
# OIL FIELD CLEANUP PROGRAM
# ANNUAL REPORT—FISCAL YEAR 2002

OIL AND GAS DIVISION
RAILROAD COMMISSION OF TEXAS

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# RAILROAD COMMISSION OF TEXAS

## OIL AND GAS DIVISION

January 7, 2003

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, 2001 through August 31, 2002.

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. Should you have any questions about the material contained in this report, please contact Joe Mayorga, Assistant Director of the Commission's Field Operations Section, Oil and Gas Division, at 463-6830; John Tintera, Assistant Director of the Commission's Site Remediation Section, Oil and Gas Division, at 463-6765; Boyd Johnson, Assistant Director of the Commission's Enforcement Section, Office of General Counsel, at 463-6843; or Rebecca Trevino, Director of the Commission's Finance and Accounting Division, at 463-7124.

Chairman Michael L. Williams

Commissioner Charles R. Matthews

**RAILROAD COMMISSION OF TEXAS**
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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 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 2002, the Commission has plugged 15,306 wells (19,384 wells since fiscal year 1984) and cleaned up, assessed, or investigated 2,126 sites using the Oil Field Cleanup Fund.

As of August 2002, the Commission was tracking approximately 355,101 wellbores. Of this number, approximately 111,524 were inactive, shut-in oil and gas wells. Of the 111,524 wells, 23,418 were compliant inactive wells that had been shut-in less than 12 months and 63,657 were compliant inactive wells that were shut-in for more than 12 months, but were covered by an approved plugging extension, a bond, or a letter of credit. The remaining 24,449 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 24,449 non-complaint wells, 6,478 wells belonged to operators with an active Organization Report on file with the Commission and 17,971 wells belonged to operators with delinquent Organization Reports. The Commission considers these 17,971 wells to be orphaned. These figures are represented on a percentage basis in Figure 1.

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 most of the orphaned wells may eventually require plugging by the Commission with oil field cleanup funds. 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'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.

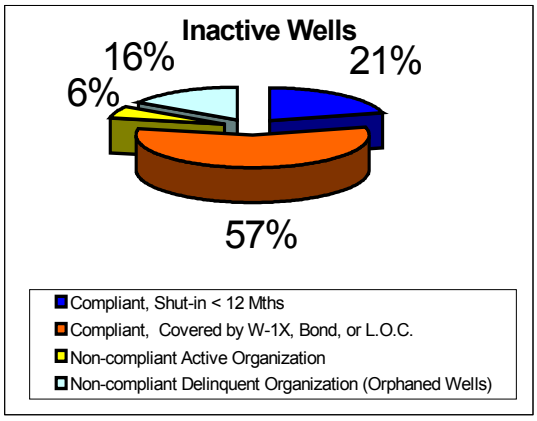


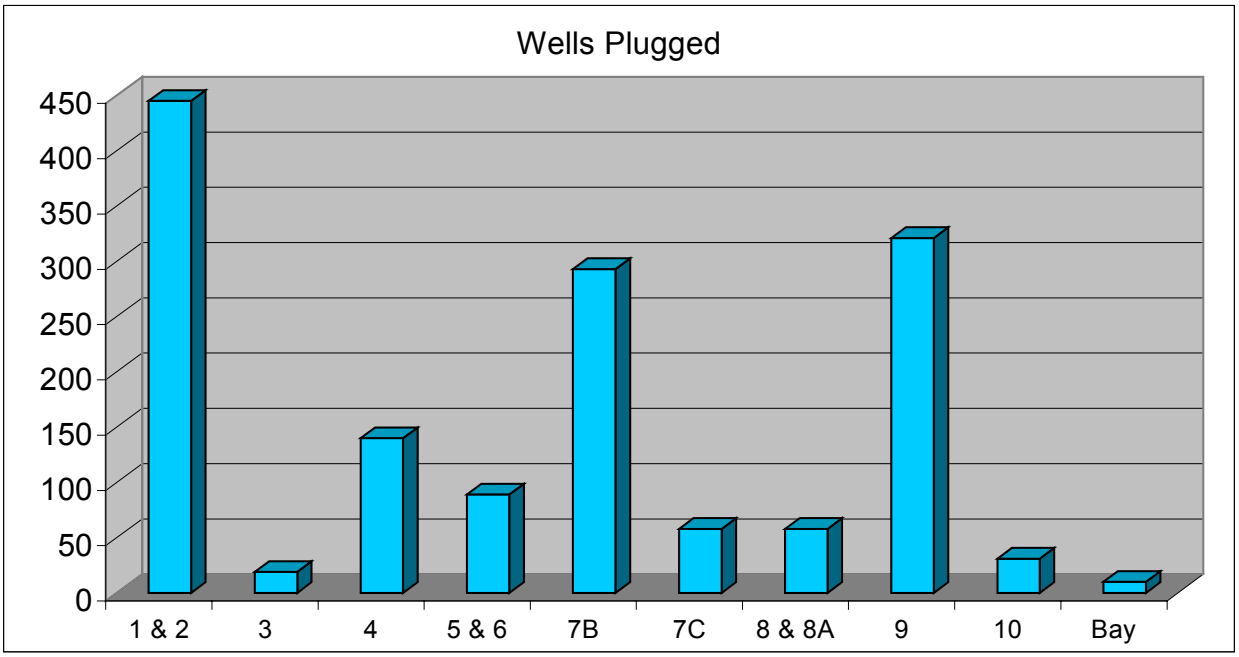

Figure 1

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 from well plugging and site remediation operations, and interest on fund balances. 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.

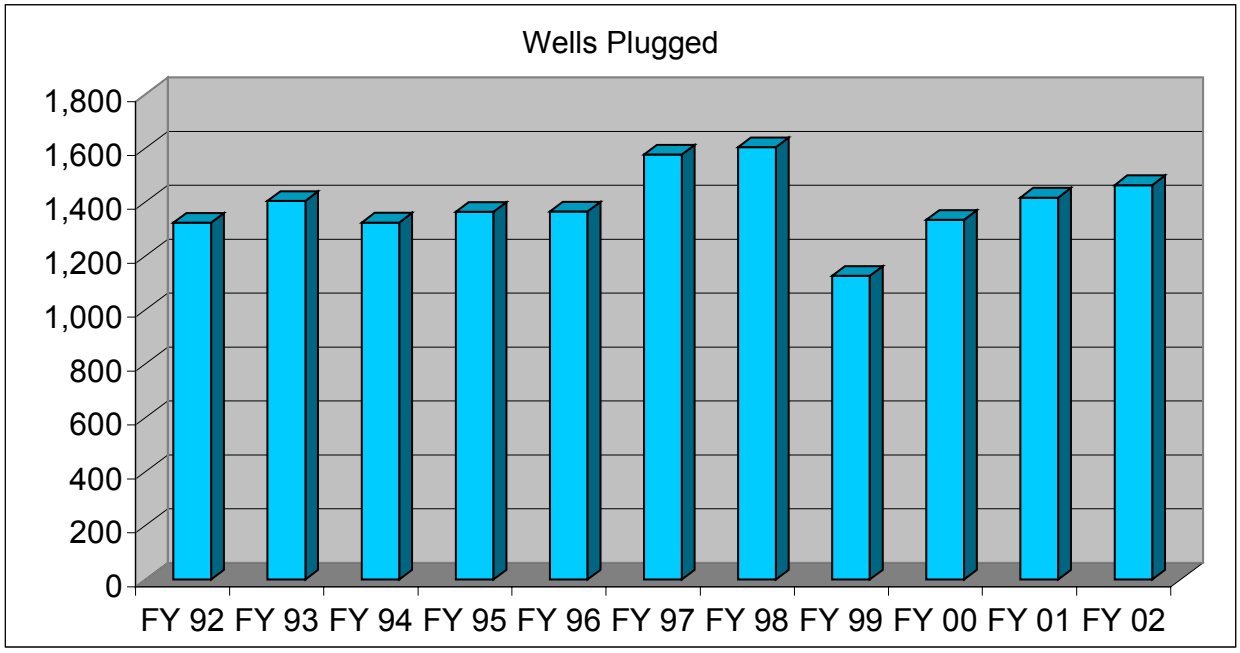
## I. NUMBER OF WELLS PLUGGED BY DISTRICT:

In fiscal year 2002, the Commission plugged **1,464** wells with oil field cleanup funds and other grant monies. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors before August 31, 2002. Figure 2 illustrates the numbers of wells plugged by district during fiscal year 2002. Figure 3 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program. The 445 wells plugged in District 1 & 2 during fiscal year 2002 represents the most wells ever plugged in one (1) year by a district and the 1,604 wells plugged in fiscal year 1998 represents the most wells ever plugged in one (1) year.




| District Office | 1 & 2 | 3 | 4 | 5 & 6 | 7B | 7C | 8 & 8A | 9 | 10 | Bay | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Wells Plugged | 445 | 19 | 140 | 89 | 293 | 58 | 58 | 321 | 31 | 10 | 1,464 |

Figure 2

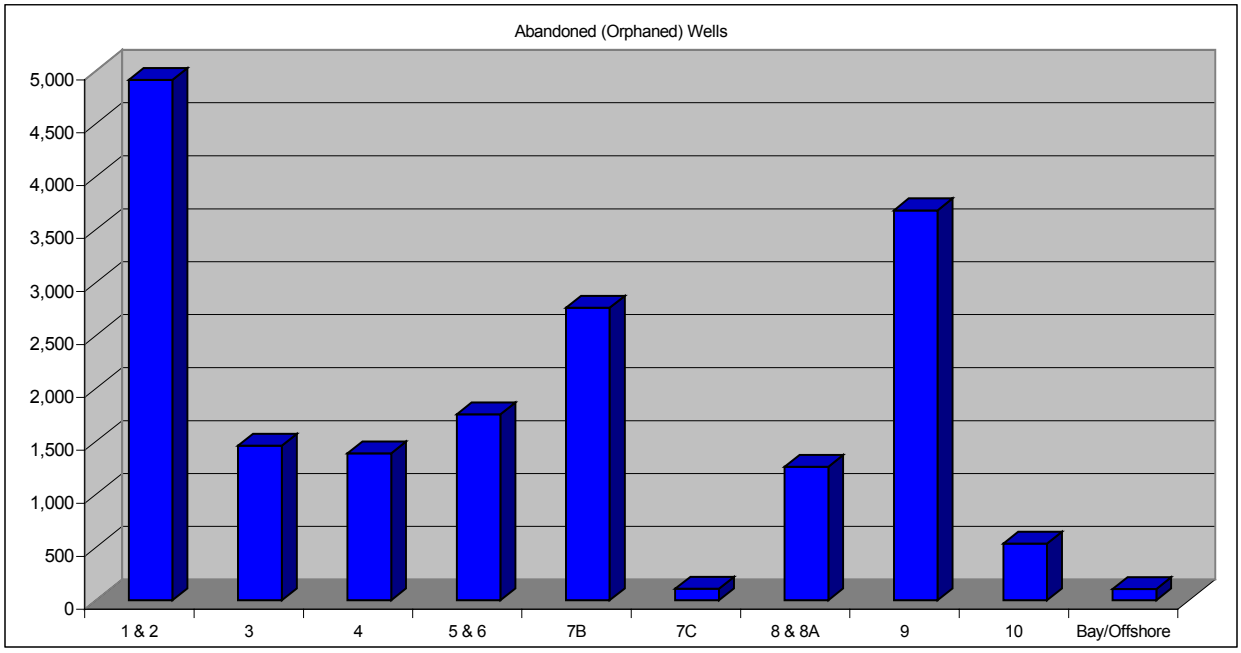



| Fiscal Year | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wells Plugged | 1,324 | 1,404 | 1,325 | 1,364 | 1,366 | 1,577 | 1,604 | 1,126 | 1,335 | 1,417 | 1,464 | 15,306 |

Figure 3

## II. NUMBER OF WELLS ABANDONED BY DISTRICT:

As of August 2002, the number of abandoned wells was **17,971**. These are the wells the Commission considers to be 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 4 illustrates the number of orphaned wells by district at the end of August 2002.



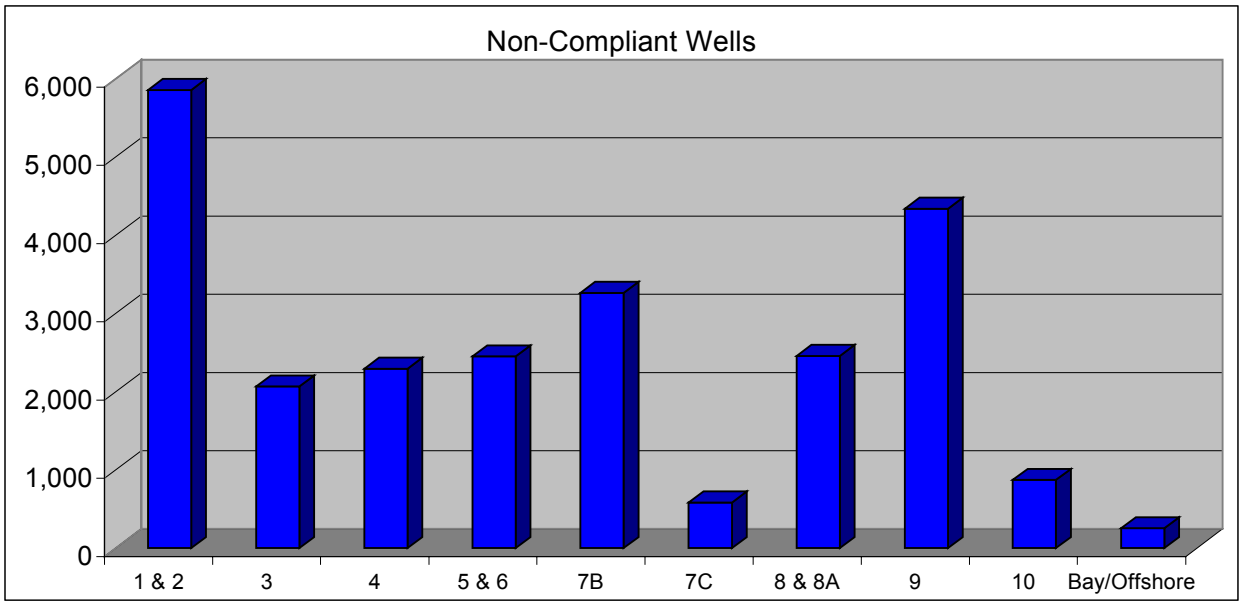

| District Office | 1 & 2 | 3 | 4 | 5 & 6 | 7B | 7C | 8 & 8A | 9 | 10 | Bay/Offshore | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Orphaned Wells | 4,913 | 1,460 | 1,388 | 1,755 | 2,762 | 109 | 1,261 | 3,682 | 535 | 106 | 17,971 |

Figure 4

In addition to the 17,971 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. In fiscal year 2002, 64 unidentified abandoned wells were plugged with oil field cleanup funds, which account for 4.4% of all wells plugged by the Commission.

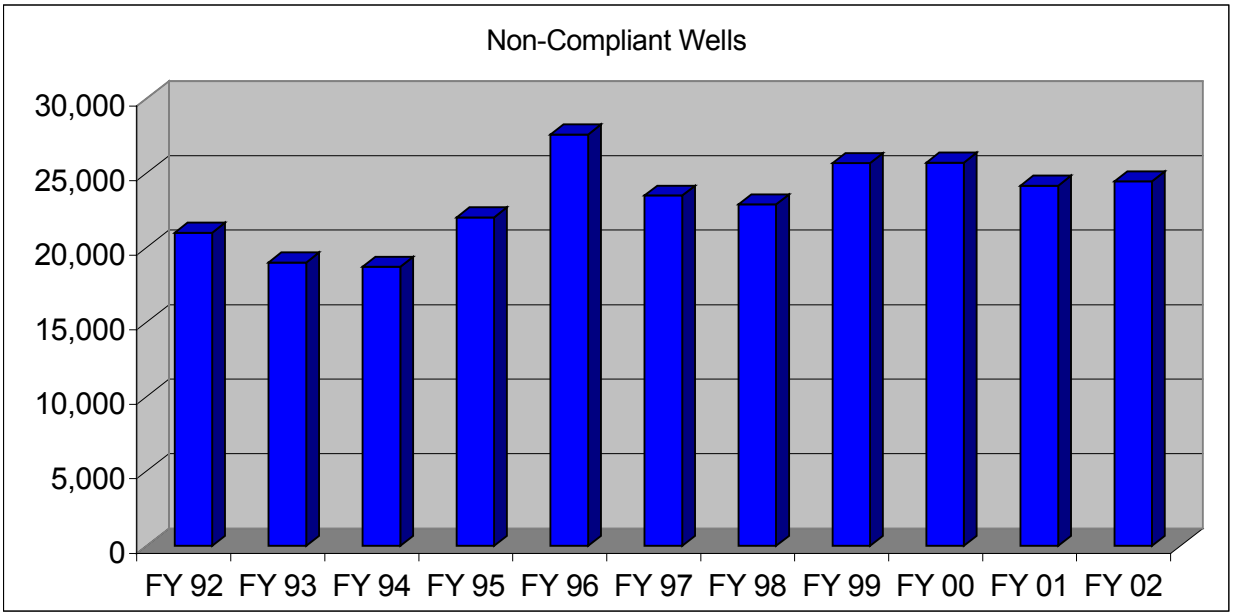
## III. NUMBER OF NON-COMPLIANT INACTIVE WELLS BY DISTRICT:

The number of known inactive wells not in compliance with Commission rules as of August 2002 totals **24,449**. 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 5 shows the number of non-compliant wells by district at the end of August 2002. Figure 6 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 | Bay/Offshore | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-CompliantWells | 5,860 | 2,066 | 2,294 | 2,454 | 3,265 | 584 | 2,458 | 4,341 | 871 | 256 | 24,449 |

Figure 5



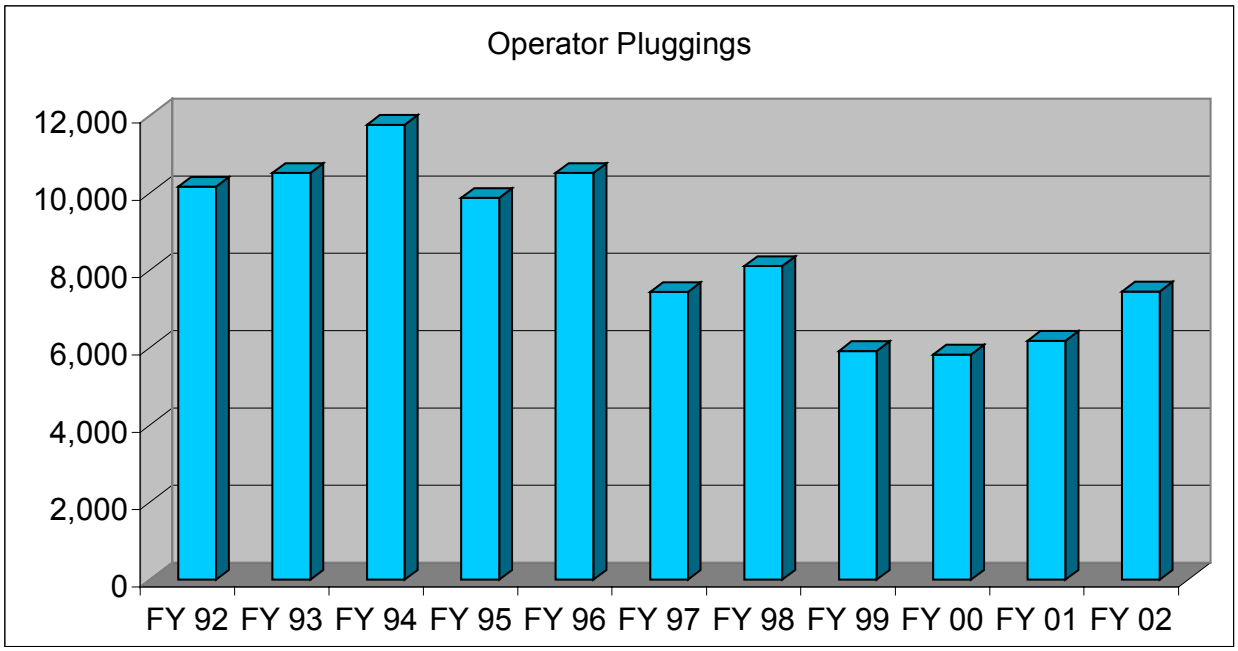

| Fiscal Year | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-Compliant Wells | 21,000 | 19,003 | 18,720 | 22,034 | 27,583 | 23,492 | 22,903 | 25,672 | 25,707 | 24,165 | 24,449 |

Figure 6

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production or file for a plugging extension. 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, 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 2002, 7,450 wells were plugged voluntarily by the operators of record, without the use of oil field cleanup funds. Figure 7 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Operator Pluggings | 10,163 | 10,523 | 11,762 | 9,873 | 10,522 | 7,439 | 8,109 | 5,912 | 5,819 | 6,180 | 7,450 |

Figure 7

Although the Commission and industry plugged between 7,000 and 10,000 wells per year over the last six (6) years, 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 thirty six (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.

## 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 1 displays the information by district and Table 2 by fiscal year from FY 97 to FY 02.

| *ENFORCEMENT PROCEEDINGS* | *1/2* | *3* | *4* | *5/6* | *7B* | *7C* | *8/8A* | *9* | *10* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| ***STATUS*** | | | | | | | | | | |
| *1. Awaiting RRC review* | *10* | *12* | *33* | *41* | *45* | *8* | *24* | *14* | *48* | *235* |
| *2. Awaiting Hearing* | *33* | *33* | *21* | *61* | *35* | *14* | *11* | *48* | *7* | *263* |
| *3. Awaiting Final Order* | *209* | *100* | *246* | *141* | *60* | *17* | *57* | *91* | *47* | *968* |
| *4. Final Order Served/Awaiting AG referral* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *5. Wells Referred to AG* | *156* | *49* | *193* | *90* | *82* | *17* | *70* | *137* | *35* | *829* |
| *Total Wells Still in Violation* | *408* | *194* | *493* | *333* | *222* | *56* | *162* | *290* | *137* | *2,295* |
| | | | | | | | | | | |
| ***TIME PERIOD*** | | | | | | | | | | |
| *6. In Violation < 2yrs* | *326* | *147* | *401* | *248* | *155* | *33* | *121* | *192* | *109* | *1,732* |
| *7. In Violation > 2yrs & < 5yrs* | *57* | *33* | *66* | *58* | *43* | *17* | *29* | *68* | *20* | *391* |
| *8. In Violation > 5yrs* | *25* | *14* | *26* | *27* | *24* | *6* | *12* | *30* | *8* | *172* |
| *Total Wells Still in Violation* | *408* | *194* | *493* | *333* | *222* | *56* | *162* | *290* | *137* | *2,295* |

Table 1

| *ENFORCEMENT PROCEEDINGS* | *FY 97* | *FY 98* | *FY 99* | *FY 00* | *FY 01* | *FY 02* |
|---|---|---|---|---|---|---|
| *STATUS* | | | | | | |
| *1. Awaiting RRC review* | *1,246* | *605* | *1,411* | *1,010* | *355* | *235* |
| *2. Awaiting Hearing* | *97* | *85* | *449* | *348* | *746* | *263* |
| *3. Awaiting Final Order* | *834* | *401* | *202* | *101* | *106* | *968* |
| *4. Final Order Served/Awaiting AG referral* | *1,440* | *14* | *139* | *0* | *18* | *0* |
| *5. Wells Referred to AG* | *963* | *2,607* | *707* | *877* | *944* | *829* |
| *Total Wells Still in Violation* | *4,580* | *3,712* | *2,908* | *2,336* | *2,169* | *2,295* |
| | | | | | | |
| *TIME PERIOD* | | | | | | |
| *6. In Violation < 2yrs* | *2,041* | *1,050* | *1,240* | *2,033* | *1,879* | *1,732* |
| *7. In Violation > 2yrs & < 5yrs* | *NA*[1] | *1,473* | *907* | *210* | *223* | *391* |
| *8. In Violation > 5yrs* | *NA*[2] | *1,189* | *761* | *93* | *67* | *172* |
| *Total Wells Still in Violation* | *4,711* | *3,712* | *2,908* | *2,336* | *2,169* | *2,295* |
| | | | | | | |
| *PENALTIES & REIMBURSEMENTS* | | | | | | |
| *9. Administrative Penalties Assessed by RRC* | *$4,087,650* | *$6,816,040* | *$4,657,522* | *$2,687,297* | *$2,367,030* | *$2,816,802* |
| *10. Administrative & Civil Penalties Paid to RRC & AG* | *$472,129* | *$527,071* | *$609,240* | *$7,125,536* | *$1,288,754* | *NA*[3] |
| *11. Reimbursements Paid to RRC & AG* | *$82,691* | *$146,222* | *$436,426* | *$298,321* | *$118,715* | *NA*[4] |
| | | | | | | |
| *TOTAL PENALTIES AND REIM. PAID TO RRC & AG* | *$554,820* | *$673,293* | *$1,045,666* | *$7,423,857*[5] | *$1,407,469* | *$1,620,501* |

Table 2

[1] 1,470 wells—Interpolation between FY 96 and FY 98.

[2] 1,200 wells—Interpolation between FY 96 and FY 98.

[3] Not reported separately by the AG's Office

[4] Not reported separately by the AG's Office

[5] Includes $6 million recovered in Koch Industries litigation.

## V. NUMBER OF SURFACE LOCATIONS REMEDIATED BY DISTRICT:

During the year, 1,629 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 2002, the Commission conducted 355 cleanup activities (Figure 8). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2002. State-managed remediation activities included the following:

1. 187 routine remediation operations,
2. 102 emergency operations,
3. 58 site assessment investigations,
4. Five partial remediation operations, and
5. Three miscellaneous operations.

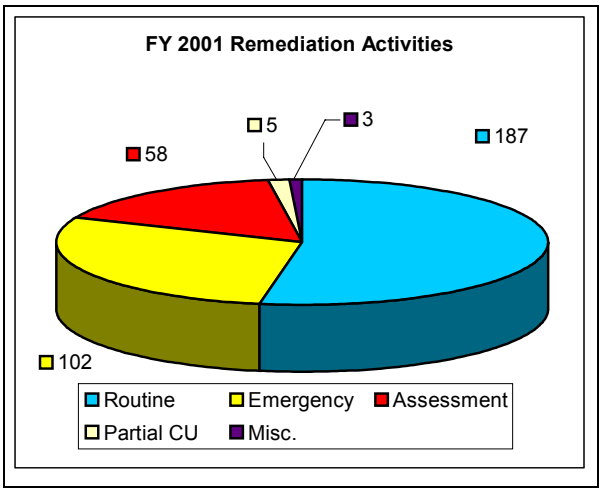
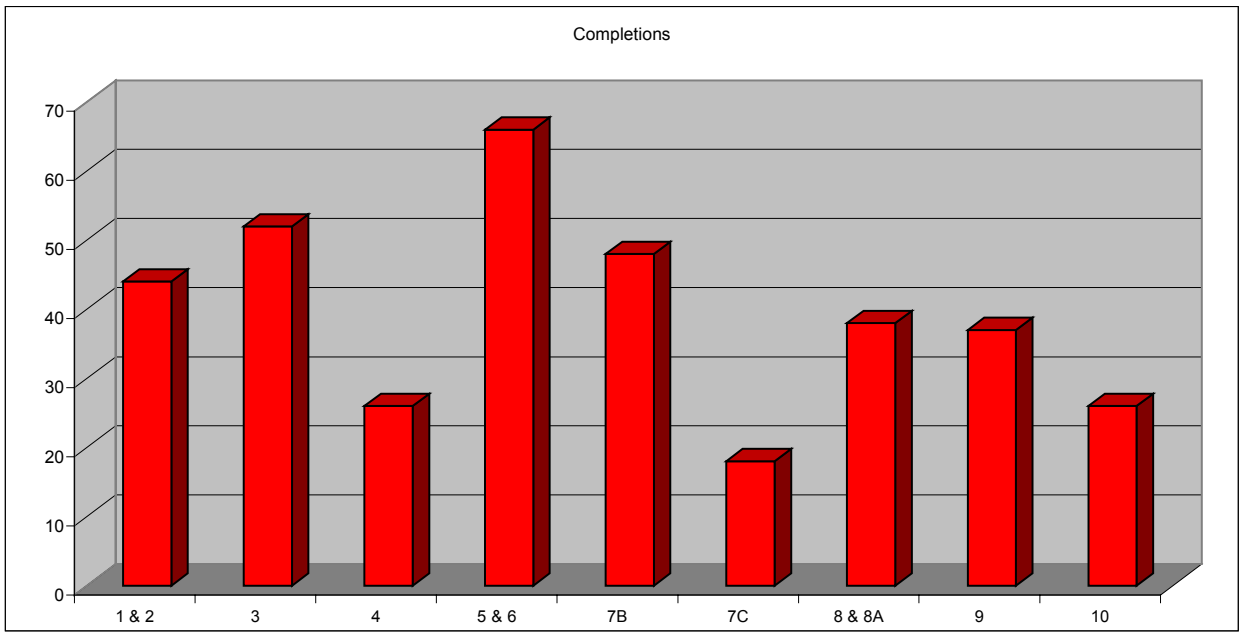


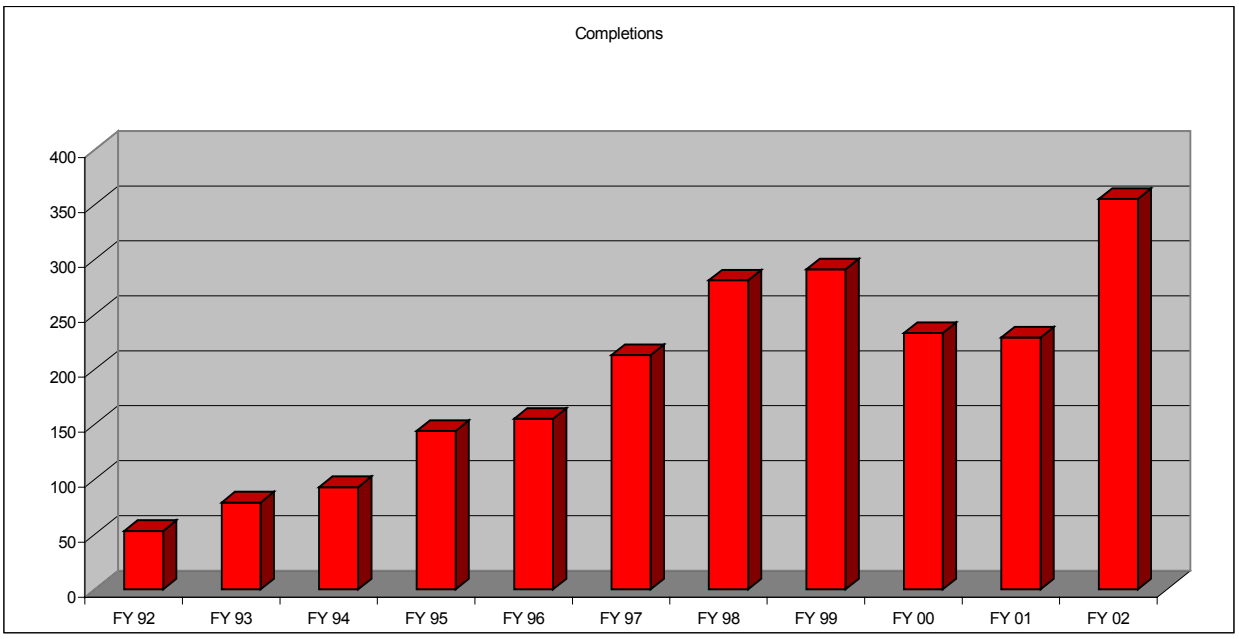

Figure 8

Figure 9 depicts these 355 sites by district for fiscal year 2002. Figure 10 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Completions | 44 | 52 | 26 | 66 | 48 | 18 | 38 | 37 | 26 | 355 |

Figure 9




| Fiscal Year | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Completions | 53 | 79 | 93 | 144 | 155 | 213 | 281 | 291 | 233 | 229 | 355 | 2,126 |

Figure 10

Similar to the well plugging priority system, the abandoned oilfield sites are prioritized based on the present or possible future impact to the environment. 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 2002 with a fund balance in the Oil Field Cleanup Fund of $4,901,493 and ended with a fund balance of $3,360,381. Total revenues for the fiscal year were $16,836,821 and total expenditures were $18,378,233. Fiscal year 2002 expenditures from the Oil Field Cleanup Fund for well plugging operations, site remediation activities, and administration of the program are detailed in Tables 3 and 4 below.

| | FY 2002 Projected | FY 2002 Actual | FY 2002 % Collected/ Expended |
|---|---|---|---|
| **Beginning Fund Balance, September 1** | $ 5,277,494 | $ 4,901,493 | |
| **Revenues:** | | | |
| Oil & Gas Well Drilling Permit | 5,260,000 | 4,654,750 | 88.49% |
| Oil & Gas Well Application Fees | 1,392,000 | 2,299,798 | 165.22% |
| P5 Organization Filing Fee | 2,100,000 | 1,972,925 | 93.95% |
| Oil Field Cleanup Regulatory Fee on Oil | 2,100,000 | 2,249,872 | 107.14% |
| Oil Field Cleanup Regulatory Fee on Gas | 2,000,000 | 2,453,260 | 122.66% |
| Abandoned Well Site Equipment Disposal | 750,000 | 604,244 | 80.57% |
| Oil & Gas Violations | 1,200,000 | 1,013,238 | 84.44% |
| Other Revenue | 1,974,000 | 1,588,734 | 80.48% |
| **Total Revenues** | $ 16,776,000 | $ 16,836,821 | 100.36% |
| **Expenditures:** | | | |
| Well Plugging | | | |
| Plugging Contracts | 6,914,710 | 6,939,929 | 100.36% |
| Plugging Field Staff Salary & Operating | 3,400,546 | 3,391,449 | 99.73% |
| Plugging Mgmt/Admin/Support Salary & Operating | 953,417 | 956,110 | 100.28% |
| Sub-Total Plugging Program | 11,268,673 | 11,287,488 | 100.17% |
| Site Remediation | | | |
| Remediation Contracts | 5,281,915 | 3,685,848 | 69.78% |
| Remediation Field Staff Salary & Operating | 744,679 | 738,290 | 99.14% |
| Project Assessment Professionals Salary & Operating | 390,091 | 353,374 | 90.59% |
| Remediation Mgmt/Admin/Support Salary & Operating | 576,837 | 450,316 | 78.07% |
| Sub-Total Remediation Program | 6,993,522 | 5,227,828 | 74.75% |
| Other Programs | | | |
| Operator Cleanup Program | 297,264 | 261,994 | 88.14% |
| Financial Assurance | 545,809 | 545,809 | 100.00% |
| General Counsel | 605,994 | 583,038 | 96.21% |
| Environmental Services | 252,419 | 221,122 | 87.60% |
| ITS | 170,756 | 147,795 | 86.55% |
| IMS | - | - | - |
| Sub-Total Other Prograams | 1,872,242 | 1,759,758 | 93.99% |
| Well Testing | | | |
| Well Testing Contracts | 250,000 | 393 | 0.16% |
| Direct Project Salary & Operating | 123,120 | 102,766 | 83.47% |
| Sub-Total Well Testing Program | 373,120 | 103,159 | 27.65% |
| **Total Expenditures** | $ 20,507,557 | $ 18,378,233 | 89.62% |
| **Ending Fund Balance, August 31** | $ 1,545,937 | $ 3,360,081 | |
| **Full Time Equivalent Positions** | 119.82 | 119.82 | |

Table 3

| | FY 2002 Projected | FY 2002 Actual |
|---|---|---|
| **Expenditure Ratios:** | | |
| Plug/Remediation Field Staff % of Total Plug/Remediation Programs | 22.7% | 25.0% |
| Plug/Remediation Contracts % of Total Plug/Remediation Programs | 66.8% | 64.3% |
| Plugging Field Staff % of Total Plugging Program | 30.2% | 30.0% |
| Plugging Mgmt/Admin/Support % of Total Plugging Program | 8.5% | 8.5% |
| Remediation Field Staff % of Total Remediation Program | 10.6% | 14.1% |
| Remediation Project Assessment Prof % of Total Remediation Program | 5.6% | 6.8% |
| Remediation Mgmt/Admin/Support % of Total Remediation Program | 8.2% | 8.6% |
| Other Programs % of Total Expenditures | 9.1% | 9.6% |
| Well Testing % of Total Expenditures | 1.8% | 0.6% |

Table 4

## 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 (5)-tier to a four (4)-tier system in September 1998 and was last revised on November 20, 2001. The revised priority system includes five (5) factors relating to the impact that a wellbore poses to the environment, human health and safety, and wildlife. It includes three (3) primary factors titled "Well Completion, Wellbore Conditions, and Well Location with respect to sensitive areas." The Well Completion factor has six (6) 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 (9) subcategories relating to formation fluids, fluid levels in the well, and the integrity of the wellbore. The Well Location factor has five (5) subcategories relating to the proximity of sensitive areas. The remaining two (2) 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

| FACTOR | WEIGHT |
|---|---|
| 1. Well Completion | |
| A. No surface casing or set above base of deepest usable quality water | 6 |
| B. Additional casing string not adequately cemented to isolate usable quality water | 5 |
| C. Injection or Disposal Well | 4 |
| D. Well penetrates salt/corrosive water bearing formation or abnormally pressured formation | 3 |
| E. Well in $H_2S$ Field | 3 |
| F. Age: well drilled ≥ 25 years ago | 3 |
| Total | 24 max |
| 2. Wellbore Conditions | |
| A. Leaking Oil, Gas, and/or Saltwater (Automatic Priority 1) | Priority 1 |
| B. Well is pressured up at the surface | 5 |
| C. Bradenhead pressure exists | 6 |
| D. Fluid level at or above the base of deepest usable quality water (Automatic Priority 2) | Priority 2 |
| E. Fluid level less than 250' below base of deepest usable quality water (na if D applies) | 4 |
| F. MIT failure | 5 |
| G. H-15 (MIT) never performed, or test greater than 5 years old (na if F applies) | 3 |
| H. Inadequate wellhead control/integrity | 3 |
| I. Well inactive > 10 years | 3 |
| Total | 26 max |
| 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). | 5 |
| B. Between 100' and ¼ mile of river, lake, creek, or domestic use fresh water well (na if A applies) | 3 |
| C. Located within agricultural area | 2 |
| D. Well located in known sensitive wildlife area | 3 |
| E. Well located within city or town site limits | 5 |
| Total | 15 max |
| 4. Complaint-related | 1 |
| 5. Unique Environmental, Safety, or Economic Concern | |
| A. Well contains junk | 5 |
| B. Multiple completion wellbore | 4 |
| C. Plugged prior to 1965 | 3 |
| D. Other (attach explanation) | 1-10 |
| Total | 10 max |
| Total Weight | 65 wo/4&5<br>76 w/4&5 |
| Priority | |

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 11 and 12 and Table 3 below show the number of wells plugged with oil field cleanup funds by priority between fiscal years 1992 and 2002. In September 1998, the Commission began concentrating its well plugging efforts on priority 1, 2, and 3 wells. This continued through fiscal year 2002.

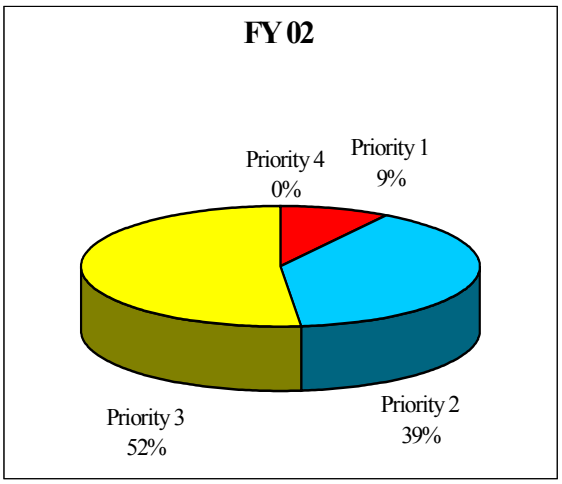



Figure 11

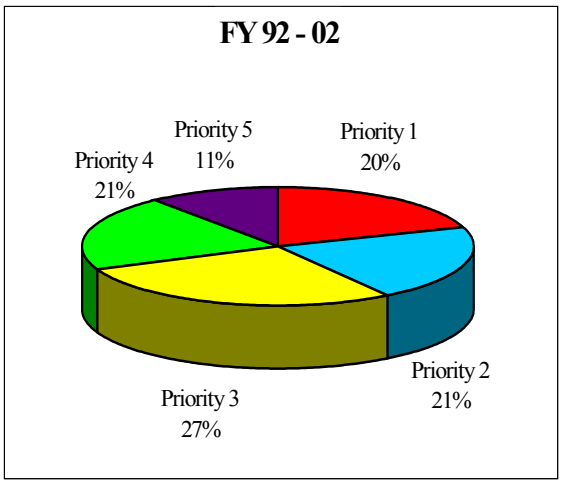



Figure 12

| | Fiscal Year 2002 | Fiscal Years 1992 – 2002 |
|---|---|---|
| Priority 1 | 130 | 3,010 |
| Priority 2 | 578 | 3,180 |
| Priority 3 | 755 | 4,309 |
| Priority 4 | 1 | 3,156 |
| Priority 5 | 0 | 1,651 |
| Total | 1,464 | 15,306 |

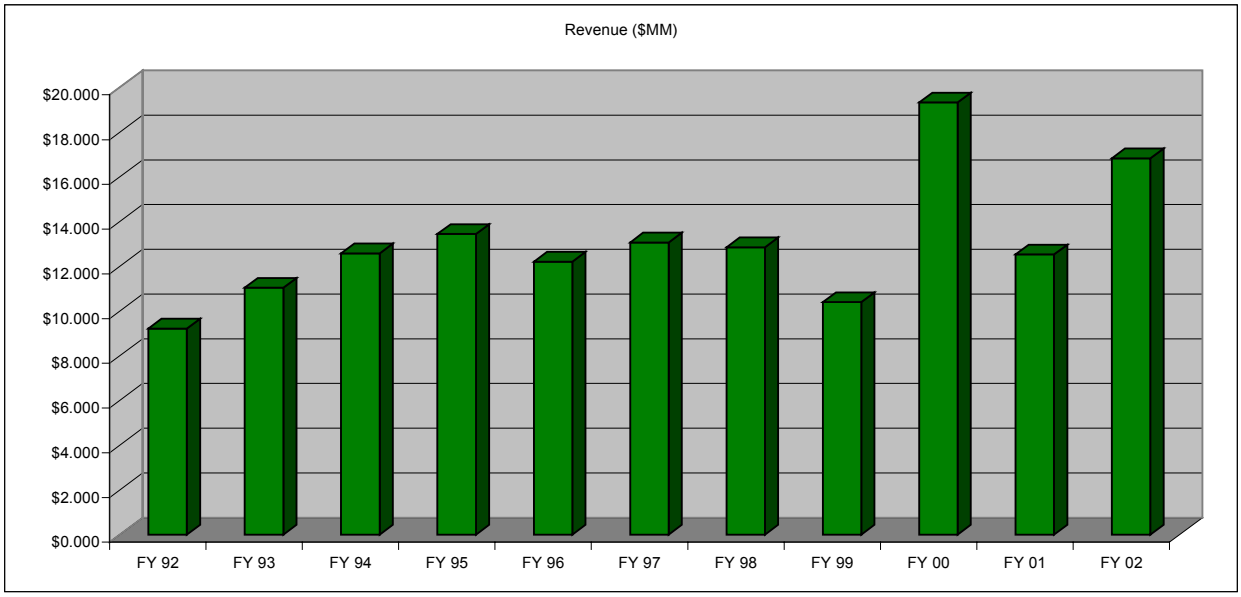
Table 3

## 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 2003 = $16,356,000**
**Fiscal Year 2004 = $14,250,000**

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. These amounts do not reflect projected revenues from federal funds for source reduction. Figure 13 illustrates the actual revenues received into the Oil Field Cleanup Fund.




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

Figure 13

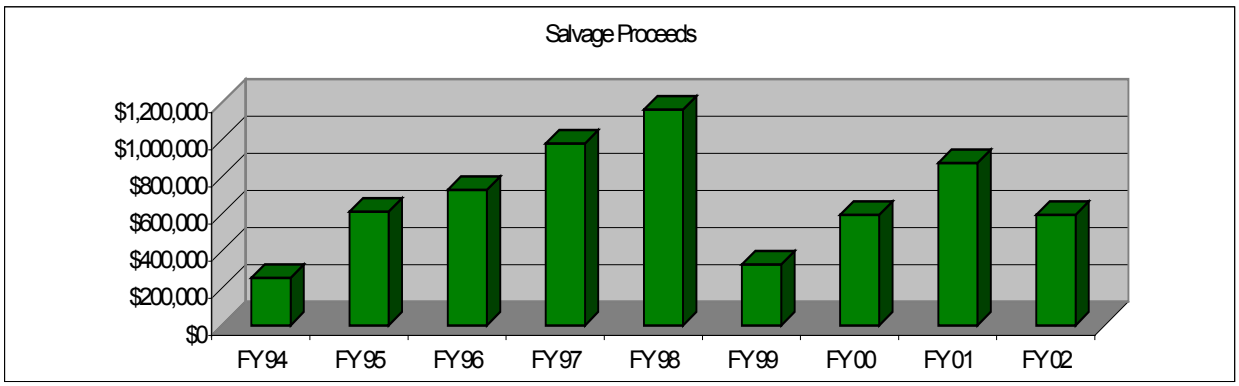
## IX. STATUS OF SALVAGE OPERATIONS:

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 2002, the Commission derived **$595.615**[6] from salvageable equipment and hydrocarbons on 197 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 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.

Since the inception of the salvage program, the proceeds from the sale of salvageable equipment and hydrocarbons have totaled $6,136,804.00 from 1,828 salvage operations. Figure 14 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.

[6] Data source is the Field Operations database.




| Fiscal Year | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Salvage Proceeds | $256,126 | $612,987 | $729,736 | $980,176 | $1,163,021 | $328,781 | $595,758 | $874,604 | $595,615 | $6,136,804 |
| Operations | 63 | 208 | 285 | 249 | 344 | 136 | 182 | 164 | 197 | 1,828 |

Figure 14

## 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 process. The Commission oversight includes review of work plans and reports to ensure the protection of human health and the environment.

In fiscal year 2002 one (1) site was admitted into the VCP in the Kilgore District Office (District 5 & 6) and is currently in the process of being completed.

## X. OPERATOR CLEANUP PROGRAM:

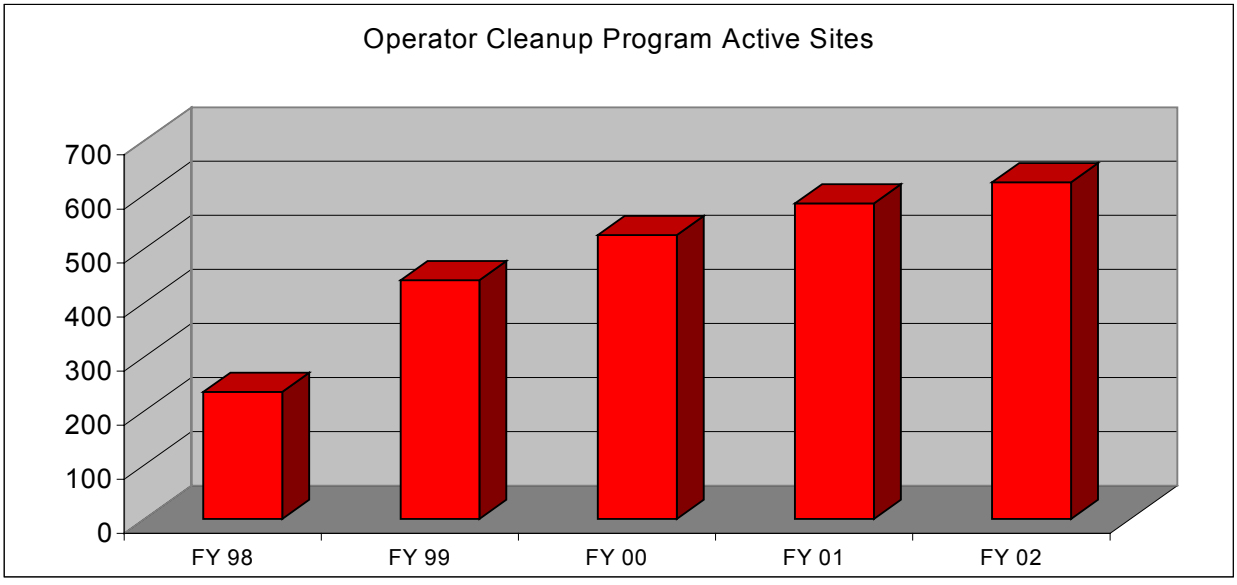
Another important function of the Commission's Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities voluntarily conducted by a responsible operator, usually at environmentally sensitive sites. The program 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.

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 600 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 15 illustrates the number of sites in the Operator Cleanup program since 1998.




| Fiscal Year | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|---|---|---|---|---|---|
| Active Sites | 235 | 442 | 525 | 584 | 623 |

Figure 15