

By: Farabee, West, Keffer of Eastland,
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H.B. No. 2020

A BILL TO BE ENTITLED

AN ACT

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relating to financial security requirements for certain persons performing operations within the jurisdiction of the Railroad Commission of Texas.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Effective September 1, 2004, Section 85.2021, Natural Resources Code, is amended to read as follows:

Sec. 85.2021. DRILLING PERMIT FEE. (a) With each application or materially amended application for a permit to drill, deepen, plug back, or reenter a well, the applicant shall submit to the commission a nonrefundable fee of:

(1) \$200 if the total depth of the well is 2,000 feet or less;

(2) \$225 if the total depth of the well is greater than 2,000 feet but less than or equal to 4,000 feet;

(3) \$250 if the total depth of the well is greater than 4,000 feet but less than or equal to 9,000 feet;

(4) \$300 if the total depth of the well is greater than 9,000 feet.

(b) An applicant shall submit an additional nonrefundable fee of \$200 when a Rule 37 spacing or a Rule 38 density exception review is requested [~~required~~].

(c) An applicant shall submit an additional nonrefundable fee of \$150 when requesting that the commission expedite the

1 application for a permit to drill, deepen, plug back, or reenter a
2 well.

3 (d) With each application for an extension of time to plug a
4 well pursuant to commission rules, an applicant shall submit to the
5 commission a nonrefundable fee of \$300, unless the applicant has
6 filed a bond, letter of credit, or cash deposit under Section
7 91.104(b)(1), (2), or (3).

8 (e) All fees collected under this section shall be deposited
9 in the state oil-field cleanup fund.

10 SECTION 2. Section 91.104, Natural Resources Code, is
11 amended to read as follows:

12 Sec. 91.104. BONDS AND ALTERNATE FORMS OF FINANCIAL
13 SECURITY. (a) The commission shall require a bond or an alternate
14 form of financial security to be filed with the commission as
15 provided by Subsection (b) [~~of this section~~].

16 (b) A person required to file a bond or alternate form of
17 financial security under Section 91.103 may choose to file:

18 (1) an individual bond as provided under Section
19 91.1041;

20 (2) a blanket bond as provided under Section 91.1042;

21 (3) a letter of credit or cash deposit in the same
22 amount as required for an individual bond under Section 91.1041 or a
23 blanket bond under Section 91.1042;

24 (4) a nonrefundable annual fee of \$1,000, if[+]

25 [~~(A) the commission determines that individual~~
26 ~~and blanket bonds as specified by Subdivisions (1) and (2) are not~~
27 ~~obtainable at reasonable prices, and~~

1 ~~[(B)]~~ the person states and commission records
2 confirm that the person has ~~[can demonstrate to the commission]~~ an
3 acceptable record of compliance with all commission rules, orders,
4 licenses, permits, or certificates that relate to safety or the
5 prevention or control of pollution for the previous 48 months and
6 the person and, if a firm, partnership, joint stock association,
7 corporation, or other organization, its officers, directors,
8 general partners, or owners of more than 25 percent ownership
9 interest or any trustee:

10 (A) ~~[(i)]~~ has no outstanding violations of such
11 commission rules, orders, licenses, permits, or certificates;

12 (B) ~~[(ii)]~~ has paid all administrative, civil,
13 and criminal penalties, if any, relating to any violation of such
14 commission rules, orders, licenses, permits, or certificates; and

15 (C) ~~[(iii)]~~ has paid all reimbursements of any
16 costs and expenses incurred by the commission in relation to any
17 violation of such commission rules, orders, licenses, permits, or
18 certificates; ~~[or]~~

19 (5) a nonrefundable annual fee equal to five ~~[12-1/2]~~
20 percent of the bond that otherwise would be required; or

21 (6) if the person operates wells, another form of
22 financial security authorized by rules adopted by the commission
23 under Subsection (b-1).

24 (b-1) The commission by rule may authorize a person who
25 operates wells to file a form of financial security other than those
26 provided by Subsections (b)(1)-(5), including insurance. The rules
27 must require the security to be in an amount sufficient to ensure

1 the plugging of the person's wells.

2 (c) A person who chooses to file a form of financial
3 security other than a bond, letter of credit, or cash deposit shall
4 also submit a fee of \$300 for each application to extend the time to
5 plug a well in accordance with Section 85.2021. A person may not be
6 required to file a bond, letter of credit, or cash deposit as a
7 condition of receiving an extension under that section.

8 (d) This subsection does not apply to the operation of bay
9 or offshore wells or the storage, handling, treatment, reclamation,
10 or disposal of oil and gas waste. A person who engages in more than
11 one activity or operation for which a bond or alternate form of
12 financial security is required under this subchapter is not
13 required to file a separate bond or alternate form of financial
14 security for each activity or operation in which the person is
15 engaged. The person is required to file a bond or alternate form of
16 financial security only in the amount required for the activity or
17 operation in which the person engages for which a bond or alternate
18 form of financial security in the greatest amount is required. The
19 bond or alternate form of financial security filed covers all of the
20 activities and operations for which a bond or alternate form of
21 financial security is required under this subchapter.

22 SECTION 3. Effective September 1, 2004, Section 91.104,
23 Natural Resources Code, is amended to read as follows:

24 Sec. 91.104. BONDS AND ALTERNATE FORMS OF FINANCIAL
25 SECURITY. (a) The commission shall require a bond or an alternate
26 form of financial security to be filed with the commission as
27 provided by Subsection (b) [~~of this section~~].

1 (b) A person required to file a bond or alternate form of
2 financial security under Section 91.103 may choose to file:

3 (1) an individual bond as provided under Section
4 91.1041;

5 (2) a blanket bond as provided under Section 91.1042;

6 (3) a letter of credit or cash deposit in the same
7 amount as required for an individual bond under Section 91.1041 or a
8 blanket bond under Section 91.1042;

9 (4) a nonrefundable annual fee [~~of \$1,000, if:~~

10 [~~(A) the commission determines that individual~~
11 ~~and blanket bonds as specified by Subdivisions (1) and (2) are not~~
12 ~~obtainable at reasonable prices; and~~

13 [~~(B) the person can demonstrate to the commission~~
14 ~~an acceptable record of compliance with all commission rules,~~
15 ~~orders, licenses, permits, or certificates that relate to safety or~~
16 ~~the prevention or control of pollution for the previous 48 months~~
17 ~~and the person and, if a firm, partnership, joint stock~~
18 ~~association, corporation, or other organization, its officers,~~
19 ~~directors, general partners, or owners of more than 25 percent~~
20 ~~ownership interest or any trustee:~~

21 [~~(i) has no outstanding violations of such~~
22 ~~commission rules, orders, licenses, permits, or certificates;~~

23 [~~(ii) has paid all administrative, civil,~~
24 ~~and criminal penalties, if any, relating to any violation of such~~
25 ~~commission rules, orders, licenses, permits, or certificates; and~~

26 [~~(iii) has paid all reimbursements of any~~
27 ~~costs and expenses incurred by the commission in relation to any~~

1 ~~violation of such commission rules, orders, licenses, permits, or~~
2 ~~certificates; or~~

3 ~~[(5) a nonrefundable annual fee]~~ equal to:

4 (A) six [12-1/2] percent of the bond that
5 otherwise would be required if the financial security is required
6 to be filed before September 1, 2005;

7 (B) seven percent of the bond that otherwise
8 would be required if the financial security is required to be filed
9 on or after September 1, 2005, and before September 1, 2006; and

10 (C) eight percent of the bond that otherwise
11 would be required if the financial security is required to be filed
12 on or after September 1, 2006; or

13 (5) if the person operates wells, another form of
14 financial security authorized by rules adopted by the commission
15 under Subsection (b-1).

16 (b-1) The commission by rule may authorize a person who
17 operates wells to file a form of financial security other than those
18 provided by Subsections (b)(1)-(5), including insurance. The rules
19 must require the security to be in an amount sufficient to ensure
20 the plugging of the person's wells.

21 (c) A person who chooses to file a form of financial
22 security other than a bond, letter of credit, or cash deposit shall
23 also submit a fee of \$300 for each application to extend the time to
24 plug a well in accordance with Section 85.2021. A person may not be
25 required to file a bond, letter of credit, or cash deposit as a
26 condition of receiving an extension under that section.

27 (d) This subsection does not apply to the operation of bay

1 or offshore wells or the storage, handling, treatment, reclamation,
2 or disposal of oil and gas waste. A person who engages in more than
3 one activity or operation for which a bond or alternate form of
4 financial security is required under this subchapter is not
5 required to file a separate bond or alternate form of financial
6 security for each activity or operation in which the person is
7 engaged. The person is required to file a bond or alternate form of
8 financial security only in the amount required for the activity or
9 operation in which the person engages for which a bond or alternate
10 form of financial security in the greatest amount is required. The
11 bond or alternate form of financial security filed covers all of the
12 activities and operations for which a bond or alternate form of
13 financial security is required under this subchapter.

14 SECTION 4. Section 91.1042, Natural Resources Code, is
15 amended to read as follows:

16 Sec. 91.1042. BLANKET BOND. (a) A person required to file
17 a bond or alternate form of financial security under Section 91.103
18 who operates wells may file a blanket bond to cover all wells and
19 operations for which a bond or alternate form of financial security
20 is required as follows:

21 (1) a person who operates at least one well but not
22 more than 10 wells [~~10 or fewer wells or performs other operations~~]
23 shall file a \$15,000 [~~\$25,000~~] blanket bond;

24 (2) a person who operates more than 10 but fewer than
25 25 [~~100~~] wells shall file a \$35,000 [~~\$50,000~~] blanket bond; [~~and~~]

26 (3) a person who operates 25 [~~100~~] or more wells but
27 fewer than 100 wells shall file a \$50,000 [~~\$250,000~~] blanket bond;

1 (4) a person who operates 100 or more wells but fewer
2 than 150 wells shall file a \$100,000 blanket bond;

3 (5) a person who operates 150 or more wells but fewer
4 than 200 wells shall file a \$175,000 blanket bond; and

5 (6) a person who operates 200 or more wells shall file
6 a \$250,000 blanket bond.

7 (b) Notwithstanding Subsection (a), the commission by rule
8 shall set the amount of the bond for an operator of bay or offshore
9 wells at a reasonable amount that exceeds the amount provided by
10 Subsection (a)(1), (2), ~~or~~ (3), (4), (5), or (6), as applicable.

11 SECTION 5. Section 91.107, Natural Resources Code, is
12 amended to read as follows:

13 Sec. 91.107. NEW BOND, LETTER OF CREDIT, OR CASH DEPOSIT.
14 Notwithstanding Section 91.104, if an active or inactive well is
15 transferred, sold, or assigned by its operator, the commission
16 shall require the party acquiring the well to provide financial
17 security by means of a ~~[file a new]~~ bond, letter of credit, or cash
18 deposit in an appropriate amount as provided by Section
19 91.104(b)(1), (2), or (3), and the financial security of the prior
20 operator shall continue to be required and to remain in effect, and
21 the commission may not approve the transfer of operatorship, until
22 a ~~[the new]~~ bond, letter of credit, or cash deposit is provided or
23 the commission determines that the bond, letter of credit, or cash
24 deposit previously submitted to the commission by the person
25 acquiring the well complies with this subchapter. A transfer of a
26 well from one entity to another entity under common ownership is a
27 transfer for purposes of this section.

1 SECTION 6. Section 91.109(b), Natural Resources Code, as
2 effective September 1, 2004, is amended to read as follows:

3 (b) In addition to the financial security requirements of
4 Subsection (a) and Section 91.104(b), a person required to file a
5 bond, letter of credit, or cash deposit under Section 91.103 who is
6 involved in activities other than the ownership or operation of
7 wells must file the bond, letter of credit, or cash deposit at the
8 time of filing or renewing an organization report required by
9 Section 91.142 according to the following schedule [~~in an amount~~
10 ~~equal to~~]:

11 (1) no bond, letter of credit, or cash deposit if the
12 person is a:

13 (A) local distribution company;

14 (B) gas marketer;

15 (C) crude oil nominator;

16 (D) first purchaser;

17 (E) well servicing company;

18 (F) survey company;

19 (G) saltwater hauler;

20 (H) gas nominator;

21 (I) gas purchaser; or

22 (J) well plugger [~~\$250,000~~]; or

23 (2) a bond, letter of credit, or cash deposit in an
24 amount not to exceed \$25,000 if the person is involved in an
25 activity that is not associated with the ownership or operation of
26 wells and is not listed in Subdivision (1) [~~a lesser amount~~
27 ~~determined by the commission if the person is able to demonstrate~~

1 ~~that the risk associated with an operation or group of operations~~
2 ~~warrants a lesser amount].~~

3 SECTION 7. Sections 10, 18, 20, 22, 24, and 27, Chapter
4 1233, Acts of the 77th Legislature, Regular Session, 2001, are
5 repealed.

6 SECTION 8. The changes in law made by this Act apply only to
7 a person required to file a bond or alternate form of financial
8 security under Section 91.103 or 91.107, Natural Resources Code, on
9 or after the effective date of this Act. A person required to file a
10 bond or alternate form of financial security under Section 91.103
11 or 91.107, Natural Resources Code, before the effective date of
12 this Act is governed by the law as it existed immediately before the
13 effective date of this Act, and that law is continued in effect for
14 that purpose.

15 SECTION 9. (a) Except as provided by Subsection (b) of this
16 section, this Act takes effect immediately if it receives a vote of
17 two-thirds of all the members elected to each house, as provided by
18 Section 39, Article III, Texas Constitution. If this Act does not
19 receive the vote necessary for immediate effect, this Act takes
20 effect September 1, 2003.

21 (b) Section 91.109(b), Natural Resources Code, as amended
22 by this Act, takes effect September 1, 2004.