

Transcript of Virginia Palacios testimony to the House Energy Resources Committee, September 14th

I wanna start with SB 1150. Um, I do feel that the legislature made too many concessions in SB 1150, and we're not quite where we need to be to have a policy that truly requires operators to plug their own inactive wells. Um, you know, it starts with wells that are 25 years old and 15 years inactive.

That population of wells is between 25,000 and 30,000 wells out of all 150,000 inactive wells that we're talking about. Operators already plug an average of 8,100 inactive wells per year, and at that rate, it'll take them 20 years to plug all the inactive wells in Texas. But SB 1150, of course, is working on this 15-year timeline for plugging these already very old wells, and so it, it gives these old wells another 15 years.

It, it's too long of a timeline. It's not really meaningfully [00:01:00] shrinking that, that period. Um, you know, there-- we've heard a lot of promises from the industry that they want that long timeline because there's all these new technologies they're interested in for reactivating wells. But I don't think that those are good reasons because usually wells that are that old are in a worse condition and are much more costly to plug, um, or reactivate, that is.

Um, and so in my view, that current policy structure allows operators of inactive wells to continue making bad business deals, and I think that's the kind of thing that we need to rein in. Um, it allows them to keep taking on, uh, wells that are, uh, not ever gonna pay for their own plugging costs. I think there's a few policy changes that can eliminate orphan wells in Texas.

Uh, first, we need to hold prior operators liable for plugging costs when they transfer a well. Different states have already implemented policies like this, [00:02:00] um, and it can either be done proportionally based on how much the well produced, or it can be potential full liability. Um, and instead of nominal bonding, we need to require full cost sinking trust funds that could be used by the operator to plug their well once they're done producing it, or the state could use it if the operator goes bankrupt.

And then finally, um, removing the loopholes in SB 1150. Um, the way SB 1150 was written was to allow for not only operators c- you know, applying for those compliance plans, but even from year one of the policy, they could apply for three other types of plugging extensions for these very old wells. That includes posting a full cost bond, which is fine if they can get one.

Um, or if they have a financial hardship, completely undefined in the bill, we'll see what Railroad Commission defines it as. And then if they have a history of returning wells to [00:03:00] active status, which almost every operator has. And so we might see the Railroad Commission choose to take a, a light hand approach to this and continue allowing plugging extensions indefinitely with the way SB 1150 was written.

You know, we're still waiting for the rulemaking draft to, to come out. By my count, if they're gonna get that done by December 31st, they have to have it published in the Federal Register, and they have to have the draft proposed by October 6th Railroad Commission open meeting. They were saying earlier they have until November, but I don't think they actually have that much time if they're gonna have a 30-day comment period.

Um, and so that needs to, to happen soon. Um- Excuse me, what was that time? October 6th? October 6th is the next Railroad Commission open meeting, and they will have to propose the draft at that meeting to have it published in the Federal Register in time for a 30-day comment period before the deadline of December 31st.

Okey-dokey. [00:04:00] And, um, you know, I, I, I do wanna stress to the legislature, I think one of the most important things that the legislature needs to keep in mind is funding the staffing that the Railroad Commission said it would need in their fiscal analysis for SB 1150. They said they would need- 86 FTEs in that fiscal note, and they didn't request it in their LAR because they were told they needed to decrease costs by 3%.

But they're not gonna be able to implement this bill unless they have that staff. And so we need to figure out how to go back to the drawing board and make sure they get the staffing that they need. The most important thing Thing out of all of this is protecting groundwater. Uh, wanna make sure the legislature stays focused on that.

I know that there's a lot of pressure to consider the industry and all the beautiful snowflakes of different kinds of operators that we have in the industry, but, um, we need to make sure [00:05:00] that the public is cared for at the end of the day. Um, I have a lot of other notes from questions that came up, uh, during this hearing.

I j- I just wanted to clarify how much money the Railroad Commission is actually getting for plugging wells. In the last, in this biennial that we're in,

they're getting 117 million per year as their base amount. Um, and that in addition, the 100K for emergency

vacancy wells. So it's a total of around \$334 million for the biennium. Um, the estimated cost of plugging all the inactive wells in the state is 16 billion, like we already discussed. Um, I can go through the bonding requirements in detail if you would like, Representative Morales, but I'll, I'll wait for a question.

Um, the, uh, the rate of orphans has increased, uh, quite a bit in the past five, six years. When I [00:06:00] first started doing this work in 2020, there were 6,500 orphaned wells on the list, and of course, today we have 12,000. And so, you know, if you're looking year to year, it might not seem big, but even over a five-year period, it's almost doubled.

Um, and you know, the Railroad Commission has plugged an average of 1,300 orphaned wells per year over the last five years. The record year was actually 2017, when the legislature invested, um, a lot more money from the Rainy Day Fund than ever before. Um- Let's see. Any other notes?

I'll go ahead and, uh, I'll go ahead and wait for some questions if y'all have them, uh, before I move on to anything else. So thank you for the time.