Budget Request Description
Oil and Gas Plug and Abandonment

Budget Request Summary
The State Lands Commission requests $58 million General Fund (GF) in 2018-19, $40 million GF in 2019-20, and $10.5 million GF in 2020-21, to permanently secure, plug and abandon, and decommission oil wells and facilities, located onshore and offshore, in Santa Barbara and Ventura Counties. Total project cost for these activities at Platform Holly and Rincon Island are estimated to be $108.5 million over three years.

The lessees of the two facilities, Venoco LLC and Rincon Island Limited Partnership, recently filed for bankruptcy and rejected their lease obligations to plug and abandon the oil and gas wells and decommission and remove the oil production facilities. In the absence of a lessee to assume responsibility and protect public health and safety and the coastal marine environment from an accidental release of oil, the Commission must undertake actions to staff Platform Holly and a related onshore facility, plug and abandon 32 oil wells on the platform and adjacent piers, and permanently secure, decommission, and abandon 49 wells and oil infrastructure on Rincon Island.

Requires Legislation
☐ Yes ☑ No

Department CIO Date

If yes, departmental Chief Information Officer must sign.

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. Project Approval Document: Approval Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Date Reviewed By Date
Denise Cook, Fiscal Officer Colin Connor, Asst. Executive Officer

Department Director Date
Jennifer Lucchesi, Executive Officer

Agency Secretary Date
Bryan Cash, Asst. Secretary

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☑ Workload Budget per Government Code 13308.05

PPBA Original Signed By: Date submitted to the Legislature
Juliana Morozumi JAN 10 2018
Analysis of Problem

A. Budget Request Summary

The Commission requests $58 million GF in 2018-19, $40 million GF in 2019-20, and $10.5 million GF in 2020-21, to permanently secure, decommission, and abandon the oil infrastructure on two offshore production facilities on State land located in the Santa Barbara Channel. These are Platform Holly in state waters offshore of Santa Barbara County and Rincon Island in state waters offshore of Ventura County. The lessees of these two facilities, Venoco LLC, and Rincon Island Limited Partnership, recently filed for bankruptcy and rejected their lease obligations to plug and abandon oil and gas wells and decommission and remove the oil production facilities. In the absence of a viable lessee to assume responsibility and to permanently protect public health and safety and the coastal marine environment from an accidental release of oil from these platforms, the Commission must act to staff Platform Holly and a related onshore facility (Ellwood Onshore Facility or EOF) and plug and abandon 32 oil wells on the platform and adjacent Ellwood Beach Piers. These actions are collectively known as Phase I of the South Ellwood Project. Phase I does not include decommissioning, i.e. removal, of the platform itself. For the same reasons, the Commission must permanently secure, plug and abandon, and decommission 49 wells and oil infrastructure on Rincon Island, an artificial oil production island. The proposed actions on Rincon Island include removal of the causeway to the island.

The estimated cost to complete Phase I of the South Ellwood Project is $58 million and the estimated cost to plug and abandon the 49 oil wells and to decommission the facilities on Rincon Island, including removing the causeway, is $50 million, for a total estimated cost of $108.5 million. The Phase I activities are expected to commence in March 2018 and run through June 2020. The Rincon Island activities are expected to start in May 2018 and last until May 2021.

B. Background/History

The Commission was created by the California Legislature in 1938 to manage the State’s oil, gas, and mineral resources. The Commission was given the authority and responsibility to manage and protect the natural and cultural resources on public lands in California. This includes leasing authority over the State’s tide and submerged lands extending from the ordinary high water mark to three nautical miles offshore. Until 1969, the Commission issued leases for the construction and operation of offshore oil and gas drilling and production platforms. Now, there are five offshore oil and gas production facilities, including Platform Holly and Rincon Island, under the Commission’s jurisdiction. The leases require the lessee to remove improvements, as directed by the Commission, such as the platforms and oil production infrastructure and to restore the land to its natural condition; however, the recent insolvency of two lessees obligated the State to assume control of the two facilities in order to permanently protect the public and environment against an unintended release of oil into the marine environment. Platform Holly and Rincon Island are within the California Coastal Sanctuary, where new offshore oil and gas development is prohibited, and cannot be re-leased without an act of the California Legislature. The last time a new offshore oil and gas lease was approved in state waters was in 1968.

Venoco LLC (South Ellwood Project)

From 1997 until April 17, 2017, Venoco, LLC was the lessee for three state oil and gas leases offshore Santa Barbara County. Lease No. PRC 421 is for the Ellwood Beach Piers and Lease Nos. PRC 3120 and 3242 are the oil fields serving Platform Holly.

In 1964 and 1965, the Commission issued Lease Nos. PRC 3120 and PRC 3242 to Atlantic Richfield Company (ARCO). These leases, and all offshore state oil and gas leases issued after 1957, are sometimes called Cunningham-Shell leases because they were issued pursuant to the provisions of the Cunningham Shell Tidelands Act. In 1966, production from the South Ellwood Field commenced from Platform Holly. The oil produced from the platform flows through subsea pipelines to the Ellwood Onshore Facility (EOF) where it is processed and stored before being sent to the refinery. The EOF also incinerates the hydrogen sulfide gas produced at Platform Holly.
In 1993, Mobil Exploration and Producing, Inc. acquired both leases from ARCO. In 1997, Mobil sold the leases, including Platform Holly, the EOF, and other facilities (i.e., the Ellwood Marine Terminal and the two Ellwood Beach Pier wells (Lease No. PRC 421)) to Venoco, LLC, which has since operated the facilities.

On May 19, 2015, the underground pipeline (Line 901; the Las Flores to Gaviota pipeline) that transports oil produced from Platform Holly ruptured, causing the Refugio Oil Spill in Santa Barbara County. Line 901 remains shutdown with no specific timeline identified for repairs or resuming operation. There has been no production from Platform Holly since the oil spill.

On April 17, 2017, Venoco quitclaimed its oil and gas leases back to the Commission and filed for bankruptcy. Venoco is pursuing liquidation of its assets under the U.S. Bankruptcy Code. Venoco’s quitclaims and insolvency effectively made the State responsible for staffing and operating Platform Holly, the Ellwood Beach Pier wells, and the EOF in order to protect public health and safety and the coastal marine environment from an accidental release of oil. The Commission requested and received $3 million in emergency funding to maintain adequate staffing through the end of FY 2016-17. The Commission received $10 million (with an additional $9 million augmentation available) for FY 2017-18 to continue funding essential operations. The funding requested in this Budget Change Proposal is in addition to the $22 million previously approved.

Cost Components – Phase I

The Commission has contracted with an operations and engineering contractor to commence the initial phases of developing a plugging and abandonment (P&A) program for the 32 wells and to maintain all necessary operations on Platform Holly and the EOF, including staffing, maintenance, permit and compliance monitoring, and administration. In April 2017, the Commission acquired an initial engineering estimate on the costs for P&A of all 32 wells. This estimate sets the cost of the Phase I P&A at approximately $36.2 million.

The second component is the monthly costs to operate and maintain Platform Holly and the EOF. The EOF, located on uplands owned by Venoco, is the oil and gas processing facility for Platform Holly. Oil, gas, and oily water produced as a result of the Platform Holly P&A will require safe disposal. The EOF is the only facility that can conduct this task and must remain operational throughout the P&A process. Of primary significance, the Monterey formation, the underground oil reservoir that Platform Holly produced from, contains dangerous levels of Hydrogen Sulfide (H2S), a colorless but highly poisonous gas. Platform Holly must produce this high concentration H2S gas to control well pressures in accordance with permit requirements from the Santa Barbara Air Pollution Control District and the City of Goleta, as well as the Commission’s lease provisions. The high concentrations require that staff monitor Platform Holly 24 hours a day to ensure well integrity and proper emergency response. The Commission is funding the operation and staffing of Platform Holly and the EOF with the emergency funding recently provided. Between May 2017 and March 2018, the cost to maintain operations on Platform Holly and the EOF is anticipated to be approximately $1.12 million per month. Once P&A commences in March 2018 and for the following 24-30 months, operational costs are expected to increase to $1.2 million because additional staffing will be required for safety and processing. Operational costs include payroll, facilities maintenance, utilities, and product processing (during P&A) along with ancillary and one-time fees related to permitting and other regulatory requirements. Staff anticipates a 24-30 month P&A program on Platform Holly. Once the wells are plugged, the cost and need to operate the EOF will greatly diminish. After P&A, Platform Holly will only require monitoring for security and general public safety purposes. Thus, the Commission expects monthly operational costs to decrease significantly after the P&A program is done.
Analysis of Problem

As of December 2017, total expected Phase I costs were estimated at approximately $80.04 million. Applying the total $22 million previously appropriated, leaves a funding need of $58.04 million. The costs associated with this request are anticipated to be spread over FY 2018-19 and 2019-20.

Anticipated Future Decommissioning – Phase II

The Commission anticipates the disposition of Platform Holly and the Ellwood Beach Piers to occur in two phases. Phase I is the P&A program on Platform Holly and the Ellwood Beach Piers and associated maintenance operations on the Platform and EOF. Phase II is the decommissioning and removal of Platform Holly and the EMT. The Commission expects Phase II to commence in 2020 and include development of decommissioning alternatives developed with public and stakeholder input. Phase II will require analysis under the California Environmental Quality Act. The Commission does not anticipate having responsibility for decommissioning the EOF because it is on private uplands and not under the Commission’s jurisdiction. The Commission anticipates seeking funding for FY 2020-21 to fund Phase II.

Prior Lessee Obligation and Securities

ExxonMobil is a prior lessee of the three Venoco leases. The Commission believes that ExxonMobil retains some liability to plug, abandon, and decommission Platform Holly when the current lessee is unable to do so, which is the case now. ExxonMobil acknowledges that it may have liability; however, it disputes the extent. The Commission is seeking a contribution from ExxonMobil for the costs, or their participation in the P&A activities, but submits this Budget Change Proposal under the assumption that ExxonMobil will not provide funding. This is because an eventual contribution from ExxonMobil may require litigation and thus take years to resolve, and because the ultimate contribution is uncertain and would be based on a variety of unknown factors. Additionally, P&A work on Platform Holly and the Ellwood Beach Piers is urgently needed and requires funding sooner than may be possible under a potential agreement with ExxonMobil, even though their participation in P&A work or their financial contribution may significantly reduce the costs to the State. The Commission will continue its efforts with ExxonMobil and will keep the Administration informed about its progress.

Under its leases, Venoco has a $22 million performance bond to the benefit of the State. The Commission is working with the bonding company to obtain those funds. The bond proceeds will be used to repay budget appropriations already received by the Commission.

Rincon Island Limited Partnership – (Rincon Island Project)

Since 1995, Rincon Island Limited Partnership (RILP) has been the lessee and operator of PRC 1466.1 (Rincon Island), and Lease Nos. PRC 145.1 and PRC 410.1 (Shoreside Leases). The Shoreside Leases are on private uplands with wells that bottom hole out to offshore sovereign lands. This Budget Change Proposal is directed toward plugging and abandoning the wells and removing the causeway to the Island.

In 1955, the Commission issued an offshore oil and gas lease to ARCO. Rincon Island, constructed in 1959, is an artificial island built for well drilling and oil and gas production. The Island is located approximately 3,000 feet offshore in waters 55 feet deep and is connected to the shore by a causeway. RILP has operated the Leases since 1995. Rincon Island has 49 wells. Of this, 32 are producing wells, 13 are injection wells, and 3 are brackish water source wells. In addition, 1 subsea well was drilled approximately 3,000 feet west of the Island. Production from the subsea wellhead was connected to the island by subsea flowlines. The well served as a water injection well over its last few years before being shut-in. The Island also has storage tanks, oil processing equipment, and other appurtenant facilities.

Rincon Island has not produced oil or gas since October 2008 due in part to the condition and integrity of the causeway that connects the Island to shore. During the winter of 2007, severe storms caused the
Analysis of Problem

shoreside abutment of the causeway to erode, causing the structure to fail. At the direction of Commission staff, RILP secured the Island; shut down oil production, electrical power, and the oil shipping pipelines attached to the causeway. From 2008 to 2015, RILP made major repairs to two-thirds of the causeway, but their progress was slower than staff considered appropriate. Construction deadlines and benchmarks established by staff and RILP were repeatedly missed. RILP made temporary repairs to the remaining one-third of the causeway before ceasing all repairs in 2015. As a result, one-third of the causeway is limited to supporting 20,000 lbs., which is insufficient to support the weight of larger emergency vehicles or equipment necessary to perform well repairs and abandonment, such as a rig or mud pump.

In November 2014, regulatory violations were discovered on Rincon Island that staff believe posed, and continue to pose, a threat to public health and safety and the environment. Two oil wells of questionable structural integrity were discovered to be pressurized with fluid and gas. And RILP lacked the equipment on Rincon Island to safely relieve the pressure or fully respond to a potential oil emergency.

For 2½ years, the Commission and the Division of Oil, Gas, and Geothermal Resources (DOGGR) worked continuously to compel RILP to fully resolve well and facility violations on Rincon Island. After missing critical compliance deadlines and making only minimal progress to address well pressurization concerns, among other things, staff agendized a recommendation for the Commission to terminate the Leases at its August 9, 2016 meeting. On August 8, 2016, RILP declared bankruptcy in Texas, preventing the Commission from terminating the leases. The Commission, working with the Attorney General’s Office and outside bankruptcy counsel, is participating in the bankruptcy hearings, including seeking to have the bankruptcy proceedings dismissed.

On June 17, 2017, the bankruptcy court appointed a chapter 11 trustee to oversee RILP’s business operations, and the Commission successfully petitioned the court to set a deadline of October 30, 2017, for RILP to reorganize or sell its assets. On November 30, 2017, the Bankruptcy Court approved a joint motion by the Commission, the chapter 11 trustee, and UBS AG Bank (RILP’s largest secured creditor) to grant the Commission a quitclaim, which was received on December 6, 2017. Because RILP is essentially insolvent, the State is obligated to secure the facilities and manage the plugging and abandoning and eventual decommissioning.

Cost Components

RILP’s lease violations pose a risk of an oil leak, and its insolvency makes it unlikely it can fund its obligations to remove the oil and gas facilities and restore the land to its natural condition. In anticipation of its August 9, 2016, meeting to terminate the leases the Commission acquired an estimate of the cost to plug and abandon the 49 wells, to remove and decommission the oil production and processing equipment on the Island, and to remove the 3,000-foot long causeway. The engineering firm concluded the total costs to be $50.46 million. Below is a cost breakdown:

1. Pre-job engineering to write well programs, obtain permits, repair fire system, wharf, and wellheads, develop an oil spill contingency plan, lift plans for marine moves, and bid services ($500,000). Contract a barge for up to 6 round trips from either Long Beach or Port Hueneme ($1.5 million) and a barge for support services ($1.35 million).
2. Repair Wellheads, Wharf, and Fire System ($3.1 million).
3. Mobilize coiled tubing unit and set inner liner cement plugs ($600,000).
4. Mobilize workover rig for fishing and P&A on 49 wells ($22 million).
5. Mobilize jack up barge for offshore well abandonment ($7.1 million).
6. Mobilize demolition team to flush and remove all tanks and pipelines ($5.71 million).
7. Remove the causeway, using crew boats and marine support ($8.6 million).
Analysis of Problem

A detailed timeline for the work has not been produced; however, it is expected that work, including planning and execution, will take 24-36 months and extend through FYs 2018-19 and 2019-20. The components above do not include potential toxic remediation on the Island or removing the Island. Final disposition of the Island will occur after the P&A is complete, after public and stakeholder input, and after a CEQA analysis is completed.

Prior Lessee Obligation and Securities

The Commission has an agreement with ARCO, the prior lessee, regarding its potential share of abandonment liability on Rincon Island. Under the agreement, ARCO paid the Commission $8 million to release it from further abandonment obligations. ARCO’s residual liability, which it disputed, was limited by contract to removal of the causeway and Island, and only if the current lessee failed to do so. The $8 million approximates the costs to remove the causeway. The Commission, however, is retaining those monies for emergency actions it may need to take to secure the Island before a responsible operator can be retained to do the P&A and decommissioning work. The Commission is also seeking to preserve claims against another lessee that has P&A obligations, Berry Petroleum Company, that is also in chapter 11 bankruptcy in Texas.

RILP holds a $9.65 million performance bond to benefit of the State. The Commission is working with the bonding company to obtain those funds. If this Budget Change Proposal is approved, the Commission will reimburse the General Fund with the ARCO and bond proceeds. The total estimated reimbursement is $17.65 million, but the $9.65 million is contingent on the bond company paying the Commission the bond proceeds.

C. State Level Considerations

Failure to secure and properly plug and abandon the Venoco and RILP wells could result in significant harms to public health and safety, and damage to the marine and coastal environment. The state would be financially liable for some degree of the remediation costs, including of the coastline and marine environment, and legally liable for any emergency event at the facilities. It is vital to take immediate steps to mitigate the potential harms from the facilities.

This request is consistent with Strategy 1.1 of the Commission’s 2016-2020 Strategic Plan to deliver the highest levels of public health and safety in the protection, preservation and responsible economic use of the lands and resources under the Commission’s jurisdiction.

D. Justification

Under the California Coastal Sanctuary Act, the quitclaim of Venoco’s leases and the termination of RILP’s leases places the lands underlying Platform Holly and Rincon Island into the California Coastal Sanctuary, precluding future oil production or leasing. The lessees are insolvent and there is no potential for future oil or gas production. The Commission must plug and abandon and decommission the oil and gas facilities and ensure that they do not threaten public health and safety or the marine environment. If there was an emergency or accident, the State would be liable for a large degree of the remediation costs and legal liability because no responsible solvent party exists. Fully plugging and abandoning the wells and facilities on Platform Holly and Rincon Island is the only way to permanently remove that risk and the corresponding liability.

Similarly, Rincon Island also poses risks and liability to the State owing to the demonstrated well pressures and poor condition of the Island’s infrastructure. This Budget change Proposal will allow the Commission to permanently secure the Island and prevent an accidental oil release.

E. Outcomes and Accountability
South Ellwood Project
The Commission is negotiating with ExxonMobil about its obligations to perform P&A work for the South Ellwood Project. Although the outcome is unknown, it is possible that ExxonMobil may participate in the P&A work at its expense. This would greatly reduce the cost to the State. Other outcomes may include a future monetary contribution from ExxonMobil, through agreement or litigation, which the Commission would use to reimburse the General Fund. Because the range of potential outcomes are uncertain, the Commission must proceed under the assumption that it will perform all aspects of P&A and decommissioning without a contribution from ExxonMobil.

In FY 2017-18, staff will prioritize the most complex wells—the wells with the greatest H2S production capacity—for abandonment and permanently abandon between six and twelve wells, depending on the complexity. Once the most complex wells are addressed, subsequent work should accelerate and the H2S levels will be better controlled and eventually remediated entirely.

Following the P&A work, testing and verification will occur to ensure that each abandoned well is secure. This work will also help to inform Phase II, which includes the final decommissioning and removal of Platform Holly and the Ellwood Beach Piers.

Rincon Island Limited Partnership – Rincon Island
The Commission anticipates work on Rincon Island to P&A all wells and decommission and remove the oil production infrastructure to take 24-36 months. Because the wells have not produced oil since 2008 and down hole well work has not been performed during that time, the condition of each well will have to be assessed to identify the high-risk wells for initial P&A. The initial abandonment assessment by an engineering firm did not include a well integrity inspection. This means that one will have to occur during the initial planning phase. Once P&A is completed, testing and verification will occur to ensure that each abandoned well is secure. The Commission will also take steps to minimize danger to the public, should someone access the Island via the causeway, by ensuring 24-hour monitoring and a security presence.

F. Analysis of All Feasible Alternatives

1. The proposed action – A General Fund appropriation of $58 million in the first year ($108.5 million total cost over three years) for the South Ellwood Project and Rincon Island Project to protect public health and safety and the environment from the risk of an accidental release of oil or gas.

2. Continuous platform/island staffing, but no plugging or abandonment – If the Commission were to continually staff Platform Holly and Rincon Island in lieu of a P&A/decommissioning program, the State’s obligation, the environmental risks, and the liability exposure would persist for the foreseeable future. No other entity exists that can fulfill the lease requirements to make the facilities safe and restore the land to its previous condition. Monthly operational costs on the South Ellwood Project exceed $1 million. Rincon Island’s monthly operational costs have not been fully assessed, but likely exceed $100,000 when regulatory and permit costs are factored in. The cost to continually maintain these facilities will eventually exceed the P&A cost estimates, without addressing and eliminating the risk from an oil spill or other calamity.

3. Redirect current funding and staff – The Commission’s budget is limited and its ability to redirect funding and staff of this magnitude is not an option. The Commission’s budget does not contain $58.04 million or $50.46 million to redirect to the South Ellwood Project or the Rincon Island Project. Redistribution of even a small portion of our budget would severely curtail or eliminate critical General Fund programs and services. While the Commission has a limited number of petroleum drilling, petroleum production, and process safety engineers, these positions are used for essential safety and oversight work. The Commission does not have staff with specialized experience in day-to-day oil platform or facility maintenance. Nor does the Commission have the equipment and experienced staff necessary to carry out P&A programs or full-time facility operations.
4. **Do nothing** -- Without funding, the oil and gas infrastructure on Platform Holly and Rincon Island would deteriorate and be minimally staffed and monitored, potentially triggering regulatory violations at the local, state, and federal levels and enormous safety and environmental risks. If facilities remain and the wells are not plugged and abandoned, the State is potentially at risk of an oil spill and discharge of lethal and catastrophic H2S concentrations. If this happened, the State is certain to be liable for many millions of dollars in remediation costs and tort liability.

**G. Implementation Plan**

Below is a projected implementation plan. The South Ellwood Project P&A program is anticipated to start in March 2018. That work will be funded by the FY 2017-18 General Fund appropriation. Continued P&A work funded by this Budget Change Proposal, will last through FY 2019-20.

The Rincon Island Project will require the Commission to retain a contractor to perform the P&A work and remove the causeway. The work on Rincon Island is anticipated to occur through FY 2020-21.

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**Analysis of Problem**

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<td>Invitation for bid for contract to staff the facilities and perform the P&amp;A work (1st QTR FY). Commence planning and mobilization for P&amp;A activities (2nd-4th QTR FY) ($20 million)</td>
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<td>Commence P&amp;A activities (all FY) ($20 million)</td>
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<td>July 1, 2020 – June 30, 2021</td>
<td>Post plug and abandonment testing (1st QTR FY). Remove and decommission oil and gas facilities and causeway (2nd-4th QTR FY). ($10.46 million)</td>
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Below is a summary of the proposed costs by fiscal year.

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**H. Supplemental Information**

None

**I. Recommendation**

Approve Alternative 1, a General Fund appropriation of $108 million over three fiscal years, as such; $58 million in FY 2018-19, $40 million in FY 2019-20 and $10 million in FY 2020-21.
## BCP Fiscal Detail Sheet

**BCP Title:** Oil & Gas Plug & Abandonment  
**BR Name:** 3560-001-BCP-2018-GB

### Budget Request Summary

Operating Expenses and Equipment

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Total Budget Request

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### Fund Summary

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### Program Summary

Program Funding

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