

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, April 19, 2018
1:30 p.m.

MEMBERS PRESENT:

Richard Ieyoub, Commissioner of Conservation
Cynthia Dupree, LLA
Donald Briggs, LOGA
Steve Maley, LOGA
Elizabeth Creasman, Nature Conservancy
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, Manager, OSR Program
Casandra Parker, OSR Staff
Blake Canfield, DNR Attorney
Gary Ross, Assistant Commissioner of Conservation

I. Roll Call:

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

II. Approval of the February 2018, Meeting Minutes:

Grant Black 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 through the second quarter oil and gas collections totaled approximately \$3.9 million. The OSR Fund received approximately \$780,000 from the inactive well assessment. The OSR Fund closed out the third quarter with approximately \$3.2 million in project expenditures, and \$1.5 million encumbered. There is approximately \$3.6 million cash available in the Fund account.

Steve Maley questioned whether those funds were available and committed to be spent before the end of the fiscal year because he wouldn't want to have ten percent taken from the Fund if they weren't allocated. Gary Ross explained that this is the first year after the bill in the legislature last year that removed the exemption allowed companies for the wells that were being drilled horizontally. There was a two-year exemption from severance taxes, and the companies were also exempt from the OSR fee of the three-tenths of a cent per mcf. The fiscal note for last year indicated that the OSR Fund would realize about \$1.4 million extra for this fiscal year, which gave the OSR Fund additional funding. In addition, this year is the second year of the inactive well assessment and the Fund is granted half of the inactive well assessment fee, which has been \$780,000 to date that has been added to the Fund. So additional sources of revenue has been deposited to the Fund this fiscal year over what was available before, but the collection of funds is difficult to predict. The staff is preparing additional bid packages, and the funds will be allocated for either this fiscal year or next fiscal year. The funds will be able to carry over into the next fiscal year.

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 70 Site-Specific Trust Accounts administered by the Program covering 1,706 active wells secured with a combination of cash and various financial instruments, totaling approximately \$209 million.

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IV. Program Statistics:

A. Matt Simon discussed in detail the Program statistics.

Through the third quarter, the Program has plugged and abandoned 3,030 orphan wells.

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

Currently, there are 3,564 orphan wells remaining statewide at the end of this quarter.

Thirty (30) total wells were added to the recently orphan well count list through this quarter.

Matt Simon discussed the program statistics by presenting a graphical representation demonstrating the current orphaned well count in the state (3,564) compared to the cumulative number of wells plugged by the Program (3,030). In addition, a graphical representation was presented separating the wells plugged by the OSR Fund, wells plugged by other means, and cumulative wells plugged.

A graphical representation was presented demonstrating the number of plugged urgent and high-priority scored wells (539) versus the number of remaining urgent and high-priority wells (488) to be plugged.

B. Fiscal Year 2017-2018 First Quarter Program Performance

Through this quarter, the Program plugged one urgent and high-priority well. The percentage of revenue spent on urgent and high-priority wells this fiscal year is 34 percent.

A total of 202 orphaned wells were plugged and abandoned through 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:

There have been two (2) completed projects, consisting of 64 wells, one (1) of which was a high-priority well.

B. Active Projects:

Matt Simon reported that there are eight (8) active projects totaling approximately \$6.2 million.

One project is an ongoing emergency project, EMERG 18-003, in Bethany-Longstreet Field in Section 27. The gas leaking from a well is coming from an unknown source but has been fingerprinted and appears to be coming from the Hosston Formation, that was the closest match, but it may even be two sources, possible Haynesville also. It's a shallow water sand that's charged.

Brent Campbell explained further that, in October 2017, a rig supply well from an old well that was plugged in the '90 was found in which PVC casing had come to the surface, and it was shooting fresh water at one time as high as the treetops. The well, known as the Hanson Well, was completed to a depth of about 300'. An attempt to plug the well was unsuccessful. A contractor, Elm Springs, drilled a deep-relief well which has been flaring since December, except for a brief shut down in January during the cold weather. The relief well is a water sand approximately 300'. Additionally, some shallow borings down to approximately 30' was getting good gas flow initially. Once the holes were cased, there is some on and off bubbling, but not the amount of venting that was occurring initially. The vent-flare well was at one time flaring at 180 to 200 pounds flowing pressure without much pressure, which was very successful in venting gas at that point. The pressure is down to about 60 to 80 pounds, and approximately 25 mcf a day with very little water production. Frac tanks were brought in to hold the water produced and dispose of it. Indigo and XTO may take some of the excess water and use it for fracing wells.

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B. Active Projects (continued):

Brent Campbell explained that another location was found about 1.1 miles away from the Hanson Well where there were two areas approximately 6' in diameter that were boiling to the surface. An old abandoned well was found. The well was orphaned. It was hot-tapped by the operator. Approximately 220 pounds of pressure was found inside the well. It was able to be bled down, but the pressure eventually built back up. It is boiling on the outside of the casing, in addition to pressure on the inside of the casing. The contractor is in the process of drilling a relief well at that site.

John Connolly inquired whether there was a zone of influence that has been identified or any additional drilling in the area where the companies would drill an injection well, do an integrity test on the wells in the area. Brent Campbell said Indigo is drilling near this area and should be getting some information from Indigo soon which might indicate the source a little more precisely. There are five operators that operate in the area, and they've been working with the OSR staff to try to identify any deficient wells. They've put pressure gauges in all the rig supply wells to see if there is any pressure in any of the sands in different areas.

John Connolly informed the Commission and staff that there is a model that is being used in Texas where if a new company comes in and drills, they know that zone of impact and have to do a study to make sure that their additional frac doesn't contribute to the existing problem.

Tyler Gray informed that, through the trade associations, they've been trying to get the operators together to help take care of this issue. He explained, the way the statutes read, the OSR Commission has the opportunity to expend funds, as in this particular situation, where it's not necessarily an orphaned well. The Fund can be managed to protect the environment. The Louisiana Mid-Continent Oil and Gas Association and the Louisiana Oil and Gas Association to help OSR staff identify the operators in a proactive way to manage this issue because it's problematic.

Commissioner Ieyoub reported that the Environmental section, the Engineering section, the Injection and Mining section of the Office of Conservation, some oil and gas associations, and the operators in working together to alleviate this emergency problem. Also, the operators in the particular area cooperated and met with them multiple times and everyone worked together to identify the problem and help solve the problem. The operators took certain measures asked of them by the Office of Conservation, and at the present time, the complicated situation is controlled.

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B. Active Projects (continued):

Brent Campbell said they have notified Office of the Governor, Office of Homeland Security-Emergency Preparedness, so they could make the parish aware of the situation. The landowners have been made aware of the situation. The next step is putting in the flare well at the second location found and try to get it under control.

Brent Campbell said no company has taken responsibility for the well, and the project is being handled by the OSR staff.

Barney Callahan inquired as to the locations of the nearest residences around the area of the problematic wells. Brent Campbell said two residences were in the area, one home is approximately in the middle of the well locations, and approximately 300 to 500 yards from the latest boiling well is a residence, and both landowners have been contacted and made aware of the issues. The only water well is located at the residence that is in the middle of the locations and it has had no water pressure issues. Additionally, the staff has attempted to identify other water wells in the area, and none have been found as of yet. Notices were also sent to water well drillers to notify the OSR staff prior to drilling any water wells in that area. Oil and gas operators were also made aware that there is an issue in that area and to notify the OSR staff prior to spudding a well.

Project PA 18-008 in Coquille Bay Field is a project to be funded in part with approximately \$1.4 million from a Site Specific Trust Account.

Project PA 180-010 in Bastian Bay and Magnolia Fields will be funded with funds granted by the judge in the Shoreline bankruptcy case, which has a site visit scheduled for April 25, 2018.

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V. Oilfield Site Restoration Program Projects (continued):

B. Active Projects (continued):

Matt Simon informed that there are currently five bid packages put together to meet the requirements of spending \$1 million per year on north Louisiana wells. Tyler Gray inquired whether the \$1.6 million indicated on the agenda has been spent or will be spent. Matt Simon answered that \$1.6 is earmarked for those projects, but most of the wells have already been plugged through an ongoing bid package.

VI: Federal and Third-Party Activity:

The EPA is looking at a problematic well near Bunkie in a corner of a cane field that is leaking black hydrocarbons. It's a slow leak of contained oil.

A co-op with JAPEX Company was entered into for a project in Bayou Hebert Field in Vermilion Parish in which two wells located on the side of the Intracoastal Canal were plugged and the equipment removed. JAPEX expended approximately \$1 million on the project.

VII: Old Business/New Business:

Matt Simon had no old business or new business to report.

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VII: Old Business/New Business:

Tyler Gray informed the Commission and staff that some time was spent since the last meeting examining the way the State organizes their escrow accounts. It was found that there was an opportunity to potentially increase the funding to the OSR Fund without costing the State any money and potentially not costing the operators any money. There's a bill going through the regular session currently, House Bill 814, by Representative Jim Morris, which allows funds that are not connected to current wells or orphan wells and releasing some of the limitations on financial security that are attached to specific wells that will potentially allow Conservation to present to the Commission how the money could be transferred from restricted funds into unrestricted funds in the OSR Trust Fund. It has a fiscal note of \$4.5 million, but it is money that already exists. Tyler Gray thanked Grant Black, Steve Maley, Commissioner Ieyoub, Secretary Harris, Gary Ross, Brent Campbell, and Blake Canfield who worked together to find improvements and get additional money to plug wells without costing anyone any other money. The bill has traveled through the House from the floor and the Committee rooms and today was passed in the Senate Committee for review. It has two last steps, the Senate floor and if approved, signed by the Governor. There is no expected opposition to the bill. If approved, OSR Program will have an additional \$4.5 million to plug wells and will not count against the cap that currently exists on the OSR Commission.

Don Briggs asked if the bill would prevent SSTAs from being returned to an operator. John Adams answered, regarding SSTAs, the bill does not apply to SSTAs. A SSTA balance will be returned to an operator after a specific well is plugged and abandoned. In the bill language, any remaining financial security held for a specific well after that well is plugged and abandoned, will be used by the OSR Program to plug other wells.

John Adams further advised that House Bill 814, there is an extension until 2022 of the \$1 million per year amount that has to be spent in north Louisiana.

Blake Canfield advised House Bill 331 by Jim Morris allowing the OSR fee rate to be paid upon first disposition of the oil as opposed to at the time of production.

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VIII: Date of Next Meeting:

July 19, 2018, is the tentative date set for the next Commission meeting, at 1:30 p.m. in the LaSalle Building hearing room.

ADJOURN:

Cynthia Dupree made a motion to adjourn.
John Connolly seconded the motion.
No objections or further comments from the Commission.
The meeting was adjourned.