

Susan K. Duffy, Chair  
 Dwight D. Keen, Commissioner  
 Andrew J. French, Commissioner

Laura Kelly, Governor

Before the Standing Senate Committee on Agriculture and Natural Resources  
 March 13, 2023  
 144-S, 8:30 a.m.

Informational Briefing on Abandoned Wells  
 By

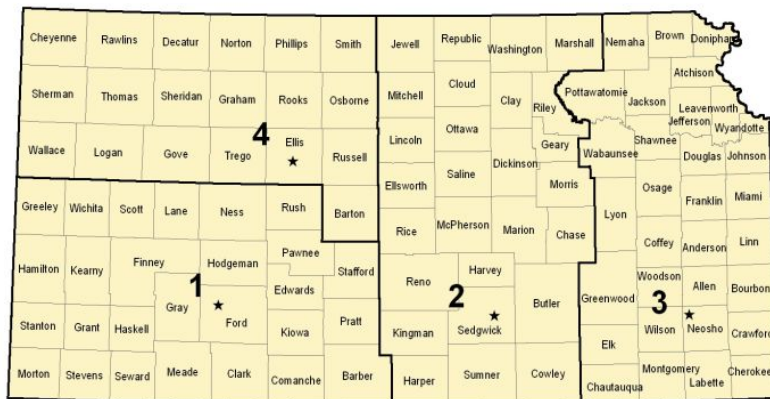
Ryan A. Hoffman, Director, Conservation Division, Kansas Corporation Commission

Chair Kerschen, Vice Chair Ryckman, and Ranking Minority Member Ware, thank you for the opportunity to speak with you today regarding abandoned wells and the efforts of the KCC to address the issue.

**State Program**

1. Background

- a. Statutory plugging program created by the Kansas Legislature in 1995
- b. Two Separate Funds
  - i. Legacy – wells drilled prior to July 1, 1995
    - 1. Funding sources:
      - a. SGF
      - b. Water Plan
      - c. Conservation Fee Fund, and
      - d. ½ of Kansas’ Federal Mineral Royalty
    - ii. Assurance – wells drilled after July 1, 1995
      - 1. Funding Source:
        - a. Fees associated with operator licensure
  - c. More than 10,000 wells were plugged statewide under this structure



2. Current Program

- a. House Bill 2022 (2021) and House Bill 2591 (2022) combined the funds into one with the licensure and royalty payments as the funding sources
- b. Abandoned Well and Site Remediation Fund balance as of 03/07/2023 was \$5,469,870.80

<b>Fiscal Year 2023</b>					
<i>State Abandoned Well Plugging &amp; Site Remediation Program</i>					
<b>WELL PLUGGING</b>					
	Wells Encumbered for Plugging	Wells Plugged	Encumbered	Expenditures	Remaining Encumbrance
District #1	0	0	\$ -	\$ -	\$ -
District #2	5	5	\$ 154,405.32	\$ 101,077.80	\$ 53,327.52
District #3	68	61	\$ 642,605.66	\$ 374,908.00	\$ 267,697.66
District #4	0	0	\$ -	\$ -	\$ -
<b>Statewide</b>	<b>73</b>	<b>66</b>	<b>\$ 797,010.98</b>	<b>\$ 475,985.80</b>	<b>\$ 321,025.18</b>
<b>SITE REMEDIATION</b>					
		Wells Worked	Encumbered	Expenditures	Remaining Encumbrance
District #3	KSA55-180b	47	\$ 69,759.35	\$ 10,240.09	\$ 59,519.26
District #1,#2, & #4	Sole Source	5	\$ 4,515.00	\$ 2,234.75	\$ 2,280.25
<b>Statewide</b>		<b>52</b>	<b>\$ 74,274.35</b>	<b>\$ 12,474.84</b>	<b>\$ 61,799.51</b>
<b>COMBINED TOTAL AMOUNT</b>			<b>\$ 871,285.33</b>	<b>\$ 488,460.64</b>	<b>\$ 382,824.69</b>

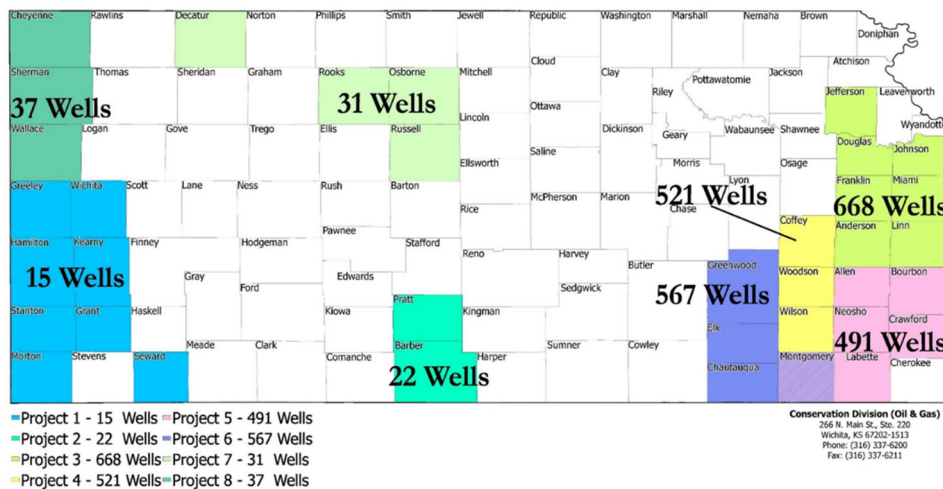
<b>Cost per well</b>						
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
District #1	\$ -	\$ 13,985.63	\$ 14,882.58	\$ 15,077.42	\$ 16,051.98	0
District #2	\$ 5,930.62	\$ 15,349.18	\$ 13,189.58	\$ 14,756.11	\$ 10,284.93	\$ 20,215.56
District #3	\$ 3,454.81	\$ 4,077.32	\$ 3,346.96	\$ 3,611.63	\$ 6,184.45	\$ 6,146.03
District #4	\$ 25,055.85	\$ 12,514.81	\$ 13,598.92	\$ 14,073.65	\$ 13,900.80	0
<b>Statewide</b>	<b>\$ 3,800.78</b>	<b>\$ 5,517.83</b>	<b>\$ 5,887.20</b>	<b>\$ 6,742.46</b>	<b>\$ 7,049.20</b>	<b>\$ 7,211.91</b>

- c. New State Program Contract
  - i. Combining all four (4) district contracts into one (1) All State Plugging Contract for a two-year term
  - ii. Three contractor meetings statewide
    - 1. Meeting Attendees:
      - a. 58 individuals attendees
      - b. 35 contractor companies
  - iii. Informational Email:
    - 1. 57 contractor companies
  - iv. All State Abandoned Well Plugging Contract currently out for bid with a close date of March 27, 2023
- d. New Website
- e. Purple Wave Salvage Auctions

## **Federal Plugging Program**

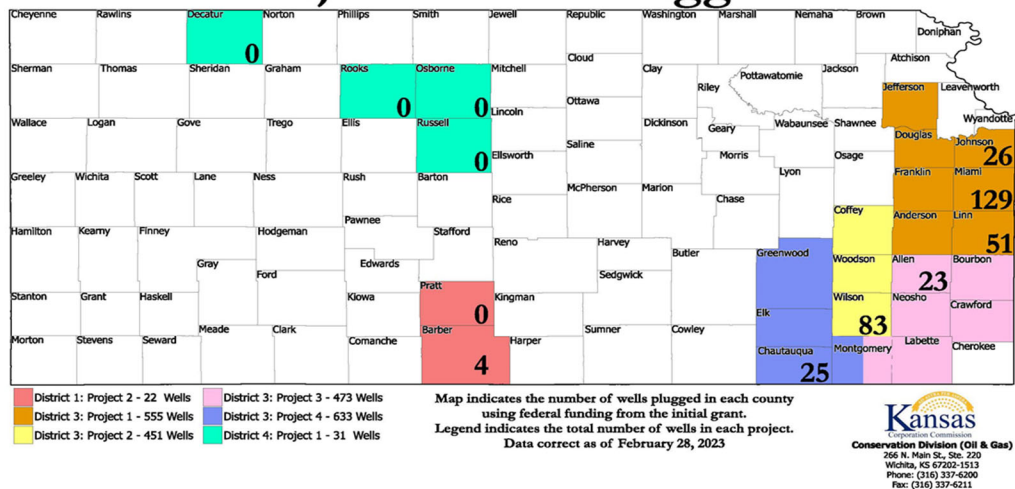
1. IJA or BIL contains \$4.275 B to address orphaned well plugging
  - a. Initial Grants \$775 M
  - b. Formula Grants \$2 B
  - c. Performance Grants \$1.5 B
2. Distinctions between Federal and State lands
3. Federal Plugging Money uses:
  - a. Plug or remediate wells
  - b. Identify orphaned wells
  - c. Prioritize/rank orphaned wells
  - d. Publish information on website
  - e. Measure and track emissions and contamination
  - f. Remediate soil/habitat
  - g. Remove infrastructure
  - h. Environmental justice
4. Generally
  - a. Up to 10% of grants for administrative purposes – 349(c)(2)(B)
  - b. States can use their own definitions and procedures for plugging and remediation – 349(a)(5) and 349(c)(4)(B)
  - c. Secretary of Interior has limited discretion in administering the grants – 349(c)(3)(B), (4)(C), and (5)(C)
  - d. **Davis-Bacon Act applies**
5. Performance Grants aka Regulatory Improvement Grants – Sec 349(c)(5)
  - a. Strengthening regulatory plugging standards and procedures
  - b. Reducing future orphaned well burdens
    - i. “financial assurance reform, alternative funding mechanisms for orphaned well programs, and reforms to programs relating to well transfer or temporary abandonment”
  - c. Have a 10-year lookback period so states can account for recent actions but...
  - d. Also has a 10-year clawback period if the state enacts a law or regulation that would make it ineligible to apply the first time
  - e. Up to \$20 M per state
  - f. Matching Grant
    - i. Up to \$30 M during FY 2022 – 2031
    - ii. Avg. annual state plugging expense (2010 – 2019) – Amount state certifies it will spend during FY
6. Initial Grants – two types
  - a. \$25 M Initial Grant – all states are eligible
    - i. Request for funding must be submitted within 180 days after enactment (**Friday 5/13/2022**)

- ii. State will “obligate” 90% of the funds within 90 days
  - iii. 10% of grant can be used for administrative costs
  - iv. Funds must be distributed to state within 30 days of request\*
  - v. State must return “unobligated” funds one year after receipt\*
  - vi. State must report to Secretary 15 months after receipt how the funds were used\*
- b. \$5 M Initial Grant
    - i. No timeframe for request or obligation requirement (9/30/2030)
    - ii. Not subject to the 10% administrative costs limitation
    - iii. Still subject to the bullets with an \* above
  - c. KCC applied for and received the \$25 M Initial Grant
    - i. RFP for one contract containing eight separate plugging projects



ii. Received bids on six projects and plugging began week of 01/16/2023

## Kansas’ Federal Initial Grant Plugging Projects: Wells Plugged



<b>State of Kansas Abandoned Well Plugging • Federal Program</b>	
<i>Federal Initial Grant</i>	
<i>(EVT0008814)</i>	
Initial Funds Available TOTAL	\$25,000,000.00
<b>INITIAL ESTIMATED AMOUNTS</b>	
Initial Estimated TOTAL Wells	2165
Initial Estimated TOTAL Projects Cost	\$24,862,078.74
<b>WELLS PLUGGED (as of 02.28.2023)</b>	
TOTAL Wells	341
TOTAL Cost	\$3,386,350.00
<b>INVOICED (PAID) AMOUNTS (as of 02.28.2023)</b>	
TOTAL Invoiced (Paid) Wells	264
TOTAL Invoiced (Paid) Project Cost	\$2,629,900.00

7. Formula Grants

- a. Formula has three variables:
  - i. Number of “documented” abandoned wells;
  - ii. Cost to plug abandoned wells; and
  - iii. Job losses in the oil and gas sector
- b. State must file notice of intent to apply within 45 days
- c. 75 days after enactment, Secretary must publish amount state is eligible to receive
- d. Secretary must issue funds within 60 days of receiving a complete application
- e. Application period is open-ended (9/30/2030)
- f. Funds must be used within five years or returned
- g. Kansas’ Notice of Intent to Apply for Funding Submitted 12/2021
  - i. 5,477 “documented” abandoned wells
  - ii. Estimated plugging cost of \$35,765,916.69\*
  - iii. 401 jobs lost (8.4%) Kansas Bureau of Labor Statistics data through June 2021
- h. Actual Formula Grant Award
  - i. \$33.6 M “awarded”
    1. \$8.722 M available in Phase 1?
  - ii. DOI will decide if adjustments are necessary to remaining formula amounts for Phase 2 when more data is available?
- i. DOI provided “Draft Guidance” on January 30, 2023
- j. KCC will provide written comments on Draft Guidance by March 24, 2023 deadline