

## STAFF REPORT

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02/28/20

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### **CONSIDER SPONSORING LEGISLATION IN THE 2019-20 LEGISLATIVE SESSION THAT WOULD REMOVE THE \$300 MILLION CAP IN THE OIL TRUST FUND, RESUMING MONTHLY DEPOSITS OF \$2 MILLION FROM LONG BEACH OIL OPERATION REVENUES UNTIL THE FUND REACHES A BALANCE THAT WILL COVER THE STATE'S PROJECTED ABANDONMENT LIABILITIES**

#### **SUMMARY:**

Existing law caps the Oil Trust Fund at \$300 million and requires subsequent interest earned to be transferred to the General Fund (currently about \$1.5 million per quarter). With this cap in place, the Oil Trust Fund balance will not cover the State's current estimated abandonment costs of at least \$905 million, or the greater costs when Long Beach oil operations eventually end. Unless the Oil Trust Fund balance is allowed to grow, the balance will be insufficient to cover the State's future abandonment liability, which will certainly exceed the \$605 million shortfall that existed as of 2019. Staff, therefore, recommends that the Commission sponsor legislation to remove the \$300 million cap on the Oil Trust Fund.

#### **BACKGROUND:**

This legislative proposal relates to future abandonment of the West Wilmington and Long Beach Unit oil operations in the city of Long Beach. Existing law establishes the Oil Trust Fund to fund the removal of oil and gas facilities and to plug and abandon the hundreds of wells when the oil operations cease (Pub. Resources Code § 6217.8). The Oil Trust Fund's cap of \$300 million was reached in June 2014. Since then, the Oil Trust Fund has not grown, and all interest earned has been transferred to the General Fund. The State's estimated share of the total abandonment liability for both units, based on existing infrastructure, is roughly \$905 million, leaving an unfunded liability of at least \$605 million.

A large portion of the Wilmington Oil Field, one of the largest oil fields in the country, is beneath the Long Beach tidelands. The Legislature granted these lands and their minerals to the City in the early 1900s. The Wilmington Oil Field was discovered in 1937, and soon after, the City began oil development and extraction in the tidelands. The oil operations include the Long Beach and the West Wilmington Units established in the 1960s. The City is the unit operator and California Resources Corporation is the contractor responsible for day-to-day

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production and maintenance. Even though the minerals are legislatively granted to the City, the State receives a share of the net profits. The State's revenue share is deposited into the General Fund. Various statutes and unit and production agreements control the character of the oil operations, including the liability associated with abandoning oil and gas wells and facilities. The State's share of liability is apportioned based on its net profit interest, among other factors. The State retains a large majority of the total abandonment liability at the end of the oil operations. While oil and gas wells are abandoned as a normal course of oil field operations, those costs are deducted as unit expenses and are paid before net profits are calculated. Once operations cease and revenue is no longer generated, the Oil Trust Fund will be the primary source to fund the substantial abandonment and decommissioning work that will be required to remove oil and gas facilities related to the oil operations.

The Oil Trust Fund was legislatively created in 2005 to fund abandonment costs when unit operations end, i.e., when oil revenue generation is insufficient to cover those costs. The intention was to create an abandonment fund for the Long Beach operations. The legislation authorized monthly deposits (\$2 million or 50 percent of monthly revenue, whichever is less) from the State's share of oil revenues until the Oil Trust Fund reached \$300 million, an amount deemed sufficient at that time.

The Commission may spend money from the Oil Trust Fund for well abandonment, pipeline removal, facility removal, remediation and other costs to remove oil and gas facilities from the Long Beach tidelands that are not the responsibility of other parties. Money in the Oil Trust Fund can be used only after the City determines that oil revenue is insufficient to cover abandonment and decommissioning work—an event likely associated with the end of the oil field's productive life. The abandonment costs for the oil operations have increased considerably because of updated market costs for abandonment work and reduced production forecasts from low oil prices. In recent years, the City of Long Beach Gas and Oil Department has estimated the abandonment liability at several hundred million dollars more than previously thought. Now, the City estimates that the State's potential unfunded liability, as of 2019, was at least \$605 million.

If the Oil Trust Fund is not increased by the time the Long Beach oil operations cease, which has been estimated to be around 2036, the State's liability obligations will continue to increase while the fund remains stagnant. The State can significantly reduce its unfunded liability by removing the cap on the Oil Trust Fund and resuming depositing a portion of the State's share of revenue from the Long Beach oil operations into the Fund.

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**Other Pertinent Information:**

The West Wilmington and Long Beach Unit operations are located within lands legislatively granted to the City of Long Beach. Both facilities have hundreds of wells, which are abandoned throughout the life of the operations. During the life of the contracts and unit operations, the costs for the abandonment of the wells and facilities are paid out of oil revenue before it is disbursed to the General Fund. According to the city of Long Beach, over 3,100 wells have been abandoned to date. The number of wells that will need to be abandoned when operations cease is about 2,200. Other infrastructure that will need to be abandoned or removed includes electrical lines, and pipelines, among other things.

In 2019, the Commission supported similar legislation (AB 926, O'Donnell), and in late 2017, supported similar legislation (AB 2404, O'Donnell). Both bills were held in the Senate Appropriations Committee after receiving unanimous bipartisan support in the Assembly and in the Senate Natural Resources and Water Committee.

**RECOMMENDED ACTION:**

Staff recommends that the Commission sponsor legislation in the 2019-20 legislative session that would remove the \$300 million cap on the Oil Trust Fund, resuming monthly deposits of \$2 million from Long Beach oil operation revenues until the Fund reaches a balance that will cover the State's projected abandonment liabilities.