

- SUBJECT:** Notifying parties of indemnity obligations in triparty well agreements
- COMMITTEE:** Energy Resources — committee substitute recommended
- VOTE:** 9 ayes — Goldman, Anchia, Craddick, Darby, Geren, T. King, Leman, Longoria, Reynolds
- 0 nays
- 2 absent — Herrero, Ellzey
- WITNESSES:** For — (*Registered, but did not testify:* Steve Bruington)
- Against — None
- On — (*Registered, but did not testify:* William Stevens, Panhandle Producers and Royalty Owners Association)
- BACKGROUND:** Some have called for increased transparency in triparty relationship agreements among operators, contractors, and subcontractors in the drilling and production segment of the oil and gas industry to protect subcontractors. Contractors support subcontractors, in part, by purchasing and providing liability insurance to protect the subcontractor and the operator. Operators require high levels of liability insurance coverage, which is often unaffordable to individual subcontractors. Some have suggested that before entering into or renewing an agreement, a contractor should notify the subcontractor of indemnification obligations and notify the operator about the subcontractor's liability insurance coverage or qualified self-insurance for the obligations.
- DIGEST:** CSHB 3416 would require a contractor, before entering into or renewing a triparty relationship agreement with a subcontractor or third party, to provide written notice to the subcontractor and third party.
- A "triparty relationship agreement" would mean any agreement pertaining to a well for oil, gas, or water or to a mine for a mineral that provided:

- that a subcontractor could or would provide any part of a contractor's services required under a separate agreement with a third party; and
- for a mutual or unilateral indemnity obligation between the contractor and third party.

The written notice to the subcontractor would have to:

- describe the subcontractor's indemnification obligations to the contractor and to the third party with respect to the services the subcontractor would provide under any related agreement between the contractor and subcontractor;
- be provided as a separate document from the agreements with the subcontractor and third party; and
- be written in plain English in a manner that was designed to enable the subcontractor to understand the subcontractor's contractual indemnity obligations in connection with any services performed by the subcontractor pursuant to the triparty relationship agreement.

The written notice provided to the third party would have to state whether the subcontractor possessed liability insurance coverage or qualified self-insurance as required by law for the subcontractor's indemnity obligations in connection with any services performed by the subcontractor pursuant to the triparty relationship agreement. The notice also would provide any dollar limits of the subcontractor's insurance policy or qualified self-insurance, if any.

A contractor could satisfy the third party written notice by providing a certificate of insurance.

The bill would take effect September 1, 2021, and would apply only to an agreement entered into on or after that date.