

Assembly Bill No. 1440

Passed the Assembly September 5, 2019

Chief Clerk of the Assembly

Passed the Senate September 3, 2019

Secretary of the Senate

This bill was received by the Governor this _____ day
of _____, 2019, at _____ o'clock ____M.

Private Secretary of the Governor

CHAPTER _____

An act to amend Sections 3106 and 6830.1 of the Public Resources Code, relating to oil and gas.

LEGISLATIVE COUNSEL'S DIGEST

AB 1440, Levine. Oil and gas: development.

(1) Under existing law, the Division of Oil, Gas, and Geothermal Resources in the Department of Conservation regulates the drilling, operation, maintenance, and abandonment of oil and gas wells in the state. Existing law requires the State Oil and Gas Supervisor to supervise the drilling, operation, maintenance, and abandonment of wells and the operation, maintenance, and removal or abandonment of tanks and facilities related to oil and gas production within an oil and gas field, so as to prevent damage to life, health, property, and natural resources, as provided; to permit owners and operators of wells to utilize all known methods and practices to increase the ultimate recovery of hydrocarbons; and to perform the supervisor's administrative duties in a manner that encourages the wise development of oil and gas resources to best meet oil and gas needs in this state.

This bill would revise and recast the duty on the supervisor to supervise the drilling, operation, maintenance, and abandonment of wells so as to permit the owners or operators of the wells to utilize methods and practices known to the oil industry that, in the opinion of the supervisor, are suitable in each proposed case. The bill would revise the declared policy of the state relating to the grant in an oil and gas lease or contract of the right or power to explore for and remove hydrocarbons from any lands in the state. The bill would instead require the supervisor to perform their administrative duties in a manner so as to help ensure the wise oversight of oil and gas development used to meet oil and gas needs in this state.

(2) Existing law authorizes the State Lands Commission to make leases for the extraction and removal of oil and gas deposits from state-owned lands to the highest qualified bidder, or to joint bidders, as provided by law, and requires that a lease include all oil and gas deposits in the leased land and be for a term of 20 years

and for so long thereafter as gas or oil is produced in paying quantities from the leased land, or that the lessee be diligently conducting production, drilling, deepening, repairing, redrilling, or other necessary lease or well maintenance operations on the leased land.

Existing law establishes a finding and determination by the Legislature that the people of the State of California have a direct and primary interest in assuring the production of the optimum quantities of oil and gas from lands owned by the state, and that a minimum of oil and gas be left wasted and unrecovered in such lands.

This bill would delete this finding and determination by the Legislature from these provisions.

The people of the State of California do enact as follows:

SECTION 1. Section 3106 of the Public Resources Code is amended to read:

3106. (a) The supervisor shall so supervise the drilling, operation, maintenance, and abandonment of wells and the operation, maintenance, and removal or abandonment of tanks and facilities attendant to oil and gas production, including pipelines not subject to regulation pursuant to Chapter 5.5 (commencing with Section 51010) of Part 1 of Division 1 of Title 5 of the Government Code that are within an oil and gas field, so as to prevent, as far as possible, damage to life, health, property, and natural resources; damage to underground oil and gas deposits from infiltrating water and other causes; loss of oil, gas, or reservoir energy; and damage to underground and surface waters suitable for irrigation or domestic purposes by the infiltration of, or the addition of, detrimental substances.

(b) In compliance with subdivision (a), the supervisor shall also supervise the drilling, operation, maintenance, and abandonment of wells so as to permit the owners or operators of the wells to utilize methods and practices known to the oil industry that, in the opinion of the supervisor, are suitable in each proposed case. It is hereby declared as a policy of this state that the grant in an oil and gas lease or contract to a lessee or operator of the right or power, in substance, to explore for and remove all hydrocarbons from any lands in the state, in the absence of an express provision to the

contrary contained in the lease or contract, is deemed to allow the lessee or contractor, or the lessee's or contractor's successors or assigns, subject to the requirements of subdivision (a), to use methods or processes that a prudent operator using reasonable diligence would use, having in mind the best interests of the state in producing and removing hydrocarbons, including, but not limited to, the injection of air, gas, water, or other fluids into the productive strata, the application of pressure heat or other means for the reduction of viscosity of the hydrocarbons, the supplying of additional motive force, or the creating of enlarged or new channels for the underground movement of hydrocarbons into production wells, when these methods or processes have been approved by the supervisor, except that nothing contained in this section imposes a legal duty upon the lessee or contractor, or the lessee's or contractor's successors or assigns, to conduct these operations.

(c) The supervisor may require an operator to implement a monitoring program, designed to detect releases to the soil and water, including both groundwater and surface water, for aboveground oil production tanks and facilities.

(d) The supervisor shall administer this division so as to help ensure the wise oversight of oil and gas development used to meet oil and gas needs in this state.

SEC. 2. Section 6830.1 of the Public Resources Code is amended to read:

6830.1. It is hereby found and determined by the Legislature of the State of California as follows:

(a) That the state owns tide and submerged lands, which lands have been developed under oil and gas leases issued by the state to an extent that it is desirable that secondary operations be undertaken within those lands in an effort to obtain the maximum economic ultimate recovery of oil and gas from the lands; and that it is desirable that the carrying on of secondary recovery operations in the lands be encouraged, which operations the holders of the leases may otherwise not undertake because certain leases covering the lands provide for the payment of graduated royalties dependent upon daily per well rates of oil production which, in the case of multiple completions, means the separately measured average daily production from each zone produced through a separate string of tubing or through casing that is not in communication with any other zone, which graduated royalties were established without

contemplation of secondary recovery operations and the economics respecting those operations.

(b) The definition relating to multiple completions set forth in this section shall apply to leases executed on or after the effective date of the amendments made to this section at the 1966 Second Extraordinary Session of the Legislature and may, with the approval of the commission, apply to oil produced from leased lands with respect to which the commission and the holder of the lease shall, on or after the effective date of the amendments, enter into an amendatory agreement pursuant to Section 6830.2. It is not the intention of the Legislature in enacting this subdivision to declare the law relating to the computation of daily per well rates of oil production from multiple completions before the effective date of the amendments or in the absence of an amendatory agreement.

Approved _____, 2019

Governor