

1989

Session Law 89-358

Florida Senate & House of Representatives

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House of Representatives, Florida Senate &, "Session Law 89-358" (1989). *Staff Analysis*. 1151.
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S 478 GENERAL BILL/2ND ENG by Grizzle (Compare CS/H 1062, CS/H 1475, CS/S 611)

State Lands/Oil & Gas Leases: provides for additional forms of financial security for damages for certain activities on state lands at discretion of board of trustees; repeals provision re limitation on term of oil & gas drilling leases & provision re manner of drilling wells; creates Petroleum Exploration & Production Bond T.F., to be administered by D.N.R., etc. Amends 253.571, 377.2425, 41, 376.40, 11; repeals 253.55(3), 58. Appropriation: \$47,500. Effective Date: 07/06/89.

03/10/89 SENATE Prefiled
03/24/89 SENATE Referred to Natural Resources and Conservation
04/04/89 SENATE Introduced. referred to Natural Resources and Conservation -SJ 47
04/07/89 SENATE On Committee agenda—Natural Resources and Conservation, 04/11/89, 2:00 pm, Room-2C-(301)
04/11/89 SENATE Comm. Report: Favorable by Natural Resources and Conservation, placed on Calendar -SJ 124
04/27/89 SENATE Placed on Special Order Calendar -SJ 210; Passed as amended; YEAS 36 NAYS 0 -SJ 237
05/02/89 HOUSE In Messages
05/09/89 HOUSE Received, referred to Appropriations -HJ 419
05/17/89 HOUSE Withdrawn from Appropriations -HJ 514; Placed on Calendar
05/24/89 HOUSE Placed on Special Order Calendar
05/30/89 HOUSE Substituted for CS/HB 1062 -HJ 828; Read second time; Amendments adopted; Read third time; Passed as amended; YEAS 112 NAYS 0 -HJ 830
05/30/89 SENATE In Messages
06/01/89 SENATE Was taken up -SJ 763; Concurred; Passed as amended; YEAS 36 NAYS 0 -SJ 765
06/01/89 Ordered engrossed, then enrolled -SJ 765
06/20/89 Signed by Officers and presented to Governor
07/06/89 Became Law without Governor's Signature; Chapter No. 89-358

NOTES: Above bill history from Division of Legislative Information's *FINAL LEGISLATIVE BILL INFORMATION, 1989 SESSIONS*. Staff Analyses for bills amended beyond final committee action may not be in accordance with the enacted law. Journal page numbers (HJ & SJ) refer to daily Journals and may not be the same as final bound Journals.

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BILL NO. SB 478

DATE: April 7, 1989

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SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

<u>ANALYST</u>	<u>STAFF DIRECTOR</u>	<u>REFERENCE</u>	<u>ACTION</u>
1. <u>Ross</u> <i>CR</i>	<u>Voigt</u> <i>WV</i>	1. <u>NRC</u>	<u>Favorable</u>
2. _____	_____	2. _____	_____
3. _____	_____	3. _____	_____
4. _____	_____	4. _____	_____

SUBJECT:

Oil and Gas Production
Leases on State Lands

BILL NO. AND SPONSOR:

SB 478 by
Senator Grizzle

I. SUMMARY:

A. Present Situation:

Pursuant to chapter 253, Florida Statutes, the Board of Trustees of the Internal Improvement Trust Fund, has the exclusive power to authorize the sale or lease of State lands. Chapter 253 establishes certain lease provisions on State lands for the production of oil, gas and other minerals. Section 253.55, F.S., delineates specific limitations on the terms of such leases.

Subsection (3) of s. 253.55, F.S., requires the lessee to complete drilling operations of at least one test oil or gas well within the first 2 1/2 years of the term of the lease. If a well is not completed within this 2 1/2 year period, resulting from a lack of due diligence or workmanlike conduct, the lease will be void. In certain instances, however, the lessee can obtain an extension on the lease. This provision, created in 1969, was enacted to prevent oil and gas companies from acquiring leases on State lands and "sitting" on the land to delay oil or gas production and the full utilization of such resources.

Section 253.571, F.S., requires that a lessee obtain a surety bond before commencing any exploration or production of oil or gas on leased State land. The bond is used to secure payments for any possible environmental damage, such as air and water pollution or destruction of wildlife, caused by mining or drilling operations of the lessee. Bonds must be obtained from an authorized surety company.

The Department of Natural Resources reports that some lessees, especially the smaller oil and gas companies, are not able to obtain these surety bonds as the bonding companies consider such activities a high risk.

Section 253.58, F.S., requires that all wells on leased lands "be drilled in an efficient, diligent, and workmanlike manner, and in accordance with the best practice..." All wells must be drilled to a minimum depth of 6,000 feet before abandonment, unless a sufficient amount of oil or gas is found at a lesser depth. This provision, created in 1945, was used to assure that explorations were carried out to a sufficient degree before the well was abandoned without oil or gas production. However, the Department states currently, oil and gas explorations are always extended below 6,000, as virtually no oil and gas exists at shallower depths.

B. Effect of Proposed Changes:

Section 1. The bill repeals subsection (3) of s. 253.55 and ss 253.571 and 253.58, F.S.

Section 2. The act takes effect on October 1, 1989.

II. ECONOMIC IMPACT AND FISCAL NOTE:

A. Public:

No direct economic impacts will be made on the public due to the repeal of these provisions.

B. Government:

No direct economic impact will be made on the government due to the repeal of these provisions. It is speculated by the Department that the lifting of rigid lease term provisions and surety bonding requirements would encourage more exploration of minerals in the state, and, consequently, result in the production of more state revenues.

III. COMMENTS:

It appears that the Department supports the repeal of these lease provisions. It states that their repeal would not affect the State's ability to protect the environment and obtain State revenues as the Governor and Cabinet have "full discretion," pursuant to s. 253.51, F.S., to set the terms and conditions of leases without such additional statutory provisions. The Department's support of this bill, however, is based on the premise that the repeal of these provisions would not result in the interpretation that the Board of Trustees no longer has the authority to limit leasing terms, require environmental bonds, or set a minimum drilling depth. It is asserted that the increased flexibility of the Board of Trustees to negotiate for lease terms, minimum drilling depths and surety bonds is the intended result of the bill.

Specifically, the Department is concerned that s. 253.571, F.S., is too restrictive and discourages oil exploration in the State. The Department would not support the repeal of this provision, however, if the Board of Trustees' authority to require some type of financial security including surety bonds, was relinquished.

The industry contends that requiring two bonds to conduct oil exploration, one to satisfy the requirements in ch. 377 and one to satisfy requirements in s. 235.571, F.S., places a hardship on small oil companies. Concern is also expressed by the oil and gas industry that the bonding provision is too rigid, as there are certain situations where the lessee is required to post bonds for drilling in areas that encompass a minimal amount of state owned lands.

There is some concern that the repeal of the surety bonding provision would deny money to the state which would be used in the clean-up of environmental damage from oil or gas contamination. However, the Board of Trustees will continue to have the power, pursuant to s. 253.51, F.S., to negotiate for and include such financial security conditions in the terms of State leases.

It is contended that the 2 1/2 year time limit in s. 253.55, F.S. is too short, and as a result, the industry would prefer a longer period, such as 5 years. Apparently, this time constraint is impractical in light of the other procedural requirements that the lessees must comply with upon obtaining the lease to explore for oil or gas. The removal of all statutory time constraints, with the repeal of this provision, would require that the Board of Trustees provide a limit in the terms of their leases. The Department asserts that this increased flexibility would permit the Governor and Cabinet to negotiate a fairer time limit.

The repeal of s. 253.58, F.S., would remove a minimum drilling limit, which the Department states is archaic because oil is generally not found in depths shallower than 6,000 feet. An

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industry representative, also, states that the limit requires that gas explorations extend to at least 6,000 feet and in some situations is too rigid.

IV. AMENDMENTS:

None.

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DATE: June 19, 1989

HOUSE OF REPRESENTATIVES
NATURAL RESOURCES COMMITTEE
FINAL STAFF ANALYSIS & ECONOMIC IMPACT STATEMENT

BILL #: CS/HB 1062 (passed as part of SB 478)
RELATING TO: State Lands/Oil and Gas Leases
SPONSOR(S): Natural Resources and Representative Sansom
EFFECTIVE DATE: July 1, 1989, or upon becoming a law
DATE BECAME LAW: 7-6-89
CHAPTER #: Chapter 89-358, Laws of Florida
COMPANION BILL(S): Similar SB 478
OTHER COMMITTEES OF REFERENCE: (1) Appropriations
(2)

I. SUMMARY:

A. PRESENT SITUATION:

Chapter 253, Florida Statutes, gives the Board of Trustees of the Internal Improvement Trust Fund the exclusive power to authorize the sale or lease of state lands. That chapter also establishes lease conditions for the production of oil, gas, and other minerals on state lands. Section 253.55, Florida Statutes, requires the lessee to complete drilling operations of at least one test oil or gas well within the first two and one-half years of the lease period or risk having the lease become void. This provision was enacted in 1969 to prevent oil and gas companies from acquiring leases on state lands in order to make a profit from reassignment of the leases. According to petroleum industry representatives, this time limit is impractical given the procedural permitting requirements that lessees must satisfy upon obtaining the lease to explore for oil or gas. If the time limit were removed, the board of trustees would be free to set a time limit on a case-by-case basis.

Section 253.571, Florida Statutes, requires a lessee to obtain a surety bond before beginning exploration or production of oil or gas on leased state land. The bond is used to secure costs for environmental damage resulting from mining or drilling operations. The lessee must be bonded through an authorized surety company. Some lessees, particularly small independent oil and gas companies, are not able to obtain surety bonds because bonding companies consider them a high risk.

This bond requirement is in addition to a similar surety requirement under chapter 377, Florida Statutes, for geophysical exploration, drilling, and production on all lands.

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DATE: June 19, 1989

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Consequently, if oil exploration or production takes place on state-leased land, two bonds are required. The oil and gas industry contends that requiring two bonds to conduct oil and gas activities places a hardship on small oil companies.

Section 253.58, Florida Statutes, requires that all wells on leased lands to a minimum depth of 6,000 feet before abandonment due to no discovery of oil. This provision was created in 1945 to ensure that sufficient exploration had been done before concluding that there was no oil to be found. The Department of Natural Resources states that this provision is useless since oil generally is not found at depths of less than 6,000 feet.

B. EFFECT OF PROPOSED CHANGES:

This bill repeals sections of Florida Statutes which:

1. Require that a lessee of state land conducting oil or gas exploration complete drilling operations of at least one test oil or gas well within the first two and one-half years of the lease period.
2. Require that all wells on state-leased lands be drilled to a minimum depth of 6,000 feet before abandonment.

These requirements appear to be no longer necessary and their removal from the statutes should have no adverse impact on state regulation of oil and gas activities.

The bill also amends section 253.571, Florida Statutes, to specify that the Board of Trustees of the Internal Improvement Trust Fund may require a surety or property bond, an irrevocable letter of credit, or other proof of financial responsibility from a lessee of public lands or mineral interests. Currently, the statute requires a surety or property bond and does not specifically allow letters of credit or other guarantees of financial responsibility. This provision allows the board of trustees to determine whether to require a surety and expands the forms of surety the board may require.

C. SECTION-BY-SECTION ANALYSIS (of relevant sections of SB 478):

Section 1. Amends section 253.571, Florida Statutes; provides for additional forms of financial security for damages drilling activities on state lands and makes the requirement for a surety discretionary with of the board of trustees.

Section 2. Repeals sections 253.55 and 253.58, Florida Statutes.

Section 8. Provides an effective date.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring or First Year Start-Up Effects:

None.

2. Recurring or Annualized Continuation Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

4. Appropriations Consequences:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring or First Year Start-Up Effects:

None.

2. Recurring or Annualized Continuation Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

Oil companies leasing state lands for oil and gas exploration and drilling may not have to incur the costs of an extra surety bond or of archaic drilling requirements.

3. Effects on Competition, Private Enterprise, and Employment Markets:

This bill could result in an increase in geophysical exploration in the state.

D. FISCAL COMMENTS:

None.

III. LONG RANGE CONSEQUENCES:

The long-range consequence of this bill could be the increase of geophysical exploration in the state, providing extra revenue to the state, but also potentially increasing the risk of environmental damage.

This bill is consistent with the following goal and policy of the State Comprehensive Plan:

(21) GOVERNMENTAL EFFICIENCY.--

(a) Goal.--Florida governments shall economically and efficiency provide the amount and quality of services required by the public.

(b) Policies.--

4. Eliminate regulatory activities that are not tied to specific public and natural resource protection needs.

IV. COMMENTS:

The Department of Natural Resources is not opposed to this bill as long as it does not affect the state's ability to protect the environment. The repeal of sections 253.55 and 253.58, Florida Statutes, should not be interpreted to mean that the board of trustees no longer has the authority to limit leasing terms or set a minimum drilling depth. The board of trustees has discretion under section 253.51, Florida Statutes, to set the terms and conditions of leases without specific statutory provisions.

This bill is not inconsistent with the Natural Resources Committee Mission Statement, however the statement contains no objectives which the bill specifically accomplishes.

V. SIGNATURES:

SUBSTANTIVE COMMITTEE:

Prepared by:

T. Pride
Terry Pride

Staff Director:

Donna D. Minerva
Donna D. Minerva

SECOND COMMITTEE OF REFERENCE:

Prepared by:

Staff Director:

APPROPRIATIONS:

Prepared by:

Staff Director:
