OFFICE OF CONSERVATION

STATE OF LOUISIANA

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OILFIELD SITE RESTORATION COMMISSION MEETING

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REPORT OF HEARING

HELD AT

BATON ROUGE, LOUISIANA

JULY 21, 2011

OFFICE OF CONSERVATION

STATE OF LOUISIANA

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OILFIELD SITE RESTORATION COMMISSION MEETING

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Report of the public hearing held by the Office of Conservation, State of Louisiana, on July 21, 2011, in Baton Rouge, Louisiana.

IN ATTENDANCE:

REPRESENTING:

Sarah Wagner, Division OSR Engineer

James Welsh, Office of Conservation

Bob Harper, Department of Natural Resources

Paul Frey, Commissioner for LLA

Don Briggs, Commissioner for LIOGA

Michael R. Lyons, Commissioner for Mid‑Continent

Blake Canfield, Staff, Office of Conservation

Chris Sandoz, Staff, Office of Conservation

OILFIELD SITE RESTORATION COMMISSION MEETING

JULY 21, 2011

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MR. WELSH:

Good afternoon, ladies and gentlemen. Welcome to the quarterly meeting of the Oilfield Site Restoration Commission.

My name is Jim Welsh. I am Commissioner of Conservation, and I will be the acting chair this afternoon for the meeting.

Let's get started, and, Sarah, do you want to call the roll?

MS. WAGNER:

Yes, sir. Please answer the roll when your name

is called.

Scott Angelle?

MR. HARPER:

Robert Harper sitting for Scott Angelle.

MS. WAGNER:

Jim Welsh?

MR. WELSH:

Here.

MS. WAGNER:

Paul Frey?

MR. FREY:

Here.

MS. WAGNER:

Don Briggs?

MR. BRIGGS:

Here.

MS. WAGNER:

Karen Gautreaux?

(No response.)

MS. WAGNER:

Wilfred Fruge has resigned his position on his Commission due to declining health, and I believe the Oil and Gas Association is putting together a list of nominees to replace.

MS. WAGNER:

Randy Lanctot?

(No response.)

MS. WAGNER:

Jim Maranto?

(No response.)

Mike Lyons?

MR. LYONS:

Here.

MS. WAGNER:

Troy Vickers?

(No response.)

MS. WAGNER:

Commissioner, that is five in attendance and does constitute a quorum.

MR. WELSH:

Five and a quorum, okay.

Just go right on down the agenda, if you would, Sarah.

MS. WAGNER:

Yes, sir.

Item No. II on the agenda is to approve the minutes from the May 5th meeting. In an effort to conserve paper, the meeting transcript was e-mailed to each member. Please let me know if you did not receive a copy, so I can verify your e-mail address and get a copy to you.

Motion to approve the minutes?

MR. LYONS:

I'll move to approve the minutes.

MR. FREY:

Second.

MR. WELSH:

A motion and a second to adopt the minutes.

Any discussion?

(No response.)

MR. WELSH:

The minutes are adopted.

MS. WAGNER:

Okay. Moving on down the agenda, Item No. III is the Fund status. Please turn to Page 2 of your handout. As of today, there is approximately $1.8 million at the Treasury. We have over $1.7 million in contractual obligations, so there is approximately $27,000 cash available.

July 30th will begin the first quarter collection period for oil, and August 15th for gas collections, so, shortly, the Fund should again collect approximately $900,000, and we anticipate collections of approximately $4.2 million this fiscal year, for fiscal year '12.

The next page, 2A, in your handout is a supplement to the Fund balance sheet demonstrating the annual fee collections per fiscal year since Program inception. The official fiscal year closeout report from accounting has not been issued, but using the last collections report, the Program has collected $4,120,928.

Pages 3 and 4 include the details on the

Site-Specific Trust Accounts. There have been numerous inquiries into these accounts that are managed by the Program due to several proposed account transfers. When an oilfield site is transferred from one party to another and an SSTA already exists, the SSTA account must be reassessed by an approved Oilfield Site Restoration contractor to determine that the account continues to be adequately funded, and then the account is transferred simultaneously with the wells to the new operator. Once an account has been established, it remains in existence for the life of the oilfield site, and the funds are not released until the site has been remediated in accordance with the regulations in place, a request for the account closure is received, and then the work has been confirmed through a site inspection.

Page 3 itemizes all of the accounts the Program administers, which currently covers 767 active wells secured with a combination of cash, letters of credit, certificate of deposits, and performance bonds, totaling $46.6 million. Page 4 in the handout details the Site-Specific Trust Accounts that are funded in any part with cash.

Item IV on the agenda concerns Program statistics. If you could, please, turn to Page 5 in your handout, on the left side of the page are the statistics as of today, and on the right, for comparison, are the statistics presented at our May Commission meeting. Starting at the top of the page, to date, the Program has plugged and abandoned 2,482 orphaned wells. No wells have been plugged and abandoned since we last met.

Continuing on down the page to Section 3, orphan wells remaining statewide, there are currently 2,835 orphan wells.

Section 4 lists the recently-orphaned well count. Eight wells were orphaned for May, one in June, and 30 were added yesterday for July.

If you will direct your attention to Page 6, I have provided a graph of the current orphan well count in the state compared to the cumulative number of wells plugged by the Program illustrating today's current orphan count of 2,835, which reflects the July orphan list, and if you will look back at fiscal year '10-'11, the fiscal year that we just completed, we ended with an orphan count of 2,815. There are 174 wells that are newly orphaned, 163 orphaned wells were restored by other means, either acquired by operators in good standing or plugged by third parties through a cooperative agreement, and 29 wells were plugged and abandoned by the Program. So this resulted in a decrease of 18 wells from the previous fiscal year's count of 2,833.

The next page in the handout, Page 7, details the current OSR projects. Line Item No. 1 under "Active Oilfield Projects" is the emergency bid for a contractor to provide and install U.S. Coast Guard approved navigational aids on 166 identified orphan well sites. The emergency bid proposal was issued on April 6, 2011, in order to accomplish the installation of navigational aids on the 1A, 1, 2, and 3

priority-ranked sites in the C.H. Fenstermaker emergency investigation. The project was awarded to Gulf Contractors, LLC, in the amount of $648,739.98. A Notice to Proceed was issued to the contractor on June 29th, and Gulf Contractors has filed the contracts with the Clerk of Court in each of the 11 parishes and has submitted the application for installation for the first batch of wells to the U.S. Coast Guard for permit approval. So, at today's date, we don't have any lights installed, but by the next time we meet, we should have a few lights installed. We will continue to update the Commission as that emergency project progresses.

Moving down to Line Item 2, that is the four-well Manila Village project that is located in the waters of Jefferson Parish. The project was awarded after the March Commission meeting. Additional time was necessary to obtain the Coastal Use Permit, and then the contractor was granted an eight-week extension due to the Atchafalaya flooding event. Estis Well Service has just submitted the necessary payment and performance letter of credit in order to send the contracts to the Secretary Angelle for his signature in order to issue the Notice to Proceed, so no work has yet commenced on that project.

Item No. 3 is a project to clamp the leaking orphan pipeline in Tigre Lagoon Field in Vermilion Parish and to research the responsible party. The contractor has made an additional site visit, and a Costal Use Permit has been obtained, and the project should be completed by the end of August.

Page 15 in the handout shows the project locations statewide for the completed fiscal year

'10-'11 bid projects. The just-completed fiscal year's activity resulted in 29 wells plugged and abandoned.

Due to the Barataria Bay incident involving an orphan well in a water location, a renewed focus on urgent and high-priority wells was emphasized, and the remaining funds were redirected to P&A urgent and high-priority scored wells. The Program was able to successfully remove from the orphan list three urgent priority scored wells.

Page 16 illustrates the currently active and proposed project locations for the fiscal year that began July 1st, fiscal year '12. Project selection focused on the Program's performance indicator to plug and abandon 18 urgent and high-priority scored wells statewide.

The proposed Redoak Lake project consists of three wells located in Redoak Lake and Wildcat Fields in Red River Parish and falls under the jurisdiction of the Shreveport District. The project centers around one high-priority well that is leaking saltwater and is illustrated on Page 17.

The proposed Ramos Field, St. Mary Parish project consists of one moderate priority scored well, because the well is not currently leaking. It was a

high-scored well until we stopped the leak. This well has been a concern of the Program for over a year now. The well has been previously discussed before the Commission in January of 2010, as an emergency project to address a discovered leaking gas well. It was determined at the time, due to an excessive cost to P&A on an emergency bid, to address the well in phases, with the first phase completed in January 2010, at a cost of $35,000, which was a significant cost savings compared to a $950,000 P&A estimate.

The first phase consisted of stopping the leak, which involved the installation of a wellhead to control and monitor the well. EMER2010-01 Phase 1 was successfully completed, and the leak has been contained. However, the pressure has continued to build on the wellhead. Conservation enforcement agents have been monitoring the well approximately every two weeks now, and they are bleeding it down as necessary to ensure the integrity of the 5,000-pound wellhead. The pressure has gotten as high as 2,800 psi. You may recall an assessment project as recently as November of last year. Due to environmental and safety concerns, a contractor was hired to bleed down the well into a work tank utilizing 5,000-pound pressure rated equipment. The well was bled down to 25 psi. The pressure has continued to build, and as of the last inspection performed Monday of this week, the well had 1,500 psi on the wellhead. Staff is concerned about the effects of the increased pressure, the bleeding it down, and the pressure buildup in this well, and we believe it is time to go ahead and move forward with the plug and abandonment. The project could potentially commit a fourth of the Program's available budget this fiscal year.

The additional north Louisiana project located in the Monroe Field, Morehouse Parish, within the jurisdiction of the Monroe District, will center around one of two high-priority scored wells that is located in that district, and then the number of surrounding orphan wells that we include in that project will depend on the available budget, but we believe based on our cost estimates that we will be able to include 15 additional wells in that project.

And then the Manila Village project is the active project right now, the PA 11-005.

These proposed projects, if successfully completed, would result in ten urgent priority scored wells, eight high-priority scored wells, nine moderate scored wells, and nine low scored wells removed from the orphan list. Of course, these project areas are subject to change if during the year a well that warrants immediate attention jumps to the top of the priority list.

Any discussion from the Commission?

MR. BRIGGS:

The wells -- the well on Page 20, do you know whose well that was? I'm just curious about these water locations and who these locations originally belonged to; do you know?

MS. WAGNER:

I'm sorry. Do I know whose well?

MR. WELSH:

On Page 20 --

MR. BRIGGS:

What company was the last company of record on that well?

MS. WAGNER:

Cedyco.

MR. BRIGGS:

Who?

MS. WAGNER:

Cedyco. The Dryers of --

MR. BRIGGS:

Cedyco?

MS. WAGNER:

Cedyco, C-E-D-Y-C-O.

MR. BRIGGS:

Who are those people?

MS. WAGNER:

Dryer (phonetic) is the last name as the officer of the company.

MR. BRIGGS:

Are they from Houston?

MS. WAGNER:

Yes. They are also the same operator of record that was involved in the U.S. Coast Guard well incident, the Barataria Bay incident. It's the

same --

MR. BRIGGS:

And those guys are not around anymore?

MS. WAGNER:

Not in Louisiana. They are active in Texas. Our jurisdiction is only in Louisiana, but the Coast Guard jurisdiction is far reaching.

MR. BRIGGS:

So this company is active in Texas?

MR. WELSH:

I think she said in Texas but not Louisiana; is that right?

MS. WAGNER:

That is what I believe, yes.

MR. BRIGGS:

Can we go after them?

MS. WAGNER:

The Federal government is after the -- they've spent $15 million in that Barataria Bay incident, and I have been in discussion with one of the Coast Guard attorneys out of Washington, and they are pursuing. I mean, what happens --

MR. BRIGGS:

Dryer's first name, do you know what that is?

MR. SANDOZ:

It's Lance.

MR. BRIGGS:

Lance?

MS. WAGNER:

Lance.

MR. BRIGGS:

Lance Dryer.

MR. SANDOZ:

Yes, sir.

MR. BRIGGS:

Okay. I get so mad when I see that.

The well on Page 19 --

MS. WAGNER:

The well on Page 19 --

MR. BRIGGS:

I am just curious who that operator was.

MS. WAGNER:

In Coffee Bay? I do have a list.

MR. BRIGGS:

Are we pretty extensive in our work going after these guys that leave all these wells; do you go after them at the time, or do you --

MR. CANFIELD:

Actually, the Oilfield Site Restoration law actually states that we have to expend at least $250,000 before we can go after the companies, and at least, Cedyco, we did not expend the money. In that case, the Federal government did, so they are the ones that are going after that company. I guess we would have to look at each individual case to see if we have expended the requisite amount and make a determination if we go after them.

I know, in the past, it is often dependent on whether or not we can find the companies. In some cases, we can. In some cases, we, you know, have no idea, and, too, the costs that would be associated with pursuing them. Like anything, you kind of have to take a look at it from a risk perspective. If you are going to end up spending almost as much money on

-- well, probably not that much, but a large sum of money on prosecuting them or trying to get your case there and have a chance to lose, it just depends. But, yes, we have to expend the money first, and --

MS. WAGNER:

We do send demand letters when there is -- you know, in the chain of ownership. Someone is still liable.

MR. CANFIELD:

Right, and, in fact, we find that that is actually helped in a number of cases where just by notifying, sometimes it is -- I don't want to say ignorance, but something close to that, that the party, they think that they are off the hook, and by sending the letter to let them know that either we have gone out and spent the money or we plan on going out to spend the money, a lot of times, they will come to the table, and they will either, if the work has not been done, volunteer to do the work, or if the work has been done try to work out something where either they pay for our costs or they go and do an equivalent P&A job or jobs elsewhere.

MR. BRIGGS:

Can we go any further past the original operator of record?

MR. CANFIELD:

We do in the sense that --

MR. BRIGGS:

-- or owner of record?

MR. CANFIELD:

Yes, in the same way. If -- again, whenever we know we are going to go out and expend money and we believe it is going to go beyond that $250,000 limit, we notify, I think, all the operators up the chain, at least the ones immediately before the --

MS. WAGNER:

If they are active.

MR. CANFIELD:

-- if they are active -- before the last operator of record. A lot of times, the last operator of record, obviously, has gone orphaned, maybe they are bankrupt, maybe -- you know, we don't know, but if we can't get in touch with them, then it goes up the chain, and up the chain is maybe a larger operator that is still active, and they often will come and share the burden and then, you know, on their own, go and seek contribution if they can find that person. It really is, you know, kind of a case-by-case, I guess, but that is usually how they are handled.

MR. BRIGGS:

Thank you very much. I appreciate it.

MR. LYONS:

I know you are bound by the Oilfield Site Restoration law, but I wonder if there are some other statutes -- I mean, if the State expends money as a result of the -- you know, something that an operator in Houston didn't do, it seems like there ought to be a way -- I mean, if we spend $1 million on this package, it seems like the State ought to be able to

-- I mean, it is just like if a truck ran off the bridge and caused $1 million worth of damage, I assume the State would seek some reimbursement?

MR. CANFIELD:

Right. I think in those cases, it is, you know, not as big of an issue. It is when we are talking about something that is going to come in below that $250,000 threshold. I can tell you, just personally, I have had conversations with attorneys from the Department of Justice and other places to try to see what else would be available, I haven't gotten a definite answer that we can do this or we will do this in every case, but it is something, you know, that we can completely look into.

MR. LYONS:

But the Cedyco case, if we spent the $1 million, you're saying the Oilfield Site Restoration law would not let us pursue them outside of the state?

MR. CANFIELD:

In that case, it is more of a fact that we would have to I guess have jurisdiction to go over there and grab them, and we may or may not, but in the Cedyco case, in particular, we didn't expend the money. The Feds did.

MR. LYONS:

We have a new case coming up with Cedyco?

MR. CANFIELD:

Right, and in that, we would have to look into it and see --

MR. LYONS:

Maybe Justice could pursue them?

MR. CANFIELD:

Sure. I would be happy to check.

MR. LYONS:

If we can't under the Oilfield Site Restoration law, if DNR can't, maybe the Department of Justice could, because it sounds like they are a viable operator.

MR. CANFIELD:

I'll definitely check into that and let you know.

MS. WAGNER:

Mr. Briggs, you asked about the operators and the orphan wells in the Coffee Bay project, Olin Gas Transmission Corporation, Interstate Natural Gas Company, Incorporated, Natural Oil and Gas Company, and Petro-Lewis Corporation, Mouse River Partnership, and Gamble-Daniel Operating Company. Those are the orphan operators.

And if there is no further discussion, we will move on to Item VI on the agenda, which is Federal and third-party activity. We continue to refer sites to the EPA and the Coast Guard for removal actions that we think might meet OPA 90 Federal removal qualifications. Several referrals have been made to the EPA that have been investigated and have met the removal criteria, so the EPA plans to move forward with those in the next couple of months and will be plug and abandonment and several facility removals in north Louisiana.

Item VII on the agenda concerns approval of two additional Oilfield Site Restoration contractors. The first is M&C Contractors, Incorporated, located in

St. Martinville, Louisiana. They are interested in bidding on site restoration work. The second is D&L Salvage, LLC, out of Lydia, Louisiana, and they are interested in bidding on water projects. Both applications have been reviewed by staff and have been found to be complete, and these additions would bring the approved contractors list to a total of 60 contractors, and we recommend the approval of these new contractors.

MR. WELSH:

It would be our responsibility to vote on these applicants -- or approved contractors. Do I hear a motion that these contractors be approved?

MR. BRIGGS:

I so move.

MR. WELSH:

I have a motion. Do I have a second?

MR. LYONS:

I'll second.

MR. WELSH:

We have a motion and a second that M&C Contractors, Inc., and D&L Salvage, LLC, be approved as contractors.

Any discussion?

(No response.)

MR. WELSH:

Okay. They are approved then, Sarah.

MS. WAGNER:

Thank you very much. We appreciate your time. We know you are very busy, and our next scheduled quarterly meeting is October 20, 2011, at 1:30 in this room.

MR. WELSH:

That will be the last meeting of the year, I'm guessing, the 20th of October.

Any further business?

(No response.)

MR. WELSH:

Okay. I would like to thank you all for coming. I would like to thank the staff for doing a good job getting all this together, and this meeting is adjourned.

CERTIFICATE

I, MICHELLE S. ABADIE, Certified Court Reporter, do hereby certify that the foregoing Oilfield Site Restoration Commission meeting was conducted before James Welsh, Commissioner of Conservation, on July 21, 2011, in the Department of Conservation Hearing Room, Baton Rouge, Louisiana; that I did report the proceedings thereof; that the foregoing pages, numbered 1 through 24, inclusive, constitute a true and correct transcript of the proceedings thereof.

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