

California Reports Highlight the Risks of Using Industry Reported Costs to Set Financial Assurance Requirements

In a Federal Register Notice issued April 24, 2024, the Department of the Interior announced that it had finalized amendments to OCS oil and gas regulations revising criteria for determining whether oil, gas, and sulfur lessees, right-of-use and easement (RUE) grant holders, and pipeline right-of-way (ROW) grant holders are required to provide financial assurance above the current minimum bonding levels to ensure companies can fulfill their decommissioning obligations. To determine the amount of financial assurance that may be required, the regulations state BSEE and BOEM will rely on well plugging and abandonment and platform and pipeline removal costs submitted by industry to BSEE. Relying on industry reported costs can be problematic. Two studies (listed below) prepared for decommissioning California state water oil and gas platforms reported cost estimates provided by operators for plugging and abandoning wells and removing platforms and pipelines were 2-3-fold lower than those estimated by experienced decommissioning consultants who assumed the work would be conducted by 3rd parties, which would be the case if operators/lessees declared bankruptcy and defaulted on meeting their decommissioning obligations.

1. Abandonment Cost Estimate for Oil and Gas Assets in California State Waters, April 2020. The report was prepared by DRILTEK for the California Department of Conservation.
2. Offshore Oil and Gas Operations Abandonment, SB 1147 Report prepared by the California Geologic Energy Management Division pursuant to Senate Bill 1147, January 20, 2022.

The DRILTEK report was commissioned by CalGEM to provide an independent 3rd party estimate of decommissioning costs for oil and gas platforms and islands in State waters. The report was prepared in accordance with Senate Bill 1147 (Hertzberg, Ch. 607, Statutes of 2018). SB 1147 created Public Resources Code Section 3205.6, which requires the State Oil and Gas Supervisor of the Department of Conservation's CalGEM, in close consultation with the SLC, to estimate the costs necessary to decommission, plug, and abandon all oil and gas wells in State waters, compare these estimated costs with current industry-provided financial surety levels; and, if necessary, create a schedule of bonding increases to close this gap.

Table 1 shows a comparison of cost estimates for the Most Likely Scenario (full removal of platform/pipelines) for the four existing State water platforms. The DRILTEK and CalGEM cost estimates are 2-3-fold higher than the high-end estimates provided by the operators of Emmy, Eva, and Esther. For Holly, the costs are more than double the cost (\$55 million) reported by the operator. The differences in costs are primarily due to the tendency of the operators to base their cost estimates on unrealistic "best case scenarios" that do not take into consideration the condition of the wells, platform and drilling rig refurbishment and repair costs, structural reinforcement requirements, the time to complete the work, additional contracting and engineering costs, weather contingencies, economies of scale, disposal options as well as other contingencies (CalGEM, 2022). The CalGEM costs estimates also included costs for remediation of sites (e.g., hydrocarbon contaminants and other hazardous materials are present in the drilling muds and cuttings and shell mounds found surrounding the base of the platform jackets), repairs

due to neglect, and third-party engineering costs that were not considered in the DRILTEK report.

Table 1. Comparison of Operator, DRILTEK, and CalGEM Platform Decommissioning Cost Estimates			
Platform	Operator High End Estimate (\$MM)	DRILTEK¹ Estimate (\$MM)	CalGEM¹ Estimate (\$MM)
Emmy	\$34.4	\$73.2	\$91.9
Eva	\$24.9	\$75.5	\$85.5
Esther	\$21.8	\$70.3	\$74.9
Holly	\$55.0 ¹	\$134.6	Not reported

¹ Most Likely Decommissioning Scenario – platforms and pipelines/power cable are fully removed.