

AMENDED IN SENATE APRIL 16, 2013

SENATE BILL

No. 665

Introduced by Senator Wolk

February 22, 2013

An act to amend Sections 3204, 3205, *and* 3205.1, ~~and 3205.2~~ of the Public Resources Code, relating to oil and gas.

LEGISLATIVE COUNSEL'S DIGEST

SB 665, as amended, Wolk. Oil and gas: drilling: indemnity bonds.

Existing law requires an operator of an oil or gas well, or a well located on submerged lands under ocean waters, ~~or a class II commercial wastewater disposal well~~, who engages in the drilling, redrilling, deepening, or in any operation altering the casing, of any well, ~~or in maintaining or abandoning the well or attendant facilities in regard to the wastewater disposal wells~~, to file with the State Oil and Gas Supervisor an indemnity bond ~~in a specified amount~~ *in an amount based on the depth of the well or a blanket indemnity bond in a specified amount*, but permits the operator, with the approval of the supervisor, to make certain deposits in lieu of the bond.

This bill would ~~delete the amounts specified in these provisions for indemnity bonds and deposits in lieu of indemnity bonds, leaving those amounts unspecified~~ *instead require the amount of the indemnity bond for any well to be \$100,000. The bill would authorize an operator operating 20 or more wells at any time to file a blanket indemnity bond to cover the operation of all the operator's wells, in lieu of an individual indemnity bond for each well, in an amount of either \$2,000,000, which would not include bonds or fees required for idled wells, or \$5,000,000, which would include bonds or fees required for idled wells. The bill would increase the amount of the blanket indemnity bond required to*

be filed by an operator operating one or more wells located on submerged lands under ocean waters to \$1,000,000.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 3204 of the Public Resources Code is
2 amended to read:

3 3204. ~~Any~~An operator who, on or after January 1, ~~1999~~ 2014,
4 engages in the drilling, redrilling, deepening, or in any operation
5 permanently altering the casing, of ~~any~~ a well shall file with the
6 supervisor an individual indemnity bond in the ~~specified~~ sum of
7 ~~one hundred thousand dollars (\$100,000)~~ for each well so drilled,
8 ~~redrilled, deepened, or permanently altered. This sum shall be~~
9 ~~fifteen thousand dollars (\$15,000) for each well less than 5,000~~
10 ~~feet deep, twenty thousand dollars (\$20,000) for each well at least~~
11 ~~5,000 feet but less than 10,000 feet deep, and thirty thousand~~
12 ~~dollars (\$30,000) for each well 10,000 or more feet deep. The bond~~
13 ~~shall be filed with the supervisor at the time of the filing of the~~
14 ~~notice of intention to perform work on the well, as provided in~~
15 ~~Section 3203. The bond shall be executed by the operator, as~~
16 ~~principal, and by an authorized surety company, as surety,~~
17 ~~conditioned that the principal named in the bond shall faithfully~~
18 ~~comply with all the provisions of this chapter, in drilling, redrilling,~~
19 ~~deepening, or permanently altering the casing in any well or wells~~
20 ~~covered by the bond, and shall secure the state against all losses,~~
21 ~~charges, and expenses incurred by it to obtain such compliance by~~
22 ~~the principal named in the bond.~~

23 The conditions of the bond shall be stated in substantially the
24 following language: “If the _____, the above bounden principal,
25 shall well and truly comply with all the provisions of Division 3
26 (commencing with Section 3000) of the Public Resources Code
27 and shall obey all lawful orders of the State Oil and Gas Supervisor
28 or the district deputy or deputies, subject to subsequent appeal as
29 provided in that division, and shall pay all charges, costs, and
30 expenses incurred by the supervisor or the district deputy or
31 deputies in respect of the well or wells or the property or properties
32 of the principal, or assessed against the well or wells or the property
33 or properties of the principal, in pursuance of the provisions of

1 that division, then this obligation shall be void; otherwise, it shall
2 remain in full force and effect.”

3 *SEC. 2. Section 3205 of the Public Resources Code is amended*
4 *to read:*

5 3205. ~~Any~~ An operator who engages in the drilling, redrilling,
6 deepening, or in any operation permanently altering the casing, of
7 ~~one~~ 20 or more wells at any time, may file with the supervisor one
8 blanket indemnity bond to cover all the operations in any of its
9 wells in the state in lieu of an individual indemnity bond for each
10 operation as required by Section 3204. The bond shall be executed
11 by the operator, as principal, and by an authorized surety company,
12 as surety, and shall be in substantially the same language and upon
13 the same conditions as provided in Section 3204, except as to the
14 difference in the amount. The bond shall be provided in one of the
15 following amounts, as applicable:

16 (a) The sum of ~~two hundred fifty thousand~~ *two million* dollars
17 ~~(\$250,000)~~ *(\$2,000,000)*, which does not include the bond or fee
18 required in Section 3206. A blanket surety bond provided prior to
19 January 1, 1999, shall be increased to comply with this subdivision
20 on or before January 1, ~~2001~~ *2014*. A blanket cash bond provided
21 prior to January 1, ~~1999~~ *2015*, shall be increased by a minimum
22 of ~~thirty thousand dollars~~ *(\$30,000)* per year, initially payable
23 ~~January 1, 2000, and yearly on January 1, thereafter, until the~~
24 ~~amount on deposit is sufficient to comply with this subdivision~~ *on*
25 *or before January 1, 2016.*

26 (b) ~~The sum of one hundred thousand dollars (\$100,000), which~~
27 ~~does not include the bond or fee required in Section 3206, for any~~
28 ~~operator having 50 or fewer wells in the state, exclusive of properly~~
29 ~~abandoned wells.~~

30 (c)

31 (b) The sum of ~~one five million dollars~~ *(\$1,000,000)*
32 *(\$5,000,000)*, which does include the bond or fee required in
33 Section 3206.

34 *SEC. 3. Section 3205.1 of the Public Resources Code is*
35 *amended to read:*

36 3205.1. (a) Notwithstanding Sections 3204 and 3205, ~~any~~ a
37 person who engages in the drilling, redrilling, deepening, or in any
38 operation permanently altering the casing, of one or more wells
39 located on submerged lands under ocean waters within the
40 jurisdiction of this state, shall file with the supervisor a blanket

1 indemnity bond for ~~two hundred fifty thousand~~ *one million* dollars
2 ~~(\$250,000)~~ *(\$1,000,000)* to cover all his or her operations in
3 drilling, re-drilling, deepening, or permanently altering the casing
4 in any of his or her wells located on those submerged lands. The
5 bond shall be executed by the person, as principal, and by an
6 authorized surety company, as surety, and the conditions of the
7 bond shall be the same as the conditions stated in Section 3204,
8 except for the difference in the amount.

9 (b) In addition to providing the bond required by subdivision
10 (a), ~~any~~ *a* person who operates one or more wells that are located
11 on tide or submerged lands within the jurisdiction of this state shall
12 provide an additional amount of security acceptable to the
13 supervisor, covering the full costs of plugging and abandoning all
14 of the operator's wells. The supervisor shall determine the amount
15 of the security required of each operator, based on his or her
16 determination of the reasonable costs of that plugging and
17 abandonment. The supervisor may not adjust the amount of security
18 required of each operator more frequently than once every three
19 years, to reflect changes in those costs. An operator may self-insure
20 this security obligation if the supervisor, at his or her discretion,
21 determines that the operator has sufficient financial resources to
22 plug and abandon the wells for which the operator is responsible.
23 The security shall remain in effect until all wells are plugged and
24 abandoned in accordance with Section 3208, but the supervisor
25 shall reduce the amount of the security required of an operator to
26 reflect reduced obligations as wells are plugged and abandoned.

27 (c) If the state lease or other agreement that sets forth obligations
28 or performance requirements under the lease provides security that
29 is equal to, or greater than, the total of the additional security
30 required pursuant to subdivision (b), plus all other liabilities under
31 the lease or other agreement, the supervisor shall not require the
32 additional security.

33 ~~SECTION 1. Section 3204 of the Public Resources Code is~~
34 ~~amended to read:~~

35 ~~3204. Any operator who, on or after January 1, 2014, engages~~
36 ~~in the drilling, re-drilling, deepening, or in any operation~~
37 ~~permanently altering the casing, of any well shall file with the~~
38 ~~supervisor an individual indemnity bond in the specified sum for~~
39 ~~each well so drilled, re-drilled, deepened, or permanently altered.~~
40 ~~This sum shall be _____ for each well less than 5,000 feet deep,~~

1 _____ for each well at least 5,000 feet but less than 10,000 feet
 2 deep, and _____ for each well 10,000 or more feet deep. The
 3 bond shall be filed with the supervisor at the time of the filing of
 4 the notice of intention to perform work on the well, as provided
 5 in Section 3203. The bond shall be executed by the operator, as
 6 principal, and by an authorized surety company, as surety,
 7 conditioned that the principal named in the bond shall faithfully
 8 comply with all the provisions of this chapter, in drilling, redrilling,
 9 deepening, or permanently altering the casing in any well or wells
 10 covered by the bond, and shall secure the state against all losses,
 11 charges, and expenses incurred by it to obtain such compliance by
 12 the principal named in the bond.

13 The conditions of the bond shall be stated in substantially the
 14 following language: "If the _____, the above bounden principal,
 15 shall well and truly comply with all the provisions of Division 3
 16 (commencing with Section 3000) of the Public Resources Code
 17 and shall obey all lawful orders of the State Oil and Gas Supervisor
 18 or the district deputy or deputies, subject to subsequent appeal as
 19 provided in that division, and shall pay all charges, costs, and
 20 expenses incurred by the supervisor or the district deputy or
 21 deputies in respect of the well or wells or the property or properties
 22 of the principal, or assessed against the well or wells or the property
 23 or properties of the principal, in pursuance of the provisions of
 24 that division, then this obligation shall be void; otherwise, it shall
 25 remain in full force and effect."

26 SEC. 2. Section 3205 of the Public Resources Code is amended
 27 to read:

28 3205. Any operator who engages in the drilling, redrilling,
 29 deepening, or in any operation permanently altering the casing, of
 30 one or more wells at any time, may file with the supervisor one
 31 blanket indemnity bond to cover all the operations in any of its
 32 wells in the state in lieu of an individual indemnity bond for each
 33 operation as required by Section 3204. The bond shall be executed
 34 by the operator, as principal, and by an authorized surety company,
 35 as surety, and shall be in substantially the same language and upon
 36 the same conditions as provided in Section 3204, except as to the
 37 difference in the amount. The bond shall be provided in one of the
 38 following amounts, as applicable:

39 (a) The sum of _____, which does not include the bond or fee
 40 required in Section 3206. A blanket surety bond provided prior to

1 January 1, 2014, shall be increased to comply with this subdivision
 2 on or before January 1, 2016. A blanket cash bond provided prior
 3 to January 1, 2014, shall be increased by a minimum of _____
 4 per year, initially payable January 1, 2015, and yearly on January
 5 1, thereafter, until the amount on deposit is sufficient to comply
 6 with this subdivision.

7 (b) The sum of _____, which does not include the bond or fee
 8 required in Section 3206, for any operator having 50 or fewer wells
 9 in the state, exclusive of properly abandoned wells.

10 (e) The sum of _____, which does include the bond or fee
 11 required in Section 3206.

12 ~~SEC. 3. Section 3205.1 of the Public Resources Code is~~
 13 ~~amended to read:~~

14 ~~3205.1. (a) Notwithstanding Sections 3204 and 3205, any~~
 15 ~~person who engages in the drilling, redrilling, deepening, or in any~~
 16 ~~operation permanently altering the casing, of one or more wells~~
 17 ~~located on submerged lands under ocean waters within the~~
 18 ~~jurisdiction of this state, shall file with the supervisor a blanket~~
 19 ~~indemnity bond for _____ to cover all his or her operations in~~
 20 ~~drilling, redrilling, deepening, or permanently altering the casing~~
 21 ~~in any of his or her wells located on those submerged lands. The~~
 22 ~~bond shall be executed by the person, as principal, and by an~~
 23 ~~authorized surety company, as surety, and the conditions of the~~
 24 ~~bond shall be the same as the conditions stated in Section 3204,~~
 25 ~~except for the difference in the amount.~~

26 (b) ~~In addition to providing the bond required by subdivision~~
 27 ~~(a), any person who operates one or more wells that are located~~
 28 ~~on tide or submerged lands within the jurisdiction of this state shall~~
 29 ~~provide an additional amount of security acceptable to the~~
 30 ~~supervisor, covering the full costs of plugging and abandoning all~~
 31 ~~of the operator's wells. The supervisor shall determine the amount~~
 32 ~~of the security required of each operator, based on his or her~~
 33 ~~determination of the reasonable costs of that plugging and~~
 34 ~~abandonment. The supervisor may not adjust the amount of security~~
 35 ~~required of each operator more frequently than once every three~~
 36 ~~years, to reflect changes in those costs. An operator may self-insure~~
 37 ~~this security obligation if the supervisor, at his or her discretion,~~
 38 ~~determines that the operator has sufficient financial resources to~~
 39 ~~plug and abandon the wells for which the operator is responsible.~~
 40 ~~The security shall remain in effect until all wells are plugged and~~

1 abandoned in accordance with Section 3208, but the supervisor
2 shall reduce the amount of the security required of an operator to
3 reflect reduced obligations as wells are plugged and abandoned.

4 (e) If the state lease or other agreement that sets forth obligations
5 or performance requirements under the lease provides security that
6 is equal to, or greater than, the total of the additional security
7 required pursuant to subdivision (b), plus all other liabilities under
8 the lease or other agreement, the supervisor shall not require the
9 additional security.

10 SEC. 4. Section 3205.2 of the Public Resources Code is
11 amended to read:

12 3205.2. (a) Notwithstanding Section 3204, any person who
13 engages in the operation of a class II commercial wastewater
14 disposal well, as defined in subdivision (d), shall file an indemnity
15 bond with the supervisor for _____ for each well so used. The
16 bond shall cover all operations of drilling, redrilling, deepening,
17 altering casing, maintaining, or abandoning the well and attendant
18 facilities. The bond shall be executed by the person as the principal,
19 and by an authorized surety company as the surety, and, except
20 for differences in the amount, shall be in substantially the same
21 language and upon the same conditions as provided in Section
22 3204.

23 (b) A blanket bond submitted under subdivision (a) or (c) of
24 Section 3205 may be used in lieu of the bond required in
25 subdivision (a), except that the termination and cancellation shall
26 be in accordance with subdivision (c) of this section.

27 (c) Notwithstanding Section 3207, any bond issued in
28 compliance with this section may be terminated and canceled and
29 the surety relieved of all obligations thereunder when the well is
30 properly abandoned or another valid bond has been substituted
31 therefor.

32 (d) A class II commercial wastewater disposal well is a well
33 that is used to dispose of oilfield wastewater for a fee and that is
34 regulated by the division pursuant to this chapter and Subpart F
35 (commencing with Section 147.250) of Part 147 of Title 40 of the
36 Code of Federal Regulations.