

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

## **FREQUENTLY ASKED QUESTIONS**

### **1. What are the requirements of Public Resources Code section 3205.7 and how do those requirements help achieve the goal of financial solvency for well abandonment?**

Public Resources Code section 3205.7 requires the Department of Conservation's Geologic Energy Management Division (CalGEM) to develop criteria and a reporting schedule for oil and gas operators to submit cost estimates for well plugging and abandonment, production facilities decommissioning, and any required site remediation. The information submitted will assist CalGEM and the state in understanding the liability associated with clean up and remediation of all of the state's oil and gas wells, associated facilities, and sites. It will also provide information on the total liabilities that could potentially fall to the state if operators are unable to meet their financial obligations for asset retirement.

### **2. How will the operators calculate their cost estimates under the regulations?**

The proposed regulations provide two methods for the calculation of cost estimates.

Method 1 provides regional base numbers to which risk multipliers are added to calculate each operator's liability. The regional base numbers provided for use under this method were developed based on state contract data for abandonments and validated against recent independent contractor and operator data. The state contract data was adjusted for inflation using the Consumer Price Index (CPI) for all urban consumers, series CUUR0000SA0, Not seasonally adjusted. The Basis of Reasoning for Base Cost document developed by CalGEM and listed in the Documents Relied Upon section of the Initial Statement of Reasons provides detailed analysis of how the base numbers for Method 1 were calculated.

Method 2 provides operators with a list of the cost elements that must be included in each cost estimate, such as the steps needed to complete a plugging and abandonment work plan consistent with existing legal requirements, or the list of items that must be remediated at a facility site. Operators may use any estimating process to develop their cost estimates provided those estimates are supported with quality data that is documented and verifiable, with accurate costs for all checklist items included in the estimate.

### **3. Where can more information be found for the Operator Financial Responsibility (OFR) Program?**

The Operator Financial Responsibility (OFR) website is linked below and provides information on the cost estimation process and program as implemented by CalGEM. There are instructions and templates on the site that will help operators develop quality cost estimates. The information on this site can also help the public understand the process of cost estimation for better transparency of methodology.

Please visit the OFR webpage at:

<https://www.conservation.ca.gov/calgem/Pages/Operator-Financial-Responsibility-Program.aspx>

**4. Are the cost estimates based on an operator’s current liability or their future liability?**

The cost estimates are based on the costs for assets operated in the reporting year. More specifically, the costs to abandon, decommission, and remediate all sites as if an operator deserted their assets and the liability for asset retirement has fallen to the State. Thus, costs submitted in 2025 should include all assets for 2025 and should reflect the cost if the state were to have to pay a contractor to perform the work if the operator fails to do so.

**5. Why can’t operators use their best negotiated costs for the Cost Estimate Report?**

When the liability for abandonment, decommissioning, and remediation has fallen to the state, because the state does not typically obtain the benefit of operator specific discounts and business relationships, operator specific savings or efficiencies cannot be utilized in estimating the operator's liability to ensure that the cost estimates provide information on the potential cost to the state for doing such work. Thus, these negotiated discounts cannot be incorporated into this mandated reporting which is focused on what the state would have to pay to retire the assets.

**6. Will the operator’s bond levels increase as a result of their submitted Cost Estimate Report?**

The submitted Cost Estimate Report required under this regulation may inform the amount of securities an operator is required to provide.

**7. What happens when an operator does not submit the cost estimate reports?**

Operators who fail to submit their Cost Estimate Report would be in violation of the requirements of Public Resources Code section 3205.7 and would be subject to potential enforcement action.

**8. What happens if the operator submitted cost estimate is not agreed upon with CalGEM?**

Where CalGEM determines that the Cost Estimate Report submitted does not meet the requirements of the applicable sections, CalGEM will provide the operator written notice of the basis for that determination and provide the operator at least 30 days to provide additional information to substantiate the Cost Estimate Report and, if necessary, a revised estimate.

If CalGEM determines upon final review of the Cost Estimate Report and any additional information provided by the operator that the cost estimates remain inconsistent with the requirements, then CalGEM will provide the operator written notice that the Cost Estimate Report does not comply with the requirements of the applicable section.

**Development of the Method 1 Cost Estimation Methodology**

**9. What is the basis of the base costs and unit costs utilized in Method 1?**

The base costs and unit costs utilized in Method 1 are derived from on state abandonment contracts, which are then adjusted by multipliers based upon the characteristics of each well, production facility, and site that are known to increase the cost of plugging and abandonment, decommissioning, and site remediation.

**10. Are the base costs and unit costs escalated to 2023 dollars and will they be updated in the future?**

The costs from the state abandonment contracts were escalated to adjust for inflation to the current year, as described above, to develop the base costs and unit costs. to the current year. These costs will be updated via rulemaking as more cost data is derived from state abandonment and decommissioning projects and to adjust for inflation.

**Cost Estimate Reporting Deadlines**

**11. What are the due dates for the cost estimate reporting requirements?**

The initial reporting due dates for operators are listed below. The subsequent cost estimate reports will be required every 5 years after the initial report. Initial cost estimate reports will be required on the following schedule:

- Group 1: Operators who were assessed based upon production of less than an average of 3.5 total barrel equivalent per day per well for calendar year 2021. Operators who were not assessed due to lack of production will report with this group.

Reporting date: No later than January 1, 2025

- Group 2: Operators who were assessed upon production of an average of more than 3.5 total barrel equivalent per day per well for calendar year 2021 and for operators assessed in accordance with Public Resources Code section 3403.5 for calendar year 2021.

Reporting date: No later than July 1, 2026

- For offshore wells

Reporting date: No later than July 1, 2027

**12. When do operators with only injection wells submit their Cost Estimate Report?**

Operators with only injection wells would submit their initial Cost Estimate Report no later than January 1, 2025.

**13. When do Underground Gas Storage (UGS) operators report their cost estimates?**

UGS operators will submit their initial Cost Estimate Reports no later than January 1, 2026.

**Public Access to Cost Estimates**

**14. Will the public have full access to the Cost Estimate Reports and supporting information submitted by the operators?**

The Cost Estimate Reports and supporting information submitted will be available for access on the Department website.

**15. When will the submitted cost estimates be available to the public?**

After the initial reporting periods, the cost estimates submitted by the operators will be reported on the Department website.