



**OIL FIELD CLEANUP PROGRAM
ANNUAL REPORT — FISCAL YEAR 2005**

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

ELIZABETH A. JONES, CHAIRMAN
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DEPUTY DIRECTOR, FIELD OPERATIONS


RAILROAD COMMISSION OF TEXAS OIL AND GAS DIVISION


January 10, 2006


To The Legislature:

S.B. 1103, 72nd Legislature, 1991 and S.B. 310, 77th 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, 2004 through August 31, 2005.

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; John Tintera, 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 2005**

INTRODUCTION:

The Oil Field Cleanup Fund was created by the adoption of S.B. 1103 (72nd Legislature, 1991) and modified by the adoption of S.B. 310 (77th 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 2005, the Commission has plugged 20,176 wells (24,254 wells since fiscal year 1984) and cleaned up, assessed, or investigated 3,057 sites using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2005, the Commission was tracking approximately 358,746 wells compared to 356,069 in August 2004. Of this number, 111,520 were inactive, shut-in oil and gas wells. Of the 111,520 wells, 20,484 were compliant inactive wells that had been shut-in less than 12 months and 70,371 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 20,665 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 20,665 non-complaint wells, 6,457 wells belonged to operators with an active Organization Report on file with the Commission and 14,208 wells belonged to operators with delinquent Organization Reports. The Commission defines these 14,208 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.

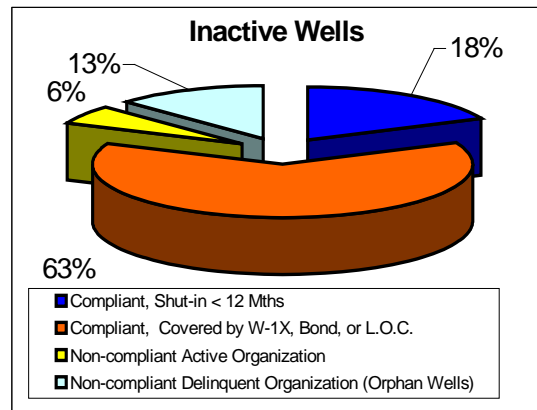


Figure 1

Distribution of Wells Monitored by the Railroad Commission
As of August 27, 2005

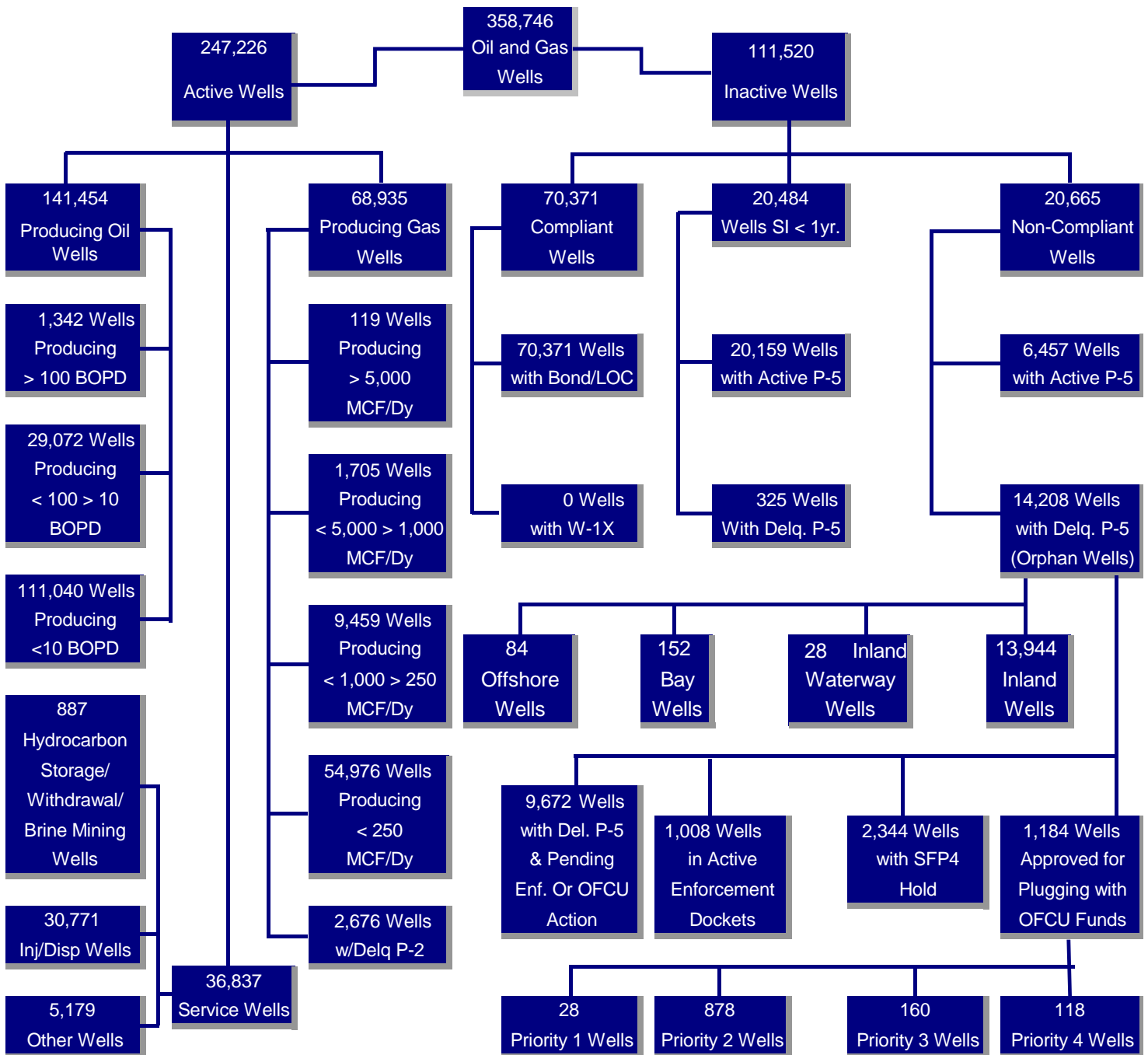


Figure 2

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 1,097 in fiscal year 2005 and has decreased by 3,763 wells since September 2002. However, the make-up

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2005**

OIL FIELD CLEANUP PROGRAM

of the orphan wells has changed. A total of 11,365 wells were removed from the fiscal year's beginning inventory, but 10,268 new wells were added to the population of orphan wells throughout the fiscal year. Since the beginning of fiscal year 2003, 37,340 orphan wells have been removed from the inventory and 33,577 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-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Total
Beginning Population (from previous month)	15,305	15,447	14,895	14,796	15,592	15,319	15,021	15,297	16,004	15,082	14,845	14,632	15,305
Plugged	(161)	(112)	(95)	(119)	(138)	(69)	(78)	(149)	(108)	(230)	(189)	(308)	(1,756)
Returned to Active Status	(40)	(5)	(6)	(7)	(16)	(13)	(3)	(10)	(9)	(12)	(19)	(37)	(177)
Operator Change	(74)	(253)	(112)	(85)	(138)	(254)	(221)	(210)	(455)	(224)	(344)	(136)	(2,506)
P-5 Renewal	(670)	(1,081)	(207)	(270)	(711)	(559)	(291)	(436)	(1,151)	(361)	(597)	(573)	(6,907)
Other Reasons	(1)	(4)	(2)	0	(2)	0	(2)	(3)	0	(3)	0	(2)	(19)
Wells Added to Population	1,088	903	323	1,277	732	597	871	1,515	801	593	936	632	10,268
Ending Population	15,447	14,895	14,796	15,592	15,319	15,021	15,297	16,004	15,082	14,845	14,632	14,208	14,208

Definitions:
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												Total
Beginning Population (from previous FY)	17,971	16,770	15,305												17,971
Plugged	(1,527)	(1,726)	(1,756)												(5,009)
Returned to Active Status	(646)	(160)	(177)												(983)
Operator Change	(3,110)	(1,777)	(2,506)												(7,393)
P-5 Renewal	(8,581)	(8,144)	(6,907)												(23,632)
Other Reasons	(281)	(23)	(19)												(323)
Wells Added to Population	12,944	10,365	10,268												33,577
Ending Population	16,770	15,305	14,208												14,208

Definitions:	
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

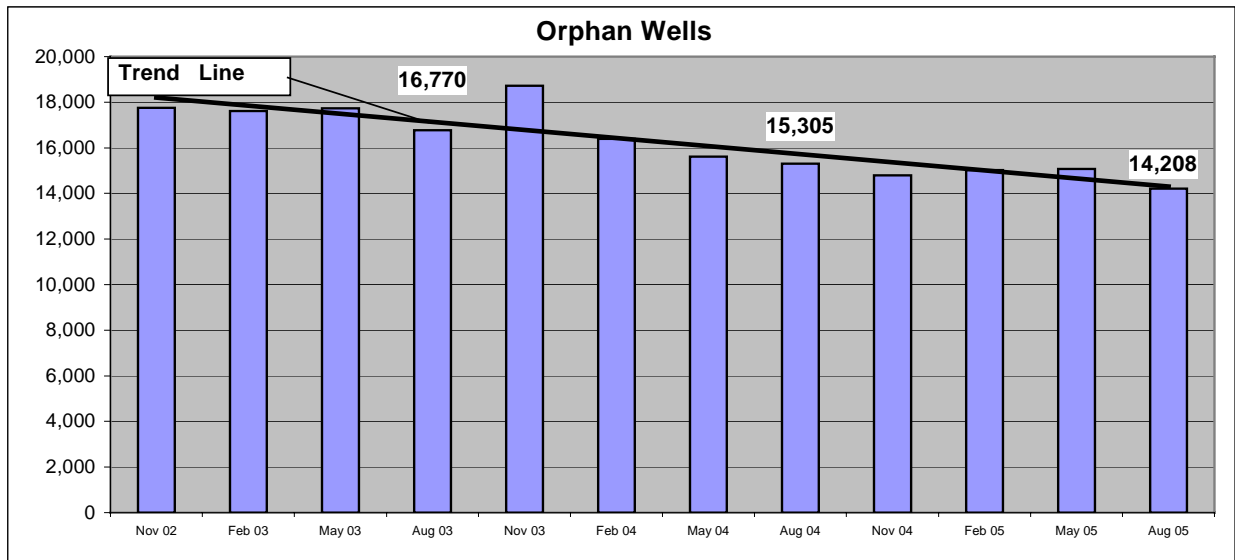


Figure 3

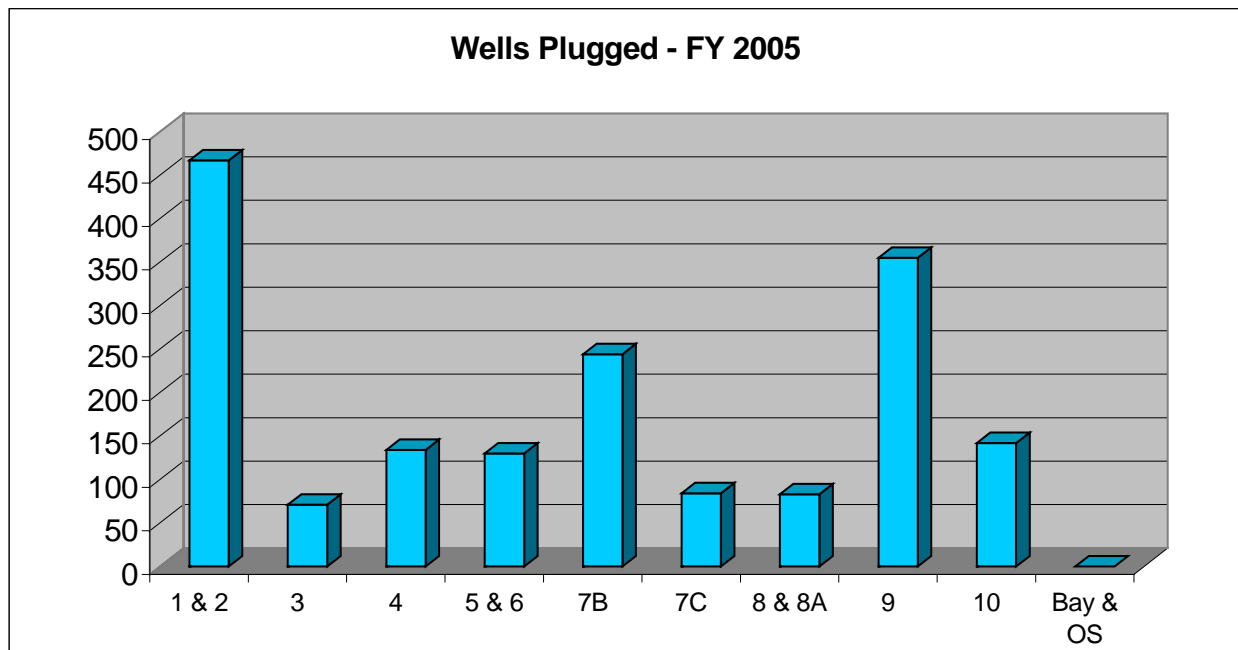
Revenue into the Oil Field Cleanup Fund is derived primarily from fees paid by the oil and gas industry; but significant revenue is also contributed from enforcement penalties, reimbursements, salvaged equipment and hydrocarbons from well plugging and site remediation operations, and interest on fund balances. Additionally, the Commission seeks other sources for funds 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:

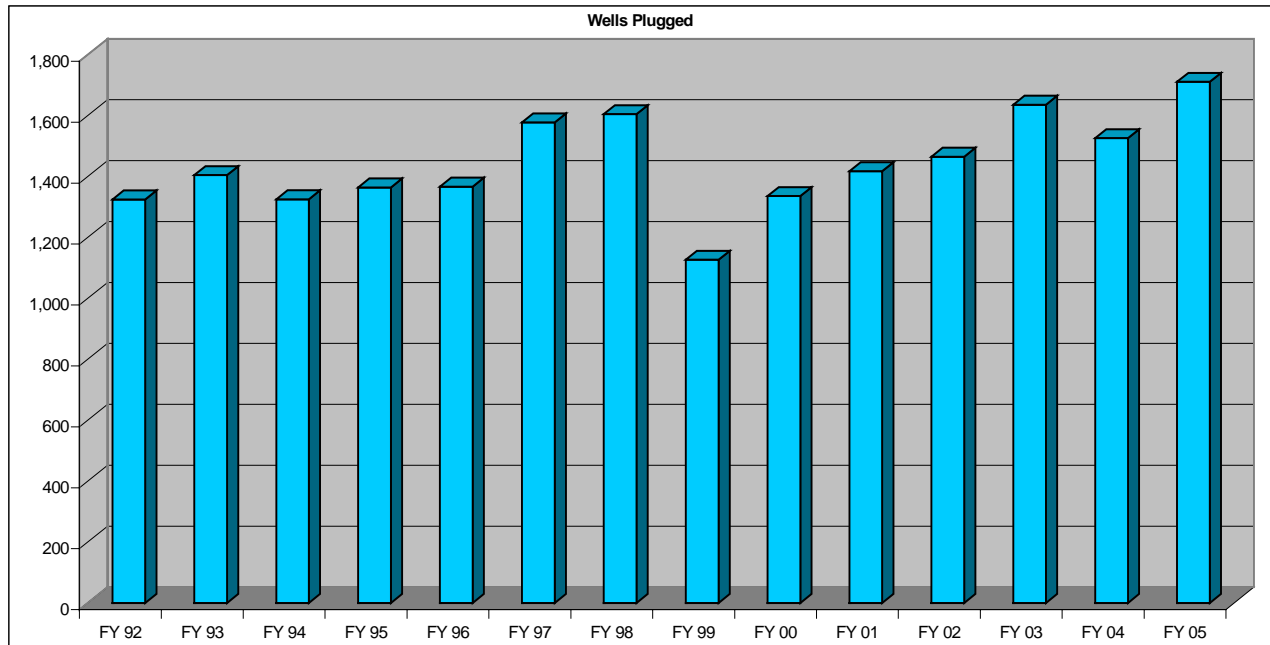
In fiscal year 2005, the Commission plugged **1,710** wells with Oil Field Cleanup funds and other state and federal monies. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors before August 31, 2004. Figure 4 illustrates the numbers of wells plugged by district during fiscal year 2005 and Figure 5 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program.

During fiscal year 2005, two well plugging records fell. The 1,710 number of wells plugged represents the highest number of wells plugged by the Commission in one year. The previous record was 1,635 wells plugged in fiscal year 2003. The 467 wells plugged in District 1 & 2 represents the most wells plugged in one year by a district. The previous mark was 464 wells plugged by District 1 & 2 in fiscal year 2004.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay & OS	Total
Wells Plugged	467	71	134	130	244	84	83	355	142	0	1,710

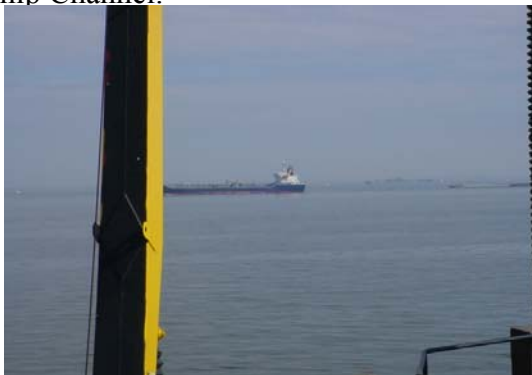
Figure 4



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	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	20,176

Figure 5

Another major accomplishment during fiscal year 2005 was bringing under control the Shoreham Oil and Gas Company, Inc., State Tract 288 Lease, Well No. 1, Chambers County. This well was located approximately 1 mile west of the Houston Ship Channel.



Photograph 1
(View of ship channel traffic in the background)

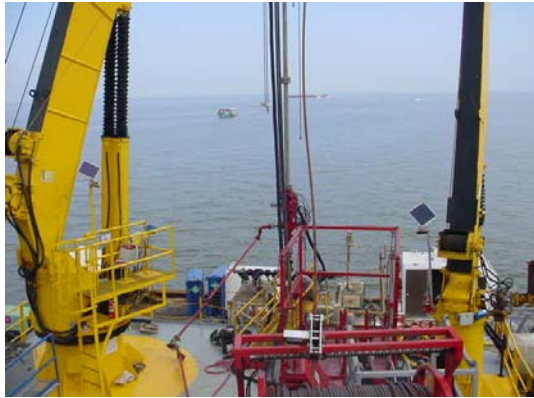
eliminate the excessive pressure on the surface casing. The excessive pressure on the surface casing threatened to burst the surface casing and threatened to cause an uncontrolled blowout of the well. A blowout at this well would have significantly impacted ship traffic in the Houston Ship Channel.



Photograph 2
(View of flare/vent line from the well)

The well developed a leak at the surface and had excessive pressure on the surface casing. Although the responsible operator repaired the leak, the operator was unable to

Commission staff assumed well control operations of this well when the well control contractor threatened to walk away from the job of maintaining the pressure on surface casing at or below an acceptable level until the well was repaired and the pressure had been eliminated. The Commission assumed operations to maintain the surface casing pressure at an acceptable level on December 21, 2004 and initiated operations to bring the well under control on January 15, 2005. Well control operations continued until February 16, 2005 when a bottom plug was set in the well at approximately 12,000 feet and eliminated the pressures on the well. Total costs for these operations were \$2,560,257. The Commission is attempting to obtain reimbursement for its costs from the responsible operator through the Office of the Attorney General.



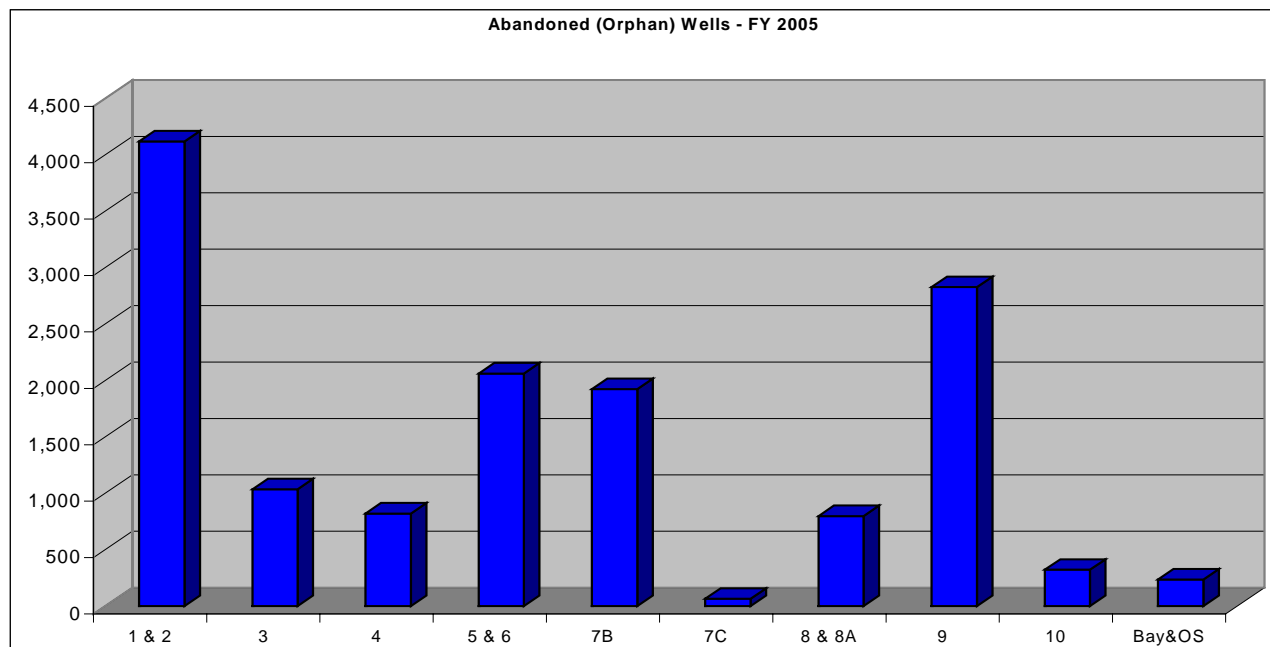
Photograph 3
(View of well control and
plugging equipment on the liftboat)



Photograph 4
(View of wireline unit
on a barge next to the liftboat)

II. NUMBER OF ABANDONED WELLS BY DISTRICT:

As of August 2005, the number of abandoned wells was **14,208**. 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. Figure 6 illustrates the number of orphan wells by district at the end of August 2005.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay&OS	Total
Orphaned Wells	4,119	1,036	821	2,062	1,923	64	798	2,827	322	236	14,208

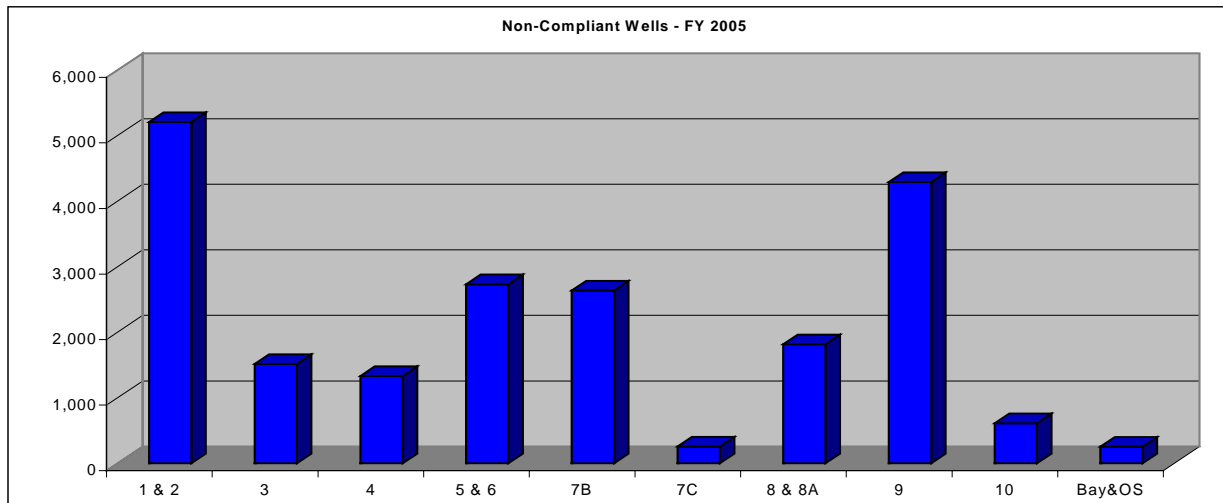
Figure 6

In addition to the 14,208 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 2005, 28 unidentified abandoned wells were plugged with Oil Field Cleanup funds, which account for 1.6% of all wells plugged by the Commission in FY 05.

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

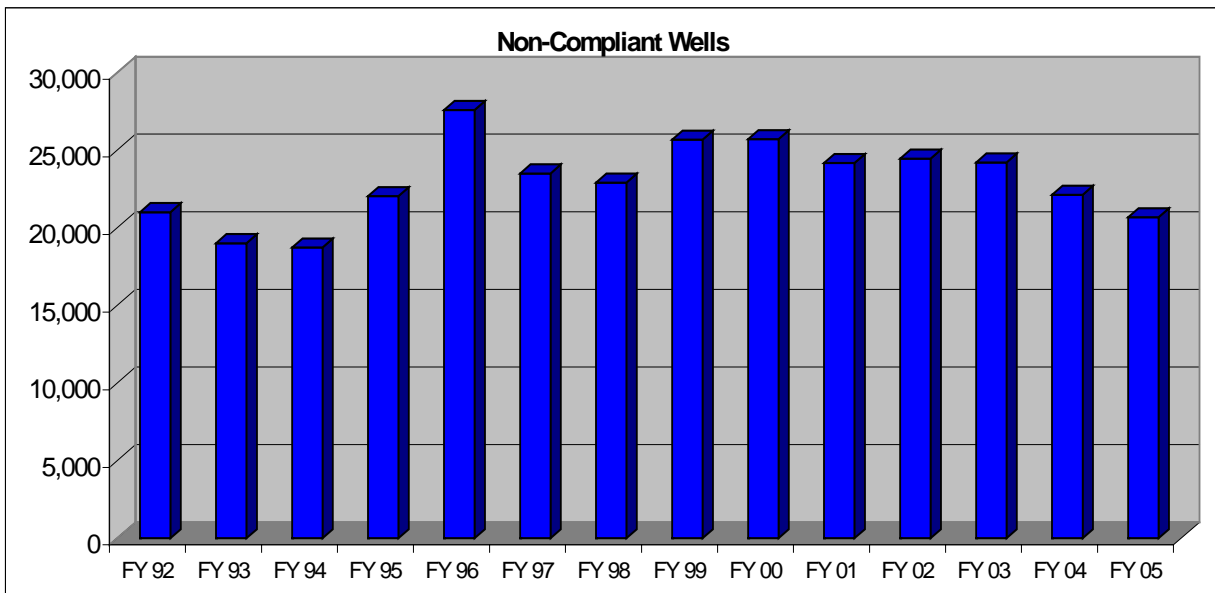
The number of known inactive wells not in compliance with Commission rules as of August 2005 totals **20,665**. The number of known inactive wells not currently in compliance with the Commission's plugging rule is determined from the Commission's computerized records. The number represents wells that 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 are also authorized to remain inactive beyond the initial 12-

month period in compliance with Commission rules because the operator has sufficient bonding 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 2005. 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
Non-Compliant Wells	5,208	1,518	1,334	2,732	2,637	257	1,818	4,294	612	255	20,665

Figure 7



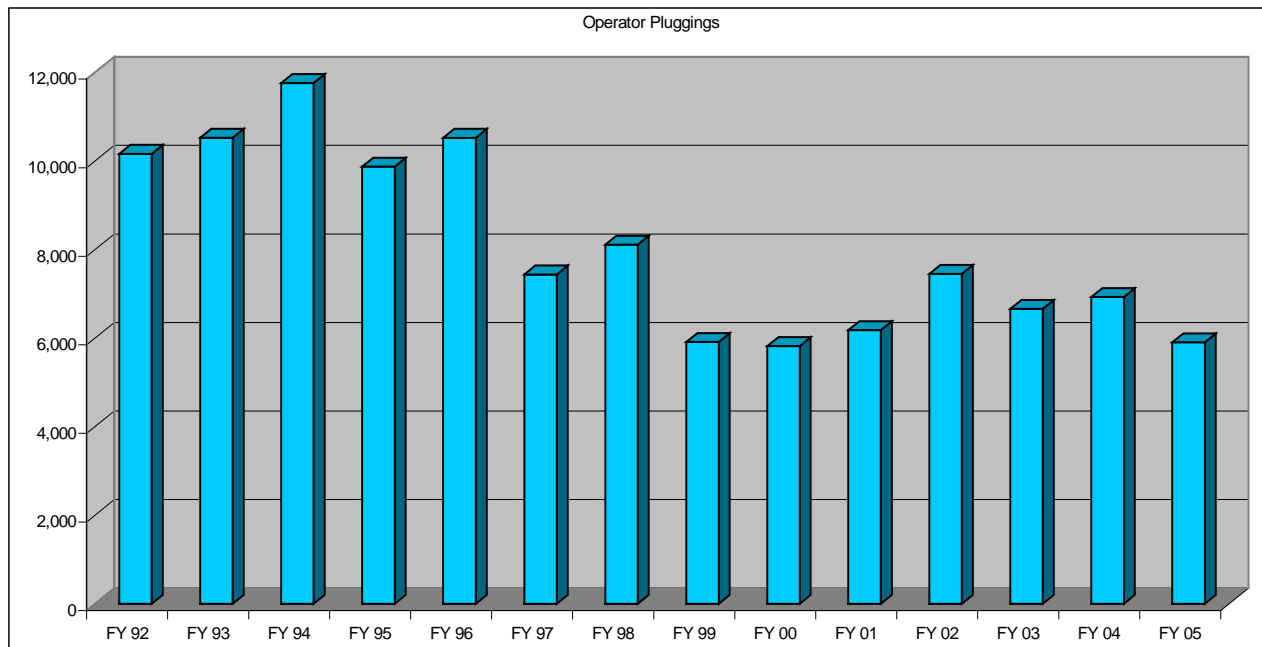
Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Non-Compliant Wells	21,000	19,003	18,720	22,034	27,583	23,492	22,903	25,672	25,707	24,165	24,449	24,202	22,119	20,665

Figure 8

The operators of these wells are required by Commission rules to plug wells at their expense upon

cessation of production or file a bond or letter of credit 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 action against the responsible operator for reimbursement of the plugging costs and may assess civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2005, 5,906 wells 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.



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
Operator Pluggings	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

Figure 9

The Commission and industry have plugged between 7,000 and 10,000 wells per year since 1997 (Figures 5 and 9). The number of orphan and non-compliant wells has decreased over the last three 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 05.

ENFORCEMENT PROCEEDINGS	1/2	3	4	5/6	7B	7C	8/8A	9	10	Total
STATUS										
<i>1. Awaiting RRC review</i>	13	22	2 8	17	15	1	3	88	0	187
<i>2. Awaiting Hearing</i>	11 5	65	2 6	12 1	63	14	51	10 8	32	595
<i>3. Awaiting Final Order</i>	16	54	1 3	3	9	0	2	55	1	153
<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>	10 3	56	1 2	69	86	10	33	43	13 0	542
<i>Total Wells Still in Violation</i>	24 7	19 7	7 9	21 0	17 3	25	89	29 4	16 3	1,477
TIME PERIOD										
<i>6. In Violation < 2yrs</i>	23 2	19 4	6 2	20 8	17 1	25	66	27 4	15 8	1,390
<i>7. In Violation > 2yrs & < 5yrs</i>	15	3	1 7	2	2	0	23	20	5	87
<i>8. In Violation > 5yrs</i>	0	0	0	0	0	0	0	0	0	0
<i>Total Wells Still in Violation</i>	24 7	19 7	7 9	21 0	17 3	25	89	29 4	16 3	1,477

Table 3

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2005**

OIL FIELD CLEANUP PROGRAM

ENFORCEMENT PROCEEDINGS	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
STATUS						
<i>1. Awaiting RRC review</i>	<i>1,010</i>	<i>355</i>	<i>235</i>	<i>87</i>	<i>24</i>	<i>187</i>
<i>2. Awaiting Hearing</i>	<i>348</i>	<i>746</i>	<i>263</i>	<i>751</i>	<i>450</i>	<i>595</i>
<i>3. Awaiting Final Order</i>	<i>101</i>	<i>106</i>	<i>968</i>	<i>146</i>	<i>423</i>	<i>153</i>
<i>4. Final Order Served/Awaiting AG referral</i>	<i>0</i>	<i>18</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>5. Wells Referred to AG</i>	<i>877</i>	<i>944</i>	<i>829</i>	<i>739</i>	<i>716</i>	<i>542</i>
<i>Total Wells Still in Violation</i>	<i>2,336</i>	<i>2,169</i>	<i>2,295</i>	<i>1,723</i>	<i>1,613</i>	<i>1,477</i>
TIME PERIOD						
<i>6. In Violation < 2yrs</i>	<i>2,033</i>	<i>1,879</i>	<i>1,732</i>	<i>1,628</i>	<i>1,501</i>	<i>1,390</i>
<i>7. In Violation > 2yrs & < 5yrs</i>	<i>210</i>	<i>223</i>	<i>391</i>	<i>89</i>	<i>107</i>	<i>87</i>
<i>8. In Violation > 5yrs</i>	<i>93</i>	<i>67</i>	<i>172</i>	<i>6</i>	<i>5</i>	<i>0</i>
<i>Total Wells Still in Violation</i>	<i>2,336</i>	<i>2,169</i>	<i>2,295</i>	<i>1,723</i>	<i>1,613</i>	<i>1,477</i>
PENALTIES & REIMBURSEMENTS						
<i>9. Administrative Penalties Assessed by RRC</i>	<i>\$2,687,297</i>	<i>\$2,367,030</i>	<i>\$2,816,802</i>	<i>\$2,121,811</i>	<i>\$1,348,532</i>	<i>\$1,355,905</i>
<i>10. Administrative & Civil Penalties Paid to RRC & AG</i>	<i>\$7,125,536</i>	<i>\$1,288,754</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA</i>
<i>11. Reimbursements Paid to RRC & AG</i>	<i>\$298,321</i>	<i>\$118,715</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA¹</i>	<i>NA</i>
TOTAL PENALTIES AND REIM. PAID TO RRC & AG	<i>\$7,423,857²</i>	<i>\$1,407,469</i>	<i>\$1,620,501</i>	<i>\$1,929,030</i>	<i>\$2,065,030</i>	<i>\$2,540,240</i>

Table 4

¹ Not reported separately by the AG's Office

² Includes \$6 million recovered in Koch Industries litigation.

V. NUMBER OF SURFACE LOCATIONS REMEDIATED BY DISTRICT:

During the year, 1,597 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 2005, the Commission conducted 292 cleanup activities (Figure 10). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2005. State-managed remediation activities included the following:

1. 184 routine remediation operations,
2. 55 emergency operations,
3. 53 site assessment investigations,
4. 0 abatement, and

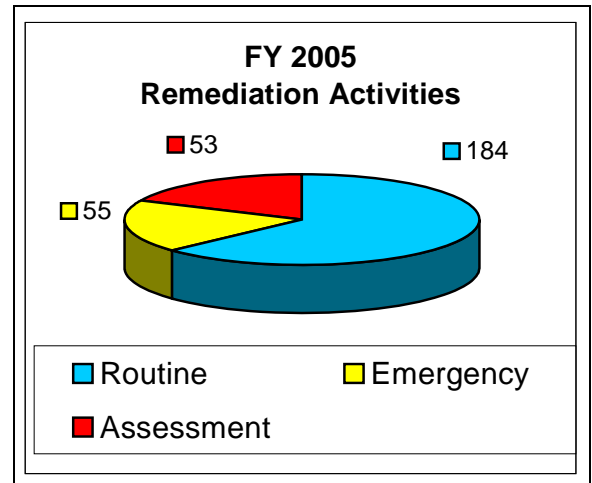
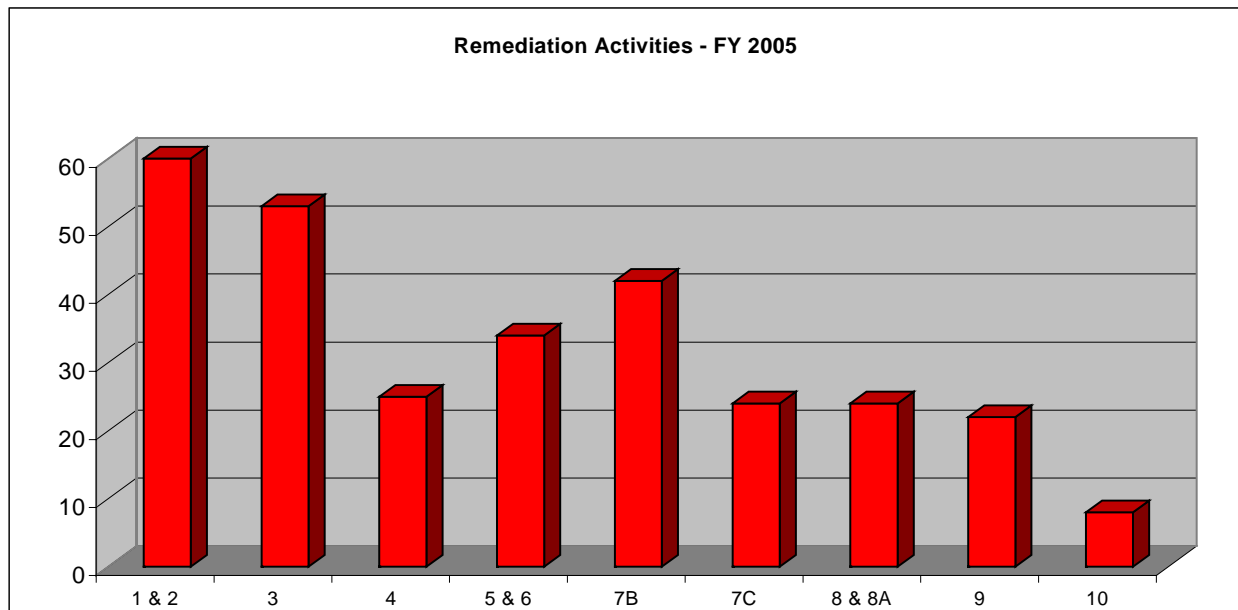


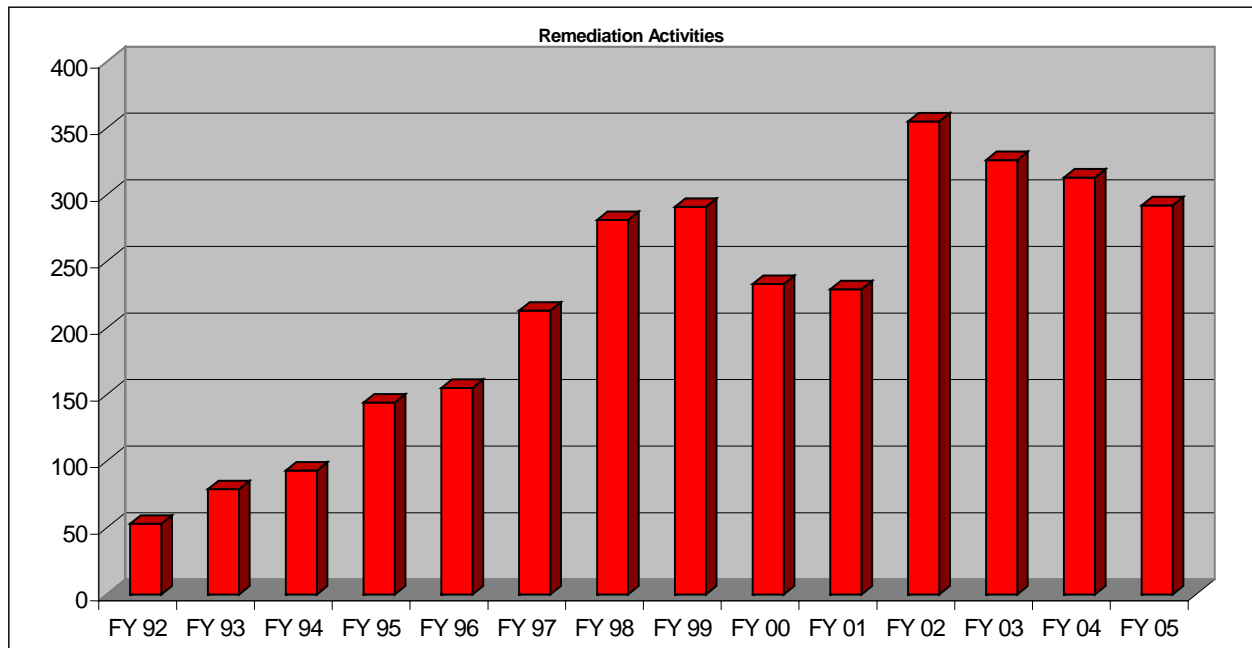
Figure 10

Figure 11 depicts these 292 sites by district for fiscal year 2005 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	60	53	25	34	42	24	24	22	8	292

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	Total
Activities	53	79	93	144	155	213	281	291	233	229	355	326	313	292	3,057

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 2005 with a beginning fund balance in the Oil Field Cleanup Fund of \$4,018,597 and ended with a fund balance of \$4,003,678. Total revenues for the fiscal year were \$22,077,737 and total expenditures were \$22,092,656. Fiscal year 2005 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 2005 Projected	FY 2005 Actual	FY 2005 % Collected/ Expended
Beginning Fund Balance, September 1 (Note 1)	\$ 3,985,116	\$ 4,018,597	
Revenues:			
Oil & Gas Well Drilling Permit	6,773,750	6,890,176	101.72%
Oil Field Cleanup Regulatory Fee on Oil and Gas	5,528,000	5,618,274	101.63%
P5 Organization Filing Fee	3,150,000	3,205,286	101.76%
Oil and Gas Bond/Letter of Credits	-	1,032,299	
Oil & Gas Violations	2,105,972	1,366,901	64.91%
Other Revenue (Note 2)	3,400,728	3,964,801	116.59%
Total Revenues	<u>\$ 20,958,450</u>	<u>\$ 22,077,737</u>	<u>105.34%</u>
Expenditures:			
Plugging & Remediation			
Plugging Contracts	11,148,654	11,011,314	98.77%
Remediation Contracts	3,757,679	3,617,413	96.27%
Direct Project Salary & Operating	4,797,034	4,833,989	100.77%
Mgmt/Admin/Support Salary & Operating	2,731,841	2,500,840	91.54%
Sub-Total	<u>22,435,208</u>	<u>21,963,556</u>	<u>97.90%</u>
Well Testing			
Well Testing Contracts	10,000	-	0.00%
Direct Project Salary & Operating	126,279	129,100	102.23%
Sub-Total	<u>136,279</u>	<u>129,100</u>	<u>94.73%</u>
Total Expenditures	<u>\$ 22,571,487</u>	<u>\$ 22,092,656</u>	<u>97.88%</u>
Ending Fund Balance, August 31	\$ 2,372,079	\$ 4,003,678	
Full Time Equivalent Positions	114.83	110.58	
Note 1: The carryforward appropriation from FY 2003 to FY 2004 was limited to \$402,670. A balance of \$4,775,096 remains in the State Treasury unavailable to the Commission in the FY 2004-05 biennium.			
Note 2: Oil and Gas Well Application Fees are reflected under "Other Revenue". In addition to the \$12,402 in fees collected to date, there is \$2,171,422 in Cash Deposits held in imprest in the State Comptroller Treasury. There are \$6,591,056 cumulative cash deposits in the State Comptroller Treasury as of 08/31/05.			

Table 5

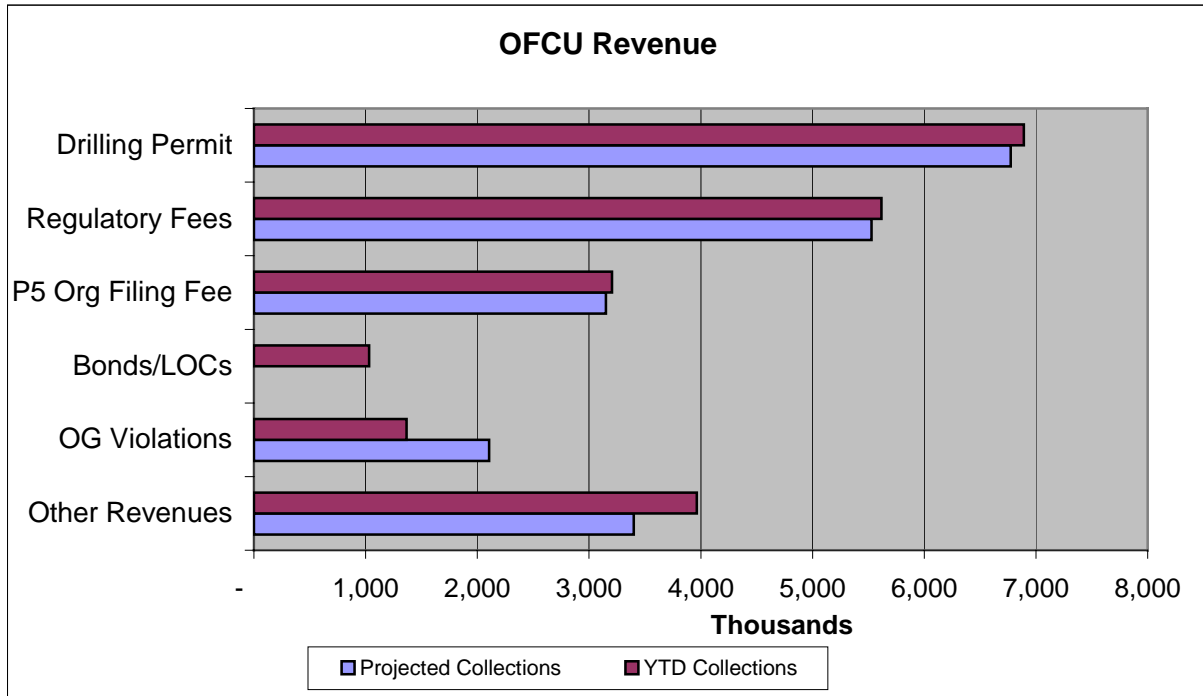


Figure 13

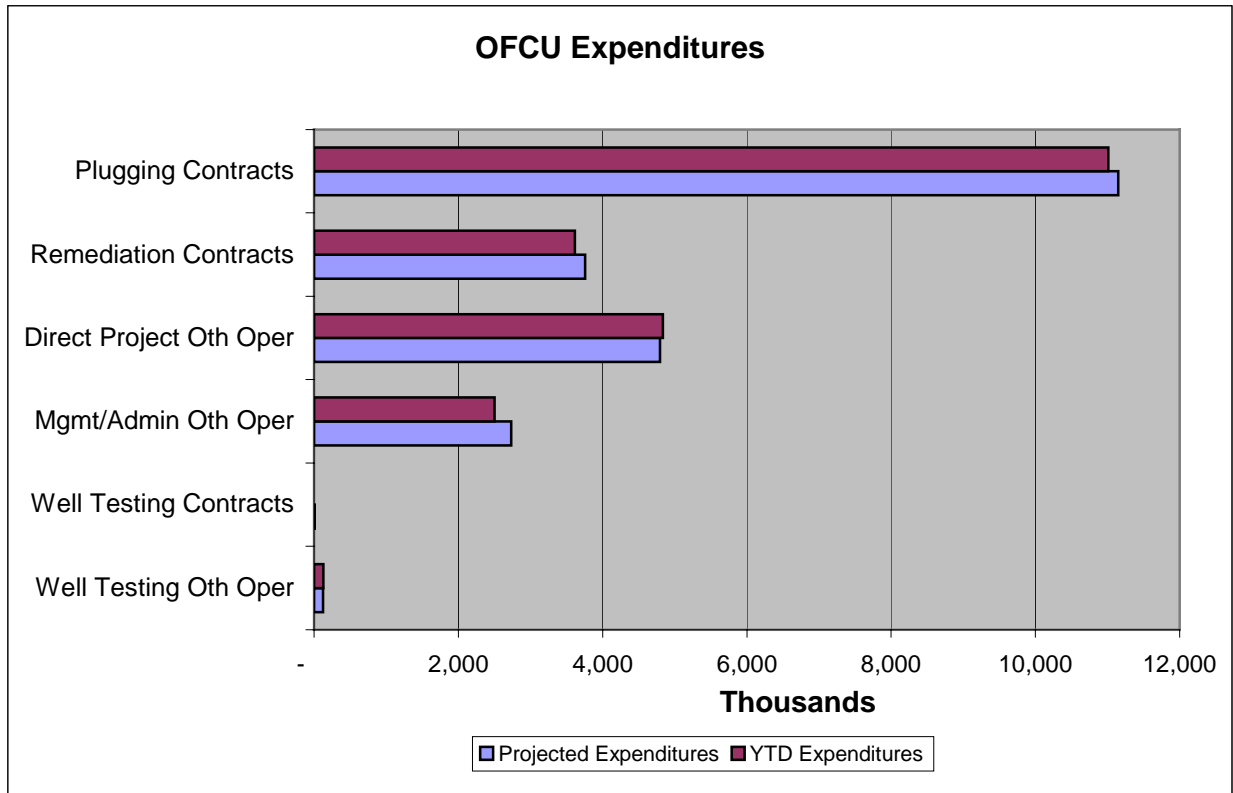


Figure 14

VII. WELL PLUGGING PRIORITY SYSTEM:

The Commission uses a priority system, which ranks wells for plugging by groups 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 four-tier to a five-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 four primary 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

	FACTOR	WEIGHT
1.	Well Completion	
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 2005**

OIL FIELD CLEANUP PROGRAM

2. Wellbore Conditions		
A.	Well is pressured up at the surface (tbg or Prod csg)	10
B.	Bradenhead pressure exists *	5
Auto 2H if UQW not protected, and fluid at BH is not UQW		
C. Measured fluid level:		
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)		
3. Well location with respect to sensitive areas		
A.	H2S well with Public area ROE ** Automatic Priority 2H	
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)		
4. Unique environmental, Safety, or Economic Concern		
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)		
Total Weight		
Priority		
Priority 1 = Leaking Well (Based on Definition)		
Priority 2H = Higher Risk well (Based on Definition and/or total weight > +75)		
Priority 2 = Total Weight 50 - 75		
Priority 3 = Total Weight 25 - 49		
Priority 4 = 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 2005. In September 2001, the Commission began concentrating its well plugging efforts on priority 1 and 2 as a result of implementation of the High Risk Well Testing Program established by S.B. 310 (77th Legislature, 2001). This continued through fiscal year 2005.

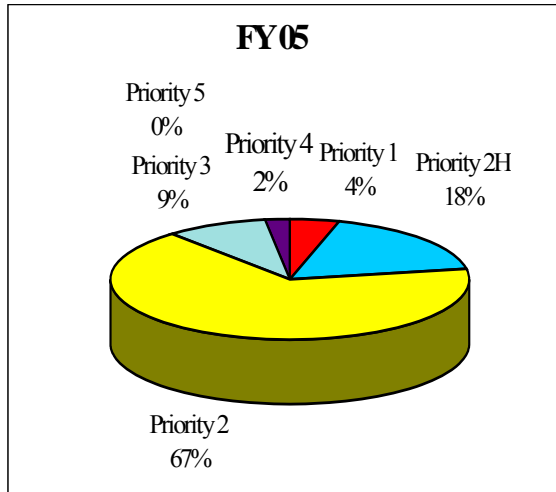


Figure 15

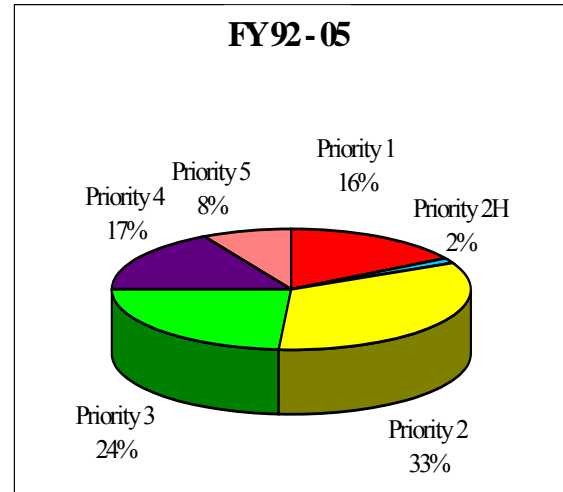


Figure 16

	Fiscal Year 2005	Fiscal Years 1992 – 2005
Priority 1	76	3,282
Priority 2H	306	306
Priority 2	1,132	6,748
Priority 3	160	4,776
Priority 4	36	3,413
Priority 5*	0	1,651
Total	1,710	20,176

Table 6

* no longer used

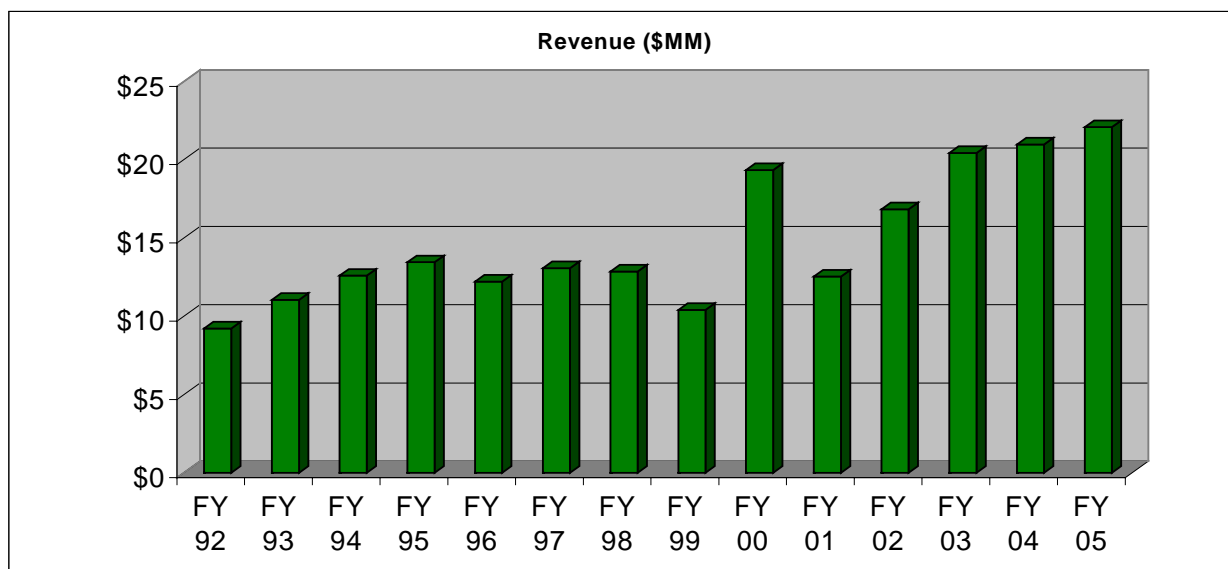
VIII. OIL FIELD CLEANUP FUNDS PROJECTION:

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

Fiscal Year 2006 = \$18,892,700

Fiscal Year 2007 = \$18,571,950

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 2005 do not include \$2,171,422 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
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

Figure 17

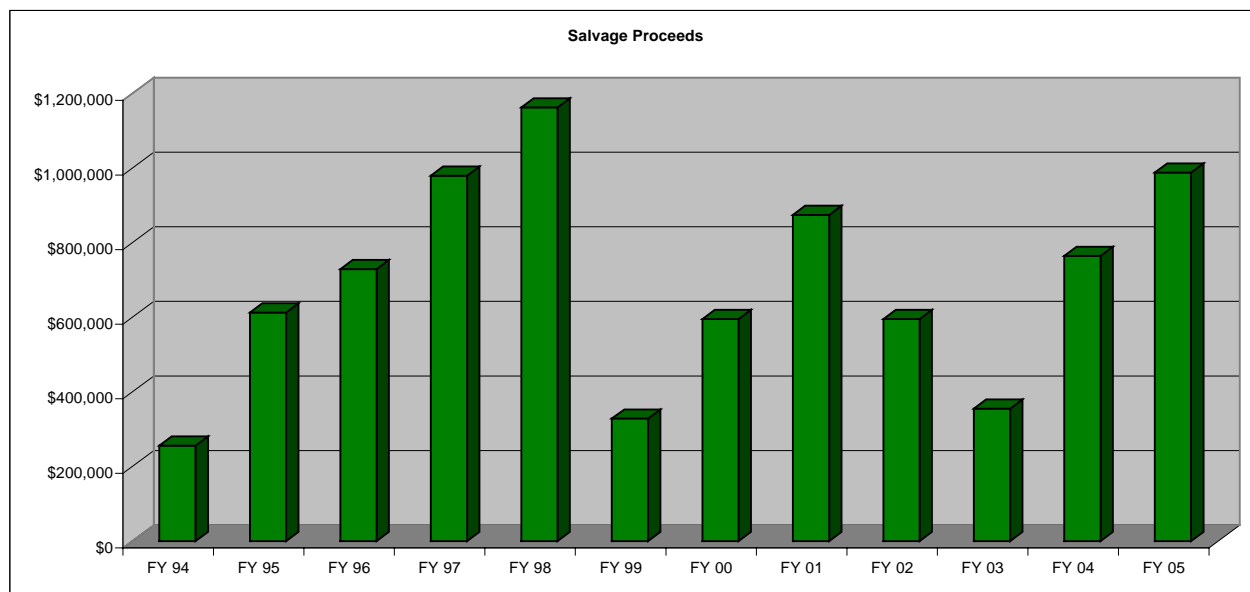
IX. STATUS OF SALVAGE OPERATIONS:

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 2005, the Commission derived **\$988,496³** from salvageable equipment and hydrocarbons on 184 salvage operations and deposited these proceeds in the Oil Field Cleanup Fund.

³Data source is the Field Operations PLUG database.

House Bill 2705 (73rd 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 from wells plugged or sites remediated and hydrocarbons from wells plugged 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 to 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 (78th 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 \$8,245,227 from 2,322 salvage operations. Figure 18 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.



Fiscal Year	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	Total
Salvage Proceeds	\$256,126	\$612,987	\$729,736	\$980,176	\$1,163,021	\$328,781	\$595,758	\$874,604	\$595,615	\$355,074	\$764,853	\$988,496	\$8,245,227
Operations	63	208	285	249	344	136	182	164	197	103	207	184	2,322

Figure 18

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

Senate Bill 310, 77th 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 2005 there were 6 new VCP applications. As of August 31, 2005, there were 33 active VCP sites. Since program inception in the summer of FY02, five sites have been cleaned up and certificates of completion issued

XI. OPERATOR CLEANUP PROGRAM:

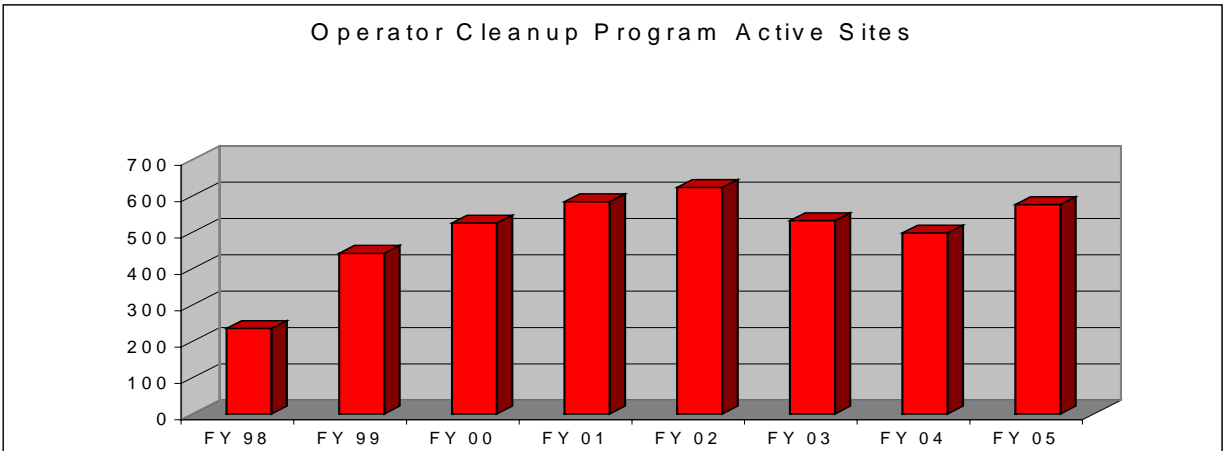
Another important function of the Commission's Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities voluntarily conducted by a responsible operator, usually at environmentally sensitive sites. The program 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.



Fiscal Year	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Active Sites	235	442	525	584	623	532	498	576

Figure 19