STAFF REPORT
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A Statewide 04/05/19

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CONSIDER SUPPORTING AB 926 (O'DONNELL) IN THE 2019-20 LEGISLATIVE SESSION TO REMOVE THE $300 MILLION CAP ON THE OIL TRUST FUND, RESUMING MONTHLY DEPOSITS OF $2 MILLION FROM LONG BEACH OIL OPERATION REVENUES UNTIL THE FUND REACHES A BALANCE THAT WILL COVER THE STATE'S ABANDONMENT LIABILITY

SUMMARY:

AB 926 relates to tideland oil revenue allocation for the future abandonment of the West Wilmington and Long Beach Unit oil operations in the city of Long Beach. Existing law establishes the Oil Trust Fund in the State Treasury to fund removal of oil and gas facilities, remediation, and plugging and abandonment of wells when the City of Long Beach oil operations cease. The Oil Trust Fund, financed by monthly contributions from revenue generated from the oil operations, is statutorily capped at $300 million. The cap was reached in June 2014. Since then, the Fund has not grown and all interest earned, roughly $12 million, has been transferred to the General Fund. According to the City of Long Beach Gas and Oil Department, the State's share of the abandonment liability is roughly $905 million, leaving the State with an unfunded liability of at least $605 million, should the cap remain in place.

BACKGROUND AND DISCUSSION:

A large portion of the Wilmington Oil Field, one of the largest oil fields in the nation, is beneath the Long Beach tidelands. The Legislature granted these tide and submerged lands to the City in the early 1900s subject to the common law Public Trust Doctrine and a statutory trust grant. The grant included the mineral interests. The Wilmington Oil Field was discovered in 1937, and soon after, the City began oil development and extraction operations in the tidelands. The oil operations include the Long Beach Unit and the West Wilmington Units established in the early and mid-1960s. The City is the unit operator and California Resources Corporation is the contractor responsible for day-to-day production and maintenance. Even though the minerals are granted to the City, the State receives a share of the net profits that would otherwise go to the City as grantee. The State's revenue share is deposited into the General Fund. Certain statutes and various unit and production agreements control the character of the oil operations, including the liability associated with abandoning oil and gas wells and facilities. The State's share of liability is apportioned based on its net profits interest, among other factors. The State retains a large majority of the total abandonment liability at the end of the oil operations. While oil and gas wells are abandoned as a normal course of oil field operations, those costs are deducted as unit expenses and are paid before net profits are calculated. Once operations cease and revenue is no longer generated, the Oil Trust Fund will be the primary source to fund the substantial abandonment and decommissioning work that will be required to remove oil and gas facilities related to the oil operations.

In 2005, the Legislature enacted SB 71 (Senate Committee on Budget), which created the Oil Trust Fund in Public Resources Code section 6217.8, to fund abandonment costs when unit operations end and oil revenue generation is insufficient to cover those costs. The purpose of the legislation was to create an abandonment fund for the Long Beach operations. Public Resources Code section 6217.8 requires monthly deposits ($2 million or 50 percent of monthly revenue, whichever is less) from the State's share of tidelands oil revenues until the Oil Trust Fund reaches $300 million.

The Commission may spend money in the Oil Trust Fund for well abandonment, pipeline removal, facility removal, remediation, and other costs to remove oil and gas facilities from the Long Beach tidelands that are not the responsibility of other parties. Money in the Oil Trust Fund can be used only after the City determines that oil revenue is insufficient to cover abandonment and decommissioning work—an event likely associated with the end of the Wilmington Oil Field's productive life. The projected abandonment costs for the Long Beach oil operations have increased considerably because of updated market costs for abandonment work and reduced production forecasts from low oil prices. In recent years, the City of Long Beach Gas and Oil Department has estimated the abandonment liability at several hundred million dollars more than previously thought. In 2018, the City of Long Beach Gas and Oil Department requested that California Resources Corporation provide an updated estimate for abandoning and decommissioning the wells, pipelines, and facilities. The analysis is consistent with the City of Long Beach Gas and Oil Department estimates showing that end-of-field-life abandonment and decommissioning will be more expensive than previously estimated. Now, the City estimates that the State's potential unfunded liability, subtracting the $300 million in the Oil Trust Fund, is approximately $605 million.

When the Long Beach oil operations cease, which should be around 2036, it will pose a problem for the State because the Oil Trust Fund is inadequately funded to meet the State's liability obligations. The State can significantly reduce its unfunded liability by removing the $300 million cap on the Oil Trust Fund and resume depositing a portion of the State's share of revenue from the Long Beach oil operations into the Oil Trust Fund.

In 2018, the Commission sponsored AB 2404 (O'Donnell) that was virtually identical to AB 926. AB 2404 was held in the Senate Appropriations Committee on its Suspense File.

RECOMMENDED ACTION:

Staff recommends that the Commission support AB 926 (O'Donnell) to remove the $300 million cap on the Oil Trust Fund so that the abandonment fund for the Long Beach oil operations is more likely to be sufficient to cover the State's liability.