



**OIL FIELD CLEANUP PROGRAM  
ANNUAL REPORT — FISCAL YEAR 2006**

**OIL AND GAS DIVISION  
RAILROAD COMMISSION OF TEXAS**

ELIZABETH A. JONES, CHAIRMAN  
MICHAEL L. WILLIAMS, COMMISSIONER  
VICTOR G. CARRILLO, COMMISSIONER

TOMMIE SEITZ  
DIRECTOR, OIL AND GAS DIVISION  
CHARLES C. ROSS, P.E.  
DEPUTY DIRECTOR, FIELD OPERATIONS

## OIL AND GAS DIVISION

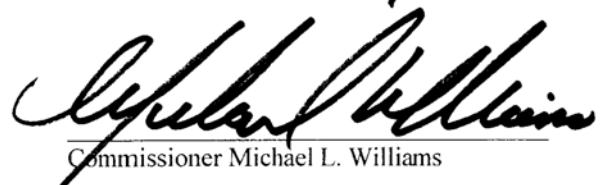
November 14, 2006

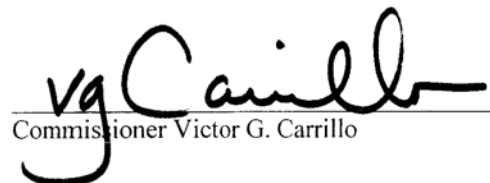
To The Legislature:

S.B. 1103, 72<sup>nd</sup> Legislature, 1991 and S.B. 310, 77<sup>th</sup> Legislature, 2001 (§91.112(b), Natural Resources Code) requires the Railroad Commission to submit an Annual Report to the Legislature on the Oil Field Cleanup Program. The information required by S.B. 1103 and as amended by S.B. 310 is contained in this report. This report covers the period from September 1, 2005 through August 31, 2006.

The Railroad Commission remains committed to the success of the Oil Field Cleanup Program and to the protection of the State's land and water resources through activities funded by the Oil Field Cleanup Fund. This report is posted on the Commission's website; however, should you have any questions about the material presented, please contact Ramon Fernandez, Engineer in the Commission's Oil and Gas Division, Field Operations Section, at 463-6830; William Miertschin, Assistant Director of the Commission's Oil and Gas Division, Site Remediation Section, at 463-6765; Lowell Williams, Director of the Commission's Office of General Counsel, Enforcement Section, at 463-6843; or Rebecca Trevino, Director of the Commission's Administration Division, at 463-7124.

  
Chairman Elizabeth A. Jones

  
Commissioner Michael L. Williams

  
Commissioner Victor G. Carrillo

**RAILROAD COMMISSION OF TEXAS  
OIL FIELD CLEANUP PROGRAM  
ANNUAL REPORT--FISCAL YEAR 2006**

**INTRODUCTION:**

The Oil Field Cleanup Fund was created by the adoption of S.B. 1103 (72<sup>nd</sup> Legislature, 1991) and modified by the adoption of S.B. 310 (77<sup>th</sup> Legislature, 2001). Under S.B. 1103 the State of Texas, through the Railroad Commission ("Commission"), increased its financial ability to plug abandoned oil and gas wells and to remediate abandoned oil field sites throughout the State. S.B. 1103 replaced the previous Well Plugging Fund with the Oil Field Cleanup Fund and increased the fund balance cap to \$10 million. S.B. 310 increased several existing fees associated with oil and gas industry activity and increased the Oil Field Cleanup Fund balance cap from \$10 million to \$20 million.

The impact of the Oil Field Cleanup Fund is clearly demonstrated by the increase in the number of wells plugged and sites remediated. From fiscal year 1984 to fiscal year 1991, the Commission plugged 4,078 wells under the previous Well Plugging Fund. From fiscal year 1992 through fiscal year 2006, the Commission plugged 22,000 wells (26,078 wells since fiscal year 1984) and cleaned up, assessed, or investigated 3,382 sites using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2006, the Commission was tracking approximately 362,950 wells compared to 358,746 in August 2005. Of this number, 110,950 were inactive, shut-in oil and gas wells. Of the 110,950 wells, 20,838 were compliant inactive wells that had been shut-in less than 12 months and 72,614 were compliant inactive wells that were shut-in for more than 12 months, but were covered by a bond or letter of credit and qualified for a plugging extension. The remaining 17,498 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 17,498 non-complaint wells, 6,211 wells belonged to operators with an active Organization Report on file with the Commission and 11,287 wells belonged to operators with delinquent Organization Reports. The Commission defines these 11,287 wells as orphan wells. These figures are represented on a percentage basis in Figure 1 and the distribution of wells monitored by the Commission is shown in Figure 2.

The operators of record plug most of the compliant inactive wells and some of the non-compliant inactive wells as required by Commission rules and regulations. However, some currently compliant and many of the orphan wells may eventually require plugging by the Commission with Oil Field Cleanup funds and/or other state and federal funds.

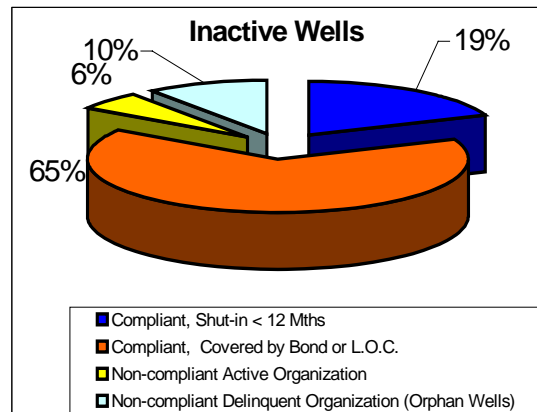


Figure 1

## Distribution of Wells Monitored by the Railroad Commission

As of August 31, 2006

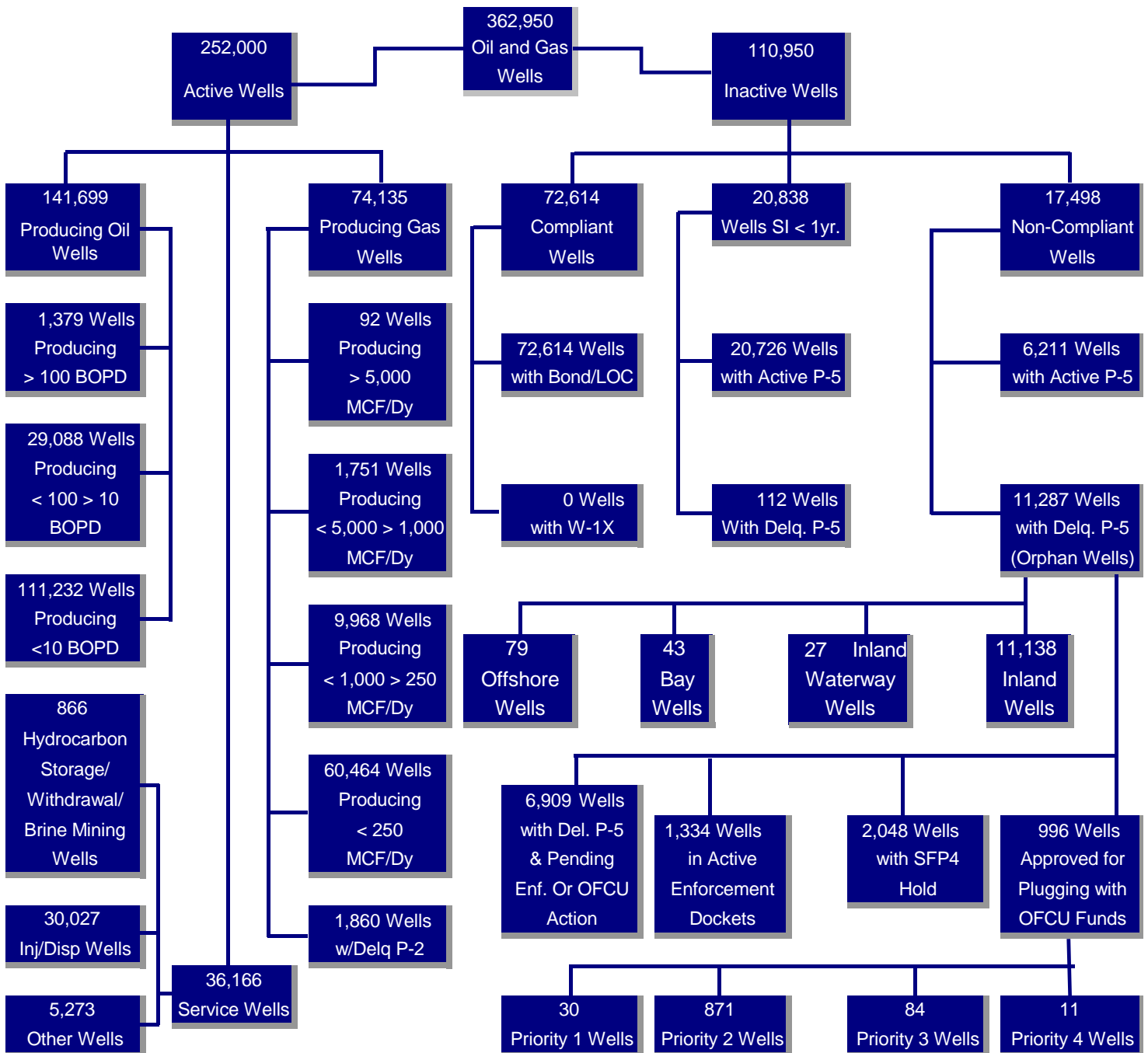


Figure 2

It is important to understand that the number of orphan wells is a dynamic number that changes daily, as wells are placed into and out of compliance. The Commission attempts to capture the dynamics occurring within the orphan well population on a monthly basis and depicts these changes in Table 1. Table 2 depicts the yearly dynamics beginning with fiscal year 2003 (September 1, 2002). The data illustrates that the number of orphan wells decreased by 2,921 in

**RAILROAD COMMISSION OF TEXAS  
ANNUAL REPORT--FY 2006**

**OIL FIELD CLEANUP PROGRAM**

fiscal year 2006 and has decreased by 6,684 wells since September 2002. However, the make-up of the orphan wells has changed. A total of 13,904 wells were removed from the fiscal year's beginning inventory, but 10,983 new wells were added to the population of orphan wells throughout the fiscal year. Since the beginning of fiscal year 2003, 51,244 orphan wells have been removed from the inventory and 44,560 new orphan wells have been added to the inventory. The Commission's regulatory goals are to eliminate the threat of pollution posed by inactive unplugged wells and to minimize the number of orphan wells requiring plugging with Oil Field Cleanup funds or other state and federal funds. This decrease in number of orphan wells is illustrated in Figure 3.

Month of Activity	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Total
<b>Beginning Population</b> (from previous month)	14,208	13,949	13,429	12,905	12,830	13,368	16,870	12,533	12,602	11,576	11,496	12,072	14,208
<b>Plugged</b>	(199)	(68)	(112)	(197)	(120)	(211)	(176)	(211)	(177)	(82)	(96)	(228)	(1,877)
<b>Returned to Active Status</b>	(7)	(30)	(2)	(12)	(13)	(14)	(69)	(22)	(3)	(1)	(10)	(13)	(196)
<b>Operator Change</b>	(122)	(299)	(186)	(112)	(160)	(60)	(148)	(20)	(136)	(81)	(48)	(111)	(1,483)
<b>P-5 Renewal</b>	(426)	(432)	(715)	(297)	(451)	(1,019)	(3,971)	(561)	(1,024)	(296)	(383)	(761)	(10,336)
<b>Other Reasons</b>	(3)	(2)	(2)	0	0	(1)	0	(3)	0	0	(1)	0	(12)
<b>Wells Added to Population</b>	498	311	493	543	1,282	4,807	27	886	314	380	1,114	328	10,983
<b>Ending Population</b>	13,949	13,429	12,905	12,830	13,368	16,870	12,533	12,602	11,576	11,496	12,072	11,287	11,287

<b>Definitions:</b>
Plugged = Plugged and abandoned.
Returned to Active Status = Active producing or service well.
Operator Change = P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal = The operator of record renews their P-5.
Other Reasons = Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population = Wells not considered orphaned at end of previous month, but considered orphaned at the end of this month.

Table 1

Month of Activity	FY 2003	FY 2004	FY 2005	FY 2006									Total
<b>Population</b> (from previous FY)	17,971	16,770	15,305	14,208									17,971
<b>Plugged</b>	(1,527)	(1,726)	(1,756)	(1,877)									(6,886)
<b>Returned to Active Status</b>	(646)	(160)	(177)	(196)									(1,179)
<b>Operator Change</b>	(3,110)	(1,777)	(2,506)	(1,483)									(8,876)
<b>P-5 Renewal</b>	(8,581)	(8,144)	(6,907)	(10,336)									(33,968)
<b>Other Reasons</b>	(281)	(23)	(19)	(12)									(335)
<b>Wells Added to Population</b>	12,944	10,365	10,268	10,983									44,560
<b>Ending Population</b>	16,770	15,305	14,208	11,287									11,287

<b>Definitions:</b>	
Plugged =	Plugged and abandoned.
Returned to Active Status =	Active producing or service well.
Operator Change =	P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal =	The operator of record renews their P-5.
Other Reasons =	Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population =	Wells not considered orphaned at end of previous FY, but considered orphaned at the end of this FY.

Table 2

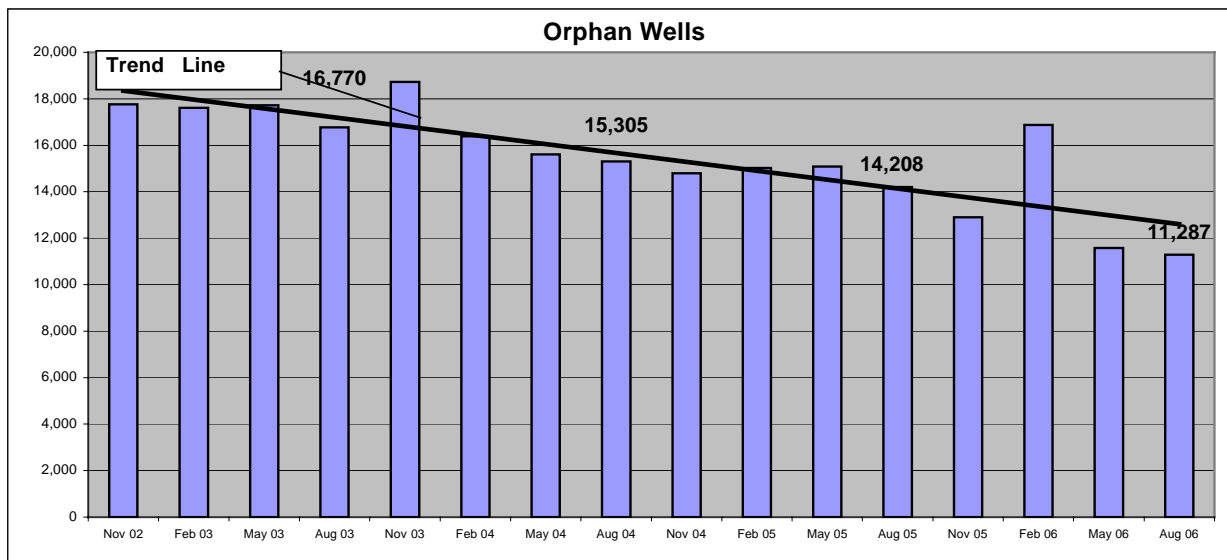


Figure 3

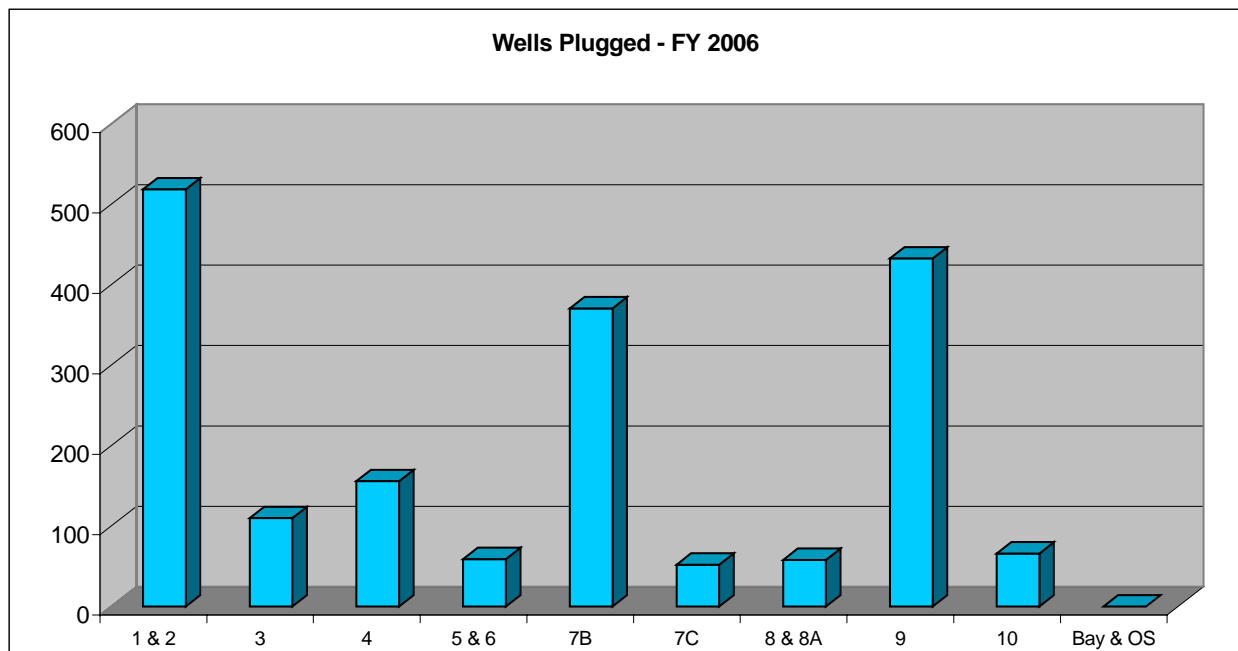
Revenue into the Oil Field Cleanup Fund is derived primarily from fees paid by the oil and gas industry; but significant revenue is also contributed from enforcement penalties, reimbursements, salvaged equipment and hydrocarbons from well plugging and site remediation operations, and interest on fund balances. Additionally, the Commission seeks other funding sources from state and federal agencies to supplement the activities of the Oil Field Cleanup Program. Although the Oil Field Cleanup Fund finances the majority of the Oil Field Cleanup Program activities, the number of wells plugged and sites remediated contained in this report are inclusive of all sources of funds.

The following information on the Oil Field Cleanup Program is to be reported annually as required by S.B. 1103 and amended by S.B. 310.

**I. NUMBER OF WELLS PLUGGED BY DISTRICT:**

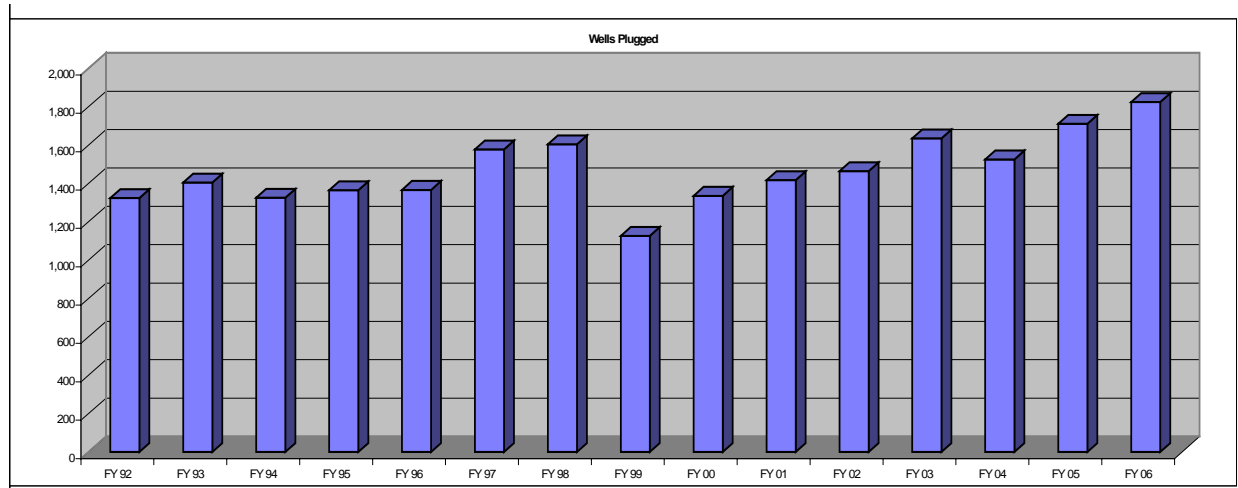
In fiscal year 2006, the Commission plugged **1,824** wells with Oil Field Cleanup funds and other state and federal monies. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors through August 31, 2006. Figure 4 illustrates the numbers of wells plugged by district during fiscal year 2006 and Figure 5 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program.

During fiscal year 2006, two well plugging records fell. The number of wells plugged, 1,824, represents the highest number of wells plugged by the Commission in one year. The previous record was 1,710 wells plugged in fiscal year 2005. The 519 wells plugged in District 1/2-San Antonio represents the most wells plugged in one year by a district. The previous mark was 467 wells plugged by District 1/2 in fiscal year 2005.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay & OS	Total
<b>Wells Plugged</b>	519	110	156	59	371	52	58	433	66	0	1,824

Figure 4

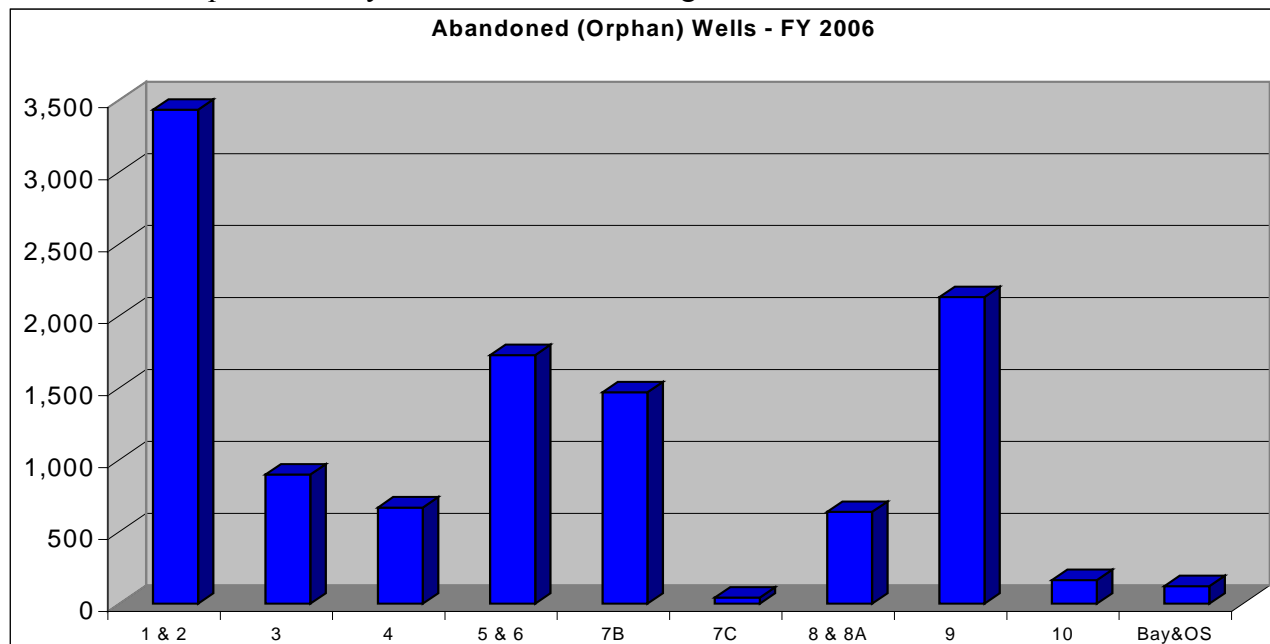


Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	Total
Wells Plugged	1,324	1,404	1,325	1,364	1,366	1,577	1,604	1,126	1,335	1,417	1,464	1,635	1,525	1,710	1,824	22,000

Figure 5

**II. NUMBER OF ABANDONED WELLS BY DISTRICT:**

As of August 2006, the number of abandoned wells was **11,287**. These are the wells the Commission defines as orphan wells because they have been inactive for at least 12 months and the responsible operator's Organization Report is delinquent. The number of orphan wells is a subset of the number of known inactive wells not currently in compliance with the Commission's plugging rule that is referenced in Section III of this report and illustrated in Figure 2. Figure 6 illustrates the number of orphan wells by district at the end of August 2006.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay&OS	Total
Orphaned Wells	3,432	897	668	1,727	1,468	42	637	2,130	164	122	11,287

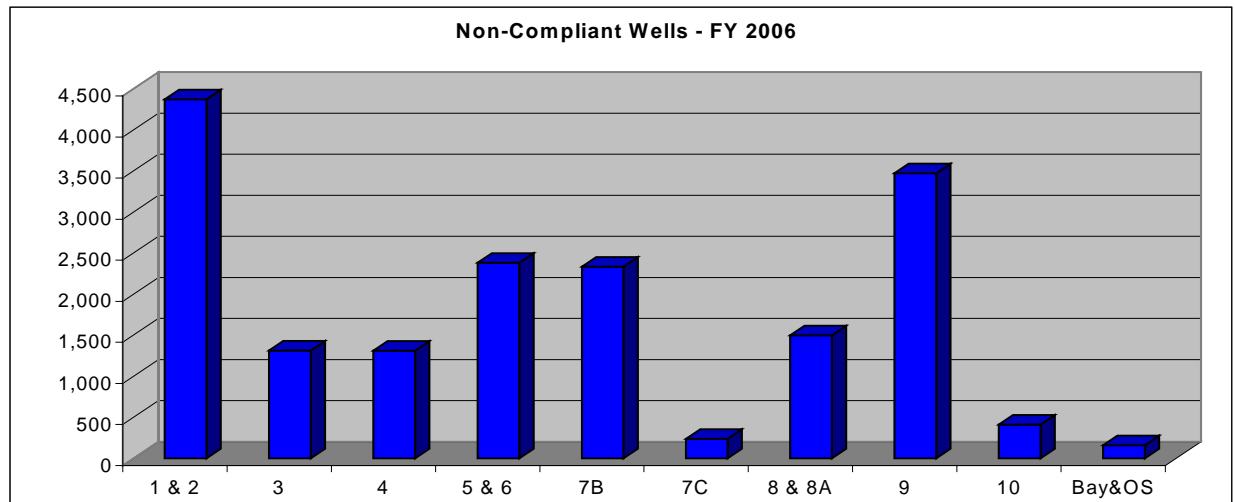
Figure 6



In addition to the 11,287 orphan wells, there are also an unknown number of old unidentified wells in Texas, which have no records. As these wells are identified, the Commission initiates plugging operations in accordance with the well plugging priority system, which is based on the threat the well poses to public safety and the environment. In fiscal year 2006, 27 unidentified abandoned wells were plugged with Oil Field Cleanup funds, which account for 1.5% of all wells plugged by the Commission in FY 06.

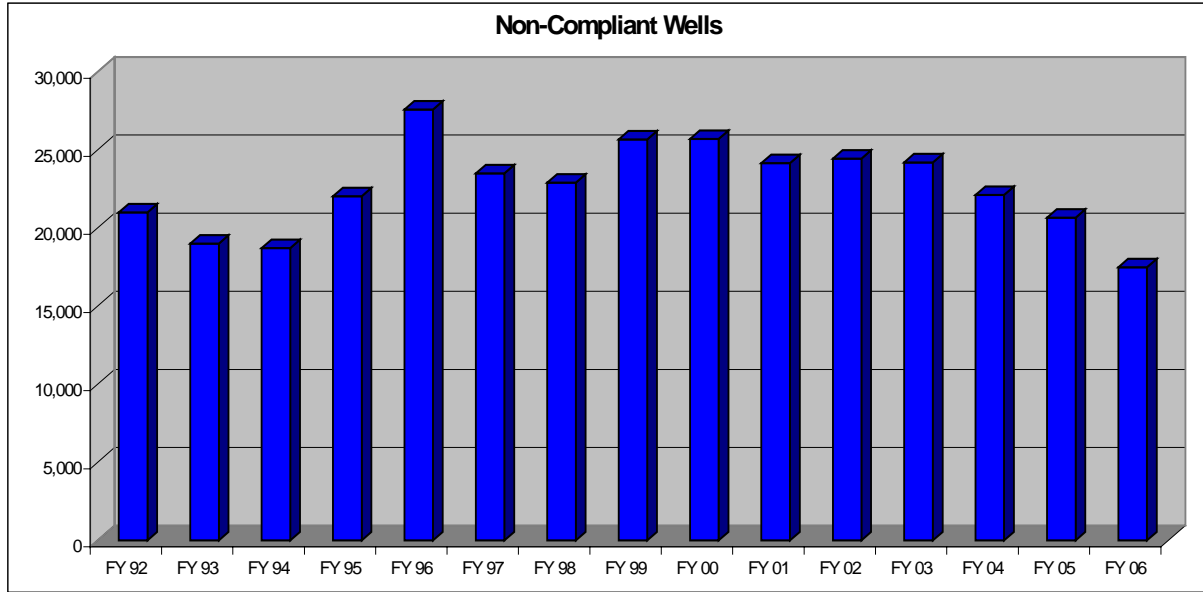
**III. NUMBER OF NON-COMPLIANT INACTIVE WELLS BY DISTRICT:**

The number of known inactive wells not in compliance with Commission rules as of August 2006 totals **17,498**. The number of known inactive wells not currently in compliance with the Commission's plugging rule is determined from the Commission's computerized records. The number represents wells that remain shut-in beyond the initial 12 month shut-in period authorized by Commission rule and do not have a plugging extension, regardless of whether the operator's Organization Report is active or delinquent. Wells that are shut-in for less than 12 months are deemed compliant inactive wells. Wells may remain inactive beyond the initial 12-month period if the operator has sufficient financial assurance on file with the Commission to cover the shut-in wells, and the wells are in compliance with all other laws and Commission rules. Figure 7 shows the number of non-compliant wells by district at the end of August 2006. Figure 8 shows the number of non-compliant wells in August, at the end of each fiscal year since 1992. Like orphan wells (subset of the inactive non-compliant wells), the number of inactive non-compliant wells is a dynamic number that changes daily, as wells are placed into and out of compliance.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay&OS	Total
<b>Non-CompliantWells</b>	4,374	1,314	1,312	2,383	2,333	238	1,499	3,473	411	161	17,498

Figure 7

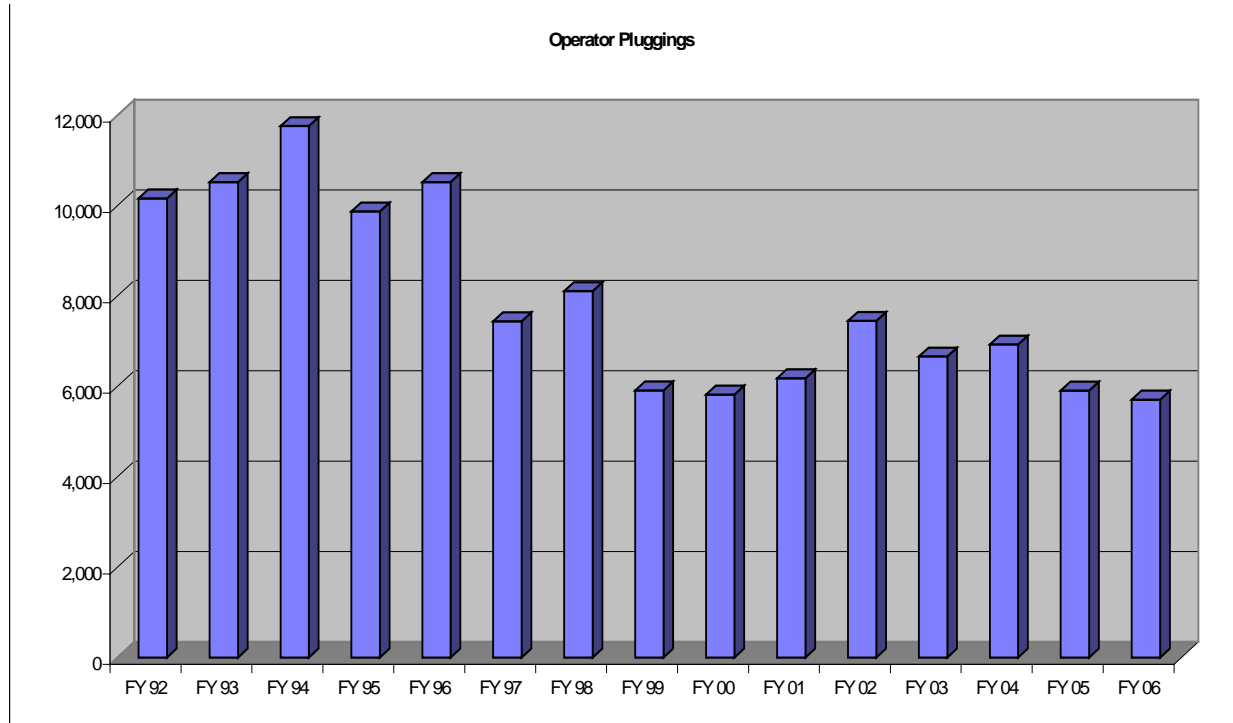


Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Non-Compliant Wells	21,000	19,003	18,720	22,034	27,583	23,492	22,903	25,672	25,707	24,165	24,449	24,202	22,119	20,665
Fiscal Year	FY 06													
Non-Compliant Wells	17,498													

Figure 8

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production or file the appropriate financial assurance at the time of the annual renewal of their Organization Report. They are also subject to enforcement action if violations are not corrected and the wells are not brought into compliance with Commission rules and regulations in a timely manner. If the Commission plugs these wells with monies from the Oil Field Cleanup Fund or from other state or federal funds, the Office of the Attorney General may initiate legal action against the responsible operator for collection of the plugging costs and may assess civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2006, 5,708 wells (76% of all wells plugged) were plugged voluntarily by the operators of record, without the use of Oil Field Cleanup funds. Figure 9 depicts the number of wells plugged voluntarily by operators since fiscal year 1992.



<b>Fiscal Year</b>	<b>FY 92</b>	<b>FY 93</b>	<b>FY 94</b>	<b>FY 95</b>	<b>FY 96</b>	<b>FY 97</b>	<b>FY 98</b>	<b>FY 99</b>	<b>FY 00</b>	<b>FY 01</b>	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>
<b>Operator Pluggings</b>	10,163	10,523	11,762	9,873	10,522	7,439	8,109	5,912	5,819	6,180	7,450	6,661	6,928	5,906
<b>Fiscal Year</b>	<b>FY 06</b>													
<b>Operator Pluggings</b>	5,708													

Figure 9

The Commission and industry have plugged between 7,000 and 10,000 wells per year since fiscal year 1992 (Figures 5 and 9). The number of orphan and non-compliant wells has decreased over the last four years (Figures 3 and 8). In fiscal year 2005, the number of known non-compliant inactive wells dropped below 21,000 for the first time since fiscal year 1994. The decrease in the number of orphan and non-compliant wells can be attributed to several factors including the following: (1) In September 2001, the provisions of S. B. 310 required blanket bonds or letters of credit with an operator’s annual Organization Report (Form P-5) to cover the transfer of inactive wells from one operator to another; (2) In September 2004, universal bonding for all oil and gas operators became effective. At the end of fiscal year 2005, all inactive wells belonging to active operators were no longer eligible for a plugging extension by filing Form W-1X (Figure 2).

**IV. STATUS OF ENFORCEMENT PROCEEDINGS BY DISTRICT:**

The following information represent wells, in violation of the Commission's plugging rule, which have been referred to the Office of General Counsel--Enforcement Section and/or the Office of the Attorney General (AG) and currently are in various stages of enforcement. Table 3 displays the information by district and Table 4 by fiscal year from FY 00 to FY 06.

<b>ENFORCEMENT PROCEEDINGS</b>	<b>1/2</b>	<b>3</b>	<b>4</b>	<b>5/6</b>	<b>7B</b>	<b>7C</b>	<b>8/8A</b>	<b>9</b>	<b>10</b>	<b>Total</b>
<b>STATUS</b>										
<i>1. Awaiting RRC review</i>	9	2	1	32 2	29	0	0	29	0	392
<i>2. Awaiting Hearing</i>	91	10 6	5 8	99	97	10	27	30 5	12	805
<i>3. Awaiting Final Order</i>	20	9	0	81	14	1	3	5	4	137
<i>4. Final Order Served/Awaiting AG referral</i>	0	0	0	0	0	0	0	0	0	0
<i>5. Wells Referred to AG</i>	41	73	3 7	9	18	9	20	72	2	281
<i>Total Wells Still in Violation</i>	16 1	19 0	9 6	51 1	15 8	20	50	41 1	18	1,615
<b>TIME PERIOD</b>										
<i>6. In Enforcement &lt; 2yrs</i>	15 8	16 2	4 7	44 4	15 2	14	45	41 0	12	1,444
<i>7. In Enforcement &gt; 2yrs &amp; &lt; 5yrs</i>	3	18	4 9	67	6	6	5	1	6	171
<i>8. In Enforcement &gt; 5yrs</i>	0	0	0	0	0	0	0	0	0	0
<i>Total Wells Still in Enforcement</i>	16 1	19 0	9 6	51 1	15 8	20	50	41 1	18	1,615

Table 3

**RAILROAD COMMISSION OF TEXAS  
ANNUAL REPORT--FY 2006**

**OIL FIELD CLEANUP PROGRAM**

<b>ENFORCEMENT PROCEEDINGS</b>	<b>FY 01</b>	<b>FY 21</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
<b>STATUS</b>						
<i>1. Awaiting RRC review</i>	355	235	87	24	187	392
<i>2. Awaiting Hearing</i>	746	263	751	450	595	805
<i>3. Awaiting Final Order</i>	106	968	146	423	153	137
<i>4. Final Order Served/Awaiting AG referral</i>	18	0	0	0	0	0
<i>5. Wells Referred to AG</i>	944	829	739	716	542	281
<i>Total Wells Still in Violation</i>	2,169	2,295	1,723	1,613	1,477	1,615
<b>TIME PERIOD</b>						
<i>6. In Enforcement &lt; 2yrs</i>	1,879	1,732	1,628	1,501	1,390	1,444
<i>7. In Enforcement &gt; 2yrs &amp; &lt; 5yrs</i>	223	391	89	107	87	171
<i>8. In Enforcement &gt; 5yrs</i>	67	172	6	5	0	0
<i>Total Wells Still in Enforcement</i>	2,169	2,295	1,723	1,613	1,477	1,615
<b>PENALTIES &amp; REIMBURSEMENTS</b>						
<i>9. Administrative Penalties Assessed by RRC</i>	\$2,367,030	\$2,816,802	\$2,121,811	\$1,348,532	\$1,355,905	\$1,543,475
<i>10. Administrative &amp; Civil Penalties Paid to RRC &amp; AG</i>	\$1,288,754	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>1</sup>	NA <sup>1</sup>	NA
<i>11. Reimbursements Paid to RRC &amp; AG</i>	\$118,715	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>	NA
<b>TOTAL PENALTIES AND REIM. PAID TO RRC &amp; AG</b>	\$1,407,469	\$1,620,501	\$1,929,030	\$2,065,030	\$2,540,240	\$3,098,302

Table 4

<sup>1</sup> Not reported separately by the AG's Office

<sup>2</sup> Not reported separately by the AG's Office

**V. NUMBER OF SURFACE LOCATIONS REMEDIATED BY DISTRICT:**

During the year, 1,754 abandoned oilfield sites were identified as candidates for state-managed remediation. Additional abandoned sites are identified each year through routine activities such as lease inspections, complaint investigations, state-managed plugging operations, or spill responses.

During fiscal year 2006, the Commission conducted 325 cleanup activities (Figure 10). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2006. State-managed remediation activities included the following:

1. 186 routine remediation operations,
2. 53 emergency operations,
3. 85 site assessment investigations,
4. 1 abatement

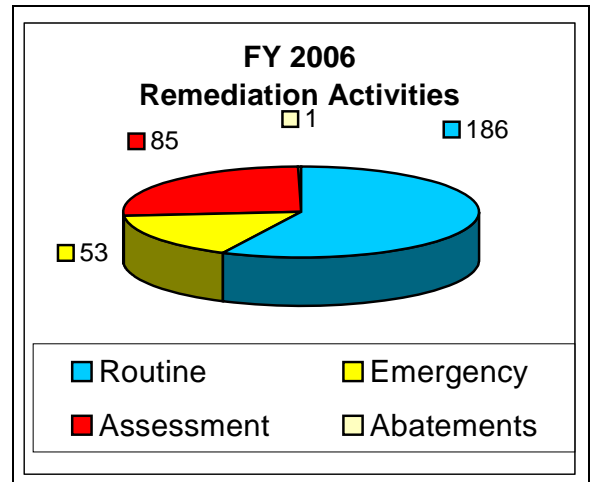
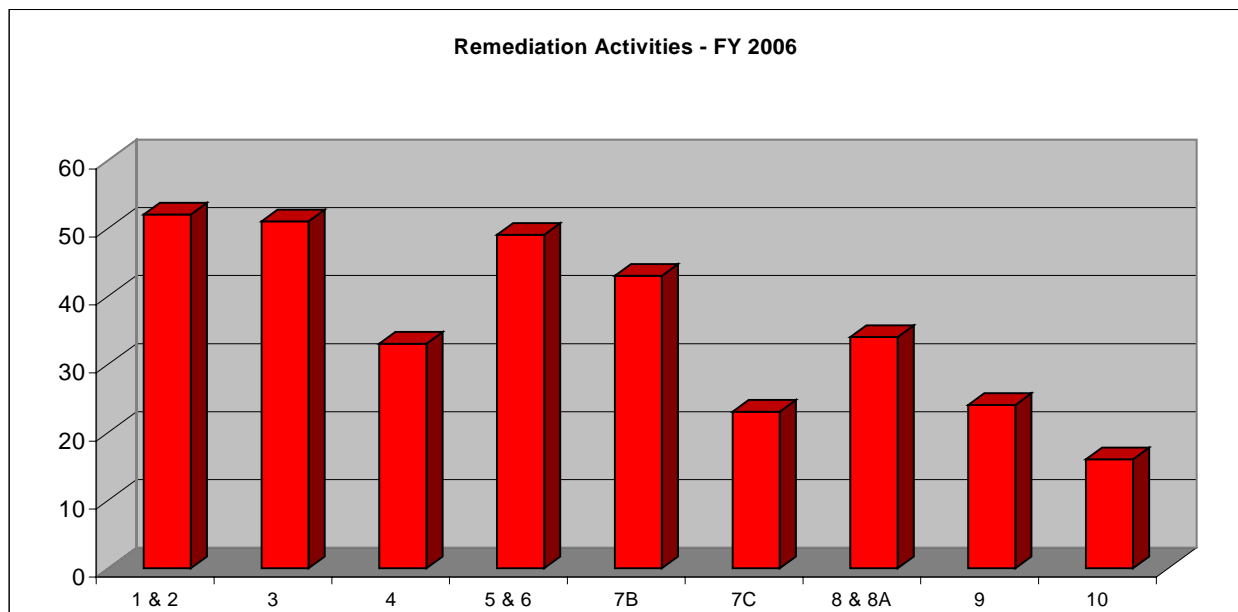


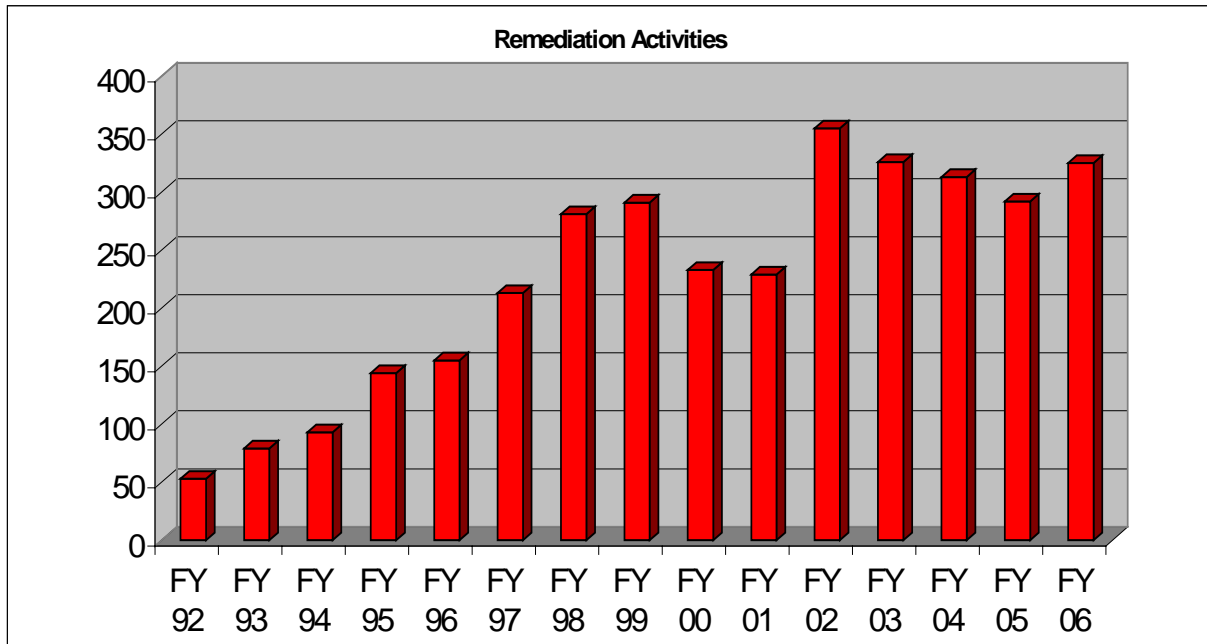
Figure 10

Figure 11 depicts these 325 sites by district for fiscal year 2006 and Figure 12 shows the sites cleaned up, assessed, or investigated by fiscal year since the inception of the program in September 1991.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Total
Activities	52	51	33	49	43	23	34	24	16	325

Figure 11



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	Total
Activities	53	79	93	144	155	213	281	291	233	229	355	326	313	292	325	3,382

Figure 12

Similar to the well plugging priority system, the abandoned oilfield sites are prioritized based on the present or possible future impact to the environment and public safety. With larger sites, the challenge is often determining if the source of pollution is natural or man-made, which potential operator is responsible, how to evaluate the site, and which remedial method is appropriate for the situation.

The Commission utilizes environmental engineering contracts, to help address complex sites. In addition to producing detailed assessment reports, the environmental contractors develop remedial alternative recommendations and anticipated costs.

VI. OIL FIELD CLEANUP FUND EXPENDITURES:

The Commission began fiscal year 2006 with a beginning fund balance in the Oil Field Cleanup Fund of \$8,961,115 and ended with a fund balance of \$12,982,512. Total revenues for the fiscal year were \$26,980,304 and total expenditures were \$22,964,907. Fiscal year 2006 Oil Field Cleanup Fund revenues and expenditures for well plugging operations, site remediation activities, and administration of the program are detailed in Table 5 and graphically displayed in Figures 13 and 14.

	FY 2006 Projected	FY 2006 Actual	FY 2006 %Collected/ Expended
<b>Beginning Fund Balance, September 1 (Note 1)</b>	\$ 7,825,181	\$ 8,967,115	
<b>Revenues:</b>			
Oil & Gas Well Drilling Permit	\$ 7,694,400	\$ 8,352,699	108.56%
Oil Field Cleanup Regulatory Fee on Oil and Gas	6,580,651	6,404,400	97.32%
P5 Organization Filing Fee	3,548,621	3,307,310	93.20%
Oil and Gas Bond/Letter of Credits	-	1,102,666	
Oil & Gas Violations	2,415,756	1,485,545	61.49%
Other Revenue	4,858,049	6,327,685	130.25%
<b>Total Revenues</b>	<b>\$ 25,097,477</b>	<b>\$ 26,980,304</b>	<b>107.50%</b>
<b>Expenditures:</b>			
Plugging & Remediation			
Plugging Contracts	\$ 14,570,000	\$ 11,134,368	76.42%
Orphaned Well Adoption Program	740,000	-	0.00%
Remediation Contracts	4,107,500	4,083,703	99.42%
Direct Project Salary & Operating	5,319,122	5,070,731	95.33%
Mgmt/Admin/Support Salary & Operating	2,623,045	2,538,376	96.77%
Sub-Total	\$ 27,359,667	\$ 22,827,177	83.43%
Well Testing			
Well Testing Contracts	\$ 10,000	-	0.00%
Direct Project Salary & Operating	138,965	\$ 137,730	99.11%
Sub-Total	\$ 148,965	\$ 137,730	92.46%
<b>Total Expenditures</b>	<b>\$ 27,508,632</b>	<b>\$ 22,964,907</b>	<b>83.48%</b>
<b>Ending Fund Balance, August 31</b>	<b>\$ 5,414,026</b>	<b>\$ 12,982,512</b>	
<b>Full Time Equivalent Positions</b>	<b>116.99</b>	<b>103.50</b>	
<b>Beginning Imprest Balance, September 1, 2005</b>		\$ 6,591,056	
FY 06 Cash Deposits		2,708,843	
<b>Ending Imprest Balance, August 31, 2006</b>		<b>\$ 9,299,899</b>	

Table 5



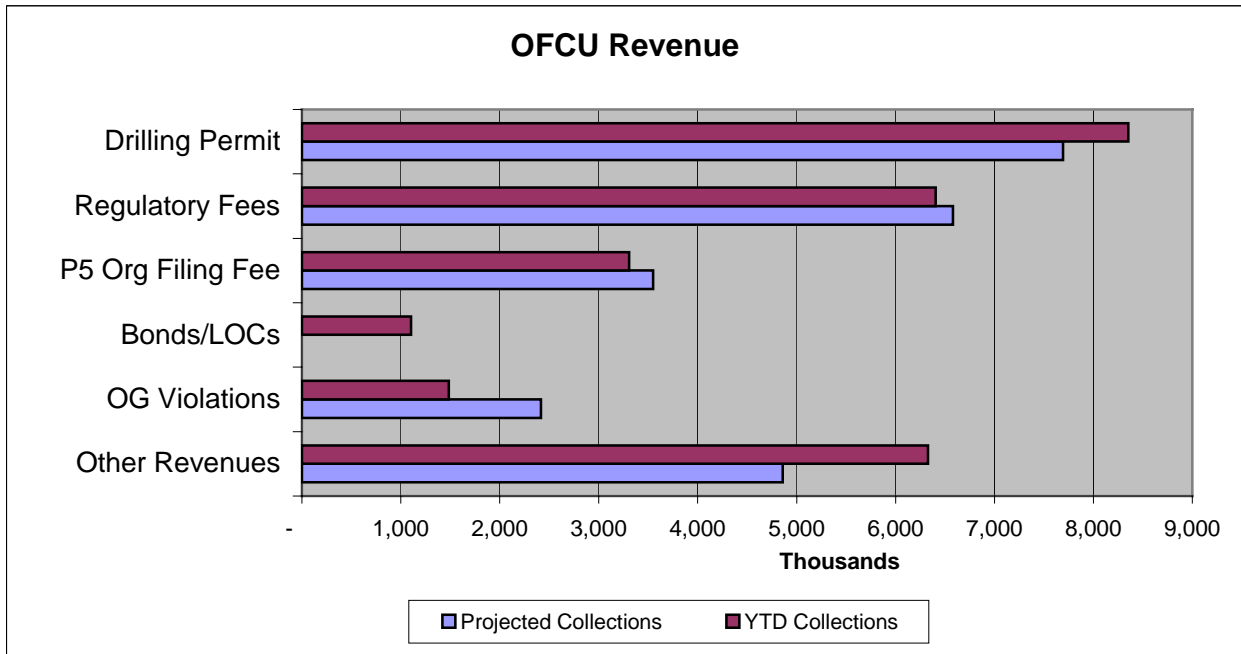


Figure 13

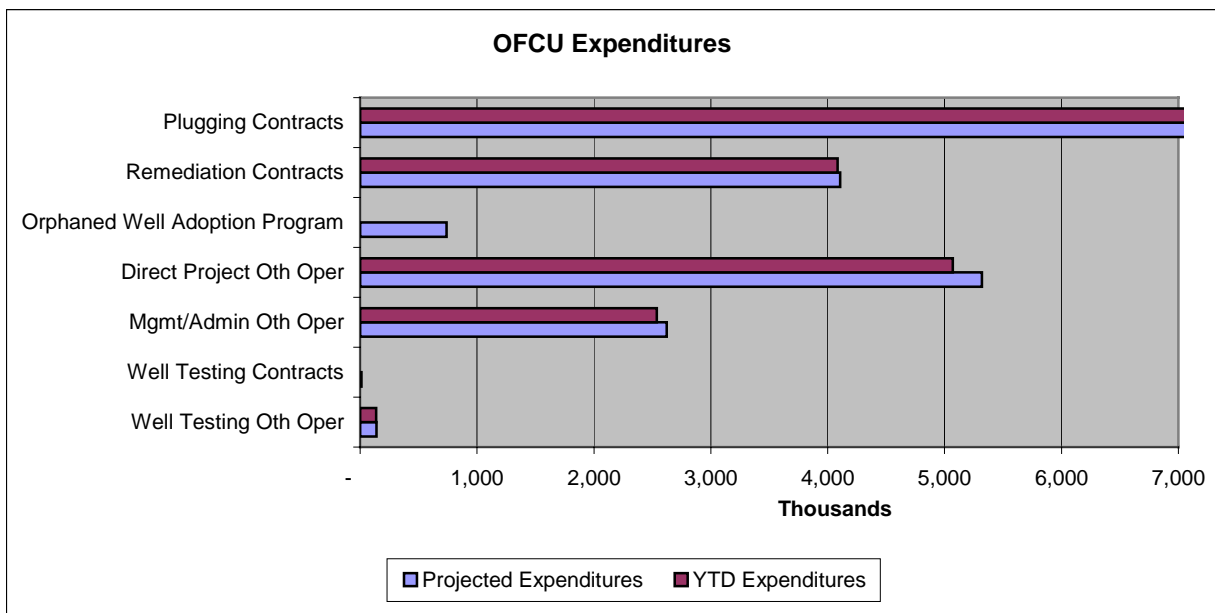


Figure 14

**VII. WELL PLUGGING PRIORITY SYSTEM:**

The Commission uses a priority system, which ranks wells for plugging in order of their threat of pollution to the environment, human health and safety, and wildlife. This priority system is necessary to insure that wells posing the greatest threat of pollution and safety concern are plugged first.

The priority system was revised from a five-tier to a four-tier system on December 15, 2004. The revised priority system includes four factors relating to the impact a wellbore poses to the environment, human health and safety, and wildlife. The factors are titled “Well Completion”, “Wellbore Conditions”, “Well Location with respect to sensitive areas”, and “Unique Environmental, Safety, or Economic Concern.” The Well Completion factor has seven subcategories relating to the completion information on the well, type of formations penetrated, type of well, and age of the well. The Wellbore Conditions factor has seven subcategories relating to downhole conditions such as pressures on the well, fluid level in the well, and the integrity of the wellbore. The Well Location factor has seven subcategories relating to the proximity of sensitive areas. The remaining factor of Unique Environmental, Safety, or Economic Concern has five subcategories relating to proximity to active water floods or disposal wells, logistical concerns, wellbores with reentry problems, and the length of delinquency of the operator’s Organization Report.

The revised priority system places greater emphasis on the casing program and its ability to protect usable quality ground water and the fluid level in the well with respect to usable quality ground water. Only those factors, which apply, are considered. Each factor has been assigned a weight dependent on its potential to affect human health, the environment, and wildlife. The weights of the factors are summed to obtain a total weight. The total weight determines the priority a well receives. Wells receive a priority of 1, 2H, 2, 3, or 4, where 1 is the highest priority. The greater the impact a factor has on human health, the environment, and wildlife, the higher the weight of that factor; the greater the total weight obtained from all of the applicable factors, the higher the priority assigned. The priority system assigns leaking wells the highest priority (an automatic priority 1) and assigns an automatic priority 2 if the well fails a fluid level test. The current priority system is outlined below.

**WELL PLUGGING PRIORITY SYSTEM**

	<b>FACTOR</b>	<b>WEIGHT</b>
<b>1.</b>	<b>Well Completion</b>	
A.	Unknown (no well records)	15
B.	No surface casing or set above base of deepest usable quality water	10
C.	Additional casing string not adequately cemented to isolate usable quality water	5
D.	Injection or Disposal Well	10
E.	Well penetrates salt/corrosive water bearing formation or abnormally pressured formation	5
F.	Well in H2S Field	5
G.	Age: well drilled $\geq$ 25 years ago	5
	Total (40 max)	

**RAILROAD COMMISSION OF TEXAS  
ANNUAL REPORT--FY 2006**

**OIL FIELD CLEANUP PROGRAM**

<b>2. Wellbore Conditions</b>		
A.	Well is pressured up at the surface (tbg or Prod csg)	10
B.	Bradenhead pressure exists *	5
<b>Auto 2H if UQW not protected, and fluid at BH is not UQW</b>		
<b>C. Measured fluid level:</b>		
D.	Fluid level at or above the base of deepest usable quality water.	50
E.	Fluid level less than 250' below base of deepest usable quality water (na if 2D applies)	15
F.	MIT failure	5
G.	H-15 (MIT) never performed, or test greater than 5 years old (na if F applies)	3
H.	Inadequate wellhead control/integrity	5
Total (75 max pts)		
<b>3. Well location with respect to sensitive areas</b>		
A.	H2S well with Public area ROE ** <b>Automatic Priority 2H</b>	
B.	In Marine Environment	10
C.	Within 100' of river, lake, creek, or domestic use fresh water well (N/A if B applies)	5
D.	Between 100' and ¼ mile of river, lake, creek, or domestic use fresh water well (N/A if C applies)	3
E.	Located within agricultural area	2
F.	Well located in known sensitive wildlife area	3
G.	Well located within city or town site limits	10
Total (20 max pts)		
<b>4. Unique environmental, Safety, or Economic Concern</b>		
A.	Adjacent to Active water flood or disposal well at or above completion interval.	5
B.	Logistics (poor roads, encroaching public, etc)	5
C.	Well Contains Junk	5
D.	P-5 Delinquent > 5 years	5
E.	Other (attach explanation)	1-20
Total (20 max pts)		
<b>Total Weight</b>		
<b>Priority</b>		
<b>Priority 1</b> = Leaking Well (Based on Definition)		
<b>Priority 2H</b> = Higher Risk well (Based on Definition and/or total weight > +75)		
<b>Priority 2</b> = Total Weight 50 - 75		
<b>Priority 3</b> = Total Weight 25 - 49		
<b>Priority 4</b> = Total Weight < 25		

\* BH Pressure is sustained.

\*\* 2H if public area could be impacted based on SWR 36 definition. Undetected/continuous leak possible.

Figures 15 and 16 and Table 6 below show the number of wells plugged with Oil Field Cleanup funds by priority between fiscal years 1992 and 2006. In September 2001, the Commission began concentrating its well plugging efforts on priority 1 and 2 wells as a result of implementation of the High Risk Well Testing Program established by S.B. 310 (77<sup>th</sup> Legislature, 2001). This continued through fiscal year 2006.

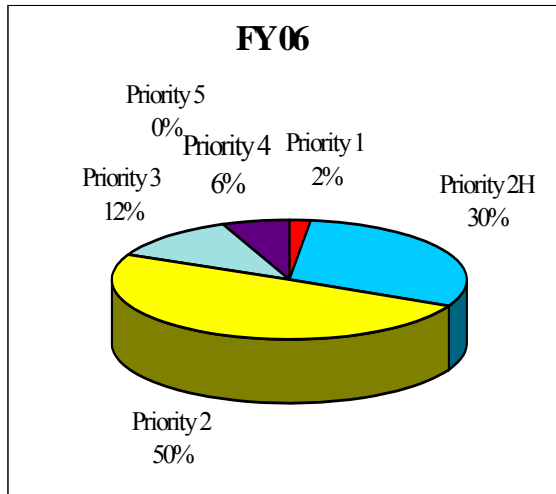


Figure 15

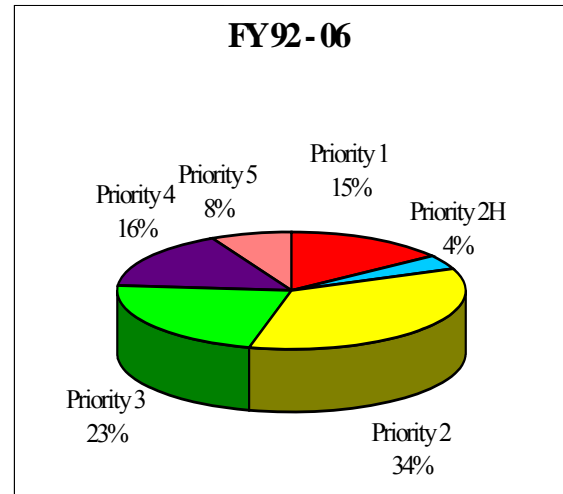


Figure 16

	Fiscal Year 2006	Fiscal Years 1992 – 2006
Priority 1	36	3,318
Priority 2H	553	859
Priority 2	905	7,653
Priority 3	220	4,996
Priority 4	110	3,523
Priority 5*	0	1,651
Total	1,824	22,000

Table 6

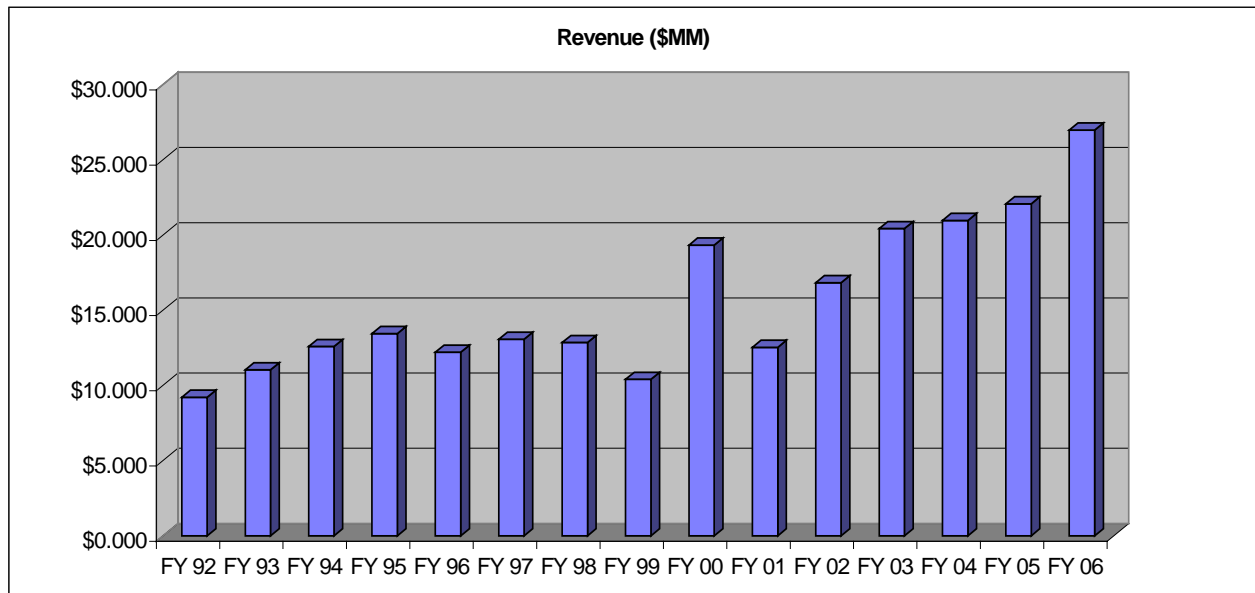
\* no longer used

**VIII. OIL FIELD CLEANUP FUNDS PROJECTION:**

Oil Field Cleanup funds projected for the next biennium for plugging abandoned wells and remediating surface locations are as follows:

**Fiscal Year 2008 = \$23,497,000**  
**Fiscal Year 2009 = \$24,094,000**

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. Figure 17 illustrates the actual revenues received into the Oil Field Cleanup Fund. Neither the revenue projections nor the actual revenue receipts reflect revenues from federal sources. The total revenue receipts for fiscal year 2006 do not include \$2,708,843 in cash deposits that operators filed in lieu of a bond or letter of credit that would otherwise be required at the time of annual renewal of an operator’s Organization Report. These monies are not available to plug orphan wells or remediate polluted sites since they are subject to being refunded should the operator chose an alternate financial assurance option



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Revenue (\$MM)	\$9.220	\$11.045	\$12.591	\$13.449	\$12.214	\$13.073	\$12.858	\$10.405	\$19.335	\$12.535	\$16.837	\$20.433	\$20.976	\$22.078	\$26.980

Figure 17

**IX. STATUS OF SALVAGE OPERATIONS:**

The Commission continues to benefit from the sale of salvageable equipment and hydrocarbons recovered from wells/leases plugged and sites remediated with Oil Field Cleanup funds. In fiscal year 2006, the Commission derived **\$1,637,051<sup>3</sup>** from salvageable equipment and hydrocarbons on 253 salvage operations and deposited these proceeds in the Oil Field Cleanup Fund. This set a new record. The previous record was \$1,163,021 set in FY 1998.

<sup>3</sup>Data source is the Field Operations PLUG database.

House Bill 2705 (73<sup>rd</sup> Legislature, 1993), which became effective January 1, 1994, streamlined the requirements and facilitated the process by which the Commission is able to sell salvageable equipment and hydrocarbons from wells plugged or sites remediated with Oil Field Cleanup funds. While the bill eased the requirements to sell salvage, it continued to provide due process protection for interested or affected parties. Potential claimants of salvage proceeds have an indefinite period of time in which to file a claim against the Oil Field Cleanup Fund for the proceeds from the sale of salvageable equipment and/or hydrocarbons. Additionally, H.B. 2613 (78<sup>th</sup> Legislature, 2003) clearly established the Commission’s ability to also sell stored hydrocarbons from abandoned sites remediated by the Commission.

Since the inception of the salvage program, the proceeds from the sale of salvageable equipment and hydrocarbons have totaled \$9,882,278 from 2,575 salvage operations. Figure 18 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.

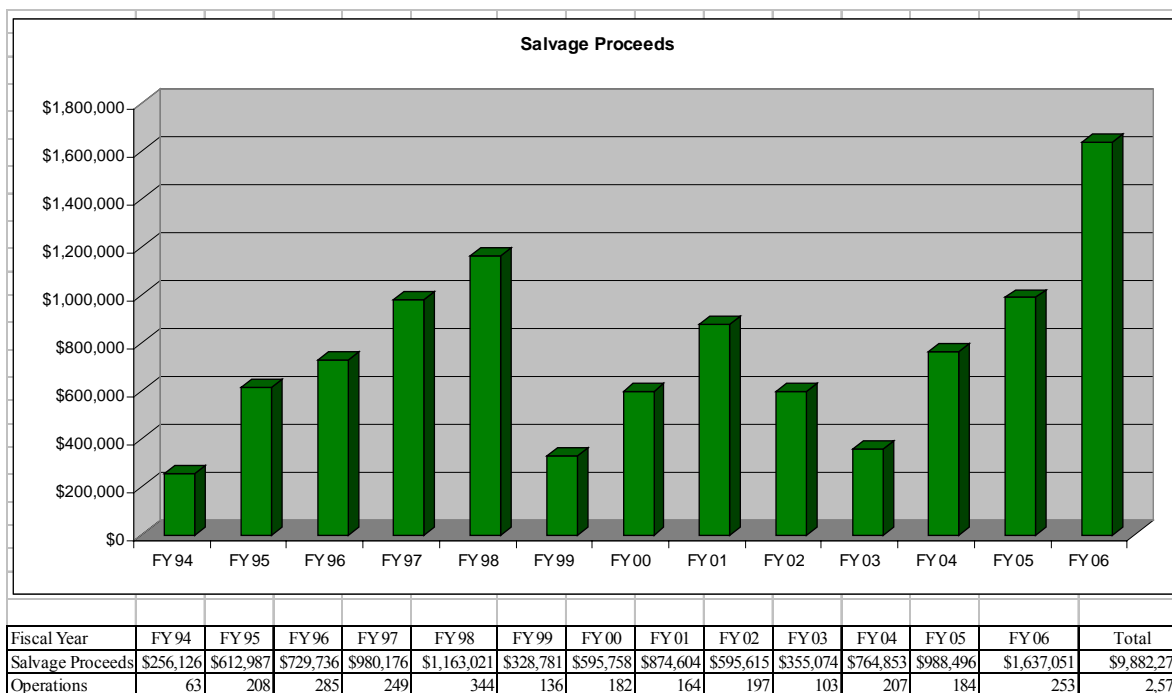


Figure 18

**X. NUMBER OF SITES REMEDIATED UNDER THE VOLUNTARY CLEANUP PROGRAM BY DISTRICT:**

Senate Bill 310, 77<sup>th</sup> Legislature (2001), amended Texas Natural Resources Code, Chapter 91, by adding new Subchapter O, specifically authorizing the Commission to establish a Voluntary Cleanup Program (VCP) that is self-funded through the collection of application and oversight fees and that these fees be deposited to the Oil Field Cleanup Fund. Railroad Commission rules regarding the VCP were adopted in June 2002 (16 TAC, Chapter 4, Subchapter D). The purpose of the VCP is to provide an incentive to lenders, developers, owners, and operators to remediate soil and water environmentally impacted by activities over which the Commission exercises jurisdiction by removing the liability to the lenders, developers, owners, and operators who did

not cause or contribute to contamination. In return for the release of liability, the State offsets oversight costs through the collection of fees, reduces the need for state-managed cleanup activities, and expedites the return of contaminated properties into productive use.

S.B. 310 structured the VCP in a sequential fashion: 1) an application (with application fee of \$1,000) and acceptance process, 2) agreement execution process, 3) cleanup with Commission oversight process, and finally 4) issuance of a VCP Certificate of Completion. The Commission oversight includes review of work plans and reports to ensure the protection of human health and the environment.

In fiscal year 2006 there were 10 new VCP applications. As of August 31, 2006, there were 37 active VCP sites. Since program inception in the summer of FY02, 14 sites have been cleaned up and certificates of completion issued

## **XI. OPERATOR CLEANUP PROGRAM:**

Another important function of the Commission's Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities conducted by a responsible operator, usually at environmentally sensitive sites. The program ensures that pollution outside of SWR 91 non-sensitive area oil spill cleanup requirements and beyond routine SWR 8 cleanups and closures are addressed promptly and adequately. Oversight of OCP activities is usually by staff in Austin headquarters and District Office (DO) staff. The majority of the projects are long-term remediation projects that require specialized skills to review and manage.

Importantly, environmental cleanups in this program are funded by the responsible operator. As a result, prompt review and action by the Commission may keep some of these projects from becoming state-managed projects that would need Oil Field Cleanup funds to complete the clean up. While these projects do not impose actual assessment of cleanup costs to the Oil Field Cleanup Fund, they do require considerable staff resources of employees who are paid out of the fund.

Mergers, divestitures and acquisitions of oil field properties, which routinely involve environmental assessments for asset valuation, have also contributed to the increasing number of projects for the Operator Cleanup Program. It is not uncommon for operators to discover contamination at sites during routine environmental assessment and to subsequently seek letters of "no further action" from the Commission after completion of clean up.

The Commission tracks approximately 500 complex operator cleanups. These projects involve frequent sampling, reporting, and evaluation to ensure final cleanup is protective of the public health, safety and the environment.

Figure 19 illustrates the number of sites in the Operator Cleanup program since 1998.

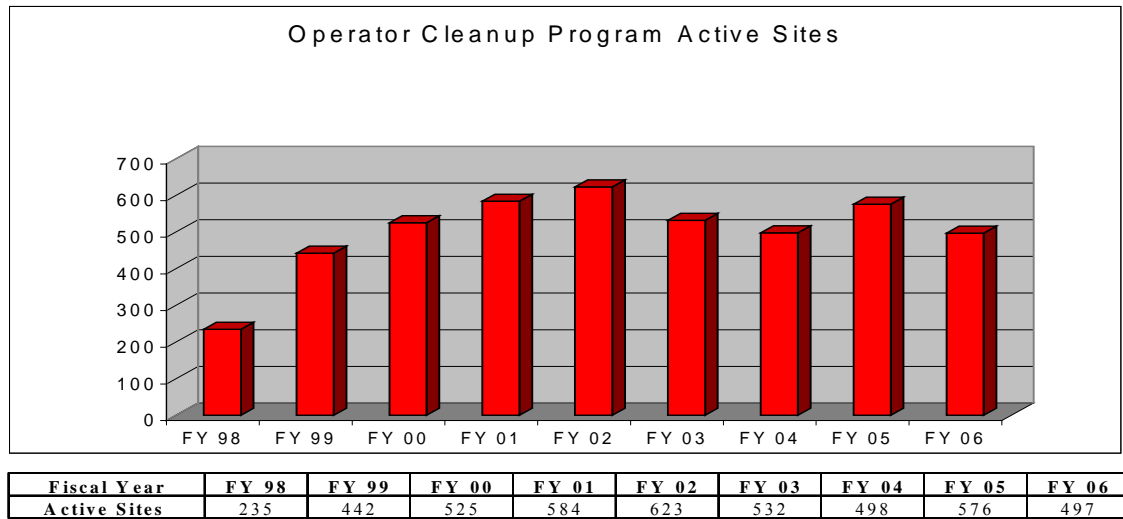


Figure 19