

## **COST ESTIMATE REGULATIONS FOR OIL AND GAS OPERATIONS**

### **UPDATED INFORMATIVE DIGEST**

There have been no changes in applicable laws or to the effect of the proposed regulations from the laws and effects described in the Informative Digest included with the Notice of Proposed Rulemaking Action for this rulemaking action.

The proposed regulations establish the criteria that operators would be required to use when preparing the cost estimate reports required under Public Resources Code section 3205.7, allowing two different methods for making the required estimates. Method 1 is a prescribed methodology whereby an operator uses values developed by CalGEM to estimate the costs associated with well plugging and abandonment, production facility decommissioning, and site remediation based upon the condition, location, and history of the operator's assets. Method 2 allows for the operator to forego the assumed costs under Method 1 and develop their own site-specific cost estimates, providing the estimates are persuasively supported by detailed documentation.

The proposed regulations also establish a schedule for operators to submit their cost reports, grouping operators by recent per-well production volumes in a manner that is intended to ensure at least one-half of operators have a submission due date of January 1, 2025, which is the first quarterly date available after the regulations will be finalized. Remaining operators have a submission due date of July 1, 2026.

These regulations are the result of consideration of extensive public input and consultation with other state regulatory agencies. After extensive pre-rulemaking stakeholder engagement, a public comment period on the originally proposed regulations was held from August 18, 2023, through October 4, 2023, pursuant to the Notice of Proposed Action mailed to interested parties and duly published in the California Regulatory Notice Register on August 18, 2023 (Register 2023, Number 33-Z, August 18, 2023). During that public comment period, a virtual public hearing was conducted on October 3, 2023. After reviewing the comments received, and revising the text of the proposed regulations, CalGEM held a two fifteen-day public comment periods, from November 27, 2023 through December 12, 2023, and January 2, 2024 through January 17, 2024 to receive input on the first revised text of the proposed regulations.

The revised regulations are consistent in purpose and scope with the original Informative Digest for this rulemaking action. In response to stakeholder comments

received, CalGEM crafted the regulations to be less burdensome and more cost-effective, and equally or more effective to carry out the regulatory purposes discussed in the Informative Digest. Below is a section-by-section summary of the revisions made to the originally proposed regulations.

## **SUMMARY OF 15-DAY REVISIONS**

### 1753. Cost Estimate Report Requirements

A provision was added to require operators to organize their cost estimates by field and lease to ensure that the data can be meaningfully correlated with CalGEM records and data on wells within the same field and lease can be efficiently compared.

#### 1753.1 Due Dates for Cost Estimate Reports

Language was added to clarify that underground gas storage operators, who are assessed in accordance with Public Resources Code Section 3403.5, are excluded from filing with group one.

##### 1753.1.1 Requirements for Cost Estimates

The content of this section was reorganized so that the requirement to avoid reductions due to salvage, resale, or recycling value of equipment including any value associated with a potential increase in real estate value is moved to its own paragraph for clarity.

In addition, the following substantive additions were made:

- A paragraph is added to provide for reporting of the repurposing of wells, production facilities, or the associated sites and for appropriate reductions in cost estimates as a result of this repurposing when using Method 2. Documentation of the validity of values and signed documentation from the rights holder is required.
- Information on how to request confidentiality, including the appropriate submissions, is added to provide operators a process to seek confidentiality of any part of their cost estimate submission.

#### 1753.2 Well Abandonment Cost Estimate Method 1

To facilitate data analysis and the organization of data by field and lease, a requirement to include the field and lease in the cost estimate has been added.

##### 1753.2.1 Production Facility Decommissioning Cost Estimate Method 1

To facilitate data analysis and the organization of data by field and lease, a requirement to include the field along with the lease in the cost estimate has been

added. In addition, for clarity, the phrase "Production Facility Decommissioning" has been added to the Aggregated Risk Score sections.

#### 1753.2.2 Site Remediation Cost Estimate Method 1

To facilitate data analysis and the organization of data by field and lease, a requirement to include the field and lease in the cost estimate has been added.

#### 1753.3 Well Abandonment Cost Estimate Method 2

This section has been updated to allow for the reporting of the documented intent to repurpose a well. First, the opening paragraph has been adjusted to clarify that the cost estimate calculated will be reduced by any amount reported under section (a)(11) which reports reductions estimated for repurposing of the well. To facilitate data analysis and the organization of data by field and lease, a requirement to include the field and lease in the cost estimate has also been added.

#### 1753.3.1 Production Facility Decommissioning Cost Estimate Method 2

This section has been updated to allow for the reporting of the documented intent to repurpose a production facility. First, the opening paragraph has been adjusted to clarify that the cost estimate calculated will be reduced by any amount reported under section (a)(11) which reports reductions estimated for repurposing of the facility. To facilitate data analysis and the organization of data by field and lease, a requirement to include the field in the cost estimate has been added.

#### 1753.3.2 Site Remediation Cost Estimate Method 2

This section has been updated to allow for the reporting of the documented intent to repurpose a well site or production facility site. First, the opening paragraph has been adjusted to clarify that the cost estimate calculated will be reduced by any amount reported under section (a)(11) which reports reductions estimated for repurposing of the site. To facilitate data analysis and the organization of data by field and lease, a requirement to include the field and lease in the cost estimate has also been added.