



OHIO LEGISLATIVE SERVICE COMMISSION

Bill Analysis

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H.B. 225

132nd General Assembly
(As Introduced)

Reps. Thompson, Hambley, Householder, Stein, Brenner, Riedel, Dean, Schaffer, Seitz, Keller, Edwards, Greenspan, Patterson, Goodman, Wiggam, Retherford, Ginter, Barnes, Young, Romanchuk, Landis, Kick, Patton, Faber, West, Bocchieri, Hagan, O'Brien, Gavarone

BILL SUMMARY

Reporting idle and orphaned and abandoned wells

- Requires the Chief of the Division of Oil and Gas Resources Management to adopt rules establishing three categories of idle and orphaned or abandoned wells:
 - Distressed-high priority;
 - Moderate-medium priority; and
 - Maintenance-low priority.
- Authorizes a landowner who discovers an idle and orphaned well or an abandoned well to report the existence of that well to the Chief.
- Requires the Chief to inspect a well reported by a landowner not later than 30 days after the date the landowner reports the existence of that well.
- Requires the Chief to provide a landowner who reported the existence of an idle and orphaned or abandoned well with a report that categorizes the well into one of the three categories specified above.
- Requires the Chief to plug a well categorized as distressed-high priority not later than six months after issuing the report categorizing the well.

- Specifies that a landowner who reports an idle and orphaned or abandoned well is not financially responsible for plugging that well, but may elect to do so and be reimbursed by the Division.

Oil and Gas Well Fund use for plugging

- Requires 45% of the revenue credited to the Oil and Gas Well Fund to be used by the Chief for purposes associated with plugging idle and orphaned and abandoned wells, rather than 14% as under current law.
- Requires the Chief to fulfill quarterly and annual reporting requirements regarding expenditures made from the Fund for purposes associated with plugging activities.

Forfeiture of equipment

- Alters the time frame by which the owner of equipment appurtenant to an idle and orphaned or abandoned well must act to properly plug the well before the equipment is forfeited to the state from 60 days after receiving notice from the Chief to 30 days after receiving the notice.

Well plugging compensation tax deduction

- Authorizes a personal income tax deduction for compensation paid by the Department of Natural Resources to reimburse a landowner's costs to plug an improperly plugged oil or gas well.

CONTENT AND OPERATION

Plugging idle and orphaned and abandoned oil and gas wells

Background

The Ohio Department of Natural Resources, Division of Oil and Gas Resources Management, operates a program to plug improperly abandoned oil and natural gas wells. The program has been in operation since 1977. Under the program, the Division may provide for plugging a well, or a qualified landowner may plug the well and receive reimbursement of the costs from the Division. The program also provides for the plugging of a well in an emergency situation.¹

¹ <http://oilandgas.ohiodnr.gov/orphanwellprogram>.

Reporting idle and orphaned and abandoned wells

The bill requires the Chief of the Division of Oil and Gas Resources Management to adopt rules establishing three categories of idle and orphaned or abandoned wells:

- (1) Distressed-high priority;
- (2) Moderate-medium priority; and
- (3) Maintenance-low priority.

The rules must include a description of what constitutes each category of well.²

The bill then authorizes a landowner who discovers an idle and orphaned well or an abandoned well to report the existence of that well to the Chief. When the Chief receives a report from the landowner regarding the existence of an idle and orphaned well or an abandoned well, the Chief must inspect the well not later than 30 days after the date of the landowner's report. The Chief must then provide the landowner, not later than 60 days after the inspection, with a written report that categorizes the well as one of the three categories: distressed-high priority, moderate-medium priority, or maintenance-low priority. If the Chief designates a well as distressed-high priority, the Chief must begin plugging the well not later than six months after issuing the written report to the landowner. The bill specifies that a landowner who reports an idle and orphaned or abandoned well in accordance with the bill's provisions is not financially responsible for plugging that well, but may elect to do so and be reimbursed by the Division of Oil and Gas Resources Management, as provided in current law.³

Oil and Gas Well Fund

Percentage of Fund used for plugging

Under current law, the Chief is required to annually use 14% of the revenue credited to the existing Oil and Gas Well Fund during the previous fiscal year for the following purposes:

- (1) To plug idle and orphaned wells or to restore the land surface properly;
- (2) To correct conditions the Chief reasonably has determined are causing imminent health or safety risks at an idle or orphaned well for which the owner of the

² R.C. 1509.071(J).

³ R.C. 1509.071(D).



well cannot be contacted to initiate a corrective action within a reasonable period of time, as determined by the Chief.⁴

The bill changes the percentage that the Chief must spend from the Fund for these purposes from 14% to 45%. The bill also specifies that the stated intent of this spending is for the purpose of promoting the competent management and conservation of the state's oil and natural gas resources and the proper and lawful plugging of historic oil and gas wells for which there is no responsible owner.⁵

Quarterly and annual reports

The bill requires the Chief to fulfill two sets of reporting requirements, including a quarterly report that must be provided to the Technical Advisory Council on Oil and Gas,⁶ and a joint annual report with the Council that must be provided to various members of the General Assembly. First, the Chief must submit a written report to the Technical Advisory Council on Oil and Gas on or before the close of each calendar quarter. The quarterly report must describe the efforts of the Division of Oil and Gas Resources Management to plug idle and orphaned and abandoned wells during the immediately preceding calendar quarter. The Chief must include in the quarterly report all of the following:

(1) The total number of known idle and orphaned wells and abandoned wells in the state and the total number in each county of the state that the Chief has categorized as distressed-high priority, moderate-medium priority, and maintenance-low priority in accordance with rules prior to the date of the report;

(2) The total number of newly discovered idle and orphaned wells and abandoned wells during the immediately preceding calendar quarter;

(3) The total number of wells plugged during the immediately preceding calendar quarter;

⁴ In addition to plugging idle and abandoned oil and gas wells, the Division must use money in the Oil and Gas Well Fund for purposes of administering the Oil and Gas Law and the law governing underground storage of gas and for expenses that are critical and necessary for the protection of human health and safety and the environment related to oil and gas production in Ohio. The Oil and Gas Well Fund consists of money derived from various sources, including money derived from the state excise tax on oil and gas. R.C. 1509.02 and 5749.02, not in the bill.

⁵ R.C. 1509.071(B)(1).

⁶ Under current law, the Technical Advisory Council on Oil and Gas is required to approve specified rules adopted by the Chief, approve certain actions of the Chief governing special drilling unit requirements, consult with and advise the Chief, and perform other duties that may be lawfully delegated to it by the Chief. R.C. 1509.24, 1509.25, and 1509.38, not in the bill.

(4) The overall total number of idle and orphaned and abandoned wells plugged and the estimated average and indirect costs of plugging activities prior to the date of the report; and

(5) The number of wells approved for plugging and the estimated average and indirect costs of plugging activities conducted during the immediately preceding calendar quarter.

Second, the Chief and the Council must jointly provide an annual report containing, at a minimum, the information included in the quarterly reports to the Speaker of the House of Representatives and Chair of the committee of the House of Representatives responsible for energy and natural resources issues. The Chief and the Council must deliver the report not later than March 31 of each year.⁷

Forfeiture of equipment

Under current law, when the Chief determines that a well owner has failed to properly plug an orphaned and idle or abandoned well or properly restore the surface of the land at the well site, the Chief is required to mail notice to each person having legal title to, or a lien upon, any equipment appurtenant to the well. The notice must inform each person that the well is required to be plugged and offer the person the opportunity to plug the well and restore the land surface at the well site at the person's own expense in order to avoid forfeiture of the equipment to the state.⁸ If a person does not act to plug the well within 60 days after receiving the notice, the equipment is forfeited to the state without compensation to defray the costs of plugging the well and restoring the surface of the land at the well site. The bill changes this action period from 60 days to 30 days.⁹

Well plugging compensation tax deduction

The bill authorizes an income tax deduction for compensation a landowner receives from the Department of Natural Resources (DNR) to reimburse the landowner's costs to plug an oil or gas well that was either abandoned or improperly

⁷ R.C. 1509.071(B)(3).

⁸ R.C. 1509.071(E)(1).

⁹ R.C. 1509.071(E)(2).



plugged and to restore affected land surfaces.¹⁰ A landowner may deduct any such compensation received in taxable years ending on or after the bill's effective date.¹¹

Under continuing law, DNR is required to notify a person when the agency discovers an abandoned or improperly plugged well located on land owned by the person. Once notified, the landowner may apply to DNR for compensation equal to the landowner's reasonable costs to engage a private contractor to properly plug the well and restore affected land surfaces. The Chief of DNR's Division of Oil and Gas Resources Management is required to approve the application if the Chief finds that the proposed costs are reasonable and that the project complies with existing well plugging laws and regulations. The Chief reimburses the landowner's approved well plugging expenses upon the satisfactory completion of all well plugging activities. The Chief may place an annual limit on the number of plugged wells eligible for such reimbursement.¹²

HISTORY

ACTION	DATE
Introduced	05-16-17

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¹⁰ R.C. 5747.01(A)(33).

¹¹ Section 3.

¹² R.C. 1509.071(F)(2).

