



**OIL FIELD CLEANUP PROGRAM  
ANNUAL REPORT — FISCAL YEAR 2003**

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

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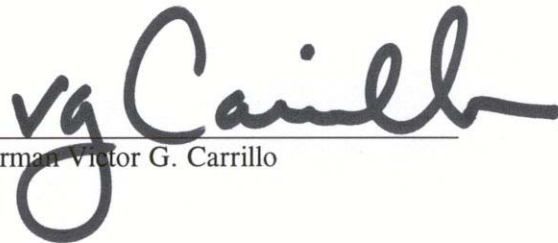
## OIL AND GAS DIVISION

February 24, 2004

To The Legislature:

S.B. 1103, 72<sup>nd</sup> Legislature, 1991 and S.B. 310, 77<sup>th</sup> 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, 2002 through August 31, 2003.

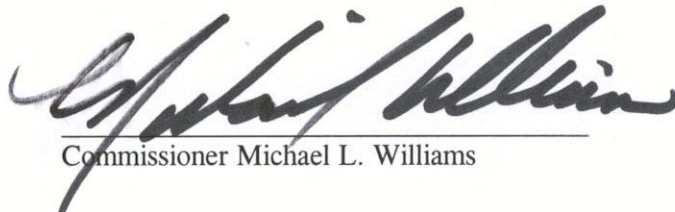
The Railroad Commission remains committed to the success of the Oil Field Cleanup Program and to the protection of the State's land and water resources through activities funded by the Oil Field Cleanup Fund. This report is posted on the Commission's website; however, should you have any questions about 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 Finance and Accounting Division, at 463-7124.



Chairman Victor G. Carrillo



Commissioner Charles R. Matthews



Commissioner Michael L. Williams

**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 (72<sup>nd</sup> Legislature, 1991) and modified by the adoption of S.B. 310 (77<sup>th</sup> 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 on the oil and gas industry 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 2003, the Commission has plugged 16,941 wells (21,019 wells since fiscal year 1984) and cleaned up, assessed, or investigated 2,452 sites using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2003, the Commission was tracking approximately 355,089 wells compared to 355,101 in August 2002. Of this number, approximately 110,968 were inactive, shut-in oil and gas wells. Of the 110,968 wells, 20,478 were compliant inactive wells that had been shut-in less than 12 months and 66,288 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 24,202 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 24,202 non-complaint wells, 7,432 wells belonged to operators with an active Organization Report on file with the Commission and 16,770 wells belonged to operators with delinquent Organization Reports. The Commission defines these 16,770 wells as orphaned 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 wells as required by Commission rules and regulations. However, some currently compliant and many of the orphaned wells may eventually require plugging by the Commission with Oil Field Cleanup funds and/or other state and federal funds.

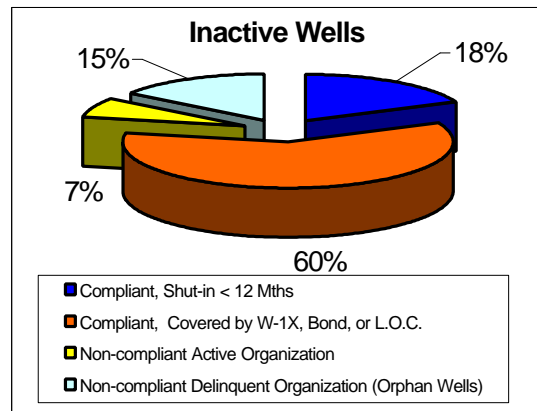


Figure 1

**Distribution of Wells Monitored by the Railroad Commission**  
As of August 29, 2003

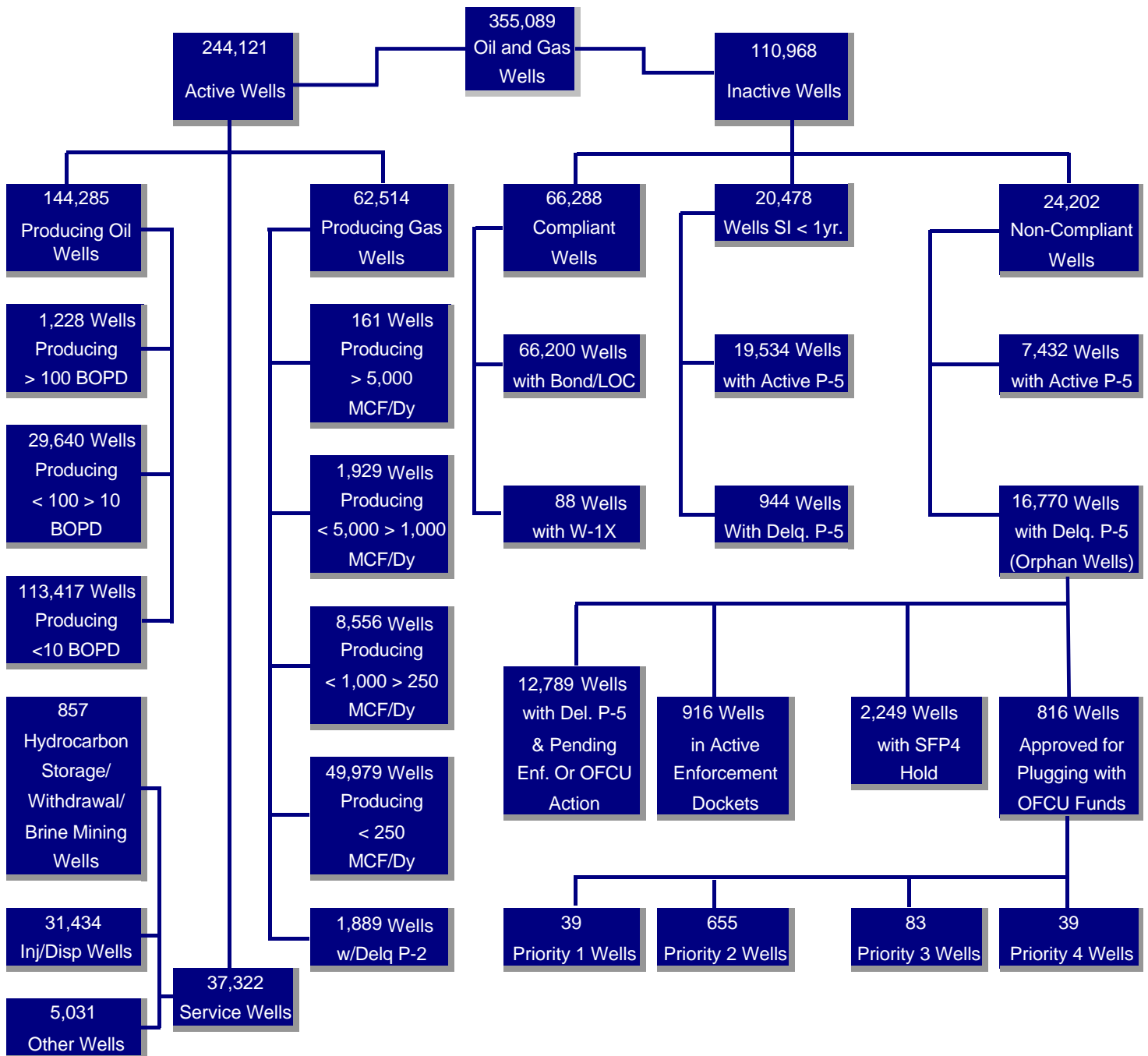


Figure 2

It is important to understand that the number of orphaned 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 orphaned well population on a monthly basis and are depicted in Table 1. The data illustrates that the number of orphaned wells decreased by 1,201. However, the make-up of the orphaned wells has changed. A total of 14,145 wells were removed from the

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fiscal year's beginning inventory, but 12,944 new wells were added to the population of orphaned wells throughout the fiscal year. The Commission's regulatory goals are to eliminate the threat of pollution posed by inactive unplugged wells and to minimize the number of orphaned wells requiring plugging with Oil Field Cleanup funds or other state and federal funds.

Month of Activity	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Total
<b>Beginning Population</b> (from previous month)	17,971	18,828	18,094	17,755	17,602	18,057	17,615	17,785	17,675	17,724	18,404	17,106	17,971
<b>Plugged</b>	(53)	(114)	(66)	(115)	(69)	(270)	(85)	(43)	(191)	(191)	(82)	(248)	(1,527)
<b>Returned to Active Status</b>	(51)	(183)	(30)	(25)	(30)	(119)	(56)	(14)	(20)	(70)	(45)	(3)	(646)
<b>Operator Change</b>	(269)	(208)	(94)	(207)	(88)	(127)	(169)	(145)	(154)	(164)	(1,369)	(116)	(3,110)
<b>P-5 Renewal</b>	(681)	(774)	(1,121)	(591)	(464)	(851)	(601)	(541)	(542)	(846)	(619)	(950)	(8,581)
<b>Other Reasons</b>	(3)	(263)	(1)	0	(1)	0	(2)	(6)	(3)	0	(1)	(1)	(281)
<b>Wells Added to Population</b>	1,914	808	973	785	1,107	925	1,083	639	959	1,951	818	982	12,944
<b>Ending Population</b>	18,828	18,094	17,755	17,602	18,057	17,615	17,785	17,675	17,724	18,404	17,106	16,770	16,770

<b>Definitions:</b>
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 the end of the previous month, but are considered orphaned at the end of this month.

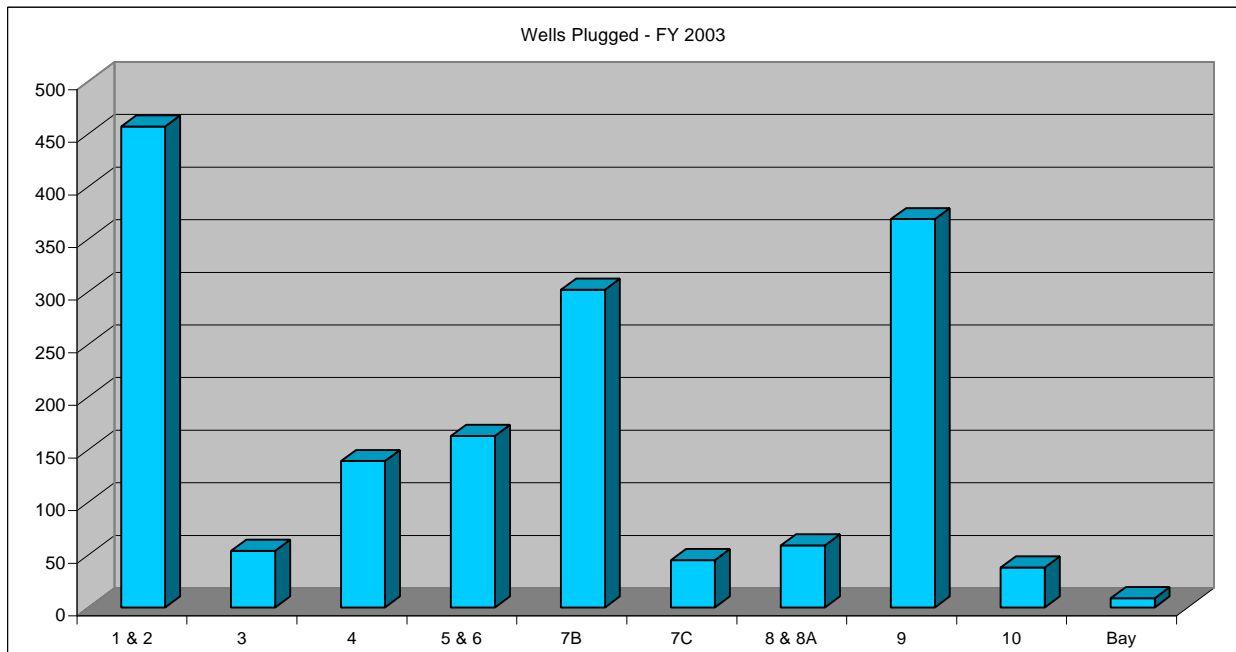
Table 1

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.

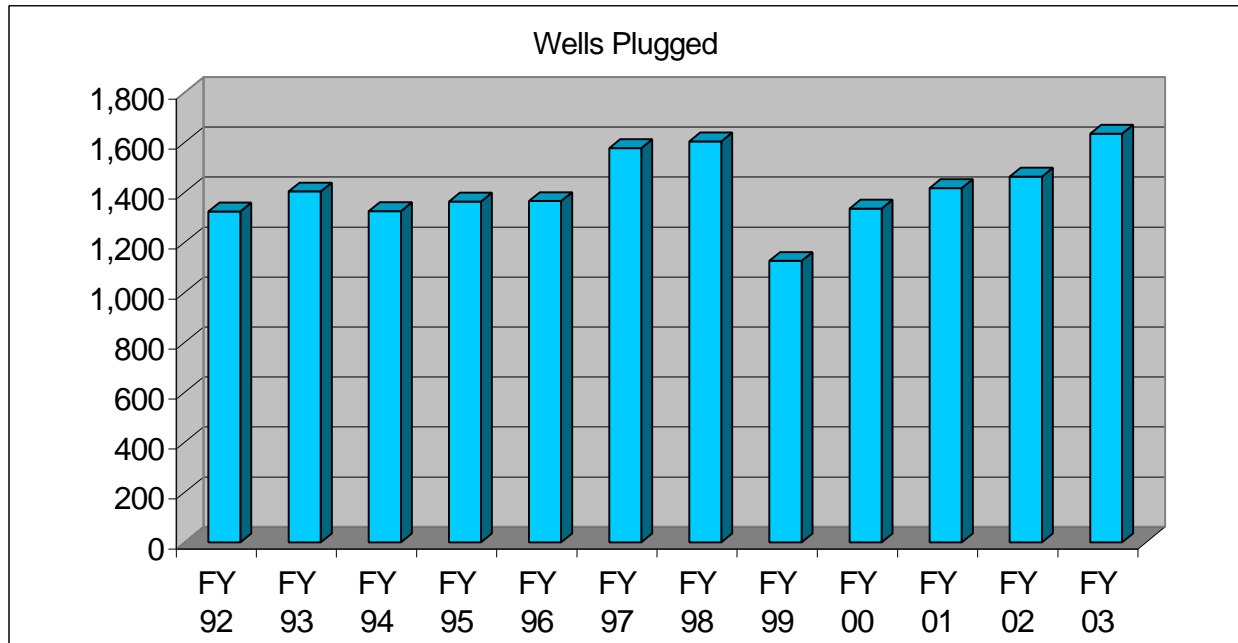
**I. NUMBER OF WELLS PLUGGED BY DISTRICT:**

In fiscal year 2003, the Commission plugged **1,635** 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, 2003. Figure 3 illustrates the numbers of wells plugged by district during fiscal year 2003 and Figure 4 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program. During fiscal year 2003, two well plugging records were surpassed. The 1,635 wells plugged this fiscal year represents the most wells ever plugged in one year and the 457 wells plugged in District 1 & 2 represents the most wells ever plugged in one year by a district. The previous marks were 1,604 wells plugged in fiscal year 1998 and 445 wells plugged by District 1 & 2 in fiscal year 2002.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay	Total
Wells Plugged	457	54	139	163	302	45	59	369	38	9	1,635

Figure 3

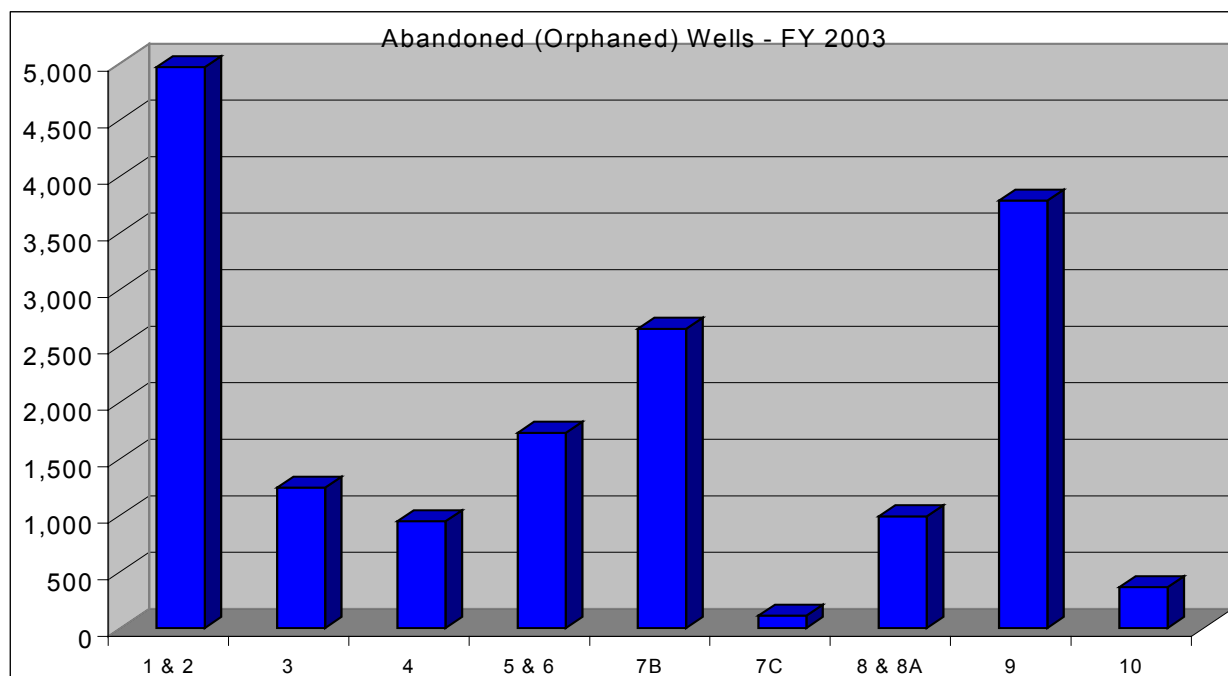


Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	Total
Wells Plugged	1,324	1,404	1,325	1,364	1,366	1,577	1,604	1,126	1,335	1,417	1,464	1,635	16,941

Figure 4

## II. NUMBER OF WELLS ABANDONED BY DISTRICT:

As of August 2003, the number of abandoned wells was **16,770**. These are the wells the Commission defines as orphaned wells because they have been inactive for at least 12 months and the responsible operator's Organization Report is delinquent. The number of orphaned 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 5 illustrates the number of orphaned wells by district at the end of August 2003.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Total
Orphaned Wells	4,964	1,243	944	1,729	2,647	109	990	3,781	363	16,770

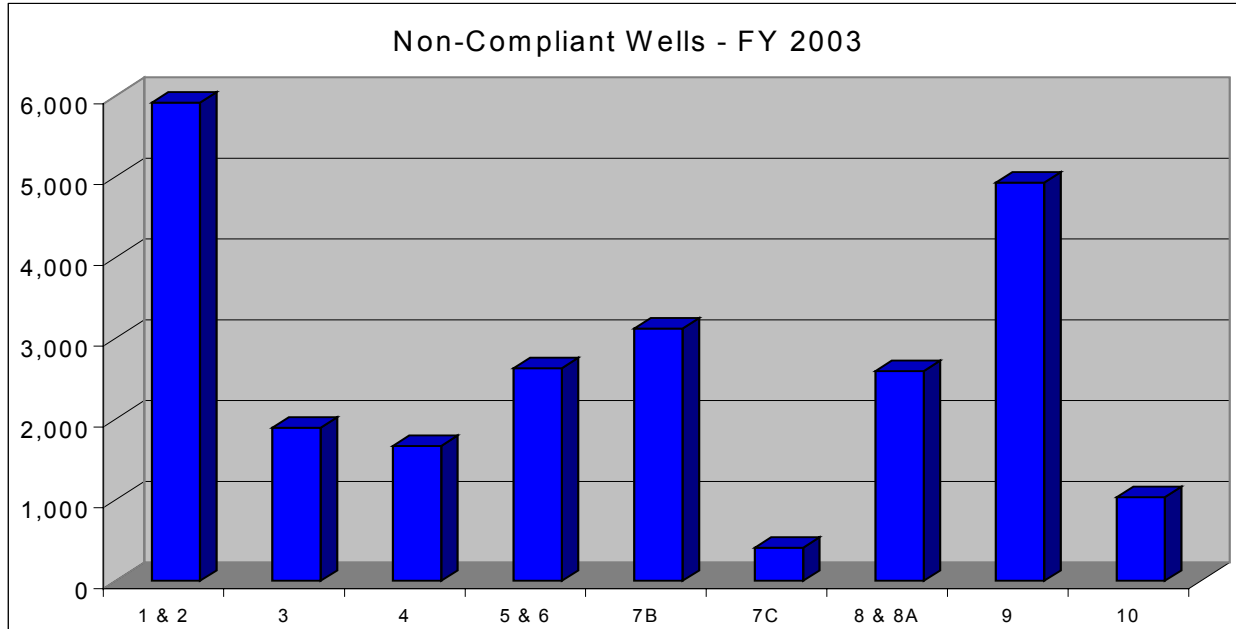
Figure 5

In addition to the 16,770 orphaned 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 2003, 51 unidentified abandoned wells were plugged with Oil Field Cleanup funds, which account for 3.1% of all wells plugged by the Commission.

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

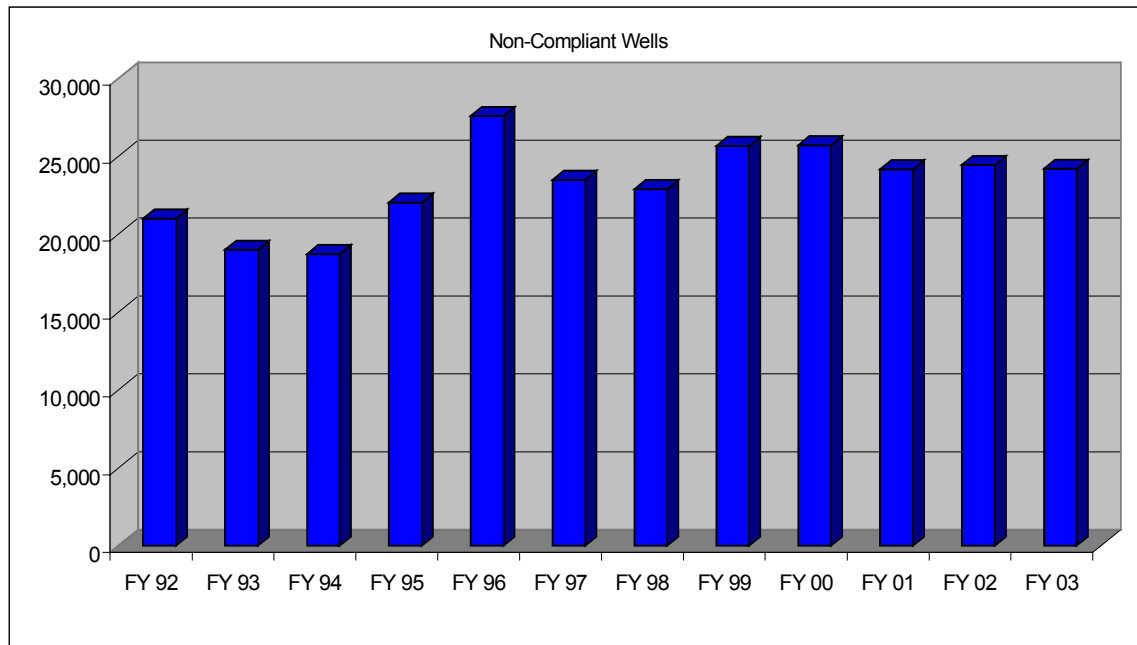
The number of known inactive wells not in compliance with Commission rules as of August 2003 totals **24,202**. The number of known inactive wells not currently in compliance with the Commission's plugging rule is determined from the Commission's computerized records. The number represents wells that 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 by the filing of a plugging extension on Commission Form W-1X, or 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 6 shows the number of non-compliant wells by district at the end of August 2003. Figure 7 shows the number of non-compliant wells in August, at the end of each fiscal year since 1992. Like orphaned 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.





District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Total
Non-Compliant Wells	5,916	1,897	1,667	2,632	3,124	409	2,593	4,927	1,037	24,202

Figure 6



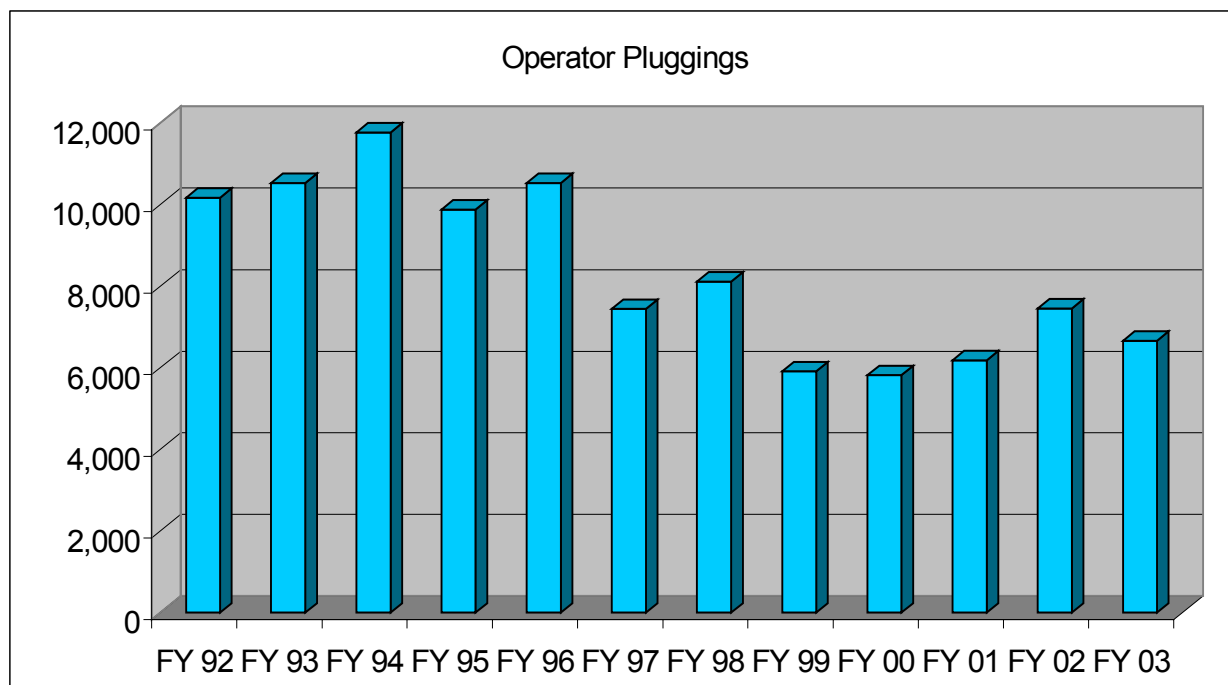
Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Non-Compliant Wells	21,000	19,003	18,720	22,034	27,583	23,492	22,903	25,672	25,707	24,165	24,449	24,202

Figure 7

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production or file a bond, letter of credit, or a plugging extension (Form W-1X) 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 assessment of civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2003, 6,661 wells were plugged voluntarily by the operators of record, without the use of Oil Field Cleanup funds. Figure 8 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
<b>Operator Pluggings</b>	10,163	10,523	11,762	9,873	10,522	7,439	8,109	5,912	5,819	6,180	7,450	6,661

Figure 8

Although the Commission and industry plugged between 7,000 and 10,000 wells per year since 1997, the number of known non-compliant inactive wells has remained relatively stable. In November 2000, the Commission adopted changes to Statewide Rule 14 that reduced the number of wells eligible for a well plugging exception via a W-1X and required an individual well bond for wells that have been inactive for greater than 36 months. 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 net effect of both of these actions 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. This past year the Commission amended Statewide Rule 14 to eliminate the individual well bond requirement on wells that have been inactive for greater than 36 months.

**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 2 displays the information by district and Table 3 by fiscal year from FY 98 to FY 03.

<b>ENFORCEMENT PROCEEDINGS</b>	<b>1/2</b>	<b>3</b>	<b>4</b>	<b>5/6</b>	<b>7B</b>	<b>7C</b>	<b>8/8A</b>	<b>9</b>	<b>10</b>	<b>Total</b>
<b>STATUS</b>										
<i>1. Awaiting RRC review</i>	1	0	0	10	31	1	2	42	0	87
<i>2. Awaiting Hearing</i>	174	70	31	131	93	43	100	66	43	751
<i>3. Awaiting Final Order</i>	29	24	3	18	1	6	22	42	1	146
<i>4. Final Order Served/Awaiting AG referral</i>	0	0	0	0	0	0	0	0	0	0
<i>5. Wells Referred to AG</i>	173	86	35	183	86	24	51	67	34	739
<i>Total Wells Still in Violation</i>	377	180	69	342	211	74	175	217	78	1,723
<b>TIME PERIOD</b>										
<i>6. In Violation &lt; 2yrs</i>	345	164	65	318	207	65	172	214	78	1,628
<i>7. In Violation &gt; 2yrs &amp; &lt; 5yrs</i>	32	10	4	24	4	9	3	3	0	89
<i>8. In Violation &gt; 5yrs</i>	0	6	0	0	0	0	0	0	0	6
<i>Total Wells Still in Violation</i>	377	180	69	342	211	74	175	217	78	1,723

Table 2

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<b>ENFORCEMENT PROCEEDINGS</b>	<b>FY 98</b>	<b>FY 99</b>	<b>FY 00</b>	<b>FY 01</b>	<b>FY 02</b>	<b>FY 03</b>
<b>STATUS</b>						
<i>1. Awaiting RRC review</i>	605	1,411	1,010	355	235	87
<i>2. Awaiting Hearing</i>	85	449	348	746	263	751
<i>3. Awaiting Final Order</i>	401	202	101	106	968	146
<i>4. Final Order Served/Awaiting AG referral</i>	14	139	0	18	0	0
<i>5. Wells Referred to AG</i>	2,607	707	877	944	829	739
<i>Total Wells Still in Violation</i>	3,712	2,908	2,336	2,169	2,295	1,723
<b>TIME PERIOD</b>						
<i>6. In Violation &lt; 2yrs</i>	1,050	1,240	2,033	1,879	1,732	1,628
<i>7. In Violation &gt; 2yrs &amp; &lt; 5yrs</i>	1,473	907	210	223	391	89
<i>8. In Violation &gt; 5yrs</i>	1,189	761	93	67	172	6
<i>Total Wells Still in Violation</i>	3,712	2,908	2,336	2,169	2,295	1,723
<b>PENALTIES &amp; REIMBURSEMENTS</b>						
<i>9. Administrative Penalties Assessed by RRC</i>	\$6,816,040	\$4,657,522	\$2,687,297	\$2,367,030	\$2,816,802	\$2,121,811
<i>10. Administrative &amp; Civil Penalties Paid to RRC &amp; AG</i>	\$527,071	\$609,240	\$7,125,536	\$1,288,754	NA <sup>1</sup>	NA <sup>1</sup>
<i>11. Reimbursements Paid to RRC &amp; AG</i>	\$146,222	\$436,426	\$298,321	\$118,715	NA <sup>1</sup>	NA <sup>1</sup>
<b>TOTAL PENALTIES AND REIM. PAID TO RRC &amp; AG</b>	\$673,293	\$1,045,666	\$7,423,857 <sup>2</sup>	\$1,407,469	\$1,620,501	\$1,929,030

Table 3

<sup>1</sup> Not reported separately by the AG's Office

<sup>2</sup> 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 2003, the Commission conducted **326** cleanup activities (Figure 9). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2003. State-managed remediation activities included the following:

1. 189 routine remediation operations,
2. 94 emergency operations,
3. 41 site assessment investigations, and
4. 2 miscellaneous operations.

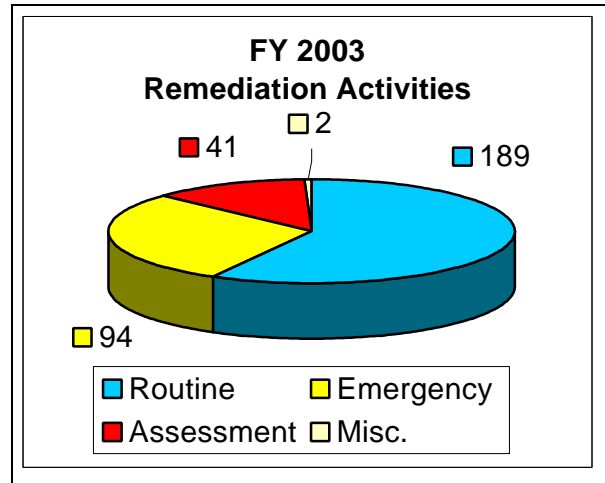
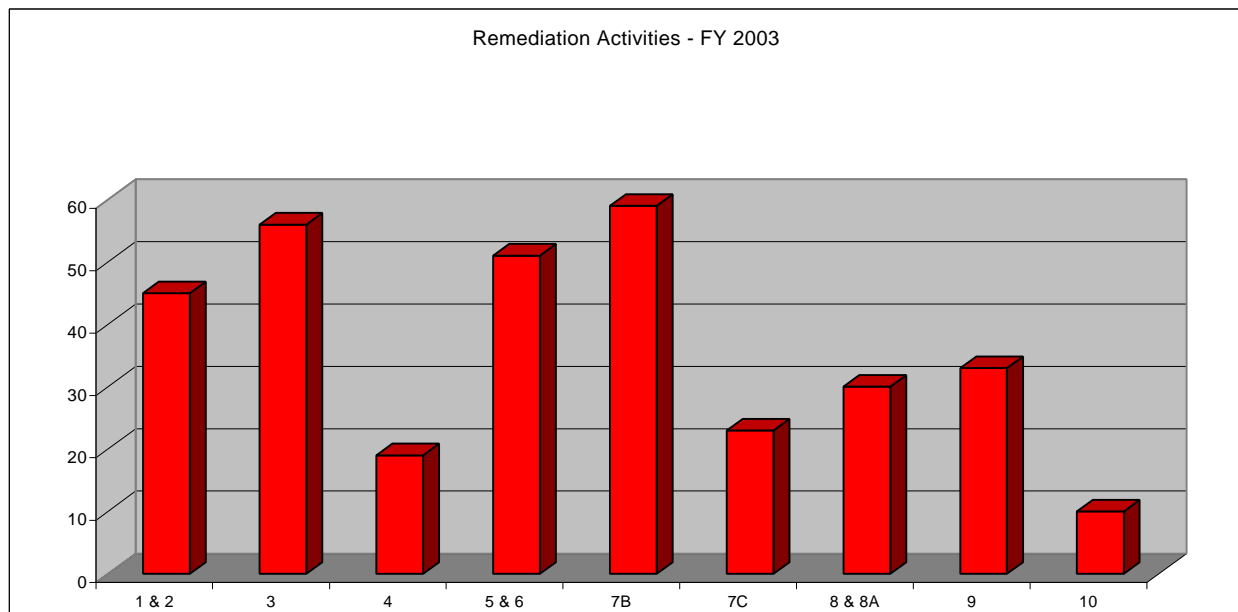


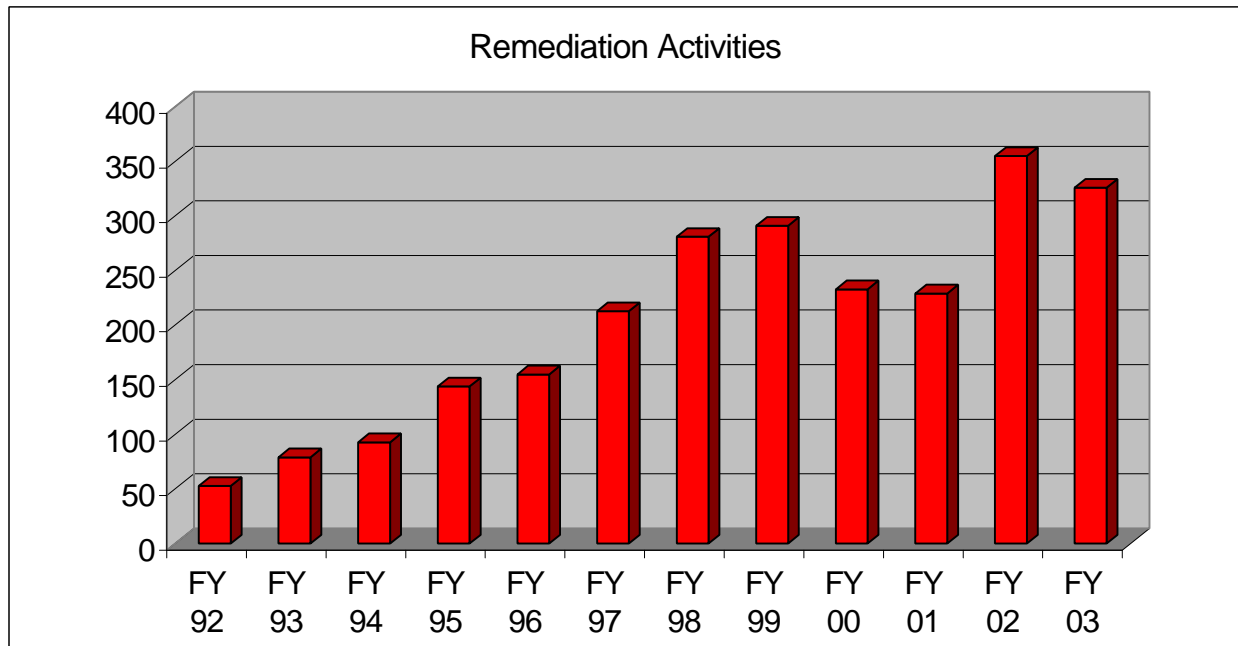
Figure 9

Figure 10 depicts these 326 sites by district for fiscal year 2003 and Figure 11 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	45	56	19	51	59	23	30	33	10	326

Figure 10



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	Total
Activities	53	79	93	144	155	213	281	291	233	229	355	326	2,452

Figure 11

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 2003 with a fund balance in the Oil Field Cleanup Fund of \$3,740,166 and ended with a fund balance of \$4,987,298. Total revenues for the fiscal year were \$20,433,436 and total expenditures were \$19,186,304. Fiscal year 2003 expenditures from the Oil Field Cleanup Fund for well plugging operations, site remediation activities, and administration of the program are detailed in Tables 4 and 5 below.

	<b>FY 2003 Projected</b>	<b>FY 2003 Actual</b>	<b>FY 2003 % Collected/ Expended</b>
<b>Beginning Fund Balance, September 1</b>	\$ 3,360,081	\$ 3,740,166	
<b>Revenues:</b>			
Oil & Gas Well Drilling Permit	4,577,896	5,466,489	119.41%
Oil & Gas Well Application Fees	2,362,000	2,249,377	95.23%
P5 Organization Filing Fee	2,900,000	2,934,115	101.18%
Oil Field Cleanup Regulatory Fee on Oil	2,200,000	2,350,076	106.82%
Oil Field Cleanup Regulatory Fee on Gas	2,500,000	2,259,420	90.38%
Abandoned Well Site Equipment Disposal	550,000	373,365	67.88%
Oil & Gas Violations	1,878,213	1,929,053	102.71%
Other Revenue	<u>2,775,567</u>	<u>2,871,541</u>	<u>103.46%</u>
<b>Total Revenues</b>	\$ 19,743,676	\$ 20,433,436	103.49%
<b>Expenditures:</b>			
Well Plugging			
Plugging Contracts	8,000,000	7,157,711	89.47%
Plugging Field Staff Salary & Operating	3,349,088	3,303,379	98.64%
Plugging Mgmt/Admin/Support Salary & Operating	<u>869,104</u>	<u>908,885</u>	<u>104.58%</u>
Sub-Total Plugging Program	12,218,192	11,369,975	93.06%
Site Remediation			
Remediation Contracts	4,610,819	4,308,444	93.44%
Remediation Field Staff Salary & Operating	775,150	766,170	98.84%
Project Assessment Professionals Salary & Operating	427,950	357,824	83.61%
Remediation Mgmt/Admin/Support Salary & Operating	<u>565,182</u>	<u>407,837</u>	<u>72.16%</u>
Sub-Total Remediation Program	6,379,101	5,840,275	91.55%
Other Programs			
Operator Cleanup Program	302,606	298,967	98.80%
Financial Assurance	569,195	569,069	99.98%
General Counsel	577,578	553,847	95.89%
Environmental Services	257,040	263,021	102.33%
ITS	170,756	167,117	97.87%
IMS	<u>-</u>	<u>-</u>	<u>-</u>
Sub-Total Other Programs	1,877,175	1,852,021	98.66%
Well Testing			
Well Testing Contracts	100,000	-	0.00%
Direct Project Salary & Operating	<u>149,314</u>	<u>124,033</u>	<u>83.07%</u>
Sub-Total Well Testing Program	<u>249,314</u>	<u>124,033</u>	<u>49.75%</u>
<b>Total Expenditures</b>	\$ 20,723,782	\$ 19,186,304	92.58%
<b>Ending Fund Balance, August 31</b>	\$ 2,379,975	\$ 4,987,298	
<b>Full Time Equivalent Positions</b>	119.20	117.20	

Table 4

	<b>FY 2003 Projected</b>	<b>FY 2003 Actual</b>
<b>Expenditure Ratios:</b>		
Plug/Remediation Field Staff % of Total Plug/Remediation Programs	22.2%	23.6%
Plug/Remediation Contracts % of Total Plug/Remediation Programs	67.8%	66.6%
Plugging Field Staff % of Total Plugging Program	27.4%	29.1%
Plugging Mgmt/Admin/Support % of Total Plugging Program	7.1%	8.0%
Remediation Field Staff % of Total Remediation Program	12.2%	13.1%
Remediation Project Assessment Prof % of Total Remediation Program	6.7%	6.1%
Remediation Mgmt/Admin/Support % of Total Remediation Program	8.9%	7.0%
Other Programs % of Total Expenditures	9.1%	9.7%
Well Testing % of Total Expenditures	1.2%	0.6%

Table 5

**VII. WELL PLUGGING PRIORITY SYSTEM:**

The Commission uses a priority system which ranks and plugs wells by groups in order of their threat of pollution to the environment and their threat to 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 that 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 levels 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 <sub>2</sub> 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&amp;5</u> <u>76 w/4&amp;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 12 and 13 and Table 6 below show the number of wells plugged with Oil Field Cleanup funds by priority between fiscal years 1992 and 2003. 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 (77<sup>th</sup> Legislature, 2001). This continued through fiscal year 2003.

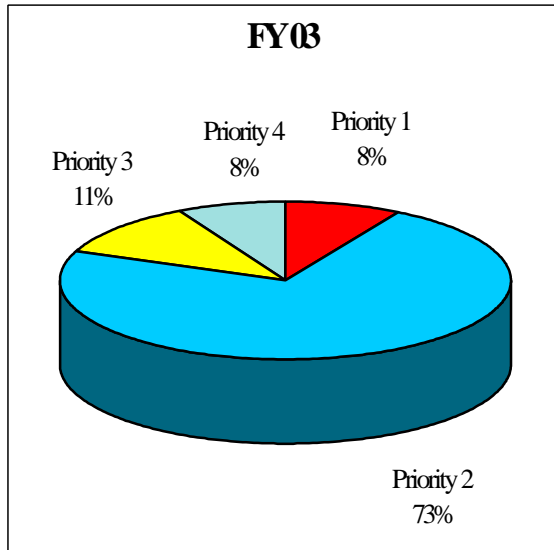


Figure 12

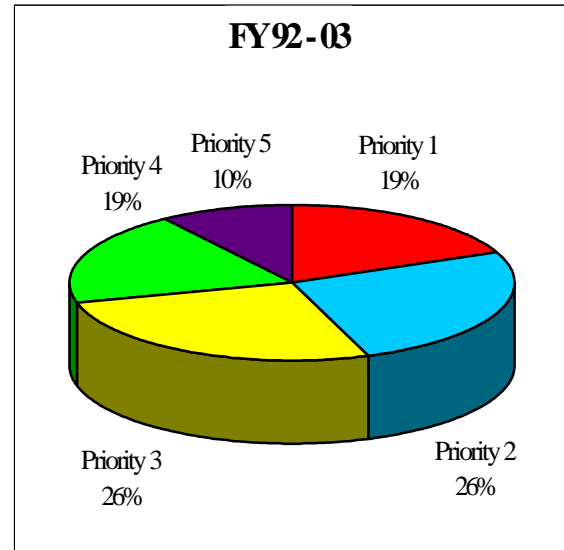


Figure 13

	Fiscal Year 2003	Fiscal Years 1992 – 2003
Priority 1	137	3,147
Priority 2	1,188	4,368
Priority 3	184	4,493
Priority 4	126	3,282
Priority 5	0	1,651
Total	1,635	16,941

Table 6

**VIII. OIL FIELD CLEANUP FUNDS PROJECTION:**

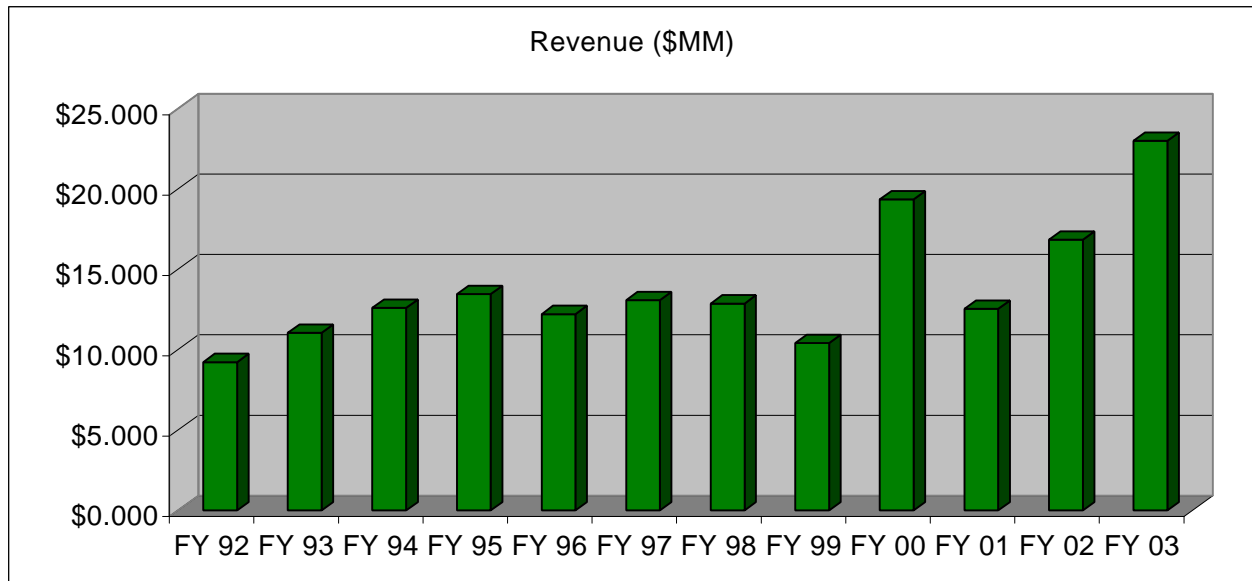
Oil Field Cleanup funds projected for the next biennium for plugging abandoned wells and remediating surface locations are as follows:

**Fiscal Year 2004 = \$18,956,000**

**Fiscal Year 2005 = \$16,393,000**

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. Figure 14 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 2003 also includes \$2,471,298 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 orphaned wells or remediate pollution 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
Revenue (\$MM)	\$9.220	\$11.045	\$12.591	\$13.449	\$12.214	\$13.073	\$12.858	\$10.405	\$19.335	\$12.535	\$16.837	\$22.985

Figure 14

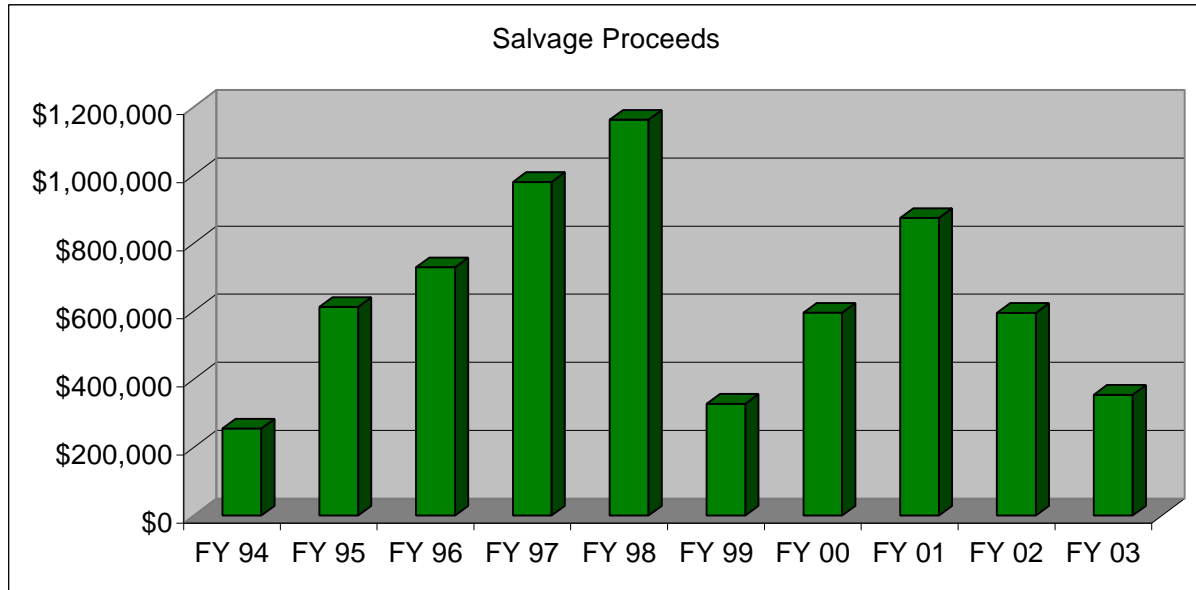
**IX. STATUS OF SALVAGE OPERATIONS:**

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 2003, the Commission derived **\$355,074<sup>3</sup>** from salvageable equipment and hydrocarbons on 103 salvage operations and deposited these proceeds in the Oil Field Cleanup Fund.

House Bill 2705 (73<sup>rd</sup> 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 (78<sup>th</sup> 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 \$6,491,878 from 1,931 salvage operations. Figure 15 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.

<sup>3</sup>Data 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	Total
Salvage Proceeds	\$256,126	\$612,987	\$729,736	\$980,176	\$1,163,021	\$328,781	\$595,758	\$874,604	\$595,615	\$355,074	\$6,491,878
Operations	63	208	285	249	344	136	182	164	197	103	1,931

Figure 15

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

Senate Bill 310, 77<sup>th</sup> 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 process. The Commission oversight includes review of work plans and reports to ensure the protection of human health and the environment.

In fiscal year 2003 17 sites applied to the VCP and currently in the process of being completed. As of August 31, 2003, 18 sites are in the VCP, including one from fiscal year 2002.

**X. OPERATOR CLEANUP PROGRAM:**

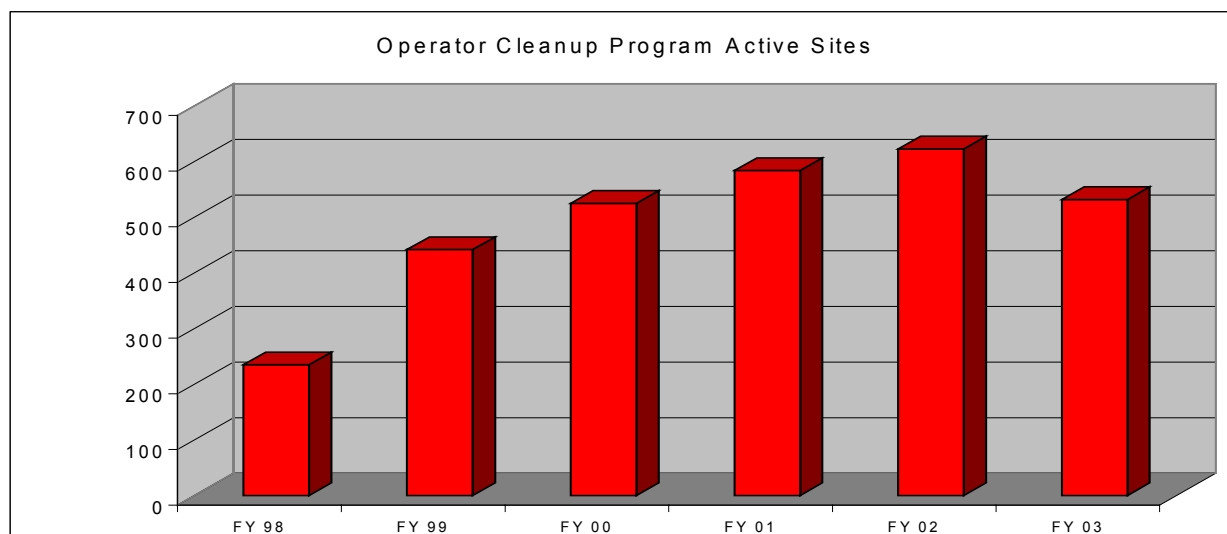
Another important function of the Commission’s Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities voluntarily conducted by a responsible operator, usually at environmentally sensitive sites. The program 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 over 500 ongoing operator cleanup projects. These projects involve frequent sampling, reporting, and evaluation to ensure final cleanup is protective of the public health, safety and the environment.

Figure 16 illustrates the number of sites in the Operator Cleanup program since 1998.



Fiscal Year	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Active Sites	235	442	525	584	623	532

Figure 16