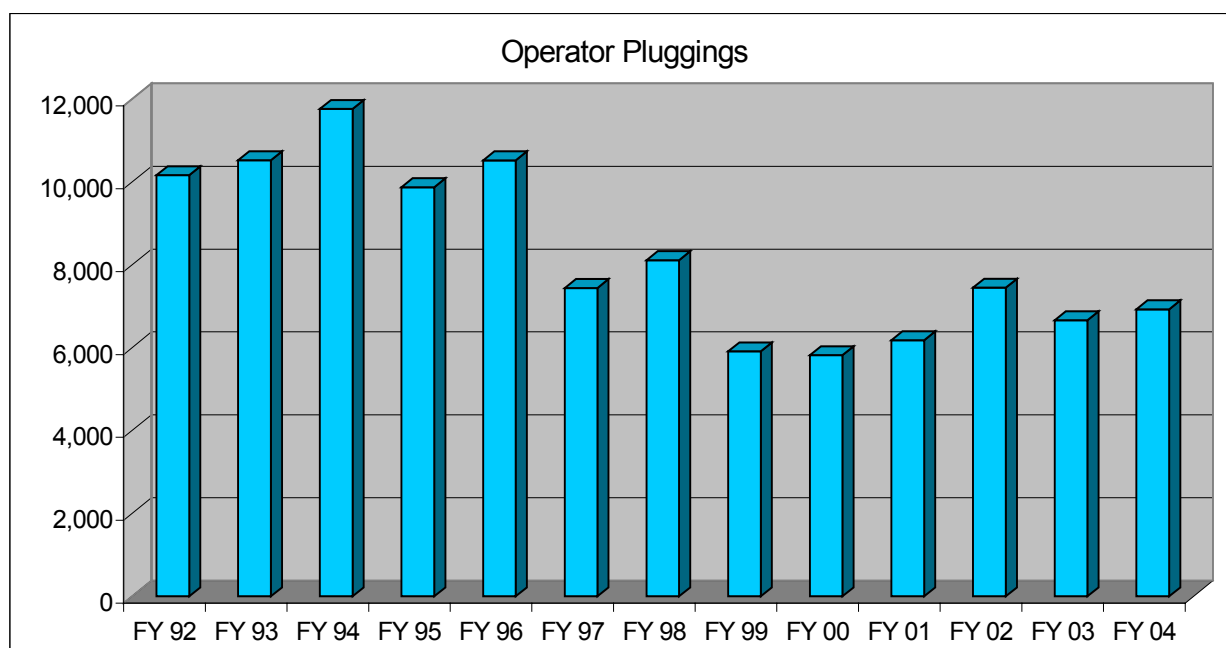


Figure 8

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production or file a bond or letter of credit at the time of the annual renewal of their Organization Report. They are also subject to enforcement action if violations are not corrected and the wells are not brought into compliance with Commission rules and regulations in a timely manner. If the Commission plugs these wells with monies from the Oil Field Cleanup Fund or from other state or federal funds, the Office of the Attorney General may initiate action against the responsible operator for reimbursement of the plugging costs and may assess civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2004, 6,928 wells were plugged voluntarily by the operators of record, without the use of Oil Field Cleanup funds. Figure 9 depicts the number of wells plugged voluntarily by operators since fiscal year 1992.



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Operator Pluggings	10,163	10,523	11,762	9,873	10,522	7,439	8,109	5,912	5,819	6,180	7,450	6,661	6,928

Figure 9

Although the Commission and industry have plugged between 7,000 and 10,000 wells per year since 1997 (Figures 5 and 9) and the number of orphan has decreased over the last two years (Figure 3), the number of known non-compliant inactive wells has remained over 22,000 over the last ten years (Figure 8). However, there has been a decrease from 24,449 in fiscal year 2002 to 22,119 in fiscal year 2004. In September 2001, the provisions of S. B. 310 required blanket bonds or letters of credit with an operator's annual Organization Report (Form P-5) to cover the transfer of inactive wells from one operator to another. The effect of this action has been the increase in the number of wells plugged by industry since fiscal year 2000 and operators covering more of their inactive wells through bonds or letters of credit in compliance with Commission rules.

IV. STATUS OF ENFORCEMENT PROCEEDINGS BY DISTRICT:

The following information represent wells, in violation of the Commission's plugging rule, which have been referred to the Office of General Counsel--Enforcement Section and/or the Office of the Attorney General (AG) and currently are in various stages of enforcement. Table 3 displays the information by district and Table 4 by fiscal year from FY 99 to FY 04.

ENFORCEMENT PROCEEDINGS	1/2	3	4	5/6	7B	7C	8/8A	9	10	Total
STATUS										
<i>1. Awaiting RRC review</i>	<i>1</i>	<i>4</i>	<i>0</i>	<i>8</i>	<i>6</i>	<i>0</i>	<i>2</i>	<i>3</i>	<i>0</i>	<i>24</i>
<i>2. Awaiting Hearing</i>	<i>100</i>	<i>123</i>	<i>11</i>	<i>52</i>	<i>74</i>	<i>3</i>	<i>25</i>	<i>62</i>	<i>0</i>	<i>450</i>
<i>3. Awaiting Final Order</i>	<i>37</i>	<i>84</i>	<i>33</i>	<i>48</i>	<i>87</i>	<i>18</i>	<i>29</i>	<i>57</i>	<i>30</i>	<i>423</i>
<i>4. Final Order Served/Awaiting AG referral</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>5. Wells Referred to AG</i>	<i>162</i>	<i>76</i>	<i>5</i>	<i>101</i>	<i>93</i>	<i>47</i>	<i>56</i>	<i>111</i>	<i>65</i>	<i>716</i>
<i>Total Wells Still in Violation</i>	<i>300</i>	<i>287</i>	<i>49</i>	<i>209</i>	<i>260</i>	<i>68</i>	<i>112</i>	<i>233</i>	<i>95</i>	<i>1,613</i>
TIME PERIOD										
<i>6. In Violation < 2yrs</i>	<i>371</i>	<i>343</i>	<i>13</i>	<i>197</i>	<i>223</i>	<i>5</i>	<i>108</i>	<i>221</i>	<i>20</i>	<i>1,501</i>
<i>7. In Violation > 2yrs & < 5yrs</i>	<i>19</i>	<i>28</i>	<i>12</i>	<i>7</i>	<i>18</i>	<i>3</i>	<i>6</i>	<i>11</i>	<i>3</i>	<i>107</i>
<i>8. In Violation > 5yrs</i>	<i>2</i>	<i>1</i>	<i>0</i>	<i>1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1</i>	<i>0</i>	<i>5</i>
<i>Total Wells Still in Violation</i>	<i>392</i>	<i>372</i>	<i>25</i>	<i>205</i>	<i>241</i>	<i>8</i>	<i>114</i>	<i>233</i>	<i>23</i>	<i>1,613</i>

Table 3

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2004**

OIL FIELD CLEANUP PROGRAM

ENFORCEMENT PROCEEDINGS	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
STATUS						
<i>1. Awaiting RRC review</i>	<i>1,411</i>	<i>1,010</i>	<i>355</i>	<i>235</i>	<i>87</i>	<i>24</i>
<i>2. Awaiting Hearing</i>	<i>449</i>	<i>348</i>	<i>746</i>	<i>263</i>	<i>751</i>	<i>450</i>
<i>3. Awaiting Final Order</i>	<i>202</i>	<i>101</i>	<i>106</i>	<i>968</i>	<i>146</i>	<i>423</i>
<i>4. Final Order Served/Awaiting AG referral</i>	<i>139</i>	<i>0</i>	<i>18</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>5. Wells Referred to AG</i>	<i>707</i>	<i>877</i>	<i>944</i>	<i>829</i>	<i>739</i>	<i>716</i>
<i>Total Wells Still in Violation</i>	<i>2,908</i>	<i>2,336</i>	<i>2,169</i>	<i>2,295</i>	<i>1,723</i>	<i>1,613</i>
TIME PERIOD						
<i>6. In Violation < 2yrs</i>	<i>1,240</i>	<i>2,033</i>	<i>1,879</i>	<i>1,732</i>	<i>1,628</i>	<i>1,501</i>
<i>7. In Violation > 2yrs & < 5yrs</i>	<i>907</i>	<i>210</i>	<i>223</i>	<i>391</i>	<i>89</i>	<i>107</i>
<i>8. In Violation > 5yrs</i>	<i>761</i>	<i>93</i>	<i>67</i>	<i>172</i>	<i>6</i>	<i>5</i>
<i>Total Wells Still in Violation</i>	<i>2,908</i>	<i>2,336</i>	<i>2,169</i>	<i>2,295</i>	<i>1,723</i>	<i>1,613</i>
PENALTIES & REIMBURSEMENTS						
<i>9. Administrative Penalties Assessed by RRC</i>	<i>\$4,657,522</i>	<i>\$2,687,297</i>	<i>\$2,367,030</i>	<i>\$2,816,802</i>	<i>\$2,121,811</i>	<i>\$1,348,532</i>
<i>10. Administrative & Civil Penalties Paid to RRC & AG</i>	<i>\$609,240</i>	<i>\$7,125,536</i>	<i>\$1,288,754</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA¹</i>
<i>11. Reimbursements Paid to RRC & AG</i>	<i>\$436,426</i>	<i>\$298,321</i>	<i>\$118,715</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA¹</i>
TOTAL PENALTIES AND REIM. PAID TO RRC & AG	<i>\$1,045,666</i>	<i>\$7,423,857²</i>	<i>\$1,407,469</i>	<i>\$1,620,501</i>	<i>\$1,929,030</i>	<i>\$2,065,030</i>

Table 4

¹ Not reported separately by the AG's Office

² Includes \$6 million recovered in Koch Industries litigation.

V. NUMBER OF SURFACE LOCATIONS REMEDIATED BY DISTRICT:

During the year, 1,771 abandoned oilfield sites were identified as candidates for state-managed remediation. Additional abandoned sites are identified each year through routine activities such as lease inspections, complaint investigations, state-managed plugging operations, or spill responses.

During fiscal year 2004, the Commission conducted **313** cleanup activities (Figure 10). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2004. State-managed remediation activities included the following:

1. 213 routine remediation operations,
2. 64 emergency operations,
3. 34 site assessment investigations,
4. 1 abatement, and
5. 1 miscellaneous operation.

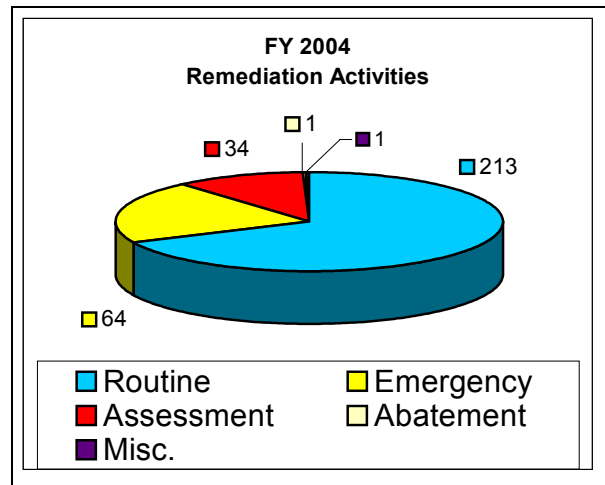
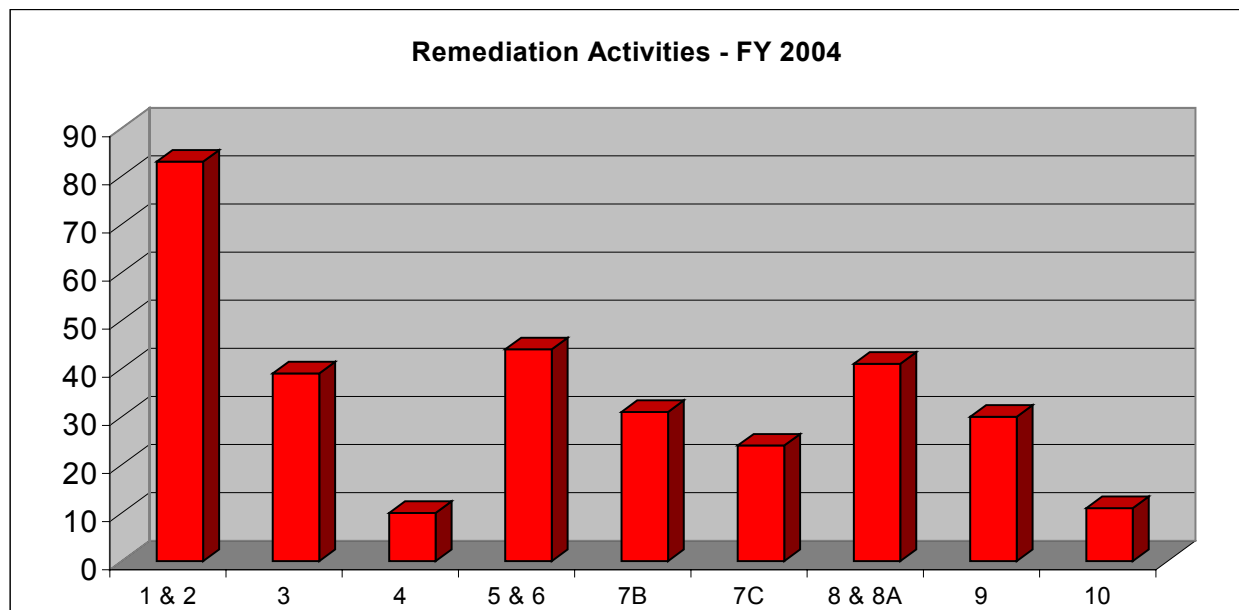


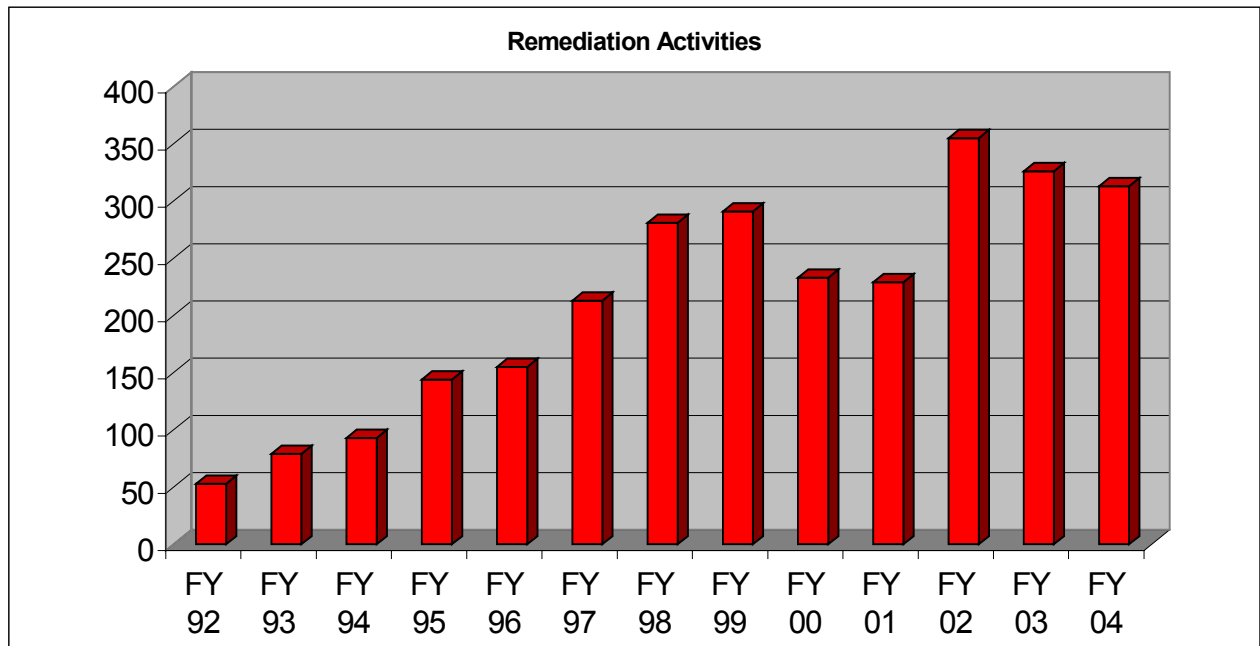
Figure 10

Figure 11 depicts these 313 sites by district for fiscal year 2004 and Figure 12 shows the sites cleaned up, assessed, or investigated by fiscal year since the inception of the program in September 1991.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Total
Activities	83	39	10	44	31	24	41	30	11	313

Figure 11



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	Total
Activities	53	79	93	144	155	213	281	291	233	229	355	326	313	2,765

Figure 12

Similar to the well plugging priority system, the abandoned oilfield sites are prioritized based on the present or possible future impact to the environment and public safety. With larger sites, the challenge is often with determining if the source of pollution is natural or man-made, which potential operator is responsible, how to evaluate the site, and which remedial method is appropriate for the situation.

The Commission utilizes environmental engineering contracts, to help address complex sites. In addition to producing detailed assessment reports, the environmental contractors develop remedial alternative recommendations and anticipated costs.

VI. OIL FIELD CLEANUP FUND EXPENDITURES:

The Commission began fiscal year 2004 with a beginning fund balance in the Oil Field Cleanup Fund of \$402,670 and ended with a fund balance of \$4,048,480. Total revenues for the fiscal year were \$20,975,787 and total expenditures were \$17,329,977. Fiscal year 2004 Oil Field Cleanup Fund revenues and expenditures for well plugging operations, site remediation activities, and administration of the program are detailed in Tables 5 and 6 below.

	FY 2004 Projected	FY 2004 Actual	FY 2004 % Collected/ Expended
Beginning Fund Balance, September 1	\$ 402,670	\$ 402,670	
Revenues:			
Oil & Gas Well Drilling Permit	5,644,200	5,960,075	105.60%
Oil & Gas Well Application Fees	1,285,763	1,189,136	92.48%
P5 Organization Filing Fee	2,900,000	3,177,731	109.58%
Oil Field Cleanup Regulatory Fee on Oil	2,200,000	2,227,085	101.23%
Oil Field Cleanup Regulatory Fee on Gas	3,150,000	2,886,425	91.63%
Abandoned Well Site Equipment Disposal	350,000	906,585	259.02%
Oil & Gas Violations	1,500,000	1,894,618	126.31%
Other Revenue	<u>2,660,125</u>	<u>2,734,132</u>	<u>102.78%</u>
Total Revenues	\$ 19,690,088	\$ 20,975,787	106.53%
Expenditures:			
Well Plugging			
Plugging Contracts	6,309,025	6,003,688	95.16%
Plugging Field Staff Salary & Operating	3,479,906	3,307,751	95.05%
Plugging Mgmt/Admin/Support Salary & Operating	<u>1,097,272</u>	<u>604,460</u>	<u>55.09%</u>
Sub-Total Plugging Program	10,886,203	9,915,899	91.09%
Site Remediation			
Remediation Contracts	3,600,000	4,152,139	115.34%
Remediation Field Staff Salary & Operating	772,716	704,134	91.12%
Project Assessment Professionals Salary & Operating	381,539	337,030	88.33%
Remediation Mgmt/Admin/Support Salary & Operating	<u>568,979</u>	<u>388,133</u>	<u>68.22%</u>
Sub-Total Remediation Program	5,323,234	5,581,436	104.85%
Other Programs			
Operator Cleanup Program	308,527	292,431	94.78%
Financial Assurance	569,714	563,416	98.89%
General Counsel	548,627	529,458	96.51%
Environmental Services	263,439	252,101	95.70%
ITS	170,756	68,845	40.32%
IMS	<u>-</u>	<u>-</u>	<u>-</u>
Sub-Total Other Programs	1,861,063	1,706,251	91.68%
Well Testing			
Well Testing Contracts	25,000	-	0.00%
Direct Project Salary & Operating	<u>126,279</u>	<u>126,391</u>	<u>100.09%</u>
Sub-Total Well Testing Program	<u>151,279</u>	<u>126,391</u>	<u>83.55%</u>
Total Expenditures	\$ 18,221,779	\$ 17,329,977	95.11%
Ending Fund Balance, August 31	\$ 1,870,979	\$ 4,048,480	
Full Time Equivalent Positions	118.03	111.03	

Table 5

	FY 2004 Projected	FY 2004 Actual
Expenditure Ratios:		
Plug/Remediation Field Staff % of Total Plug/Remediation Programs	26.2%	25.9%
Plug/Remediation Contracts % of Total Plug/Remediation Programs	61.1%	65.5%
Plugging Field Staff % of Total Plugging Program	32.0%	33.4%
Plugging Mgmt/Admin/Support % of Total Plugging Program	10.1%	6.1%
Remediation Field Staff % of Total Remediation Program	14.5%	12.6%
Remediation Project Assessment Prof % of Total Remediation Program	7.2%	6.0%
Remediation Mgmt/Admin/Support % of Total Remediation Program	10.7%	7.0%
Other Programs % of Total Expenditures	10.2%	9.8%
Well Testing % of Total Expenditures	0.8%	0.7%

Table 6

VII. WELL PLUGGING PRIORITY SYSTEM:

The Commission uses a priority system, which ranks wells for plugging by groups in order of their threat of pollution to the environment, human health and safety, and wildlife. This priority system is necessary to insure that wells posing the greatest threat of pollution and safety concern are plugged first.

The priority system was revised from a five-tier to a four-tier system in September 1998 and was last revised on November 20, 2001. The revised priority system includes five factors relating to the impact a wellbore poses to the environment, human health and safety, and wildlife. It includes three primary factors titled "Well Completion, Wellbore Conditions, and Well Location with respect to sensitive areas." The Well Completion factor has six subcategories relating to the completion information on the well, types of formation penetrated, type of well, and age of the well. The Wellbore Conditions factor has nine subcategories relating to formation fluids, fluid level in the well, and the integrity of the wellbore. The Well Location factor has five subcategories relating to the proximity of sensitive areas. The remaining two factors relate to citizen complaints and unique environmental, safety, or economic concerns.

The revised priority system places greater emphasis on the casing program and its ability to protect usable quality ground water and the fluid level in the well with respect to usable quality ground water. Only those factors, which apply, are considered. Each factor has been assigned a weight dependent on its potential to affect human health, the environment, and wildlife. The weights of the factors are summed to obtain a total weight. The total weight determines the priority a well receives. Wells receive a priority between 1 and 4, where 1 is the highest priority. The greater the impact a factor has on human health, the environment, and wildlife, the higher the weight of that factor; the greater the total weight obtained from all of the applicable factors, the higher the priority assigned. The priority system assigns leaking wells the highest priority (an automatic priority 1). Although the combination of the various factors may assign a priority of 2 to 4 to a well, wells with high fluid levels receive an automatic priority 2. The revised priority system is outlined below.

WELL PLUGGING PRIORITY SYSTEM

<u>FACTOR</u>	<u>WEIGHT</u>
1. Well Completion	
A. No surface casing or set above base of deepest usable quality water	<u>6</u>
B. Additional casing string not adequately cemented to isolate usable quality water	<u>5</u>
C. Injection or Disposal Well	<u>4</u>
D. Well penetrates salt/corrosive water bearing formation or abnormally pressured formation	<u>3</u>
E. Well in H ₂ S Field	<u>3</u>
F. Age: well drilled ≥ 25 years ago	<u>3</u>
Total	<u>24 max</u>
2. Wellbore Conditions	
A. Leaking Oil, Gas, and/or Saltwater (Automatic Priority 1)	<u>Priority 1</u>
B. Well is pressured up at the surface	<u>5</u>
C. Bradenhead pressure exists	<u>6</u>
D. Fluid level at or above the base of deepest usable quality water (Automatic Priority 2)	<u>Priority 2</u>
E. Fluid level less than 250' below base of deepest usable quality water (na if D applies)	<u>4</u>
F. MIT failure	<u>5</u>
G. H-15 (MIT) never performed, or test greater than 5 years old (na if F applies)	<u>3</u>
H. Inadequate wellhead control/integrity	<u>3</u>
I. Well inactive > 10 years	<u>3</u>
Total	<u>26 max</u>
3. Well location with respect to sensitive areas	
A. Within 100' of river, lake, creek, or domestic use fresh water well (na if B applies).	<u>5</u>
B. Between 100' and ¼ mile of river, lake, creek, or domestic use fresh water well (na if A applies)	<u>3</u>
C. Located within agricultural area	<u>2</u>
D. Well located in known sensitive wildlife area	<u>3</u>
E. Well located within city or town site limits	<u>5</u>
Total	<u>15 max</u>
4. Complaint-related	<u>1</u>
5. Unique Environmental, Safety, or Economic Concern	
A. Well contains junk	<u>5</u>
B. Multiple completion wellbore	<u>4</u>
C. Plugged prior to 1965	<u>3</u>
D. Other (attach explanation)	<u>1-10</u>
Total	<u>10 max</u>
Total Weight	<u>65 wo/4&5</u> <u>76 w/4&5</u>
Priority	<u> </u>

Priority 1 = Leaking Well

Priority 2 = Fluid level at or above BUQW or Total Weight ≥ 45

Priority 3 = Total Weight 30 – 44

Priority 4 = Total Weight ≤ 29

Figures 13 and 14 and Table 7 below show the number of wells plugged with Oil Field Cleanup funds by priority between fiscal years 1992 and 2004. In September 2001, the Commission began concentrating its well plugging efforts on priority 1 and 2 as a result of implementation of the High Risk Well Testing Program established by S.B. 310 (77th Legislature, 2001). This continued through fiscal year 2004.

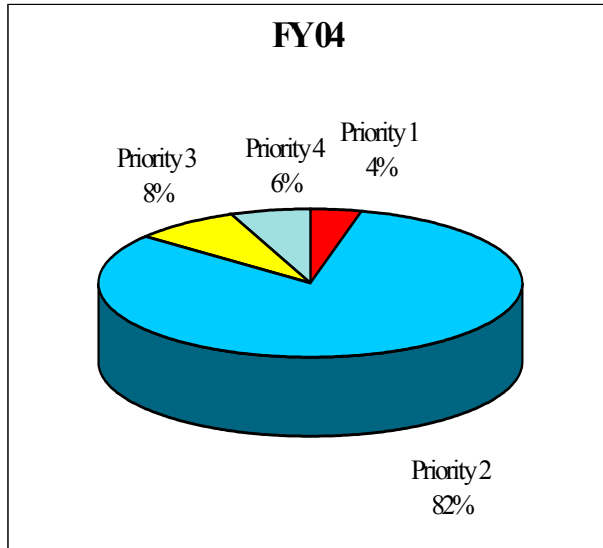


Figure 13

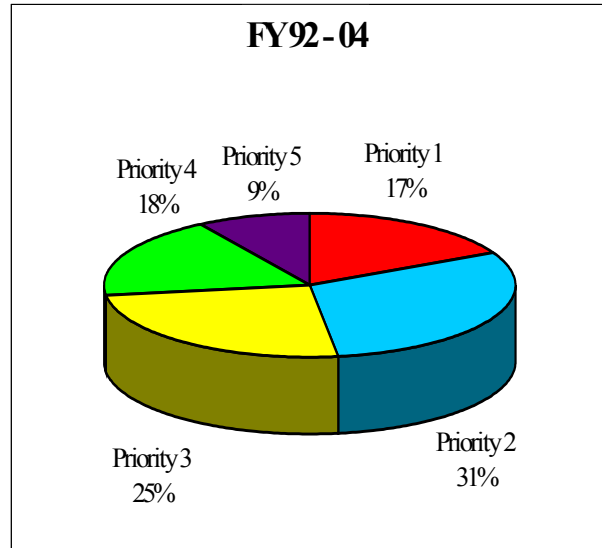


Figure 14

	Fiscal Year 2004	Fiscal Years 1992 – 2004
Priority 1	59	3,206
Priority 2	1,248	5,616
Priority 3	123	4,616
Priority 4	95	3,377
Priority 5	0	1,651
Total	1,525	18,466

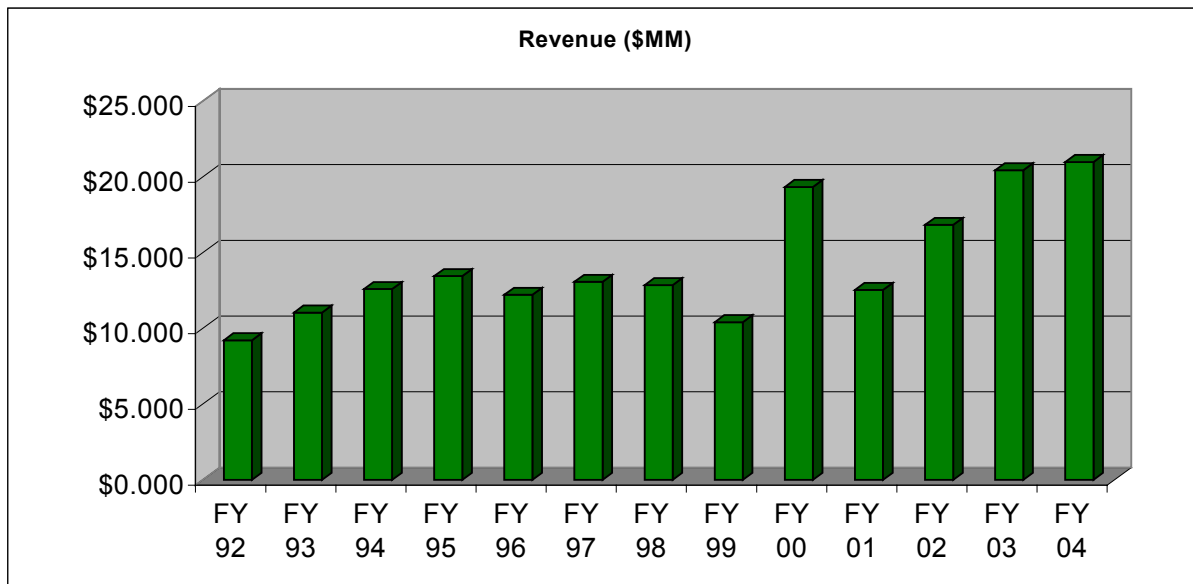
Table 7

VIII. OIL FIELD CLEANUP FUNDS PROJECTION:

Oil Field Cleanup funds projected for the next biennium for plugging abandoned wells and remediating surface locations are as follows:

Fiscal Year 2005 = \$21,639,586
Fiscal Year 2006 = \$18,892,700

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. Figure 15 illustrates the actual revenues received into the Oil Field Cleanup Fund. Neither the revenue projections nor the actual revenue receipts reflect revenues from federal sources. The total revenue receipts for fiscal year 2004 do not include \$689,266 in cash deposits that operators filed in lieu of a bond or letter of credit that would otherwise be required at the time of annual renewal of an operator’s Organization Report. These monies are not available to plug orphan wells or remediate polluted sites since they are subject to being refunded should the operator chose an alternate financial assurance option.



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Revenue (\$MM)	\$9.220	\$11.045	\$12.591	\$13.449	\$12.214	\$13.073	\$12.858	\$10.405	\$19.335	\$12.535	\$16.837	\$20.433	\$20.976

Figure 15

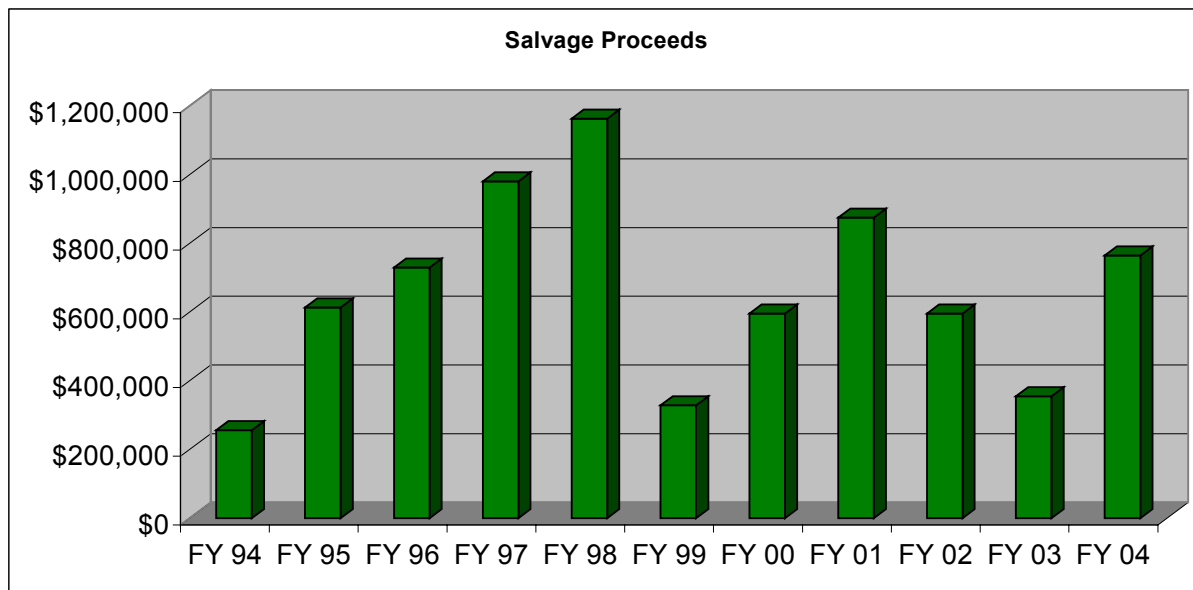
IX. STATUS OF SALVAGE OPERATIONS:

The Commission continues to benefit from the sale of salvageable equipment and hydrocarbons recovered from wells/leases plugged and sites remediated with Oil Field Cleanup funds. In fiscal year 2004, the Commission derived **\$764,853³** from salvageable equipment and hydrocarbons on 207 salvage operations and deposited these proceeds in the Oil Field Cleanup Fund.

House Bill 2705 (73rd Legislature, 1993), which became effective January 1, 1994, streamlined the requirements and facilitated the process by which the Commission is able to sell salvageable equipment from wells plugged or sites remediated and hydrocarbons from wells plugged with Oil Field Cleanup funds. While the bill eased the requirements to sell salvage, it continued to provide due process protection for interested or affected parties. Potential claimants to salvage proceeds have an indefinite period of time in which to file a claim against the Oil Field Cleanup Fund for the proceeds from the sale of salvageable equipment and/or hydrocarbons. Additionally, H.B. 2613 (78th Legislature, 2003) clearly established the Commission's ability to also sell stored hydrocarbons from abandoned sites remediated by the Commission.

Since the inception of the salvage program, the proceeds from the sale of salvageable equipment and hydrocarbons have totaled \$7,256,731 from 2,138 salvage operations. Figure 16 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.

³Data source is the Field Operations PLUG database.



Fiscal Year	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	Total
Salvage Proceeds	\$256,126	\$612,987	\$729,736	\$980,176	\$1,163,021	\$328,781	\$595,758	\$874,604	\$595,615	\$355,074	\$764,853	\$7,256,731
Operations	63	208	285	249	344	136	182	164	197	103	207	2,138

Figure 16

X. NUMBER OF SITES REMEDIATED UNDER THE VOLUNTARY CLEANUP PROGRAM BY DISTRICT:

Senate Bill 310, 77th Legislature (2001), amended Texas Natural Resources Code, Chapter 91, by adding new Subchapter O, specifically authorizing the Commission to establish a Voluntary Cleanup Program (VCP) that is self-funded through the collection of application and oversight fees and that these fees be deposited to the Oil Field Cleanup Fund. Railroad Commission rules regarding the VCP were adopted in June 2002 (16 TAC, Chapter 4, Subchapter D). The purpose of the VCP is to provide an incentive to lenders, developers, owners, and operators to remediate soil and water environmentally impacted by activities over which the Commission exercises jurisdiction by removing the liability to the lenders, developers, owners, and operators who did not cause or contribute to contamination. In return for the release of liability, the State offsets oversight costs through the collection of fees, reduces the need for state-managed cleanup activities, and expedites the return of contaminated properties into productive use.

S.B. 310 structured the VCP in a sequential fashion: 1) an application (with application fee of \$1,000) and acceptance process, 2) agreement execution process, 3) cleanup with Commission oversight process, and finally 4) issuance of a VCP Certificate of Completion. The Commission oversight includes review of work plans and reports to ensure the protection of human health and the environment.

In fiscal year 2004 there were 16 new VCP applications. As of August 31, 2004, there were 31 active VCP sites.

X. OPERATOR CLEANUP PROGRAM:

Another important function of the Commission’s Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities voluntarily conducted by a responsible operator, usually at environmentally sensitive sites. The program ensures that pollution outside of SWR 91 non-sensitive area oil spill cleanup requirements and beyond routine SWR 8 cleanups and closures are addressed promptly and adequately. Oversight of OCP activities is usually by staff in Austin headquarters and District Office (DO) staff. The majority of the projects are long-term remediation projects that require specialized skills to review and manage.

Importantly, environmental cleanups in this program are funded by the responsible operator. As a result, prompt review and action by the Commission may keep some of these projects from becoming state-managed projects that would need Oil Field Cleanup funds to complete the clean up. While these projects do not impose actual assessment of cleanup costs to the Oil Field Cleanup Fund, they do require considerable staff resources of employees who are paid out of the fund.

Mergers, divestitures and acquisitions of oil field properties, which routinely involve environmental assessments for asset valuation, have also contributed to the increasing number of projects for the Operator Cleanup Program. It is not uncommon for operators to discover contamination at sites during routine environmental assessment and to subsequently seek letters of “no further action” from the Commission after completion of clean up.

The Commission tracks approximately 500 complex operator cleanups. These projects involve frequent sampling, reporting, and evaluation to ensure final cleanup is protective of the public health, safety and the environment.

Figure 17 illustrates the number of sites in the Operator Cleanup program since 1998.

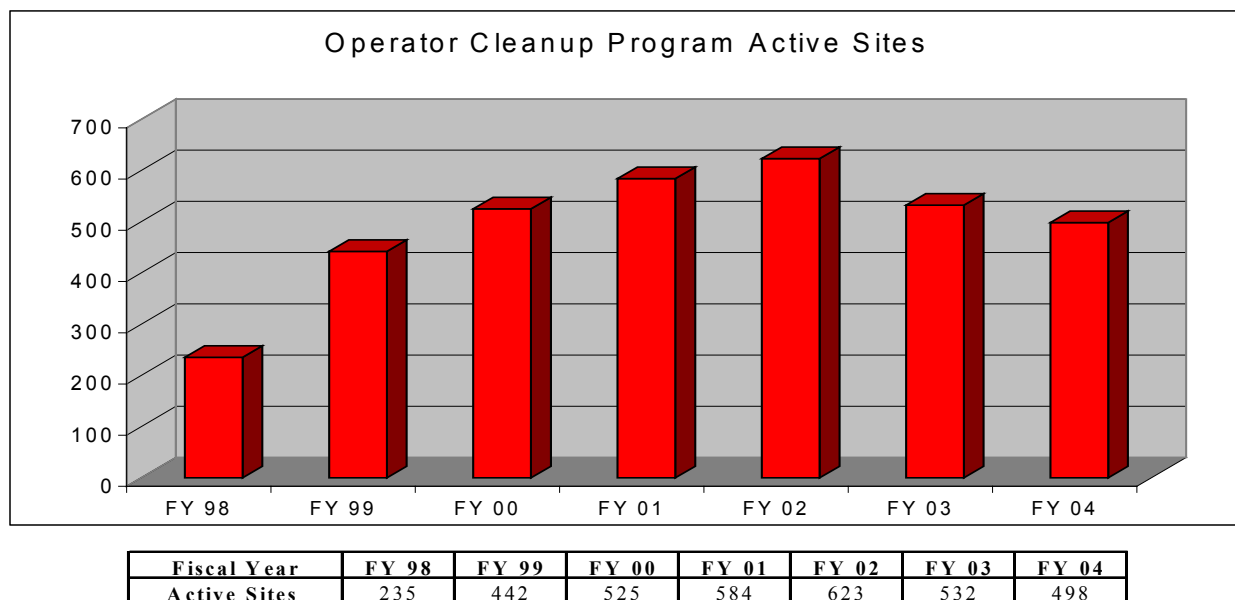


Figure 17