

Staff Report 53

PROPOSED ACTION:

Consider supporting AB 353 (O'Donnell) that would remove the \$300 million cap in the Oil Trust Fund, resuming deposits from the State's share of the Long Beach oil operation revenues until the Fund reaches a balance that will cover the state abandonment liabilities.

BACKGROUND AND PURPOSE:

Existing law caps the Oil Trust Fund at \$300 million and requires subsequent interest earned to be transferred to the State's General Fund (currently about \$1.5 million per quarter). With this cap in place, the Fund balance will not cover the State's expected abandonment costs (spelled out contractually as the State's liability). The City of Long Beach's Fiscal Year 2022 Oil Field Abandonment Liability analysis estimates the State's expected share of abandonment costs to be \$967 million. The California Geologic Energy Management Division (CalGEM) released its SB 1147 Report on Offshore Oil & Gas Operations Abandonment and estimated the State's expected share of abandonment costs for only offshore operations to be \$617 million. While CalGEM's report did not analyze onshore abandonment costs (for West Wilmington), CalGEM's estimate of total offshore abandonment costs was close to the City's estimate of offshore abandonment costs: \$768 million and \$787 million, respectively. The abandonment costs are apt to continue to increase with time. The purpose of AB 353 is to ensure that the State's abandonment fund for the Long Beach oil operations will cover the State's substantial liability when the oil operations end.

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 of Long Beach 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 Unit and the West Wilmington Units established in the early and mid-1960s. The City is the unit operator and California Resources Corporation is the contractor responsible for day-to-day production, operation, and maintenance. Even though the minerals are granted, 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.

In 2005, legislation was enacted creating the Oil Trust Fund to fund abandonment costs when unit operations end, i.e., when oil revenue generation is insufficient to cover those costs. The purpose of the legislation 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 Fund reached \$300 million.

The Commission may spend money in 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. In 2018, the City of Long Beach Gas and Oil Department requested that California Resources Corporation provide an updated estimate for abandoning and decommissioning the wells, pipelines, and facilities. The analysis is consistent with the City of Long Beach Gas and Oil Department estimates showing that end of field life abandonment and decommissioning will be more expensive than previously estimated. Now, the City estimates that the state's potential unfunded liability is about \$609 million.

The City of Long Beach is analyzing ways to transition to cleaner energy and to reduce its reliance on oil production revenue. When the Long Beach oil operations cease, the State will incur over \$600 million in unfunded liability. 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. If the State does not have enough money set aside when the oil operations end, the State will have to find other ways to come up hundreds of millions of dollars. It is in the State's best interest to resume contributions to its abandonment fund.

OTHER PERTINENT INFORMATION:

1. AB 926 (O'Donnell, 2019) and AB 2404 (O'Donnell, 2018) were virtually identical to AB 353. Both bills passed the Assembly without a no vote, but were held in the Senate Appropriations Committee.
2. The Commission supported AB 926 ([Item 69, April 5, 2019](#)) and sponsored AB 2404 ([Item 82, November 29, 2017](#))
3. AB 353 is supported by the City of Long Beach and has received no opposition. On January 10, 2022, the Assembly Natural Resources Committee approved AB 353 on an 11 – 0 vote. On January 24, 2022, the Assembly approved the bill on a 67-0 vote. The bill is pending in the Senate.

RECOMMENDED ACTION:

It is recommended that the Commission:

Support AB 353 (O'Donnell) that would remove the \$300 million cap in the Oil Trust Fund, resuming deposits from the state's share of Long Beach oil operation revenues until the Fund reaches a balance that will cover the state's abandonment liabilities.