



**OIL FIELD CLEANUP PROGRAM
ANNUAL REPORT — FISCAL YEAR 2007**

**OIL AND GAS DIVISION
RAILROAD COMMISSION OF TEXAS**

MICHAEL L. WILLIAMS, CHAIRMAN
VICTOR G. CARRILLO, COMMISSIONER
ELIZABETH A. JONES, COMMISSIONER

TOMMIE SEITZ
DIRECTOR, OIL AND GAS DIVISION
CHARLES C. ROSS, P.E.
DEPUTY DIRECTOR, FIELD OPERATIONS

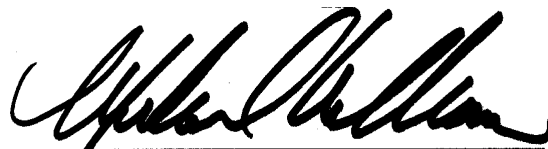
OIL AND GAS DIVISION

February 26, 2008

To The Legislature:

S.B. 1103, 72nd Legislature, 1991 and S.B. 310, 77th Legislature, 2001 (§91.112(b), Natural Resources Code) requires the Railroad Commission to submit an Annual Report to the Legislature on the Oil Field Cleanup Program. The information required by S.B. 1103 and as amended by S.B. 310 is contained in this report. This report covers the period from September 1, 2006 through August 31, 2007.

The Railroad Commission remains committed to the success of the Oil Field Cleanup Program and to the protection of the State's land and water resources through activities funded by the Oil Field Cleanup Fund. This report is posted on the Commission's website; however, should you have any questions about the material presented, please contact Ramon Fernandez, Engineer in the Commission's Oil and Gas Division, Field Operations Section, at 463-6830; William Miertschin, Assistant Director of the Commission's Oil and Gas Division, Site Remediation Section, at 463-6765; Lowell Williams, Director of the Commission's Office of General Counsel, Enforcement Section, at 463-6843; or LeeRoy Lopez, Budget Analyst, Administration Division, at 463-7268.



Michael L. Williams, Chairman



Victor G. Carrillo, Commissioner



Elizabeth A. Jones, Commissioner

**RAILROAD COMMISSION OF TEXAS
OIL FIELD CLEANUP PROGRAM
ANNUAL REPORT--FISCAL YEAR 2007**

INTRODUCTION:

The Oil Field Cleanup Fund was created by the adoption of S.B. 1103 (72nd Legislature, 1991) and modified by the adoption of S.B. 310 (77th Legislature, 2001). Under S.B. 1103 the State of Texas, through the Railroad Commission ("Commission"), increased its financial ability to plug abandoned oil and gas wells and to remediate abandoned oil field sites throughout the State. S.B. 1103 replaced the previous Well Plugging Fund with the Oil Field Cleanup Fund and set the fund balance cap at \$10 million. S.B. 310 increased several existing fees associated with oil and gas industry activity and increased the Oil Field Cleanup Fund balance cap from \$10 million to \$20 million.

The impact of the Oil Field Cleanup Fund is clearly demonstrated by the increase in the number of wells plugged and sites remediated. From fiscal year 1984 to fiscal year 1991, the Commission plugged 4,078 wells under the previous Well Plugging Fund. From fiscal year 1992 through fiscal year 2007, the Commission plugged 23,536 wells (27,614 wells since fiscal year 1984) and cleaned up, assessed, or investigated 3,690 sites using the Oil Field Cleanup Fund and other state and federal sources of funds.

As of August 2007, the Commission was tracking approximately 370,744 wells compared to 362,950 in August 2006. Of this number, 109,830 were inactive, shut-in oil and gas wells. Of the 109,830 wells, 20,985 were compliant inactive wells that had been shut-in less than 12 months and 72,552 were compliant inactive wells that were shut-in for more than 12 months, but belonged to operators with an active Organization Report on file with the Commission and have filed the required financial assurance, a bond or letter of credit, and qualified for a plugging extension. The remaining 16,293 wells were non-compliant inactive wells that were in violation of the Commission's plugging rule. Of the 16,293 non-complaint wells, 6,714 wells belonged to operators with an active Organization Report on file with the Commission and 9,579 wells belonged to operators with delinquent Organization Reports. The Commission defines these 9,579 wells as orphan wells. These figures are represented on a percentage basis in Figure 1 and the distribution of wells monitored by the Commission is shown in Figure 2.

The operators of record plug most of the compliant inactive wells and some of the non-compliant inactive wells as required by Commission rules and regulations. However, some currently compliant and many of the orphan wells may eventually require plugging by the Commission with Oil Field Cleanup funds and/or other state and federal funds.

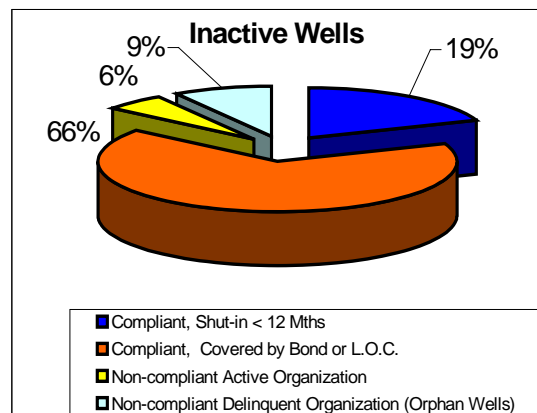


Figure 1

Distribution of Wells Monitored by the Railroad Commission

As of August 30, 2007

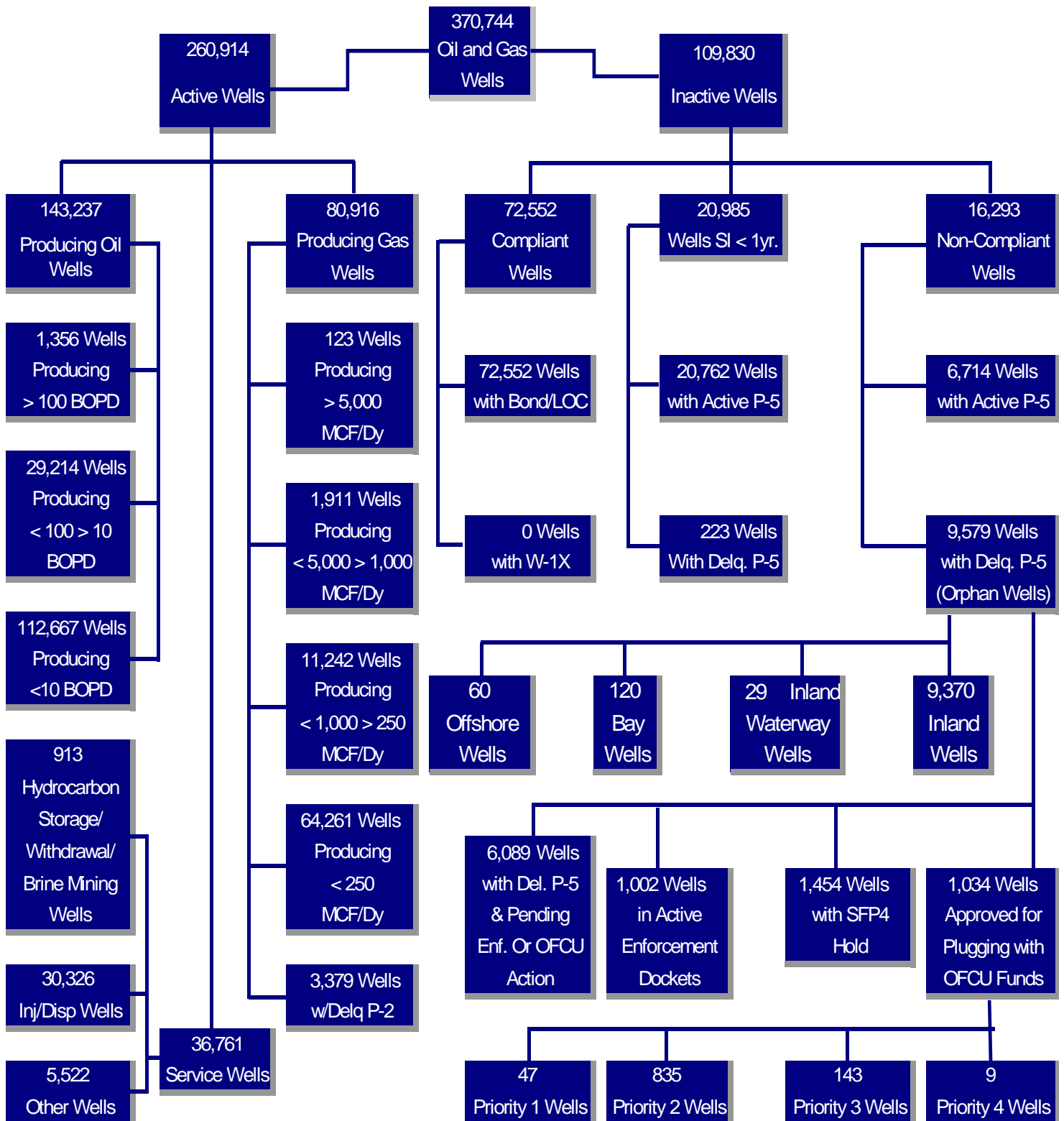


Figure 2

It is important to understand that the number of orphan wells is a dynamic number that changes daily, as wells are placed into and out of compliance. The Commission attempts to capture the dynamics occurring within the orphan well population on a monthly basis and depicts these changes during fiscal year 2007 in Table 1. Table 2 depicts the yearly dynamics beginning with fiscal year 2003 (September 1, 2002). The data in Table 1 illustrates that the number of orphan wells decreased by 1,708 in fiscal year 2007 and has decreased by 8,392 wells since September 2002 (Table 2). However, the make-up of the orphan wells has changed. A total of 11,695 wells were removed from the fiscal year 2007 beginning inventory, but 9,987 new wells were added to the population of orphan wells throughout the fiscal year. Since the beginning of fiscal year 2003, 62,939 orphan wells have been removed from the inventory and 54,547 new orphan wells have been added to the inventory. The Commission's regulatory goals are to eliminate the threat of pollution posed by inactive unplugged wells and to minimize the number of orphan wells requiring plugging with Oil Field Cleanup funds, or other state and federal funds. This decrease in the number of orphan wells is illustrated in Figure 3.

Month of Activity	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Beginning Population (from previous month)	11,287	11,780	10,859	10,623	10,799	11,220	11,427	10,393	10,719	10,777	10,331	10,570	11,287
Plugged	(133)	(62)	(58)	(178)	(97)	(77)	(173)	(99)	(66)	(260)	(167)	(144)	(1,514)
Returned to Active Status	(4)	(30)	(7)	(3)	(10)	(7)	(16)	(12)	(11)	(4)	(9)	(5)	(118)
Operator Change	(82)	(81)	(76)	(59)	(369)	(152)	(113)	(88)	(77)	(138)	(90)	(36)	(1,361)
P-5 Renewal	(517)	(1,145)	(254)	(305)	(448)	(538)	(1,224)	(544)	(681)	(903)	(869)	(1,269)	(8,697)
Other Reasons	(1)	0	(1)	0	(1)	0	(1)	0	0	(1)	0	0	(5)
Wells Added to Population	1,230	397	160	721	1,346	981	493	1,069	893	860	1,374	463	9,987
Ending Population	11,780	10,859	10,623	10,799	11,220	11,427	10,393	10,719	10,777	10,331	10,570	9,579	9,579

Definitions:
Plugged = Plugged and abandoned.
Returned to Active Status = Active producing or service well.
Operator Change = P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal = The operator of record renews their P-5.
Other Reasons = Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population = Wells not considered orphaned at end of previous month, but considered orphaned at the end of this month.

Table 1

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2007**

OIL FIELD CLEANUP PROGRAM

Month of Activity	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007								Total
Beginning Population (from previous FY)	17,971	16,770	15,305	14,208	11,287								17,971
Plugged	(1,527)	(1,726)	(1,756)	(1,877)	(1,514)								(8,400)
Returned to Active Status	(646)	(160)	(177)	(196)	(118)								(1,297)
Operator Change	(3,110)	(1,777)	(2,506)	(1,483)	(1,361)								(10,237)
P-5 Renewal	(8,581)	(8,144)	(6,907)	(10,336)	(8,697)								(42,665)
Other Reasons	(281)	(23)	(19)	(12)	(5)								(340)
Wells Added to Population	12,944	10,365	10,268	10,983	9,987								54,547
Ending Population	16,770	15,305	14,208	11,287	9,579								9,579

Definitions:	
Plugged =	Plugged and abandoned.
Returned to Active Status =	Active producing or service well.
Operator Change =	P-4 Operator Change was filed and approved. An operator change will not be approved unless the new operator has sufficient bond amount on file to cover the new wells and has an active P-5.
P-5 Renewal =	The operator of record renews their P-5.
Other Reasons =	Supporting documentation filed to correct shut-in date, well activity, etc.
Wells Added to Population =	Wells not considered orphaned at end of previous FY, but considered orphaned at the end of this FY.

Table 2

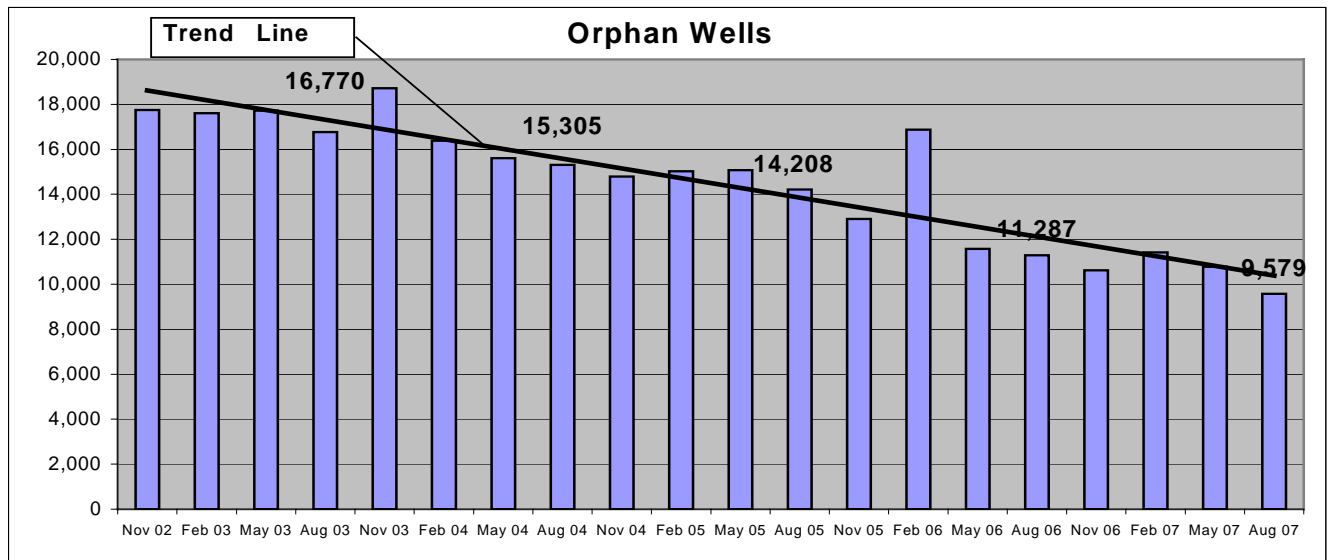


Figure 3

Revenue into the Oil Field Cleanup Fund is derived primarily from fees paid by the oil and gas industry; but significant revenue is also contributed from enforcement penalties, reimbursements, proceeds from the sale of salvaged equipment and hydrocarbons from well plugging and site remediation operations, and interest on fund balances. Additionally, the Commission seeks other funding sources from state and federal agencies to supplement the activities of the Oil Field Cleanup Program. Although the Oil Field Cleanup Fund finances the majority of the Oil Field Cleanup Program activities, the number of wells plugged and sites remediated contained in this report are inclusive of all sources of funds.

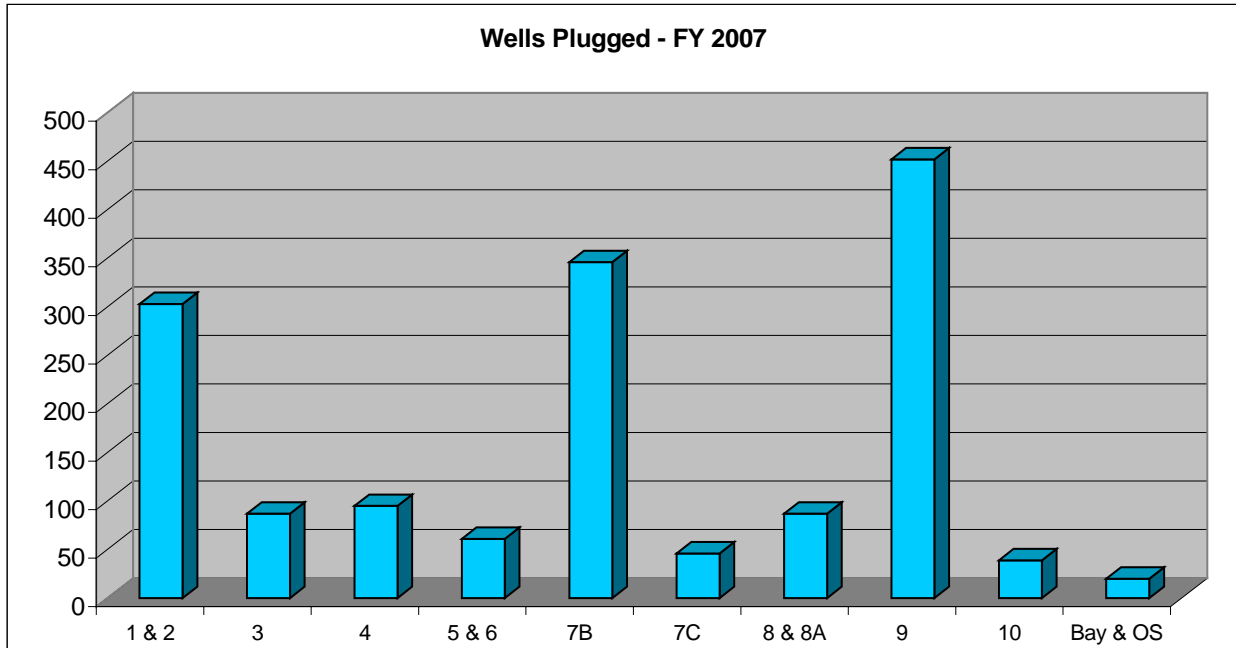
The following information on the Oil Field Cleanup Program is to be reported annually as required by S.B. 1103 and amended by S.B. 310.

I. NUMBER OF WELLS PLUGGED BY DISTRICT:

In fiscal year 2007, the Commission plugged **1,536** wells with Oil Field Cleanup funds and other state and federal monies. The total number of wells plugged represents those wells that are physically plugged and invoiced by the plugging contractors through August 31, 2007. Figure 4 illustrates the numbers of wells plugged by district during fiscal year 2007 and Figure 5 shows the number of wells plugged by fiscal year since the inception of the Oil Field Cleanup Program.

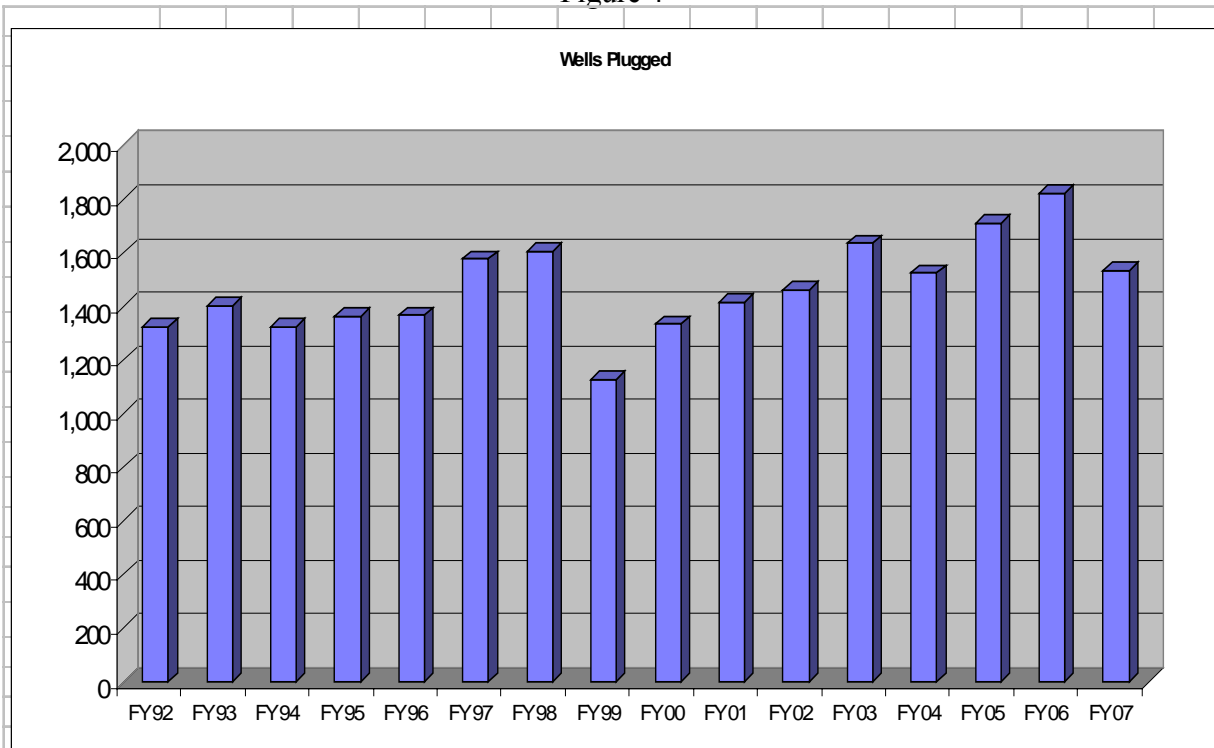
During fiscal year 2007, three well plugging records were set including total expenditures of over \$19 million, highest number of gulf wells plugged (18 wells) and highest value contract (\$4.2 million) for plugging the gulf wells. The offshore wells plugged were located in the Gulf of Mexico adjacent to the Matagorda Island and High Island areas of the middle and upper Texas coast. The wells had an average depth of 5,200 feet and the plugging cost averaged \$234,000 per well.





District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay & OS	Total
Wells Plugged	303	87	95	61	346	46	87	452	39	20	1,536

Figure 4



Fiscal Year	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Wells Plugged	1,324	1,404	1,325	1,364	1,366	1,577	1,604	1,126	1,335	1,417	1,464	1,635	1,525	1,710	1,824	1,536
Fiscal Year	Total															
Wells Plugged	23,536															

Figure 5

II. NUMBER OF ABANDONED WELLS BY DISTRICT:

As of August 2007, the number of abandoned wells was **9,579**. These are the wells the Commission defines as orphan wells because they have been inactive for at least 12 months and the responsible operator's Organization Report is delinquent. The number of orphan wells is a subset of the number of known inactive wells not currently in compliance with the Commission's plugging rule that is referenced in Section III of this report and illustrated in Figure 2. Figure 6 illustrates the number of orphan wells by district at the end of August 2007.

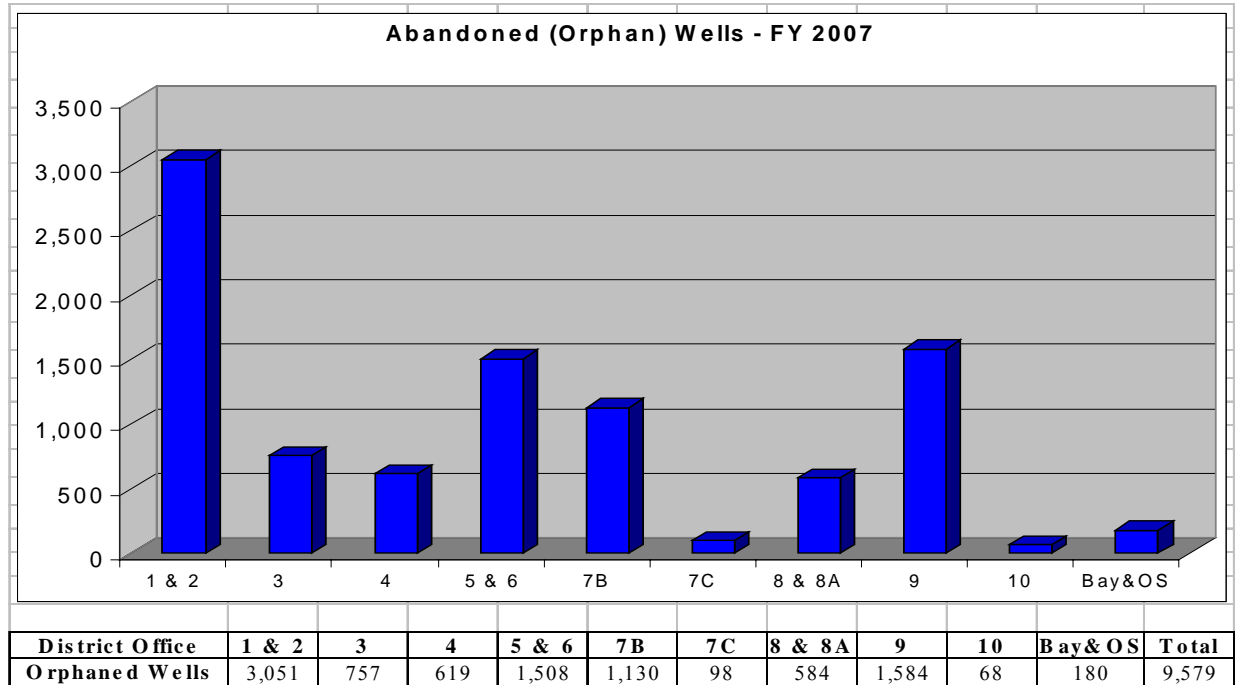


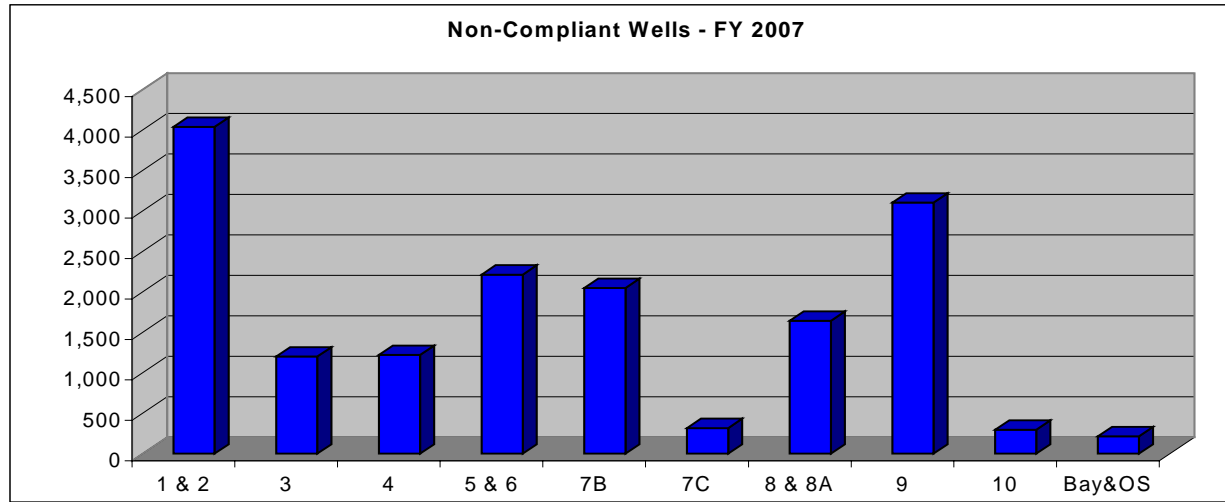
Figure 6

In addition to the 9,579 orphan wells, there are also an unknown number of old unidentified wells in Texas, which have no records. As these wells are located, the Commission initiates plugging operations in accordance with the well plugging priority system, which is based on the threat the well poses to the environment and public safety. In fiscal year 2007, 16 unidentified abandoned wells were plugged with Oil Field Cleanup funds, which account for 1.0% of all wells plugged by the Commission in FY 07.

III. NUMBER OF NON-COMPLIANT INACTIVE WELLS BY DISTRICT:

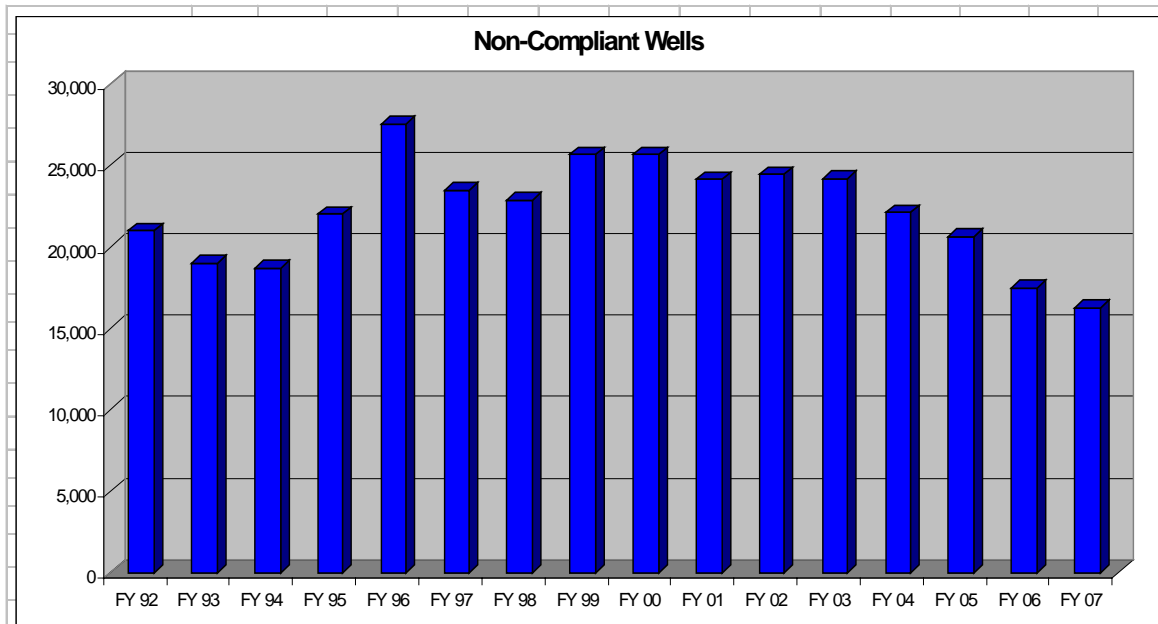
The number of known inactive wells not in compliance with Commission rules as of August 2007 totals **16,293**. The number of known inactive wells not currently in compliance with the Commission's plugging rule is determined from the Commission's computerized records. The number represents wells that remain shut-in beyond the initial 12 month shut-in period authorized by Commission rule and do not have a plugging extension, regardless of whether the operator's Organization Report is active or delinquent. Wells that are shut-in for less than 12 months are deemed compliant inactive wells. Wells may remain inactive beyond the initial 12-month period if

the operator has sufficient financial assurance on file with the Commission, and the wells are in compliance with all other laws and Commission rules. Figure 7 shows the number of non-compliant wells by district at the end of August 2007. Figure 8 shows the number of non-compliant wells in August, at the end of each fiscal year since 1992. Like orphan wells (subset of the inactive non-compliant wells), the number of inactive non-compliant wells is a dynamic number that changes daily, as wells are placed into and out of compliance.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Bay&OS	Total
Non-Compliant Wells	4,039	1,200	1,221	2,214	2,047	317	1,642	3,104	295	214	16,293

Figure 7

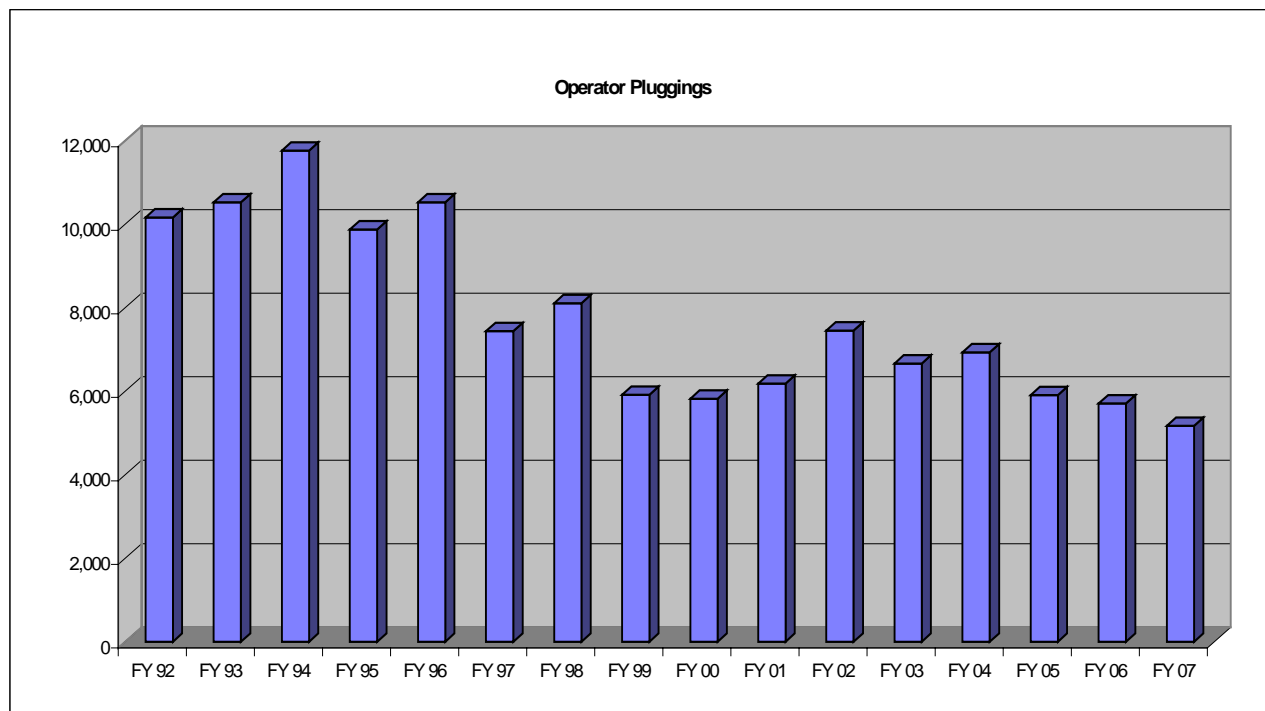


Fiscal Year	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Non-Compliant Wells	21,000	19,003	18,720	22,034	27,583	23,492	22,903	25,672	25,707	24,165	24,449	24,202	22,119	20,665
Fiscal Year	FY06	FY07												
Non-Compliant Wells	17,498	16,293												

Figure 8

The operators of these wells are required by Commission rules to plug wells at their expense upon cessation of production but may be eligible for plugging extensions if they have sufficient financial assurance on file with the Commission and the wells are in compliance with all other rules and regulations. The operators may also be subject to enforcement action if violations are not corrected and the wells are not brought into compliance with Commission rules and regulations in a timely manner. If the Commission plugs these wells with monies from the Oil Field Cleanup Fund or from other state or federal funds, the Office of the Attorney General may initiate legal action against the responsible operator for collection of the plugging costs and may assess civil penalties.

Operators plug the majority of all wells plugged each year. In fiscal year 2007, 5,172 wells (77% of all wells plugged) were plugged voluntarily by the operators of record, without the use of Oil Field Cleanup funds. Figure 9 depicts the number of wells plugged voluntarily by operators since fiscal year 1992.



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Operator Pluggings	10,163	10,523	11,762	9,873	10,522	7,439	8,109	5,912	5,819	6,180	7,450	6,661	6,928	5,906
Fiscal Year	FY 06	FY 07												
Operator Pluggings	5,708	5,172												

Figure 9

The Commission and industry have plugged between 6,000 and 10,000 wells per year since fiscal year 1992 (Figures 5 and 9). The number of orphan and non-compliant wells has decreased over the last four years (Figures 3 and 8). In fiscal year 2005, the number of known non-compliant inactive wells dropped below 21,000 for the first time since fiscal year 1994. Since a peak of 25,707 wells in fiscal year 2000, the number has declined 37%. The decrease in the number of orphan and non-

compliant wells can be attributed to several factors including the following: (1) In September 2001, the provisions of S. B. 310 required blanket bonds or letters of credit with an operator's annual Organization Report (Form P-5) to cover the transfer of inactive wells from one operator to another; (2) In September 2004, universal bonding for all oil and gas operators became effective. At the end of fiscal year 2005, all inactive wells belonging to active operators were no longer eligible for a plugging extension by filing Form W-1X (Figure 2).

IV. STATUS OF ENFORCEMENT PROCEEDINGS BY DISTRICT:

The following information represent wells, in violation of the Commission's plugging rule, which have been referred to the Office of General Counsel--Enforcement Section and/or the Office of the Attorney General (AG) and currently are in various stages of enforcement. Table 3 displays the information by district and Table 4 by fiscal year from FY 02 to FY 07.

ENFORCEMENT PROCEEDINGS	1/2	3	4	5/6	7B	7C	8/8A	9	10	Total
STATUS										
<i>1. Awaiting RRC review</i>	28	67	2 0	23	27	3	1	20 0	0	369
<i>2. Awaiting Hearing</i>	40	42	2 9	32	26	7	5	16 7	1	349
<i>3. Awaiting Final Order</i>	71	23	8	18	18	2	24	11 6	4	284
<i>4. Final Order Served/Awaiting AG referral</i>	0	0	0	0	0	0	0	0	0	0
<i>5. Wells Referred to AG</i>	47	14	1 2	16 3	71	3	7	72	9	398
<i>Total Wells Still in Violation</i>	18 6	14 6	6 9	23 6	14 2	15	37	55 5	14	1400
TIME PERIOD										
<i>6. In Enforcement < 2yrs</i>	18 3	12 4	6 8	17 8	13 2	10	32	51 6	14	1257
<i>7. In Enforcement > 2yrs & < 5yrs</i>	3	22	1	58	10	5	5	39	0	143
<i>8. In Enforcement > 5yrs</i>	0	0	0	0	0	0	0	0	0	0
<i>Total Wells Still in Enforcement</i>	18 6	14 6	6 9	23 6	14 2	15	37	55 5	14	1,400

Table 3

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2007**

OIL FIELD CLEANUP PROGRAM

<i>ENFORCEMENT PROCEEDINGS</i>	<i>FY 02</i>	<i>FY 03</i>	<i>FY 04</i>	<i>FY 05</i>	<i>FY 06</i>	<i>FY 07</i>
<i>STATUS</i>						
<i>1. Awaiting RRC review</i>	235	87	24	187	392	369
<i>2. Awaiting Hearing</i>	263	751	450	595	805	349
<i>3. Awaiting Final Order</i>	968	146	423	153	137	284
<i>4. Final Order Served/Awaiting AG referral</i>	0	0	0	0	0	0
<i>5. Wells Referred to AG</i>	829	739	716	542	281	398
<i>Total Wells Still in Violation</i>	2,295	1,723	1,613	1,477	1,615	1,400
<i>TIME PERIOD</i>						
<i>6. In Enforcement < 2yrs</i>	1,732	1,628	1,501	1,390	1,444	1,257
<i>7. In Enforcement > 2yrs & < 5yrs</i>	391	89	107	87	171	143
<i>8. In Enforcement > 5yrs</i>	172	6	5	0	0	0
<i>Total Wells Still in Enforcement</i>	2,295	1,723	1,613	1,477	1,615	1,400
<i>PENALTIES & REIMBURSEMENTS</i>						
<i>9. Administrative Penalties Assessed by RRC</i>	\$2,816,802	\$2,121,811	\$1,348,532	\$1,355,905	\$1,543,475	\$2,331,640
<i>TOTAL PENALTIES AND REIM. PAID TO RRC & AG</i>	\$1,013,238	\$1,929,053	\$1,894,618	\$2,399,200	\$2,588,211	\$2,804,213

Table 4

V. NUMBER OF SURFACE LOCATIONS REMEDIATED BY DISTRICT:

During the year, 1,758 abandoned oilfield sites were identified as candidates for state-managed remediation. Additional abandoned sites are identified each year through routine activities such as lease inspections, complaint investigations, state-managed plugging operations, or spill responses.

During fiscal year 2007, the Commission conducted 308 cleanup activities (Figure 10). This total includes all remediation activities invoiced by contractors that were approved and processed by the Commission before August 31, 2007. State-managed remediation activities included the following:

1. 192 routine remediation operations,
2. 43 emergency operations,
3. 73 site assessment investigations,

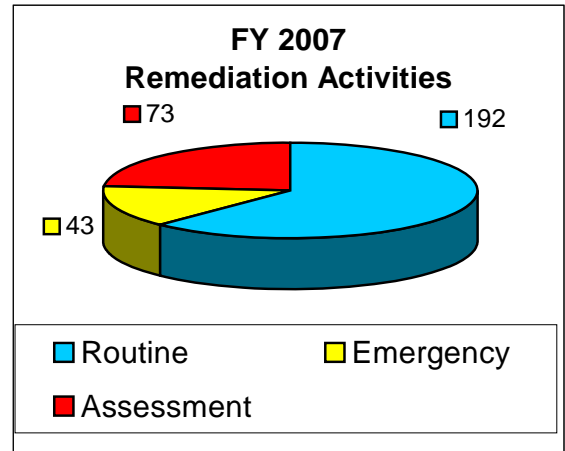
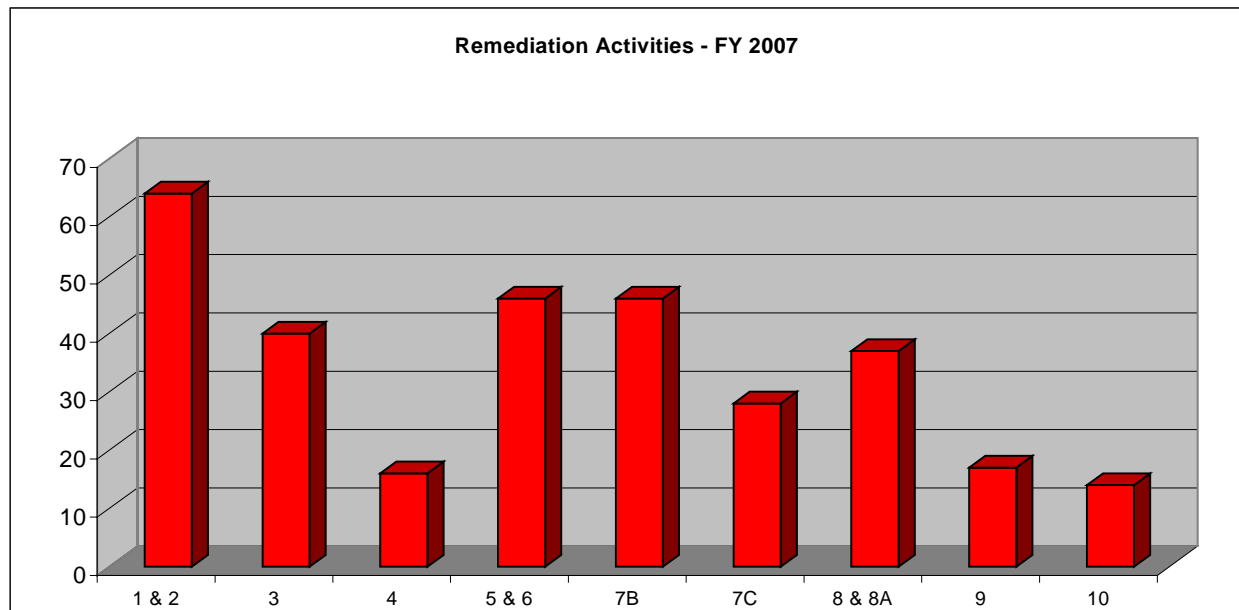


Figure 10

Figure 11 depicts these 308 sites by district for fiscal year 2007 and Figure 12 shows the sites cleaned up, assessed, or investigated by fiscal year since the inception of the program in September 1991.



District Office	1 & 2	3	4	5 & 6	7B	7C	8 & 8A	9	10	Total
Activities	64	40	16	46	46	28	37	17	14	308

Figure 11

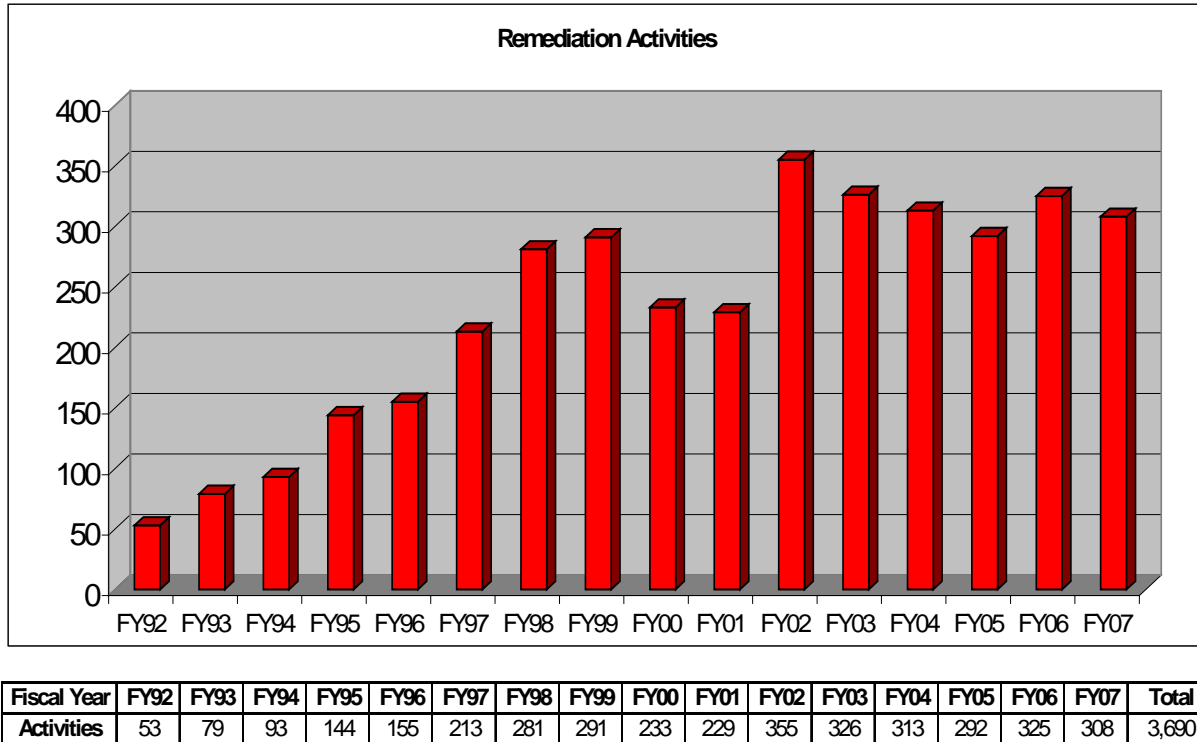


Figure 12

Similar to the well plugging priority system, the abandoned oilfield sites are prioritized based on the present or possible future impact to the environment and public safety. With larger sites, the challenge is often determining if the source of pollution is natural or man-made, which potential operator is responsible, how to evaluate the site, and which remedial method is appropriate for the situation.

The Commission utilizes environmental engineering contracts to help address complex sites. In addition to producing detailed assessment reports, the environmental contractors develop alternative remedial recommendations and anticipated costs.

VI. OIL FIELD CLEANUP FUND EXPENDITURES:

The Commission began fiscal year 2007 with a beginning fund balance in the Oil Field Cleanup Fund of \$12,982,512 and ended with a fund balance of \$6,810,477. Total revenues for the fiscal year were \$28,684,834 and total expenditures were \$36,167,398. Fiscal year 2007 Oil Field Cleanup Fund revenues and expenditures for well plugging operations, site remediation activities, and administration of the program are detailed in Table 5 and graphically displayed in Figures 13 and 14.

	FY 2007 Original Budget	FY 2007 Revised Budget	FY 2007 Actual Rev/Exp	FY 2007 % Collected/ Expended
Beginning Fund Balance, September 1 (Note 1)	\$ 12,982,512		\$ 14,293,041	
Revenues:				
Oil & Gas Well Drilling Permit	\$ 7,291,000		\$ 10,096,693	138.48%
Oil Field Cleanup Regulatory Fee on Oil and Gas	6,099,000		6,367,089	104.40%
P5 Organization Filing Fee	3,512,000		3,424,825	97.52%
Oil and Gas Bond/Letter of Credits and Cash Deposits			1,346,207	
Oil & Gas Administrative Penalties			1,458,006	
Sub-Total Oil and Gas Violations	2,407,000		2,804,213	116.50%
Other Revenue	4,110,000		4,882,238	118.79%
Sub-Total Revenue	\$ 23,419,000		\$ 27,575,058	117.75%
Intergaency Contracts			\$ 1,109,776	
Total Revenues			\$ 28,684,834	122.49%
Expenditures:				
Plugging & Remediation				
Plugging Contracts	\$ 12,523,500	\$ 22,449,755	\$ 19,428,824	86.54%
Orphaned Well Adoption Program	-	740,000	20,919	2.83%
Remediation Contracts	3,407,500	9,224,409	8,524,400	92.41%
Direct Project Salary & Operating	5,418,126	5,821,901	5,564,268	95.57%
Mgmt/Admin/Support Salary & Operating	2,733,751	2,484,053	2,481,278	99.89%
Sub-Total	\$ 24,082,877	\$ 40,720,118	\$ 36,019,689	88.46%
Well Testing				
Well Testing Contracts	\$ 10,000	\$ -	-	0.00%
Direct Project Salary & Operating	148,077	148,077	\$ 147,709	99.75%
Sub-Total	\$ 158,077	\$ 148,077	\$ 147,709	99.75%
Total Expenditures	\$ 24,240,954	\$ 40,868,195	\$ 36,167,398	88.50%
Ending Fund Balance, August 31	\$ 12,160,558		\$ 6,810,477	
Full Time Equivalent Positions	116.90		110.80	
Beginning Imprest Balance, September 1, 2006			\$ 9,299,899	
FY 07 Net Activity			1,800,184	
Ending Imprest Balance, August 31, 2007			\$ 11,100,083	

Table 5

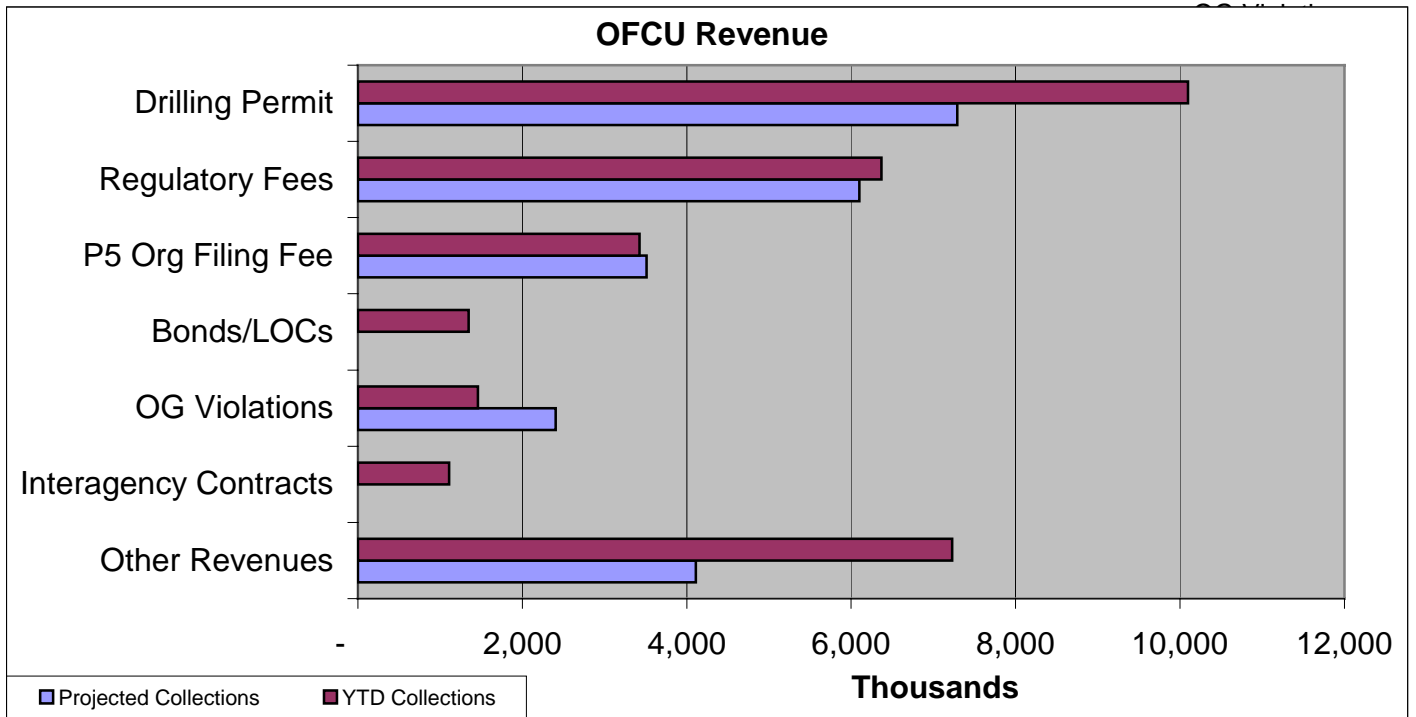


Figure 13

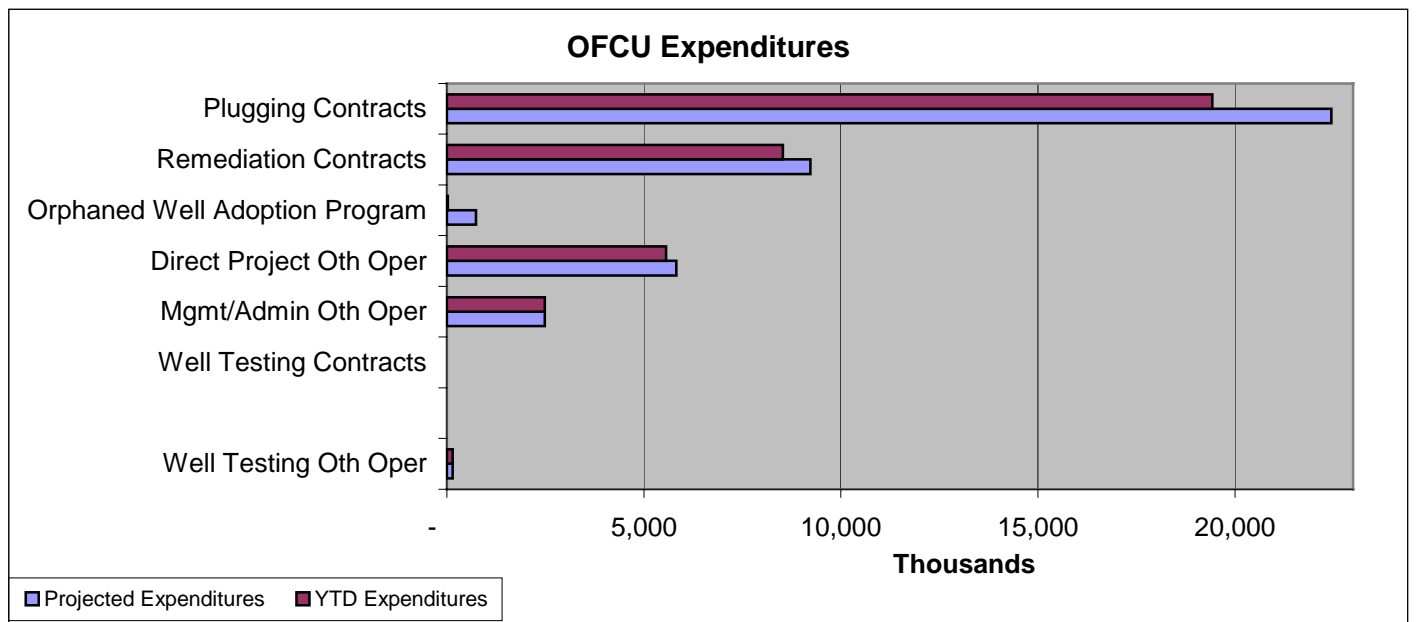


Figure 14

VII. WELL PLUGGING PRIORITY SYSTEM:

The Commission uses a priority methodology to rank wells for plugging to insure that those posing the greatest threat to public safety and the environment are plugged first. The priority system includes four factors relating to the threat a wellbore poses to public safety and the environment. The factors are titled “Well Completion”, “Wellbore Conditions”, “Well Location with respect to sensitive areas”, and “Unique Environmental, Safety, or Economic Concern.” The Well Completion factor has seven subcategories relating to the completion information on the well, type of formations penetrated, type of well, and age of the well. The Wellbore Conditions factor has seven subcategories relating to downhole conditions such as pressures on the well, fluid level in the well, and the integrity of the wellbore. The Well Location factor has seven subcategories relating to the proximity of sensitive areas. The remaining factor of Unique Environmental, Safety, or Economic Concern has five subcategories relating to proximity to active water floods or disposal wells, logistical concerns, wellbores with reentry problems, and the length of delinquency of the operator’s Organization Report.

Only those factors, which apply, are considered. Each factor has been assigned a weight dependent on its potential to affect human health and the environment. The weights of the factors are summed to obtain a total weight. The total weight determines the priority a well receives. Wells receive a priority of 1, 2H, 2, 3, or 4, where 1 is the highest priority. The greater the total weight summed from all of the applicable factors, the higher the priority assigned. The priority system assigns leaking wells the highest priority (an automatic priority 1) and assigns an automatic priority 2 if the well fails a fluid level test. The current priority system is outlined below.

WELL PLUGGING PRIORITY SYSTEM

	FACTOR	WEIGHT
1.	Well Completion	
A.	Unknown (no well records)	15
B.	No surface casing or set above base of deepest usable quality water	10
C.	Additional casing string not adequately cemented to isolate usable quality water	5
D.	Injection or Disposal Well	10
E.	Well penetrates salt/corrosive water bearing formation or abnormally pressured formation	5
F.	Well in H2S Field	5
G.	Age: well drilled \geq 25 years ago	5
	Total (40 max)	

**RAILROAD COMMISSION OF TEXAS
ANNUAL REPORT--FY 2007**

OIL FIELD CLEANUP PROGRAM

2. Wellbore Conditions	
A. Well is pressured up at the surface (tbq or Prod csg)	10
B. Bradenhead pressure exists *	5
Auto 2H if UOW not protected, and fluid at BH is not UOW	
C. Measured fluid level:	
D. Fluid level at or above the base of deepest usable quality water.	50
E. Fluid level less than 250' below base of deepest usable quality water (na if 2D applies)	15
F. MIT failure	5
G. H-15 (MIT) never performed, or test greater than 5 years old (na if F applies)	3
H. Inadequate wellhead control/integrity	5
Total (75 max pts)	
3. Well location with respect to sensitive areas	
A. H2S well with Public area ROE ** Automatic Priority 2H	
B. In Marine Environment	10
C. Within 100' of river, lake, creek, or domestic use fresh water well (N/A if B applies)	5
D. Between 100' and ¼ mile of river, lake, creek, or domestic use fresh water well (N/A if C applies)	3
E. Located within agricultural area	2
F. Well located in known sensitive wildlife area	3
G. Well located within city or town site limits	10
Total (20 max pts)	
4. Unique environmental, Safety, or Economic Concern	
A. Adjacent to Active water flood or disposal well at or above completion interval.	5
B. Logistics (poor roads, encroaching public, etc)	5
C. Well Contains Junk	5
D. P-5 Delinquent > 5 years	5
E. Other (attach explanation)	1-20
Total (20 max pts)	
Total Weight	
Priority	
Priority 1 = Leaking Well (Based on Definition)	
Priority 2H = Higher Risk well (Based on Definition and/or total weight > +75)	
Priority 2 = Total Weight 50 - 75	
Priority 3 = Total Weight 25 - 49	
Priority 4 = Total Weight < 25	

* BH Pressure is sustained.

** 2H if public area could be impacted based on SWR 36 definition. Undetected/continuous leak possible.

Figures 15 and 16 and Table 6 below show the number of wells plugged with Oil Field Cleanup funds by priority during fiscal year 2007 and between fiscal years 1992 and 2007. In September 2001, the Commission began concentrating its well plugging efforts on priority 1 and 2 wells as a result of implementation of the High Risk Well Testing Program established by S.B. 310 (77th Legislature, 2001). This continued through fiscal year 2007.

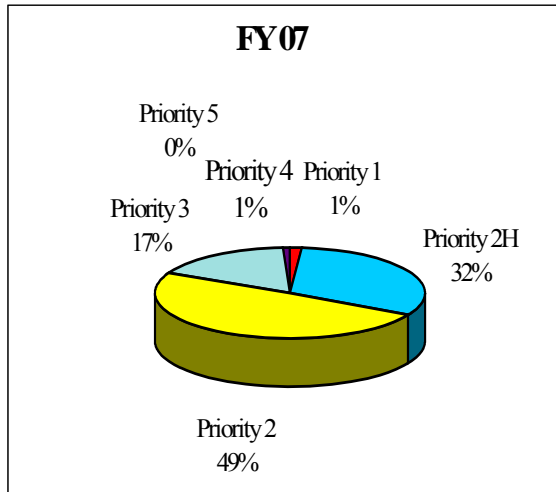


Figure 15

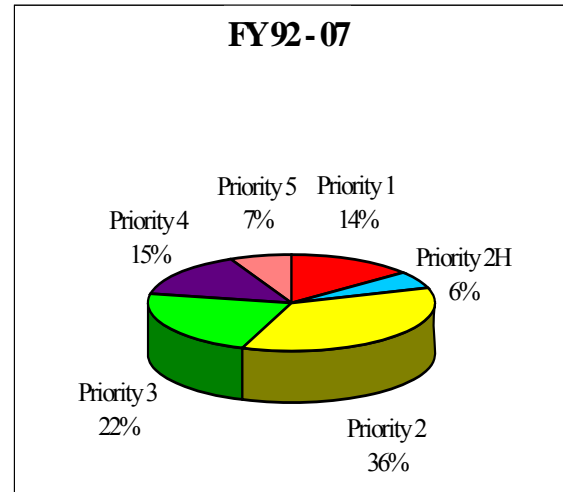


Figure 16

	Fiscal Year 2007	Fiscal Years 1992 – 2007
Priority 1	23	3,341
Priority 2H	484	1,343
Priority 2	756	8,409
Priority 3	261	5,257
Priority 4	12	3,535
Priority 5*	0	1,651
Total	1,536	23,536

Table 6

* no longer used

VIII. OIL FIELD CLEANUP FUNDS PROJECTION:

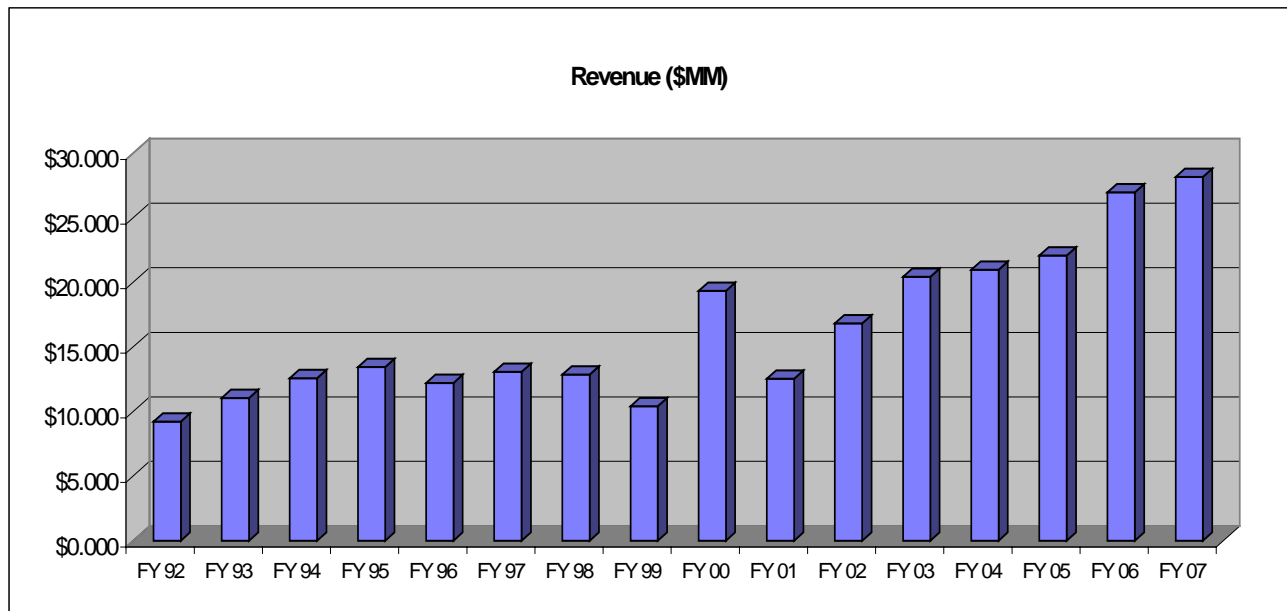
Oil Field Cleanup funds projected for the next biennium for plugging abandoned wells and remediating surface locations are as follows:

Fiscal Year 2008 = \$23,497,000

Fiscal Year 2009 = \$24,094,000

Projected funds are estimates that the Commission expects to receive into the Oil Field Cleanup Fund during the next biennium. Figure 17 illustrates the actual revenues received into the Oil Field Cleanup Fund. Neither the revenue projections nor the actual revenue receipts reflect revenues from federal sources. The total revenue receipts for fiscal year 2007 do not include \$1,800,184 of net activity in the imprest account. The operators file cash deposits in lieu of a bond or letter of credit that would otherwise be required at the time of annual renewal of an operator's Organization Report.

These monies are not available to plug orphan wells or remediate polluted sites since they are held in trust as financial assurance and are subject to being refunded should the operator chose an alternate financial assurance option.



Fiscal Year	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Revenue (\$MM)	\$9.220	\$11.045	\$12.591	\$13.449	\$12.214	\$13.073	\$12.858	\$10.405	\$19.335	\$12.535	\$16.837	\$20.433	\$20.976	\$22.078	\$26.980
Fiscal Year	FY 07														
Revenue (\$MM)	\$28.165														

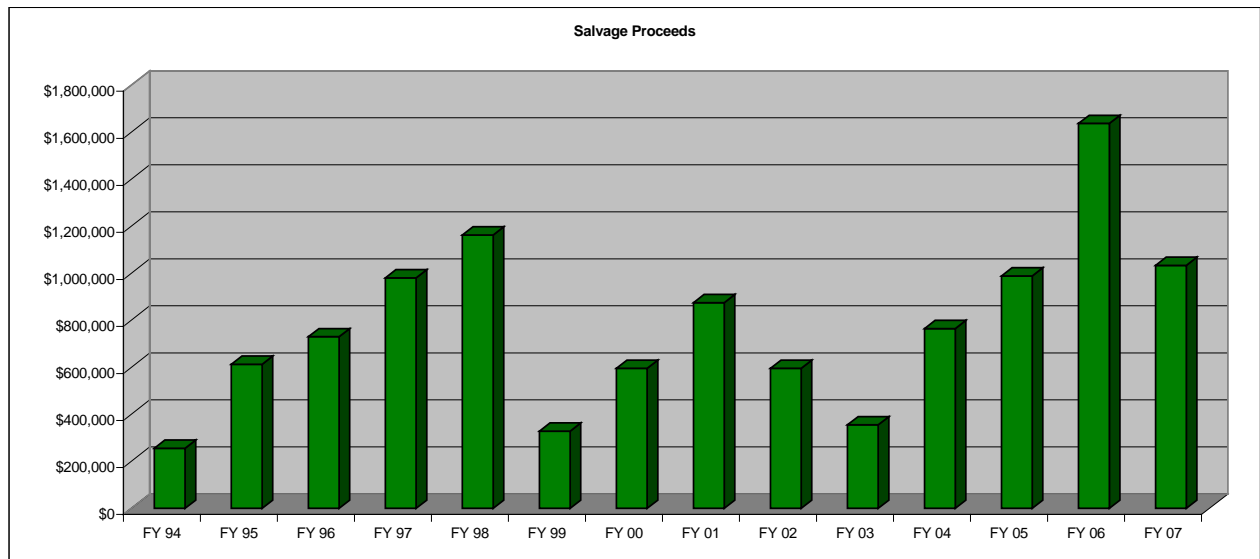
Figure 17

IX. STATUS OF SALVAGE OPERATIONS:

The Commission continues to benefit from the sale of salvageable equipment and hydrocarbons recovered from wells/leases plugged and sites remediated with Oil Field Cleanup funds. In fiscal year 2007, the Commission derived **\$1,033,282** from the sale of salvageable equipment and hydrocarbons on 197 salvage operations and deposited these proceeds in the Oil Field Cleanup Fund. The record for the sale of salvage was set in FY 2006 with proceeds of \$1,637,051.

House Bill 2705 (73rd Legislature, 1993), which became effective January 1, 1994, streamlined the requirements and facilitated the process by which the Commission is able to sell salvageable equipment and hydrocarbons from wells plugged or sites remediated with Oil Field Cleanup funds. While the bill eased the requirements to sell salvage, it continued to provide due process protection for interested or affected parties. Potential claimants of salvage proceeds have an indefinite period of time in which to file a claim against the Oil Field Cleanup Fund for the proceeds from the sale of salvageable equipment and/or hydrocarbons. Additionally, H.B. 2613 (78th Legislature, 2003) clearly established the Commission’s ability to also sell stored hydrocarbons from abandoned sites remediated by the Commission.

Since the inception of the salvage program, the proceeds from the sale of salvageable equipment and hydrocarbons have totaled \$10,915,560 from 2,772 salvage operations. Figure 18 illustrates the salvage proceeds from the sale of equipment and hydrocarbons from fiscal year 1994 to the present.



Fiscal Year	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
Salvage Proceeds	\$256,126	\$612,987	\$729,736	\$980,176	\$1,163,021	\$328,781	\$595,758	\$874,604	\$595,615	\$355,074	\$764,853	\$988,496	\$1,637,051	\$1,033,282
Operations	63	208	285	249	344	136	182	164	197	103	207	184	253	197
Total														
\$10,915,560														
2,772														

Figure 18

X. NUMBER OF SITES REMEDIATED UNDER THE VOLUNTARY CLEANUP PROGRAM BY DISTRICT:

Senate Bill 310, 77th Legislature (2001), amended Texas Natural Resources Code, Chapter 91, by adding new Subchapter O, specifically authorizing the Commission to establish a Voluntary Cleanup Program (VCP) that is self-funded through the collection of application and oversight fees and that these fees be deposited to the Oil Field Cleanup Fund. Railroad Commission rules regarding the VCP were adopted in June 2002 (16 TAC, Chapter 4, Subchapter D). The purpose of the VCP is to provide an incentive to lenders, developers, owners, and operators to remediate soil and water environmentally impacted by activities over which the Commission exercises jurisdiction by removing the liability to the lenders, developers, owners, and operators who did not cause or contribute to contamination. In return for the release of liability, the State offsets oversight costs through the collection of fees, reduces the need for state-managed cleanup activities, and expedites the return of contaminated properties into productive use.

S.B. 310 structured the VCP in a sequential fashion: 1) an application (with application fee of \$1,000) and acceptance process, 2) agreement execution process, 3) cleanup with Commission oversight process, and finally 4) issuance of a VCP Certificate of Completion. The Commission oversight includes review of work plans and reports to ensure the protection of human health and the environment.

In fiscal year 2007 there were 11 new VCP applications. As of August 31, 2007, there were 31 active VCP sites. Since program inception in the summer of FY02, 24 sites have been cleaned up and certificates of completion issued

XI. OPERATOR CLEANUP PROGRAM:

Another important function of the Commission's Oil Field Cleanup Program is the management of the Operator Cleanup Program (OCP). Operator cleanups are complex assessment and remediation activities conducted by a responsible operator, usually at environmentally sensitive sites. The program ensures that pollution outside of SWR 91 non-sensitive area oil spill cleanup requirements and beyond routine SWR 8 cleanups and closures are addressed promptly and adequately. Oversight of OCP activities is usually by staff in Austin headquarters and District Office (DO) staff. The majority of the projects are long-term remediation projects that require specialized skills to review and manage.

Importantly, environmental cleanups in this program are funded by the responsible operator. As a result, prompt review and action by the Commission may keep some of these projects from becoming state-managed projects that would need Oil Field Cleanup funds to complete the clean up. While these projects do not impose actual assessment of cleanup costs to the Oil Field Cleanup Fund, they do require considerable staff resources of employees who are paid out of the fund.

Mergers, divestitures and acquisitions of oil field properties, which routinely involve environmental assessments for asset valuation, have also contributed to the increasing number of projects for the Operator Cleanup Program. It is not uncommon for operators to discover

contamination at sites during routine environmental assessment and to subsequently seek letters of “no further action” from the Commission after completion of clean up.

The Commission tracks approximately 500 complex operator cleanups. These projects involve frequent sampling, reporting, and evaluation to ensure final cleanup is protective of the public health, safety and the environment.

Figure 19 illustrates the number of sites in the Operator Cleanup program since 1998.

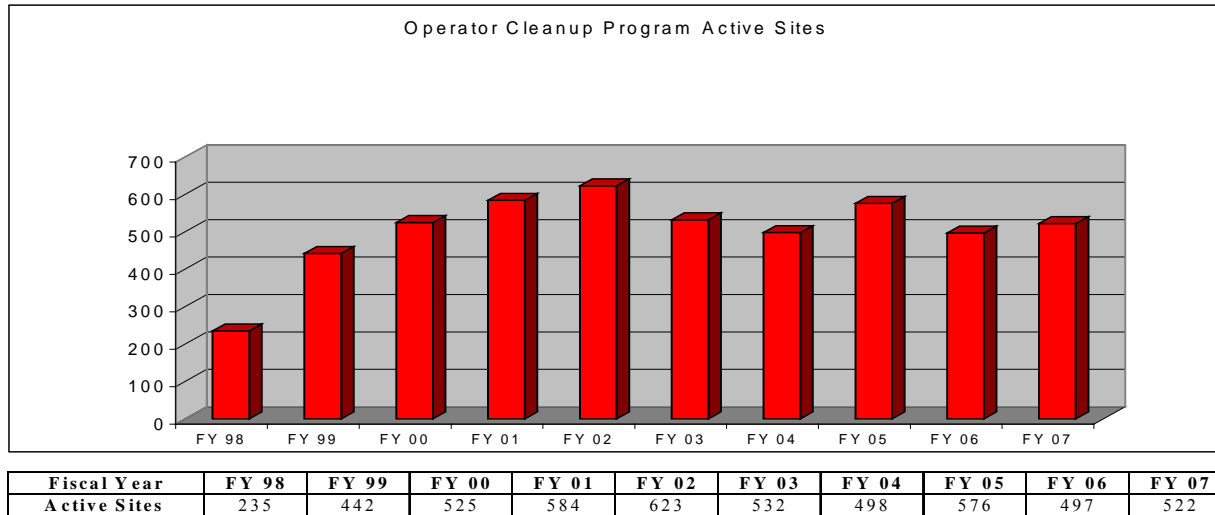


Figure 19