

JOHN BEL EDWARDS
GOVERNOR

State of Louisiana

THOMAS HARRIS
CHAIRMAN

Oilfield Site Restoration Commission
Post Office Box 94275 Baton Rouge, Louisiana 70804-9275

RICHARD IEYOUB
VICE CHAIRMAN

MEETING MINUTES

LaSalle Building
617 North Third Street
Thursday, November 16, 2017
1:30 p.m.

MEMBERS PRESENT:

Thomas Harris, Secretary, DNR
Richard Ieyoub, Commissioner of Conservation
Cynthia Dupree, LLA
Steve Maley, LOGA
Barney Callahan, LWF, Sierra and Audubon Society
John Connolly, At-Large
Tyler Gray, Mid-Continent
Grant Black, Mid-Continent

OTHERS PRESENT:

Brent Campbell, Director OSR
Matt Simon, OSR Staff
Casandra Parker, OSR Staff
Blake Canfield, DNR Attorney

I. Roll Call:

Matt Simon called the roll. There were eight members in attendance, constituting a quorum.

Richard Harris welcomed Cynthia Dupree and John Connolly to the Commission.

II. Approval of the July 2017, Meeting Minutes:

Barney Callahan made a motion to approve the minutes.
Tyler Gray seconded the motion.
No objections from the Commission.
The minutes were approved .

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III. Fund Status:

Matt Simon reported that the first quarter oil and gas collections totaled approximately \$1 million. The OSR Fund closed out the first quarter with approximately \$2.2 million in encumbrances and projected expenditures. There is approximately \$1.5 million cash available in the Fund account.

A graphical representation was presented demonstrating the annual fees collected per fiscal year since 2011. The collections were separated by oil production collections and gas production collections.

There are currently 64 Site-Specific Trust Accounts administered by the Program covering 1,763 active wells secured with a combination of cash and various financial instruments, totaling approximately \$211 million.

IV. Program Statistics:

A. Matt Simon discussed in detail the Program statistics.

To date, the Program has plugged and abandoned 2,921 orphan wells through the first quarter.

There were 702 orphan wells plugged by means other than the OSR Program during this quarter totals which consisted of wells plugged by the operator of record and wells plugged through co-ops with the Commissioner of Conservation.

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IV. Program Statistics (continued):

Currently, there are 3,675 orphan wells remaining statewide at the end of this quarter.

Sixteen (16) wells were added to the recently orphan well count list during the month of August.

Tyler Gray questioned the specifics on those 16 wells recently added, since the term "orphaned" can come from a lot of different activities and there are different categories for the term "orphaned" in the oil and gas industry, and he wanted some clarity of the reason for them being orphaned to distinguish the different category. Brent Campbell did not have the specific reason but could provide that information.

Mr. Campbell further stated that, although they weren't reflected on this statistical review, there were over 300 wells added to the orphan list in October from an operator in Caddo-Pine Island, T&M Operating. At this time, T&M is working with OSR and trying to get those wells back in good standing and take them off the list, so they weren't included at this time as permanently orphaned wells.

Matt Simon discussed the program statistics by presenting a graphical representation demonstrating the current orphaned well count in the state (3,675) compared to the cumulative number of wells plugged by the Program (2,921). In addition, a graphical representation was presented separating the wells plugged by the OSR Fund, wells plugged by other means, and cumulative wells plugged.

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IV. Program Statistics (continued):

A. A graphical representation was presented demonstrating the number of plugged urgent and high-priority scored wells (534) versus the number of remaining urgent and high-priority wells (489) to be plugged.

B. Fiscal Year 2017-2018 First Quarter Program Performance

During this quarter, the Program plugged eight (8) urgent and high-priority wells. The percentage of revenue spent on urgent and high-priority wells this fiscal year is 36 percent.

A total of 92 orphaned wells were plugged and abandoned this quarter.

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V. Oilfield Site Restoration Program Projects:

Matt Simon discussed in detail the current Oilfield Site Restoration Program projects.

A. Completed Projects:

An explanation of a "completed project" was given meaning fully completed. All the wells have been plugged, all the sites have been restored. The P&A reports have been completed, an invoice has been received, and the Secretary has approved payment for the projects.

During this quarter, nine (9) wells have been plugged and abandoned by the Program.

Two emergency projects were completed this quarter. EMER 17-002 was a well that was plugged outside of Bunkie in Eola Field. It was a problematic old well located in the Bayou and was a navigation hazard. EMERG 18-001 was a leaking well that was leaving a sheen on the water believed to be from valves found open. The U.S. Coast Guard assisted in the clean-up activity, and the OSR Program plugged the well. PA 17-009 was old wells where the wellheads were hazardous to boats, in addition to debris in the water, in Leeville Field.

B. Active Projects:

There are 12 current active projects, consisting of 264 wells, 15 of which are high-priority wells, for a total cost of approximately \$2.6 million. In addition, 176 of the 264 wells are in north Louisiana for a cost of \$1.6 million.

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V. Oilfield Site Restoration Program Projects (continued):

John Connolly inquired on the average cost of plugging a well in north Louisiana and in south Louisiana. Mr. Simon responded that it is roughly \$10,000 a well in north Louisiana, and it's difficult to give an average cost for south Louisiana because of the different components included in south Louisiana, such as onshore or offshore, deep or shallow, oil or gas, et cetera. Generally, a well in south Louisiana 5,000, 6,000' on water on a small footprint, they cost roughly \$125,000 each.

Brent Campbell advised that 50 percent of orphaned wells are in north Louisiana.

Grant Black inquired, on average, how many different contract companies are bidding on the projects. Brent Campbell advised that approximately seven companies bid on a regular basis. However, depending on what type of projects, such as offshore, there are only two of those seven that will bid on offshore projects. So out of approximately 64 total contractors allowed to bid, only seven are active in bidding.

Barney Callahan inquired about Page 7 of the agenda packet regarding Item 4, "Number of Public Safety Incident Reported Involving Orphaned Well Sited," and the objective at the bottom of Page 7, in addition to where the public would report incidents. Mr. Campbell explained that during this quarter, there were no incidents reported that involved orphaned wells. The public can report issues to Wildlife and Fisheries, or if an orphaned well is involved in some sort of accident, it will be reported to the National Response Center, and those agencies or any person or other agency, can report it to OSR as the regulatory authority.

VI: Federal and Third-Party Activity:

The Coast Guard was involved in a project, as stated earlier, EMERG 18-001.

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VII: Old Business/New Business:

(A) Approved Contractors' List: OMI Environmental Solutions from Houma, Louisiana, submitted an application to be added to the contractor's list. They are an oil spill response company capable of operating on land or water. Their application is complete, and it is recommended they be added to the contractor's list.

Steve Maley made a motion to add this company to the contractor's list.

Tyler Gray seconded the motion.

Barney Callahan abstained from the vote.

No objections from the Commission.

The motion was passed.

(B) OSR Historical Presentation:

Brent Campbell discussed the history of the OSR Program.

Prior to Act 404, orphaned wells were handled similarly by compliance orders, civil penalties, but statutorily there was nothing in place to handle orphaned wells. John Aldridge created Status Code 19, which is no responsible party, so after trying to manage the orphan wells through the companies abandoning the wells, there was no other recourse. Only if there was an emergency leak was there an opportunity to go to the legislature to fund the plugging of leaking wells. So a very limited number of wells were able to be plugged because there were no funds available to plug them.

In 1993, Act 404 allowed the creation of the OSR Commission and the OSR Fund, administered by the Commissioner of Conservation. At that time, there was approximately 1,800 to 2,000 wells that were in Status Code 19 that needing plugging.

Important Definitions:

"Assistant Secretary" means the assistant secretary of the Office of Conservation within DNR or his authorized representatives.

"Oilfield Site" or "exploration and production (E&P) site" means any oilfield site or exploration and production site as defined in R.S. 30:29(I)(5).

"Orphaned oilfield site" means an oilfield site which has no continued useful purpose for the exploration, production, or development of oil or gas and which has been declared to be an orphaned oilfield site by the assistant secretary under R.S. 30:91.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Important Definitions (continued):

"Responsible party" means the operator of record according to the Office of Conservation records who last operated the property on which the oilfield site is located at the time the site is about to be abandoned, ceases operation, or becomes an unusable oilfield site, and that operator's partners and working interest owners of that oilfield site. A working interest owner is the owner of a mineral right who is under an obligation to share in the costs of drilling or producing a well on the oilfield site.

"Site restoration" means any and all oilfield site restoration activities required of a responsible party of an oil or gas property by regulations adopted by the Office of Conservation pursuant to this Subtitle, including without limitation plugging of oil and gas wells, pit closure, site remediation, and removal of oilfield equipment.

There are ten members, eight of whom are appointed by the Governor and confirmed by the Senate, and two who are appointed by the Governor (DNR Secretary and Assistant Secretary) who serve as OSR Commission Members, and the organizations represented are as follows:

- DNR Secretary (Chairman)
- Assistant Secretary (Commissioner of Conservation, Vice-Chairman)
- Pleasure of the Governor (one member)
- Louisiana Mid-Continent Oil and Gas Association (two members)
- Louisiana Independent Oil and Gas Association (two members)
- Louisiana Landowners Association (one member)
- Louisiana Division of the Sierra Club, Louisiana Wildlife Federation, and Louisiana Division of the Audubon Society (one member)
- Nature Conservancy (one member), formerly LEAN and Coalition until 2002.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

The OSR Commission members are appointed for a term of four years.

General Information about the OSR Commission:

- * The Undersecretary can serve as a proxy member of the board in the absence of the secretary with full authority to act for the secretary as a member of the Board.
- * The Assistant Secretary (Commissioner of Conservation) or a designee shall serve as vice-chairman.
- * The Assistant Secretary shall not be a voting member when the Secretary is present.
- * Quarterly meetings are to be held (Act 15 of the 2001 legislative session)
- * There is no compensation or reimbursement for a Commission member.

Powers of the Commission:

- * Approve and evaluate a priority list for site restoration
- * Approve list of contractors
- * Review administration of site restoration activities and review the adequacy of site restoration assessments and reopen the funding needs and arrangements for site-specific trust accounts every four years
- * Provide general administration and management of the OSR Fund and all site-specific trust accounts, but have no authority to expend, disburse, or invest monies in the Fund
- * Perform any function which is consistent with the purpose of the Commission

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Powers of the Secretary:

- * Make expenditures from the Fund
- * Disburse and approve expenditures from site-specific trust accounts.
- * Adopt and promulgate rules and regulations
- * Negotiate and execute contracts for legal, engineering, construction, or other professional services
- * Perform other functions as necessary
- * Maintain all oversight, supervisory, and fiscal responsibility which are not specifically conferred to the Commission

Powers of the Assistant Secretary (Commissioner of Conservation):

- * Adopt and promulgate rules and regulations
- * Perform specific functions as detailed by this Part
- * Perform all regulatory functions
- * Modify funding requirements of the site-specific trust accounts as recommended via the OSR Commission, Secretary, or by his own determination

Oilfield Site Restoration Fund:

- * Funds collected are placed in a trust fund in the custody of the State Treasurer to be transferred to the OSR Fund as necessary
- * Collections cease when fund balance equals or exceeds \$14 million enacted by Act 666 of the 2016 legislative session
- * Collections are initiated when the Fund balance falls below \$10 million.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Funding Sources for the OSR Fund:

Initially, in 1993, the OSR Fund received \$0.01 per barrel of oil and condensate, and \$0.002 per MCF of gas.

Act 994 of the 1997 legislative session increased the fees for the OSR Fund to \$0.015 per barrel of oil and condensate, and \$0.003 per MCF of gas.

Seventy-five percent of funds are received from gas production and 25 percent from oil production.

In 2016, Act 666 created benchmarks for the OSR funding. If the oil price per barrel is between \$60 or \$90, the fee is doubled per barrel of oil from \$0.015 to \$0.03 per barrel. If the oil price is greater than \$90 per barrel, the fee will increase to \$0.045 per barrel. The Act did not affect the fee based on the price per MCF of gas.

In July of each year, the legislature evaluates the New York Stock Exchange prices for oil and determines the fee assessment for that year.

In 2016, Act 582 was enacted that 50 percent of the inactive well assessment is deposited into the OSR Fund. This assessment is for all inactive wells that have been in an orphaned status for over five years, and it's \$250 per well. In FY 2016, \$774,500 was deposited into the OSR Fund from this assessment.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Site-Specific Trust Accounts (SSTA):

Site-specific trust accounts are set up at the time a company transfers oil and gas sites from one operator to another for the purpose of site restoration at the end of the life of the site.

The benefit of a SSTA is, once approved and fully funded, the transferring party and all prior owners, operators, and working interest owners are no longer held liable for a well from that date forward.

Additionally, the OSR Fund has monies in a trust for a particular well that if it ever becomes orphaned, there are monies available and delegated to that well for site restoration activities.

The SSTA amount of funding is determined by a site restoration assessment by an approved OSR contractor which is a detailed assessment of the costs associated with the site restoration of a particular well being secured by a SSTA.

SSTAs are funded by cash, performance bond, pledge of certificate of deposit, irrevocable letter of credit, or any combination thereof, or by an initial contribution at the time of transfer from one operator to another and contributions every quarter thereafter.

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(B) OSR Historical Presentation:

Site-Specific Trust Accounts (SSTA):

Once a SSTA is fully funded, the well is reassessed every four years. The operator will hire a contractor to reevaluate the costs associated with the site restoration of that particular well and the account will be adjusted and funded, if necessary.

SSTAs which are not fully funded, the reassessment must occur every year.

Once a SSTA is established, it continues through the life of the well, regardless of the change of operatorship.

There are currently 64 SSTAs, approximately 1,626 wells, and approximately \$211 million in secured funds. Five SSTAs are not currently fully funded, and the company is contributing to the SSTA on a quarterly basis.

If the wells are plugged and there are remaining funds in an SSTA, the remaining funds will be refunded to the operator.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Orphan Well Designation:

A well can become orphaned after the following steps are taken:

- * An operator has any type of violation and a compliance order has been issued, upon which the operator does not comply with the compliance order;
- * Civil penalties are then issued and the operator fails to pay the civil penalty or comply with the compliance order;
- * The wells are then shut-in or the funds are escrowed from production;
- * A ten-day orphan letter is then issued to the operator to allow ten days to respond and request a hearing before the ALJ, and if no response;
- * A list of the operator's wells are published in the State Register, and the wells are officially orphaned on the 20th of the month in which they are published.

Steve Maley pointed out that the above listed are not the only mechanism by which wells are orphaned. For instance, wells may have been plugged and abandoned according to the regulations in years past, but because of circumstances or events occurring after the plugging of the wells, the wells are designated by the Commissioner as orphaned wells. So wells on the orphan list may have other reasons for being designated as orphaned through no fault of the operator, aside from an operator's noncompliance.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Orphan Well Declared Orphaned:

In FY 2016-2017, there were 725 wells were orphaned. After a well is declared orphaned, the DNR inspectors will inspect the wells within 90 days and complete an "Orphan Oilfield Site Inspection Report" form to assist the OSR staff with prioritizing the well. The wells are prioritized within 15 days of receipt of the form.

The prioritization of the wells are determined by a scoring process by using the Orphan Wells Plugging Priority Form. The form was included in the agenda packet for review, and Brent Campbell discussed the intricacies of the form.

It was pointed out that after the focus towards urgent and high-priority wells occurred in 2010, the number of wells being plugged by the Program decreased due to the costs associated with those wells categorized as being urgent or high-priority, generally because of their locations in water locations in south Louisiana, leaving fewer funds to appropriate to plugging a multitude of wells at lower costs.

Currently, there are 469 urgent and high-priority wells, but as mentioned at a previous meeting, Shoreline Southeast went bankrupt and added at least 124 wells to the orphan list and they are all on water which will be scored as urgent or high-priority, which will be added to the 469 count after prioritization.

Grant Black asked if there are situations where the Program would repair leaking tanks, as described on the prioritization form, and not actually remediate the site, or if all work is completed at the same time. Brent Campbell confirmed that depending on the situation, there are times where the leaking tank is repaired, fluids removed from the tanks, the area cleaned up, and the wells are plugged at a later date.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

Steve Maley inquired whether oil on water automatically initiates a U.S. Coast Guard response and project. Brent Campbell advised that the Coast Guard will generally fund and facilitate the process of clean up and containment, then the OSR Program will be responsible for the plugging and abandonment of the well. The Coast Guard has plugged and abandoned wells for the Program.

The Program's responsibility boundaries are three miles offshore.

John Connolly asked whether the decline of production, thus impacting the fees, if the Program will be allowed to proceed. Brent Campbell said the average fee collections of approximately \$3.8 to \$4.1 million are declining as production is declining, and if it becomes a problem for the Program, the legislature may can address that issue in the future.

John Connolly asked whether there is any bonding on orphan wells that are on the list. Brent Campbell said the Program currently has about \$4.2 million that have been collected as companies have gone orphaned, but it has to be specifically spent on those wells that that financial security covered. It cannot be used on other wells.

In 2015, a rule was promulgated whereby any inactive well as of 2016, had to give financial security. Any inactive well that becomes inactive after 2016, if they have future utility, has a five-year period before they are required to have financial security. A change of operator will automatically trigger a financial security on a well.

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VII: Old Business/New Business (continued):

(B) OSR Historical Presentation:

OSR Project Selection:

The OSR bid packages are a coordinated effort between staff in Baton Rouge and the Districts. The packages are centered around three things, urgent and high-priority wells, wells less than 3,000' located in north Louisiana, and wells that Conservation has collected financial security on.

Act 666 of the 2016 legislative session requires not less than \$1 million or 20 percent of the appropriated funds, whichever is less, through FY '19, be spent on wells in north Louisiana less than 3,000'. Also, it is required that 60 percent of funds expended be urgent or high-priority wells, both of which are considerations for the OSR bid packages.

Within the above restrictions, the OSR staff tries to build a package by incorporating as many wells as possible in the immediate area of another significant well to lower costs, and as a result plug more wells.

(C) Other Comments:

Steve Maley added that the restoration fee is collected on production over and above severance taxes in the state and is dedicated to the OSR Program. The legislature has the power to sweep funds from the OSR Fund, as well as other funds, that are unencumbered, when there has been a shortfall in the state's budget. Three times in the Program's history, the Fund has been swept by the state. Voters were presented an opportunity in the past to vote to not have the OSR Fund part of that process, and it was rejected.

Tyler Gray requested that the Commission members be allowed to attend one or more site visits with contractors to be better equipped to make policy for the OSR Program when necessary. The OSR staff is going to follow up on this request.

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VII: Old Business/New Business (continued):

(C) Other Comments:

Tyler Gray also commented that the OSR Program is extremely important to the oil and gas industry. The expertise of the Commission members is invaluable to making the Program a success. Mr. Gray requested that the Commission members who speak with legislators and invite them to a Commission meeting to discuss their ideas or share opportunities available in developing policy and working with the legislators to develop policy.

Grant Black commented that there are organizations in this state create reports on every legislative session and any bill that relates to oil and gas, and organizations represented on the board can join or participate in those other organizations.

In addition, it is encouraged for the Commission members to visit with legislators before the session to discuss possible bills beneficial to the OSR Program.

VIII: Date of Next Meeting:

The agenda includes a chart of the next four tentative meeting dates in 2018, generally held on the third Thursday of every quarter.

January 18, 2017, is the tentative date set for the next Commission meeting, at 1:30 p.m. in the LaSalle Building hearing room.

ADJOURN:

Tyler Gray made a motion to adjourn.
Richard Ieyoub seconded the motion.
No objections or further comments from the Commission.
The meeting was adjourned.