



# **RAILROAD COMMISSION OF TEXAS**

## **OIL AND GAS DIVISION**

### **OIL FIELD CLEANUP PROGRAM ANNUAL REPORT - FISCAL YEAR 2010**



ELIZABETH A. JONES, CHAIRMAN  
MICHAEL L. WILLIAMS, COMMISSIONER  
DAVID PORTER, COMMISSIONER



RAMON FERNANDEZ JR., P.E.  
DEPUTY DIRECTOR, OIL AND GAS DIVISION

# RAILROAD COMMISSION OF TEXAS


## OIL AND GAS DIVISION

February 8, 2011

To The Legislature:

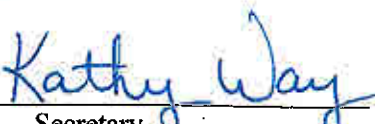
S.B. 1103, 72<sup>nd</sup> Legislature, 1991 and S.B. 310, 77<sup>th</sup> Legislature, 2001 (§91.112(b), Natural Resources Code) requires the Railroad Commission to submit an Annual Report to the Legislature on the Oil Field Cleanup Program. The information required by S.B. 1103 and as amended by S.B. 310 is contained in this report. This report covers the period from September 1, 2009 through August 31, 2010.

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 Ramon Fernandez, Deputy Director of the Commission's Oil & Gas Division, Field Operations Section, at 463-6830; William Miertschin, Assistant Director of the Commission's Oil and Gas Division, Site Remediation Section, at 463-6765; Lowell Williams, Director of the Commission's Office of General Counsel, Enforcement Section, at 463-6843; or Edna Medina, Budget Manager, Administration Division, at 463-7268.

  
\_\_\_\_\_  
Chairman Elizabeth A. Jones

  
\_\_\_\_\_  
Commissioner Michael L. Williams

Attest:

  
\_\_\_\_\_  
Secretary

  
\_\_\_\_\_  
Commissioner David Porter

# RAILROAD COMMISSION OF TEXAS

## OIL FIELD CLEANUP PROGRAM

### ANNUAL REPORT - FISCAL YEAR 2010

#### INTRODUCTION:

The Oil Field Cleanup Fund was created by the adoption of Senate Bill (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 (hereinafter “Commission”), increased its financial ability to plug abandoned, orphaned oil and gas wells and to remediate abandoned, orphaned oil field sites throughout the State. S.B. 1103 replaced the previous Well Plugging Fund with the Oil Field Cleanup Fund and set the fund balance cap at \$10 million. S.B. 310 increased the production tax on oil and gas and 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 orphaned wells plugged and sites remediated. From fiscal year 1984 to fiscal year 1991, the Commission plugged 4,078 wells at a cost of \$16,171,406 under the previous Well Plugging Fund. From fiscal year 1992 through fiscal year 2010, the Commission plugged 27,439 wells at a cost of \$166,780,057 (31,517 wells since fiscal year 1984 at a total cost of \$182.9 million) and cleaned up, assessed, or investigated 4,497 sites at a cost of \$53,420,837 using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2010, the Commission was tracking 393,898 wells compared to 389,307 in August 2009. Of this number, 112,469 were inactive, shut-in oil and gas wells. Of the 112,469 wells, 24,527 were compliant inactive wells that had been shut-in less than 12 months and 75,532 were compliant inactive wells that were shut-in for more than 12 months, but belonged to operators with an active Organization Report (Form P-5) on file with the Commission and have filed the required financial assurance, a bond or letter of credit, and qualified for a plugging extension. The remaining 12,410 wells were non-compliant inactive wells that were in violation of the Commission’s plugging rule. Of the 12,410 non-complaint wells, 5,374 wells belonged to operators with an active Form P-5 on file with the Commission and 7,036 wells belonged to operators with a delinquent Form P-5. The Commission defines these 7,036 wells as orphan wells. These figures are represented on a percentage basis in Figure 1 and the distribution of wells for August 2010 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.

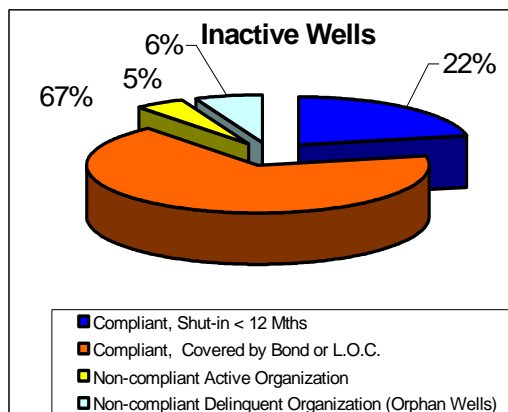


Figure 1

## Distribution of Wells Monitored by the Railroad Commission

As of August 31, 2010

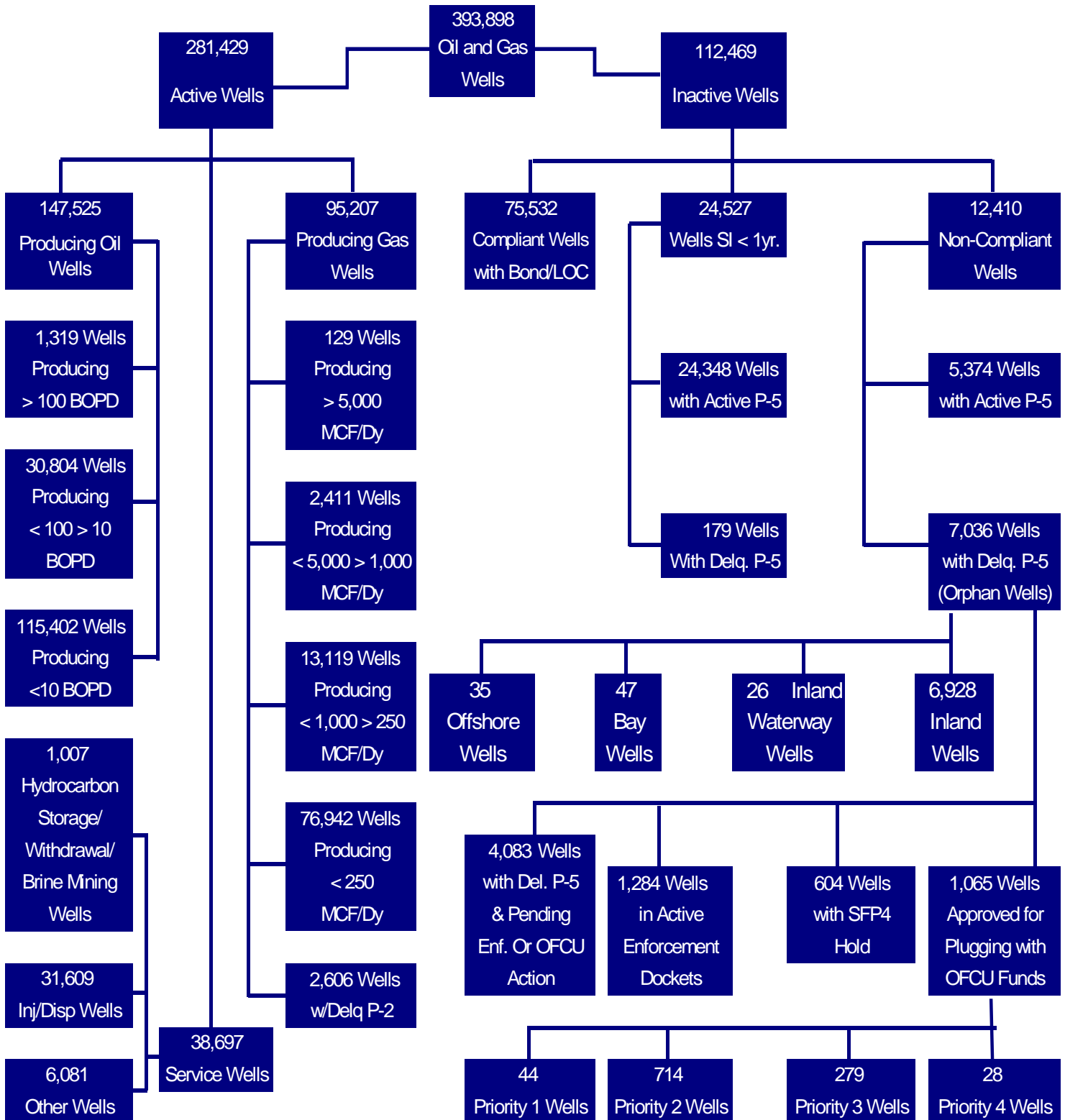


Figure 2

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 during fiscal year 2010 in Table 1. Table 2 depicts the yearly dynamics beginning with fiscal year 2003 (September 1, 2002). The data in Table 1 illustrates that the number of orphan wells decreased by 864 in fiscal year 2010 and has decreased by 10,935 wells since September 2002 (Table 2). However, the make-up of the orphan wells has changed. A total of 7,517 wells (Plugged, Returned to Active Status, P-5 renewal, Other) were removed from the fiscal year 2010 beginning inventory, but 6,653 new wells were added to the population of orphan wells throughout the fiscal year (Table 1). Since the beginning of fiscal year 2003, 86,384 orphan wells have been removed from the inventory and 75,449 new orphan wells have been added to the inventory (Table 2). 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 the number of orphan wells is illustrated in Figure 3.

Month of Activity	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Total
Beginning Population (from previous month)	7,900	7,414	7,254	7,432	7,323	7,318	7,417	7,503	8,091	7,944	7,568	7,538	7,900
Plugged	(82)	(183)	(57)	(55)	(47)	(49)	(100)	(44)	(6)	(322)	(132)	(179)	(1,256)
Returned to Active Status	(7)	(3)	(5)	0	(1)	(5)	(8)	(1)	(4)	(1)	(8)	(4)	(47)
Operator Change	(197)	(38)	(28)	(44)	(72)	(8)	(32)	(61)	(168)	(137)	(58)	(91)	(934)
P-5 Renewal	(531)	(283)	(157)	(390)	(275)	(383)	(319)	(285)	(798)	(693)	(735)	(422)	(5,271)
Other Reasons	(1)	(1)	0	(1)	0	(2)	(1)	0	0	(3)	0	0	(9)
Wells Added to Population	332	348	425	381	390	546	546	979	829	780	893	204	6,653
Ending Population	7,414	7,254	7,432	7,323	7,318	7,417	7,503	8,091	7,944	7,568	7,528	7,046	7,036

<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 end of previous month, but considered orphaned at the end of this month.

Table 1

**RAILROAD COMMISSION OF TEXAS  
ANNUAL REPORT--FY 2010**

**OIL FIELD CLEANUP PROGRAM**

Month of Activity	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010					Total
<b>Beginning Population</b> (from previous FY)	17,971	16,770	15,305	14,208	11,287	9,579	9,323	7,900					17,971
<b>Plugged</b>	(1,527)	(1,726)	(1,756)	(1,877)	(1,514)	(1,143)	(1,426)	(1,256)					(12,225)
<b>Returned to Active Status</b>	(646)	(160)	(177)	(196)	(118)	(119)	(35)	(47)					(1,498)
<b>Operator Change</b>	(3,110)	(1,777)	(2,506)	(1,483)	(1,361)	(1,546)	(856)	(934)					(13,573)
<b>P-5 Renewal</b>	(8,581)	(8,144)	(6,907)	(10,336)	(8,697)	(5,737)	(5,056)	(5,271)					(58,729)
<b>Other Reasons</b>	(281)	(23)	(19)	(12)	(5)	(6)	(4)	(9)					(359)
<b>Wells Added to Population</b>	12,944	10,365	10,268	10,983	9,987	8,295	5,954	6,653					75,449
<b>Ending Population</b>	16,770	15,305	14,208	11,287	9,579	9,323	7,900	7,036					7,036

<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 end of previous FY, but considered orphaned at the end of this FY.

Table 2

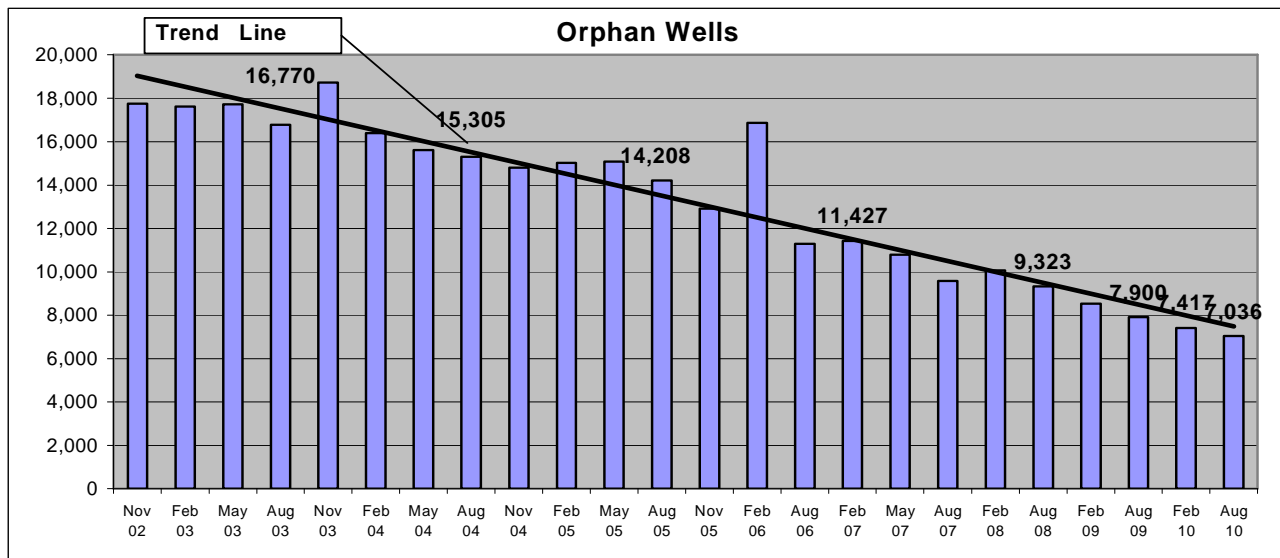


Figure 3

Revenue into the Oil Field Cleanup Fund is derived primarily from production taxes and permitting fees paid by the oil and gas industry; but significant revenue is also contributed from enforcement penalties, reimbursements, proceeds from the sale of equipment and hydrocarbons salvaged from well plugging and site remediation operations, and interest on fund balances. Additionally, the Commission seeks other funding sources from state and federal agencies to supplement the activities of the Oil Field Cleanup Program. However, during fiscal year 2010 all plugging activities were funded through the Oil Field Cleanup Fund. The number of wells plugged and sites remediated contained in this report are inclusive of all sources of funds.

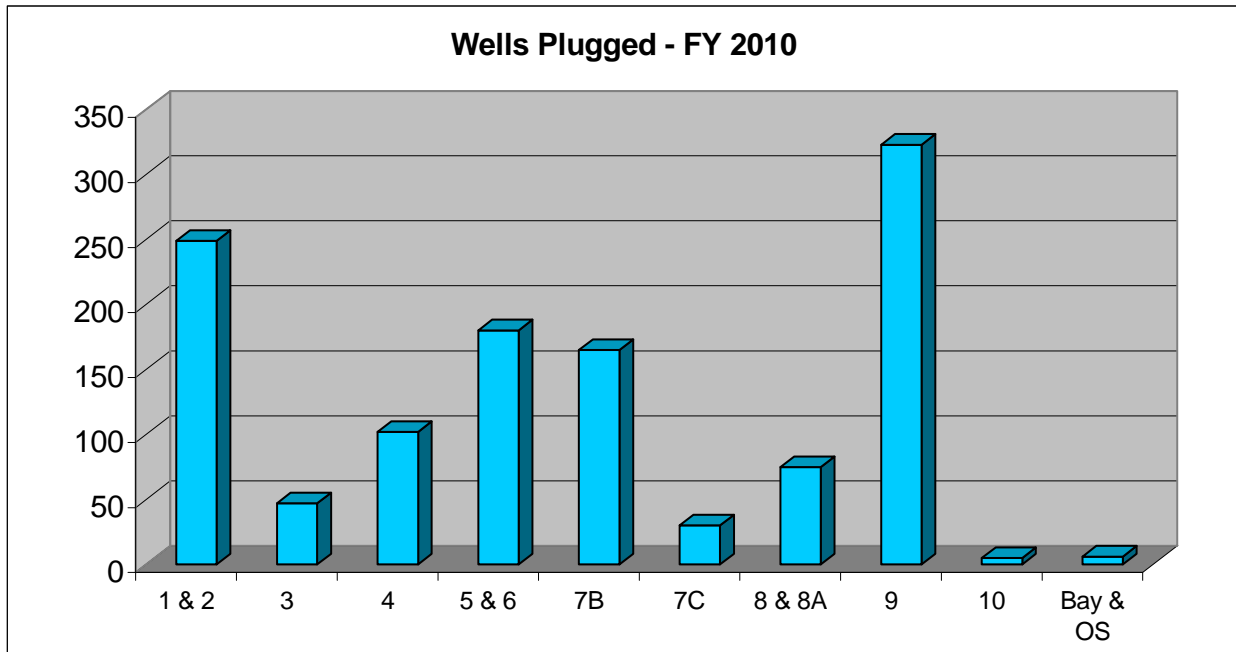
The following information on the Oil Field Cleanup Program is reported annually as required by S.B. 1103 and amended by S.B. 310.

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

In fiscal year 2010, the Commission plugged **1,182** wells with Oil Field Cleanup funds. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors through August 31, 2010. Figure 4 illustrates the numbers of wells plugged by district during fiscal year 2010 and Figure 5 shows the number of wells plugged by fiscal year since the inception of the current Oil Field Cleanup Program, September 1, 1991.

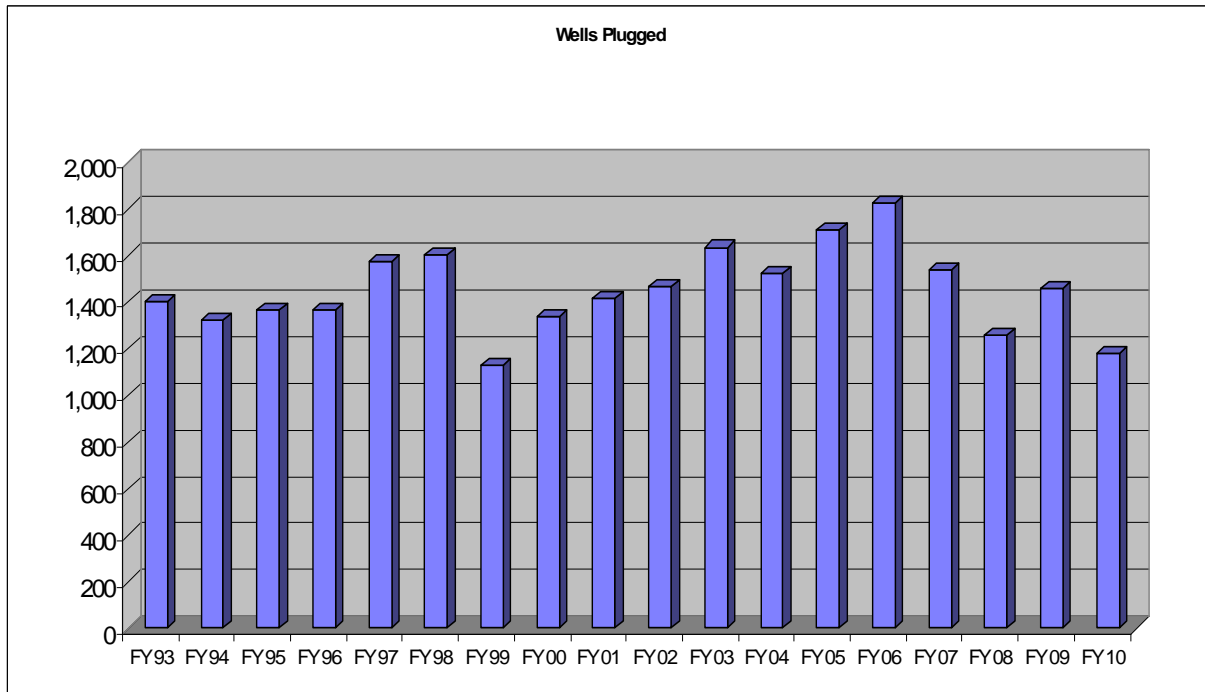
During fiscal year 2010 the Commission's well plugging expenditures totaled \$10,504,966. The average cost per well was \$8,887.00, which was \$2,552.00 less than the fiscal year 2009 average cost per well of \$11,439.00. The fiscal year 2010 adjusted average cost per well was \$7,777.00 compared to an adjusted average cost per well of \$11,125.00 per well for fiscal year 2009. The adjusted average cost excludes the costs to plug bay and offshore wells. During fiscal year 2010 the Commission plugged 6 bay wells in Galveston Bay at a total cost of \$684,285. It is important to note that the Commission plugged 1,460 wells in fiscal year 2009, 278 more wells than in fiscal year 2010.





District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay & OS	Total
Wells Plugged	249	47	102	180	165	30	75	323	5	6	1,182

Figure 4



Fiscal Year	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
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	1,710	1,824	1,536
Fiscal Year	FY08	FY09	FY10	Total												
Wells Plugged	1,261	1,460	1,182	27,439												

Figure 5



**II. NUMBER OF ABANDONED WELLS BY DISTRICT:**

As of August 2010, the number of abandoned, orphaned wells was **7,036**. The Commission defines these wells as orphan wells because they have been inactive for at least 12 months or more 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 and illustrated in Figure 2. Figure 6, below, illustrates the number of orphan wells by district at the end of August 2010.

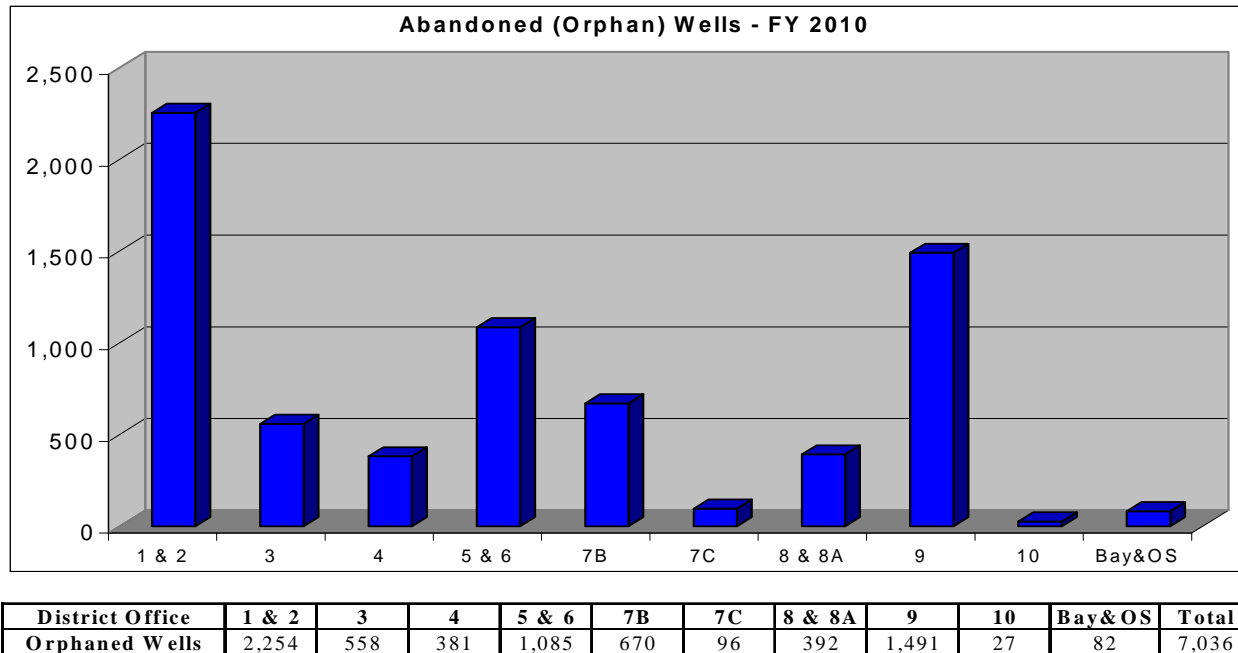


Figure 6

In addition to the 7,036 orphan wells, there are also an unknown number of old, unidentified wells in Texas, which have no records. As these wells are located, the Commission initiates plugging operations in accordance with the well plugging priority system, which is based on the threat the well poses to the environment and public safety. In fiscal year 2010, twenty (20) unidentified abandoned wells were plugged with Oil Field Cleanup funds, which accounted for 1.6% of all wells plugged by the Commission in fiscal year 2010.

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

The number of known inactive wells not in compliance with Commission rules as of August 2010 totals **12,410**. 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 Statewide Rule 14 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 may remain inactive beyond the initial 12-month period and are eligible for plugging extensions if the operator has the required financial

assurance on file with the Commission, and the wells are in compliance with all Commission rules and regulations. Figure 7 shows the number of non-compliant wells by district at the end of August 2010. 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.

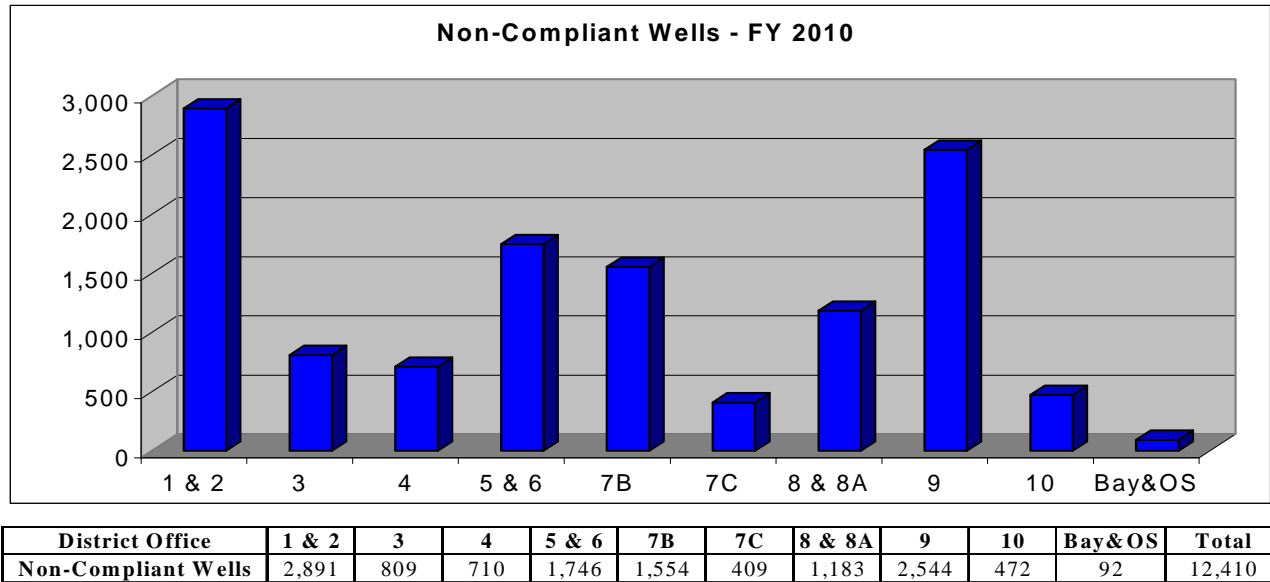


Figure 7

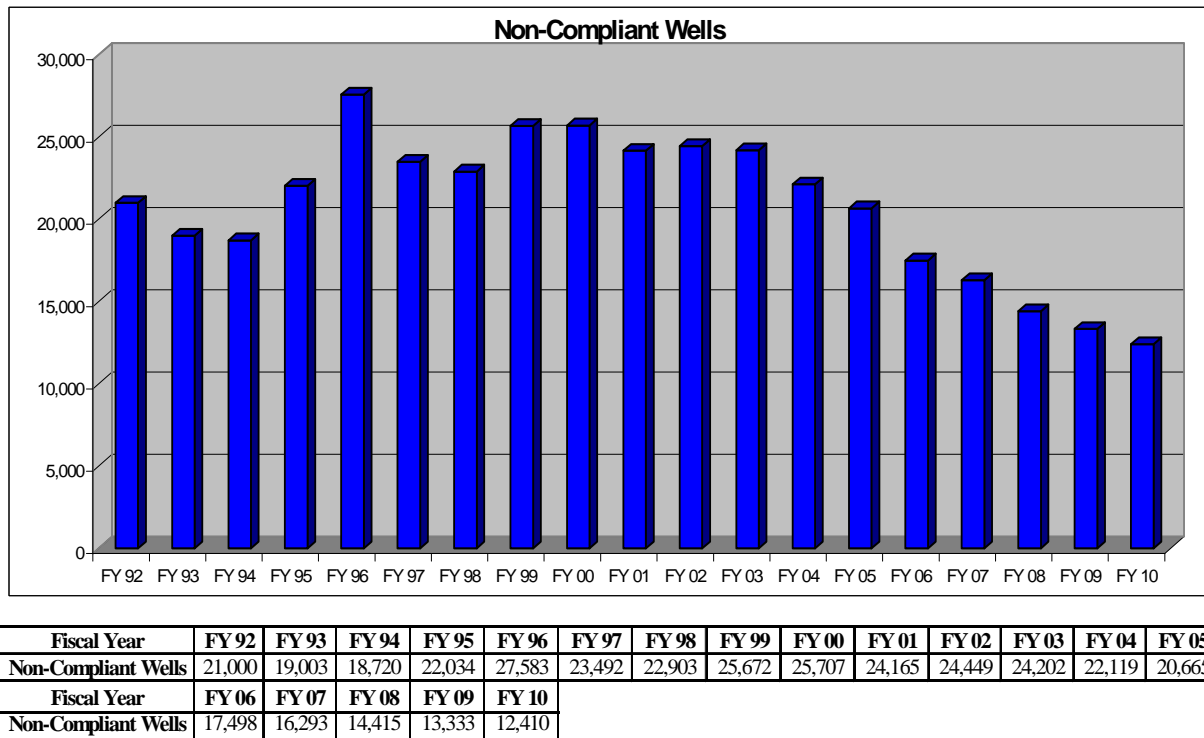
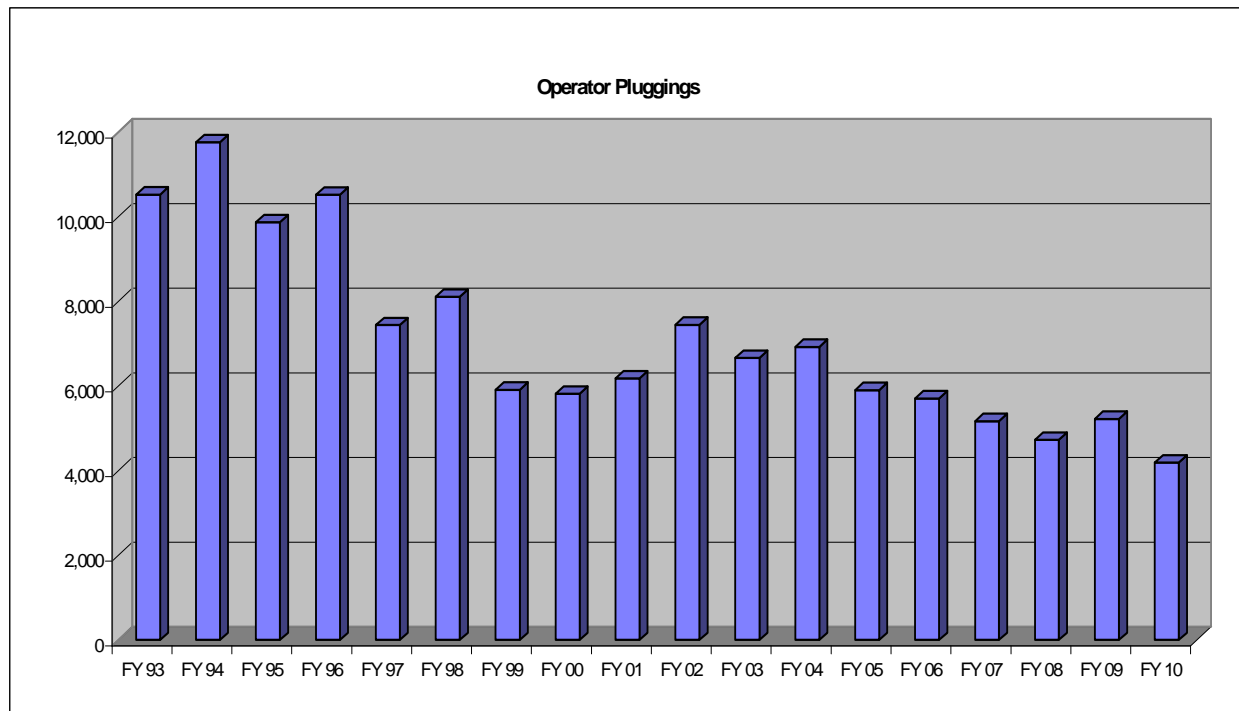


Figure 8

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production but may be eligible for plugging extensions if they have the required financial assurance on file with the Commission and the wells are in compliance with all other rules and regulations. The operators may also be 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 legal action against the responsible operator for collection of the plugging costs and may assess civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2010, 4,192 wells (78% of all wells plugged) were plugged by the operators of record, without the use of Oil Field Cleanup funds. Figure 9 depicts the number of wells plugged 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	FY 05
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	5,906
Fiscal Year	FY 06	FY 07	FY 08	FY 09	FY 10									
Operator Pluggings	5,708	5,172	4,730	5,223	4,192									

Figure 9

The Commission and industry have plugged between 5,000 and 10,000 wells per year since fiscal year 1992 (Figures 5 and 9). The number of orphan and non-compliant wells has decreased over the last five years (Figures 3 and 8). In fiscal year 2005, the number of known non-compliant inactive wells dropped below 21,000 for the first time since fiscal year 1994. Since a peak of 25,707 wells in fiscal year 2000, the number has declined to 12,410 in fiscal year 2010, a drop of 52%. The decrease in the number of orphan and non-compliant wells can be attributed to several factors including the following: (1) 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; (2) In September 2004, universal bonding

for all oil and gas operators became effective. At the end of fiscal year 2005, all inactive wells belonging to active operators were no longer eligible for a plugging extension by filing Form W-1X (Figure 2); and (3) the recent upturn in the oil and gas industry and sustained oil and gas prices have resulted in wells once deemed as uneconomic being returned to active production.

**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 fiscal year 05 to 10.

<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>	212	68	29	76	174	4	11	175	17	766
<i>2. Awaiting Hearing</i>	101	24	27	29	99	6	5	66	25	382
<i>3. Awaiting Final Order</i>	38	12	3	14	9	1	0	60	1	138
<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>	27	21	5	17	7	3	0	57	0	137
<i>Total Wells Still in Violation</i>	378	125	64	136	289	14	16	358	43	1,423
<b>TIME PERIOD</b>										
<i>6. In Enforcement &lt; 2yrs</i>	357	83	55	117	239	11	16	281	43	1,209
<i>7. In Enforcement &gt; 2yrs &amp; &lt; 5yrs</i>	21	42	9	19	50	3	0	77	0	214
<i>8. In Enforcement &gt; 5yrs</i>	0	0	0	0	0	0	0	0	0	0
<i>Total Wells Still in Enforcement</i>	378	125	64	136	289	14	16	358	43	1,423

Table 3

<b>ENFORCEMENT PROCEEDINGS</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
<b>STATUS</b>						
<i>1. Awaiting RRC review</i>	187	392	369	244	103	766
<i>2. Awaiting Hearing</i>	595	805	349	469	844	382
<i>3. Awaiting Final Order</i>	153	137	284	374	80	138
<i>4. Final Order Served/Awaiting AG referral</i>	0	0	0	0	0	0
<i>5. Wells Referred to AG</i>	542	281	398	168	274	137
<i>Total Wells Still in Violation</i>	1,477	1,615	1,400	1,255	1,301	1,423
<b>TIME PERIOD</b>						
<i>6. In Enforcement &lt; 2yrs</i>	1,390	1,444	1,257	1,082	1,130	1,091
<i>7. In Enforcement &gt; 2yrs &amp; &lt; 5yrs</i>	87	171	143	167	171	193
<i>8. In Enforcement &gt; 5yrs</i>	0	0	0	6	0	0
<i>Total Wells Still in Enforcement</i>	1,477	1,615	1,400	1,255	1,301	1,284
<b>PENALTIES &amp; REIMBURSEMENTS</b>						
<i>9. Administrative Penalties Assessed by RRC</i>	\$1,355,905	\$1,543,475	\$2,331,640	\$2,038,190	\$2,273,825	\$1,161,613
<b>TOTAL PENALTIES AND REIM. PAID TO RRC &amp; AG</b>	\$2,399,200	\$2,588,211	\$2,804,213	\$5,323,074	\$4,474,418	\$3,052,987

Table 4

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

During the year, 2,054 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 2010, the Commission conducted 191 cleanup activities (Figure 10). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2010. State-managed remediation activities included the following:

1. 113 routine remediation operations,
2. 36 emergency operations,
3. 42 site assessment investigations.

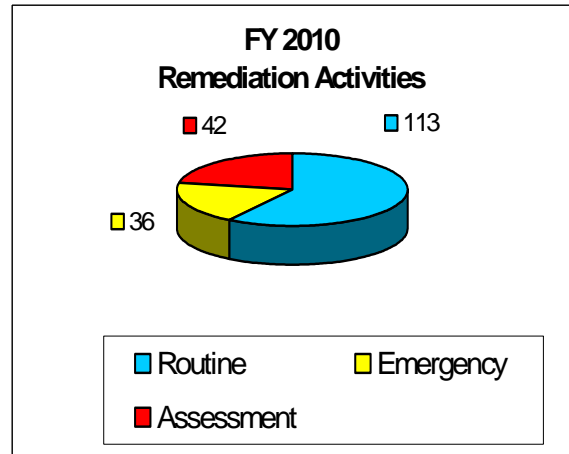
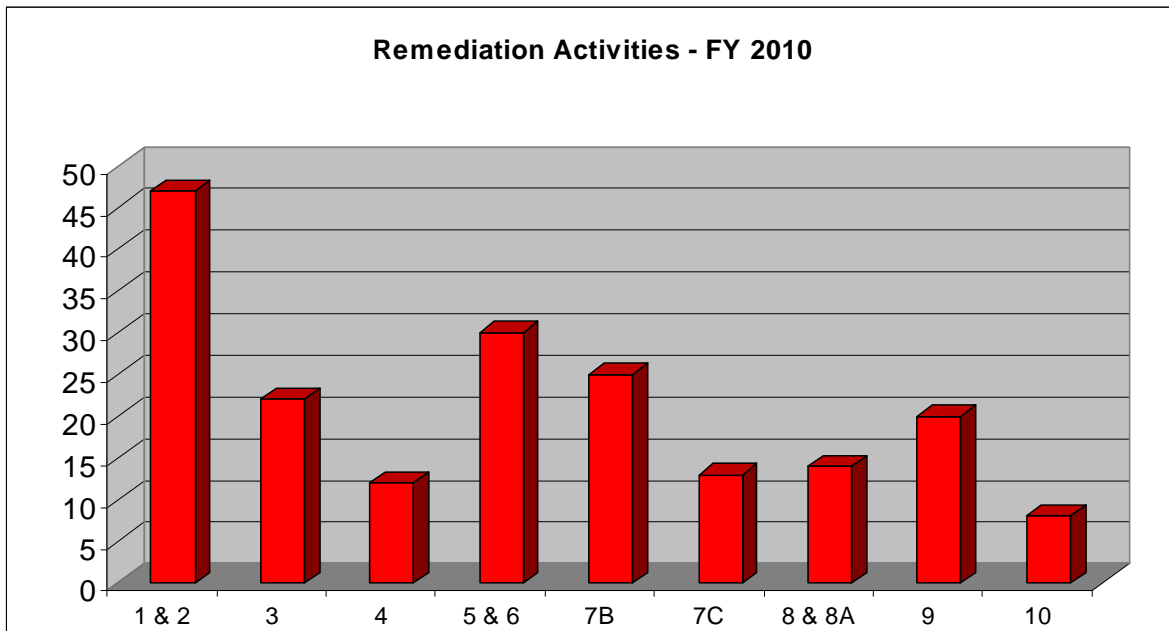


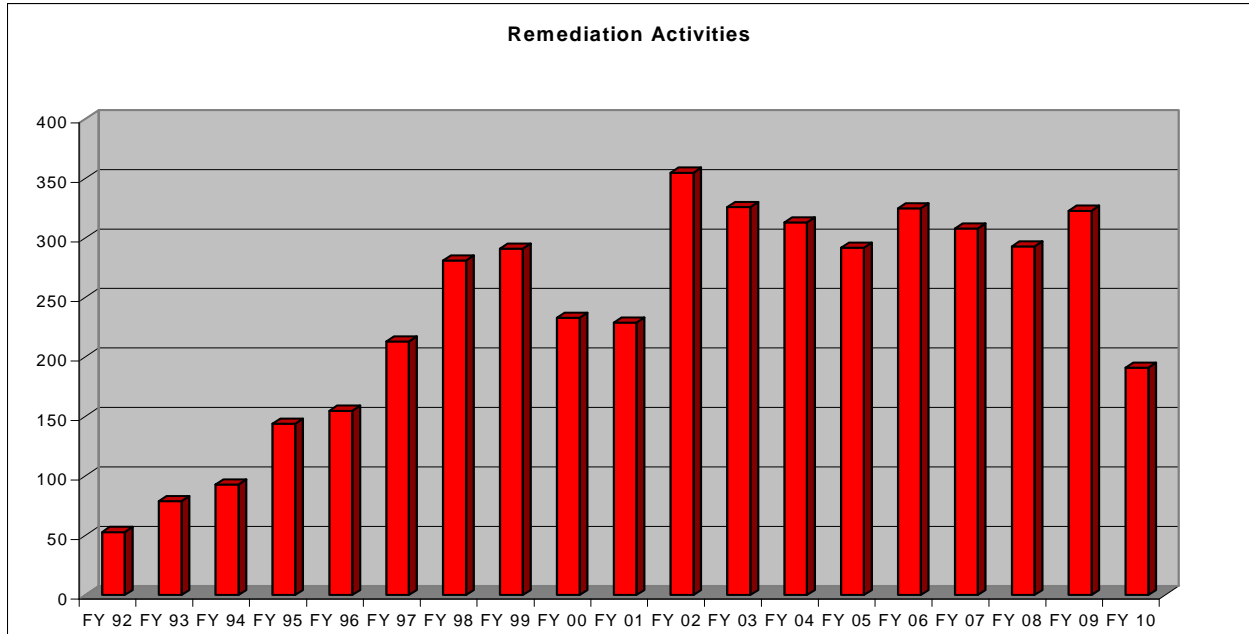
Figure 10

Figure 11 depicts these 191 sites by district for fiscal year 2010 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	47	22	12	30	25	13	14	20	8	191

Figure 11



<b>Fiscal Year</b>	<b>FY 92</b>	<b>FY 93</b>	<b>FY 94</b>	<b>FY 95</b>	<b>FY 96</b>	<b>FY 97</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>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
<b>Activities</b>	53	79	93	144	155	213	281	291	233	229	355	326	313	292	325
<b>Fiscal Year</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>Total</b>										
<b>Activities</b>	308	293	323	191	4,497										

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 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 alternative remedial recommendations and anticipated costs.



State-Managed Cleanup, Hutchinson County, Texas

**VI. OIL FIELD CLEANUP FUND EXPENDITURES:**

The Commission began fiscal year 2010 with a beginning fund balance in the Oil Field Cleanup Fund of \$7,705,067 and ended with a fund balance of \$10,070,330. Total revenues for the fiscal year were \$27,104,993 and total expenditures were \$23,145,871. Fiscal year 2010 Oil Field Cleanup Fund revenues and expenditures for well plugging operations, site remediation activities, and administration of the program are detailed in Table 5 and graphically displayed in Figures 13 and 14.

	<b>FY 2010 Original Budget</b>	<b>FY 2010 Revised Budget</b>	<b>FY 2010 Actual Rev/Exp</b>	<b>FY 2010 % Collected/ Expended</b>
<b>Beginning Fund Balance, September 1, 2009</b>	\$ 7,705,067		\$ 6,111,208	
<b>Revenues:</b>				
Oil & Gas Well Drilling Permit	\$ 9,351,000		\$ 8,792,228	94.02%
Oil Field Cleanup Regulatory Fee on Oil and Gas	6,570,000		7,142,670	108.72%
P5 Organization Filing Fee	3,500,000		3,696,335	105.61%
Other Revenue	4,085,000		2,990,217	73.20%
<b>Sub-Total Revenue</b>	<b>\$ 23,506,000</b>		<b>\$ 22,621,450</b>	<b>96.24%</b>
Oil and Gas Bond/Letter of Credits and Cash Deposits			\$ 1,462,171	
Oil & Gas Administrative Penalties			1,590,816	
<b>Sub-Total Oil and Gas Violations</b>	<b>\$ 2,500,000</b>		<b>3,052,987</b>	<b>122.12%</b>
Interagency Contracts	-		1,430,556	
<b>Total Revenues</b>	<b>\$ 26,006,000</b>		<b>\$ 27,104,993</b>	<b>104.23%</b>
<b>Expenditures:</b>				
Plugging & Remediation				
Plugging Contracts	\$ 16,660,000	\$ 14,326,616	\$ 9,583,507	66.89%
Orphaned Well Adoption Program	-	100,000	5,322	5.32%
Remediation Contracts	3,400,000	2,816,654	2,647,493	93.99%
Direct Project Salary & Operating	6,313,507	6,397,765	6,344,974	99.16%
Mgmt/Admin/Support Salary & Operating	4,598,183	4,517,674	4,395,508	97.30%
<b>Sub-Total</b>	<b>\$ 30,971,690</b>	<b>\$ 28,158,709</b>	<b>\$ 22,976,804</b>	<b>81.60%</b>
Well Testing				
Well Testing Contracts	\$ 10,000	\$ -	\$ -	0.00%
Well Testing Salary & Operating	169,150	170,177	169,067	99.35%
<b>Sub-Total</b>	<b>179,150</b>	<b>170,177</b>	<b>169,067</b>	<b>99.35%</b>
<b>Total Expenditures</b>	<b>\$ 31,150,840</b>	<b>\$ 28,328,886</b>	<b>\$ 23,145,871</b>	<b>81.70%</b>
<b>Ending Fund Balance, August 31, 2010</b>	<b>\$ 2,560,227</b>		<b>\$ 10,070,330</b>	
<b>Full Time Equivalent Positions, August 31, 2010</b>	<b>137.0</b>		<b>131.4</b>	
<b>Beginning Imprest Balance, September 1, 2009</b>			<b>\$ 14,583,052</b>	
<b>FY 10 Net Activity</b>			<b>3,093,494</b>	
<b>Ending Imprest Balance, August 31, 2010</b>			<b>\$ 17,676,546</b>	

Table 5



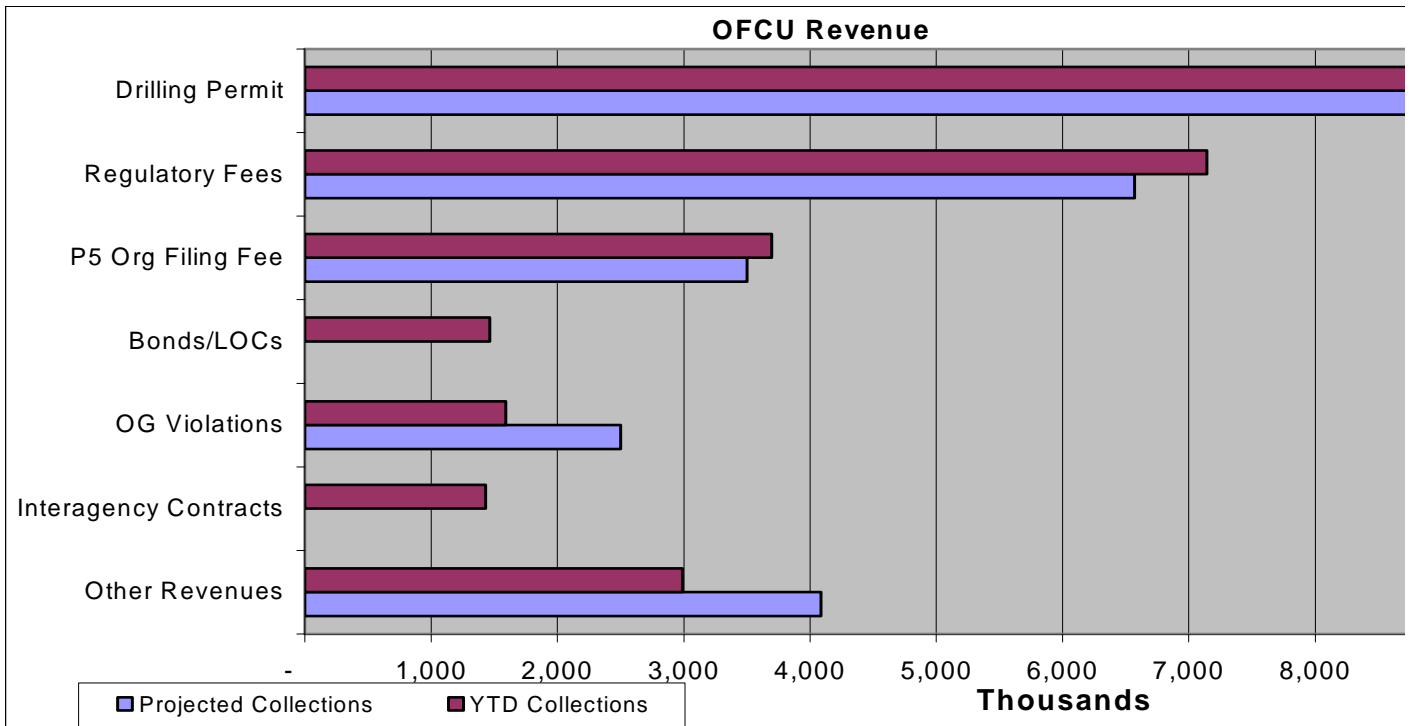


Figure 13

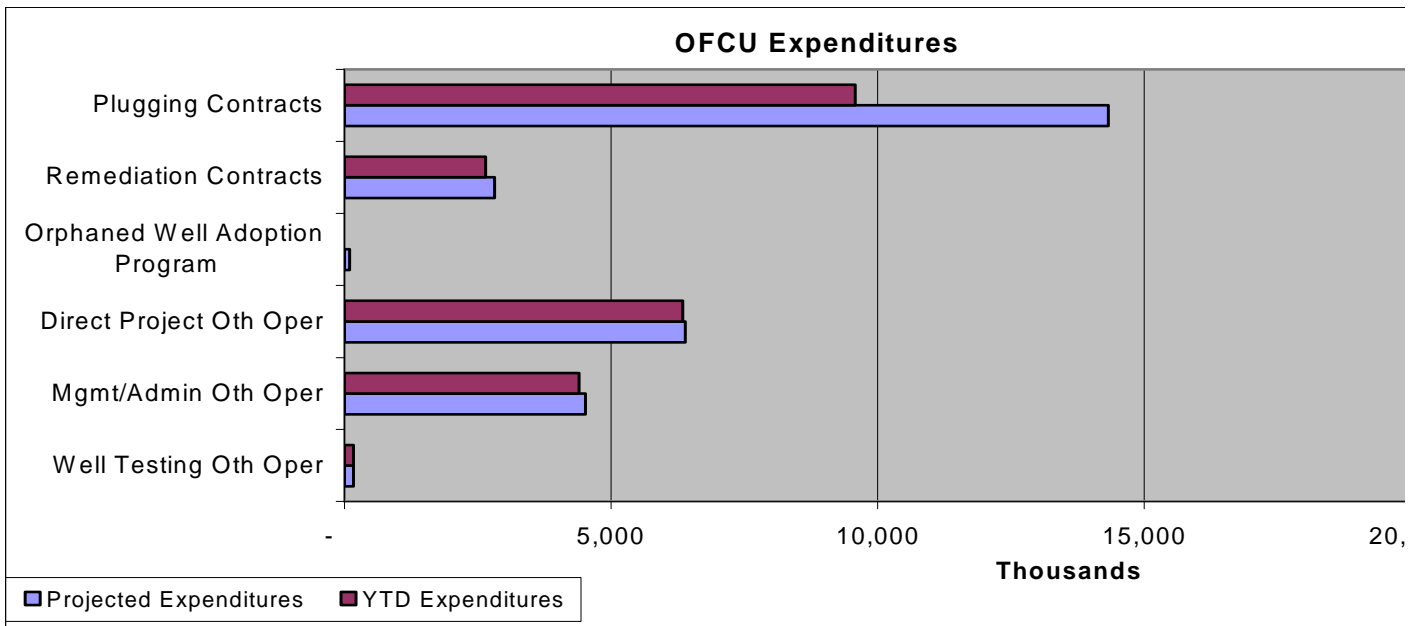


Figure 14

**VII. WELL PLUGGING PRIORITY SYSTEM:**

The Commission uses a priority methodology to rank wells for plugging to insure that those posing the greatest threat to public safety and the environment are plugged first. The priority system includes four factors relating to the threat a wellbore poses to public safety and the environment. The factors are titled “Well Completion”, “Wellbore Conditions”, “Well Location with respect to sensitive areas”, and “Unique Environmental, Safety, or Economic Concern.” The “**Well Completion**” factor has seven subcategories relating to the completion information on the well; type of formations penetrated, type of well, and age of the well, and has a maximum of forty (40) points. The “**Wellbore Conditions**” factor has seven subcategories relating to downhole conditions such as pressures on the well, fluid level in the well, and the mechanical integrity of the wellbore, and has a maximum of seventy-five (75) points. The “**Well Location**” factor has seven subcategories relating to the proximity to sensitive areas, and has a maximum of twenty (20) points. The remaining factor, “**Unique Environmental, Safety, or Economic Concern**” has five subcategories relating to proximity to active water floods or disposal wells, logistical concerns, wellbores with reentry problems, and the length of delinquency of the operator’s Organization Report, and has a maximum of twenty (20) points.

Only those factors, which apply, are considered. Each factor has been assigned a weight dependent on its potential to affect human health and the environment. 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 of 1, 2H, 2, 3, or 4, where 1 is the highest priority. The greater the total weight summed from all of the applicable factors, the higher the priority assigned. The priority system assigns leaking wells the highest priority (an automatic priority 1) and assigns an automatic priority 2 if the well fails a fluid level test. The current priority system is outlined below.

**WELL PLUGGING PRIORITY SYSTEM**

	<b>FACTOR</b>	<b>WEIGHT</b>
<b>1.</b>	<b>Well Completion</b>	
A.	Unknown (no well records)	15
B.	No surface casing or set above base of deepest usable quality water	10
C.	Additional casing string not adequately cemented to isolate usable quality water	5
D.	Injection or Disposal Well	10
E.	Well penetrates salt/corrosive water bearing formation or abnormally pressured formation	5
F.	Well in H2S Field	5
G.	Age: well drilled $\geq$ 25 years ago	5
	Total (40 max)	

**RAILROAD COMMISSION OF TEXAS  
ANNUAL REPORT--FY 2010**

**OIL FIELD CLEANUP PROGRAM**

<b>2. Wellbore Conditions</b>	
A. Well is pressured up at the surface (tbg or Prod csg)	10
B. Bradenhead pressure exists *	5
<b>Auto 2H if UQW not protected, and fluid at BH is not UQW</b>	
<b>C. Measured fluid level:</b>	
D. Fluid level at or above the base of deepest usable quality water.	50
E. Fluid level less than 250' below base of deepest usable quality water (na if 2D applies)	15
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	5
Total (75 max pts)	
<b>3. Well location with respect to sensitive areas</b>	
A. H2S well with Public area ROE ** <b>Automatic Priority 2H</b>	
B. In Marine Environment	10
C. Within 100' of river, lake, creek, or domestic use fresh water well (N/A if B applies)	5
D. Between 100' and ¼ mile of river, lake, creek, or domestic use fresh water well (N/A if C applies)	3
E. Located within agricultural area	2
F. Well located in known sensitive wildlife area	3
G. Well located within city or town site limits	10
Total (20 max pts)	
<b>4. Unique environmental, Safety, or Economic Concern</b>	
A. Adjacent to Active water flood or disposal well at or above completion interval.	5
B. Logistics (poor roads, encroaching public, etc)	5
C. Well Contains Junk	5
D. P-5 Delinquent > 5 years	5
E. Other (attach explanation)	1-20
Total (20 max pts)	
<b>Total Weight</b>	
<b>Priority</b>	
<b>Priority 1</b> = Leaking Well (Based on Definition)	
<b>Priority 2H</b> = Higher Risk well (Based on Definition and/or total weight > +75)	
<b>Priority 2</b> = Total Weight 50 - 75	
<b>Priority 3</b> = Total Weight 25 - 49	
<b>Priority 4</b> = Total Weight < 25	

\* BH Pressure is sustained.

\*\* 2H if public area could be impacted based on SWR 36 definition. Undetected/continuous leak possible.

Figures 15 and 16 and Table 6 below show the number of wells plugged with Oil Field Cleanup funds by priority during fiscal year 2010 and between fiscal years 1992 and 2010. In September 2001, the Commission began concentrating its well plugging efforts on priority 1 and 2 wells 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 2010.

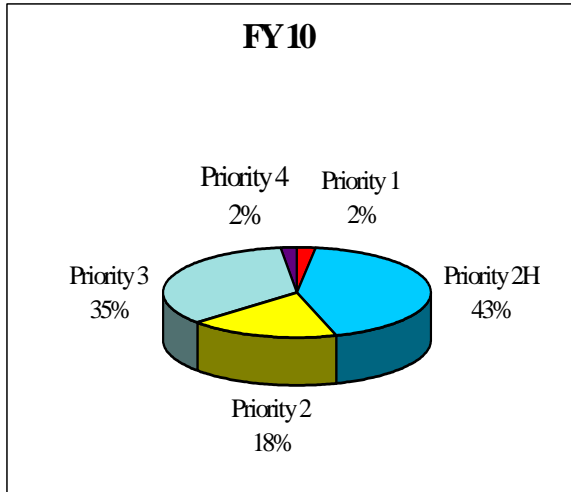


Figure 15

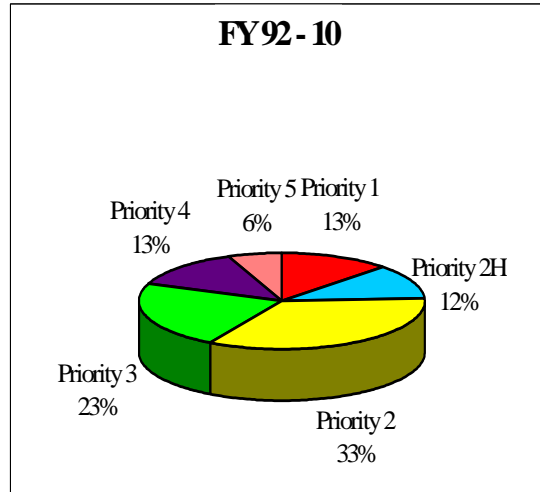


Figure 16

	Fiscal Year 2010	Fiscal Years 1992 – 2010
Priority 1	27	3,442
Priority 2H	508	3,213
Priority 2	212	9,319
Priority 3	413	6,224
Priority 4	22	3,590
Priority 5*	0	1,651
Total	1,182	27,439

Table 6

\*No longer used (Priority 5 category eliminated in fiscal year 2001)

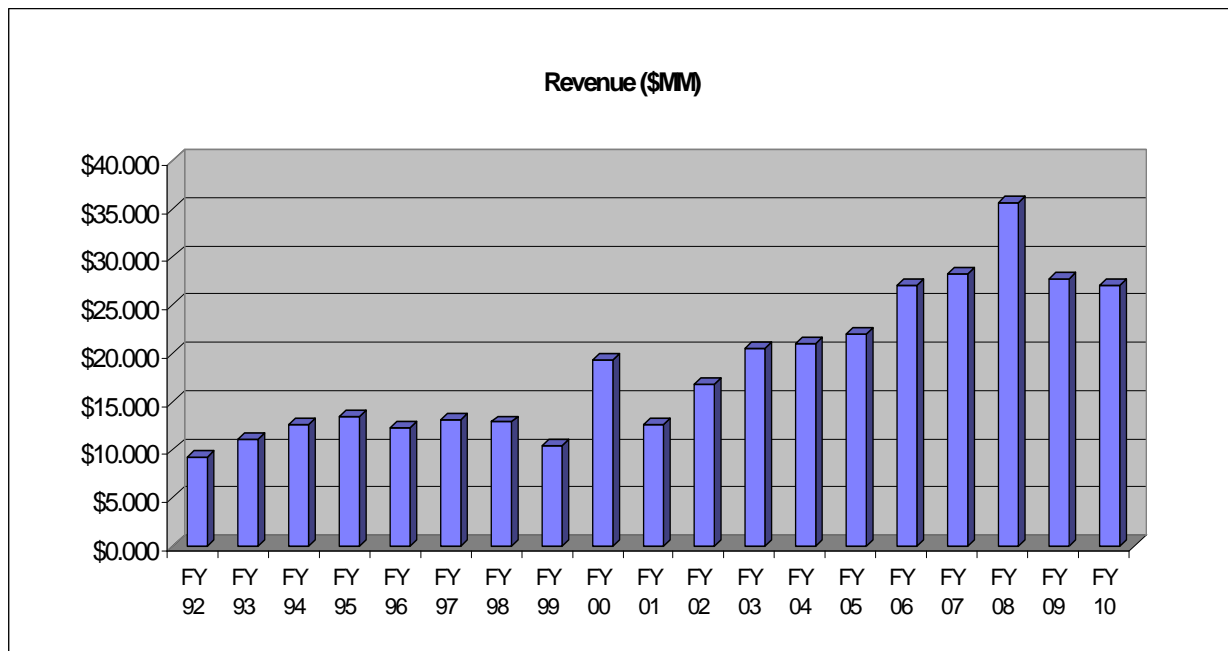
**VIII. OIL FIELD CLEANUP FUNDS PROJECTION:**

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

**Fiscal Year 2010 = \$26,006,000**

**Fiscal Year 2011 = \$24,695,000**

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. Figure 17 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 2010 do not include \$3,093,494 of net activity in the imprest account. The operators file cash deposits 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 held in trust as financial assurance and are subject to being refunded should the operator chose an alternate financial assurance option.



Fiscal Year	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
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	\$22.078	\$26.980
Fiscal Year	FY07	FY08	FY09	FY10											
Revenue (\$MM)	\$28,165	\$35,608	\$27,766	\$27,105											

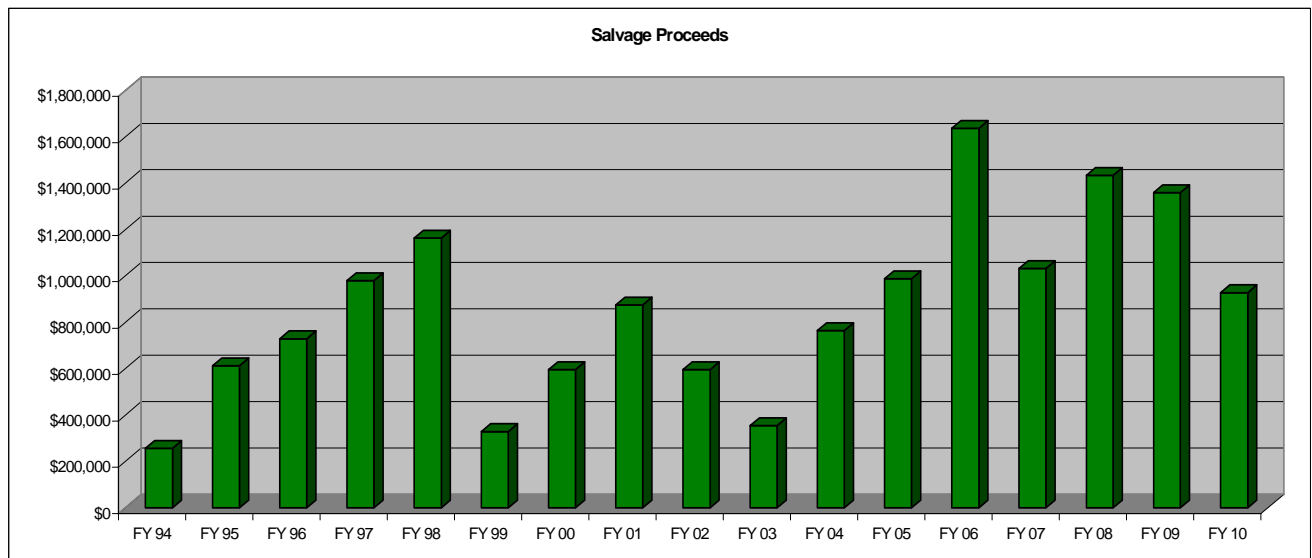
Figure 17

**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 2010, the Commission derived **\$928,389** from the sale of salvageable equipment and hydrocarbons on **304** salvage operations and deposited these proceeds in the Oil Field Cleanup Fund. The record for the sale of salvage was set in fiscal year 2006 with proceeds of \$1,637,051.

House Bill (H.B.) 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 and hydrocarbons 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. Potential claimants of 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 \$14,636,301 from 3,734 salvage operations. Figure 18 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.



Fiscal Year	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
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	\$988,496	\$1,637,051	\$1,033,282
Operations	63	208	285	249	344	136	182	164	197	103	207	184	253	197
Fiscal Year	FY 08	FY 09	FY 10	Total										
Salvage Proceeds	\$1,433,501	\$1,358,851	\$928,389	\$14,636,301										
Operations	334	324	304	3,734										

Figure 18

**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 that have been environmentally impacted by activities over which the Commission exercises jurisdiction. The program removes the liability to the lenders, developers, owners, and operators who did not cause or contribute to contamination by offering a release of liability. 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 2010 there were four new VCP applications. As of August 31, 2010, there were 24 active VCP sites. Since program inception in the summer of FY02, 42 sites have been cleaned up and certificates of completion issued

**XI. 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 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 540 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 19 illustrates the number of sites in the Operator Cleanup program since 1998 as of the close of each fiscal year.

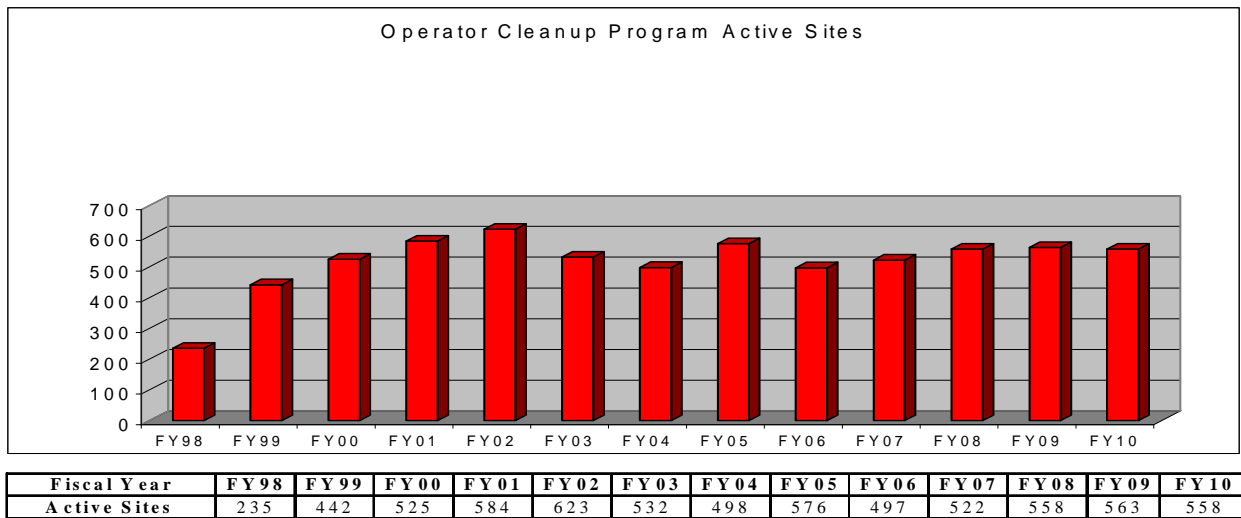


Figure 19