

SUBJECT: Requiring bonds for oil and gas well operators

COMMITTEE: Energy Resources — committee substitute recommended

VOTE: 9 ayes — R. Lewis, Merritt, Carter, Christian, Crabb, Driver, Hawley, Kitchen, Williams
0 nays

WITNESSES: For — Charles R. Matthews, Railroad Commission of Texas
Against — None
On — Scott Anderson, Texas Independent Producers and Royalty Owners Association; Ronald L. Kitchens, Railroad Commission of Texas

BACKGROUND: The 72nd Legislature in 1991 enacted SB 1103 by Sims, creating an oilfield cleanup fund, which is supported by fees on oilfield activities, such as drilling permit and oil and gas waste generation fees. Money in the fund is used to conduct environmental site assessments, clean up oil and gas wastes, plug abandoned wells, and enforce rules, orders, and permits issued by the Railroad Commission.

Natural Resources Code, sec. 91.104 allows as acceptable forms of financial security for people or entities involved in petroleum production:

- ! an individual bond;
- ! a blanket bond;
- ! a \$100 annual fee, if the person or entity can demonstrate an acceptable record of environmental compliance;
- ! a fee equal to 3 percent of the bond that otherwise would be required; or
- ! a first lien on personal property associated with oil and gas production.

DIGEST: CSHB 1317 would eliminate alternate forms of financial security allowed under current law and would require a well operator to file a bond, letter of credit, or cash deposit with the Railroad Commission. For onshore wells, the amount of the security would depend on the number of wells:

- ! \$25,000 for 10 or fewer wells;
- ! \$50,000 for 11 to 100 wells; or
- ! \$250,000 for more than 100 wells.

For bay or offshore wells, the commission would have to require an amount greater than that required for an equal number for onshore wells.

An operator seeking to purchase a well would have to file a bond, letter of credit, or cash deposit before the commission could approve a transfer of ownership. The bond, letter of credit, or cash deposit could be used only for well plugging and surface remediation.

A person other than a well operator required to file a bond would have to file a bond, letter of credit, or cash deposit of \$250,000, or a lower amount if the person demonstrated that the risk associated with the operations warranted a lower amount.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001. The changes would apply to a person required to file a bond or alternate financial security on or after September 1, 2004.

**SUPPORTERS
SAY:**

CSHB 1317 would require bonding for well operators. Abandoned wells are a significant problem in Texas. Currently, the state must pay to clean up more than 16,000 abandoned wells at a cost of \$4,000 to \$5,000 per well. Requiring operators to file a bond, letter of credit, or a cash deposit would help to ensure that the state is not left to clean up after unscrupulous operators.

The bill also would benefit financially responsible well operators, most of whom already provide bonds as financial assurance. Current law allows operators to provide financial assurance simply by paying an annual fee or giving a lien on personal property, allowing an unscrupulous operator to abandon a well with an expectation of few financial repercussions. Operators ultimately pay for well plugging and site remediation through the oilfield cleanup fund. This bill would help to reduce use of the fund for cleanup.

OPPONENTS
SAY:

CSHB 1317 would burden smaller or new operators, who may have difficulty obtaining bonds or letters of credit if they lack a proven track record. With the possibility of an energy crisis looming, the state should not discourage exploration and production of Texas' energy resources.

NOTES:

According to the bill's fiscal note, it would have no impact on state general revenue but would require expenditures from the dedicated oilfield cleanup account for the Railroad Commission to hire an additional employee and make computer programming changes.

The committee substitute changed the original bill by adding the provision that would allow operators to provide a letter of credit or cash deposit as financial assurance and by adding a security value category for an operator of 11 to 100 wells.