

AMENDED IN SENATE APRIL 30, 2013

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 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, who engages in the drilling, redrilling, deepening, or in any operation altering the casing, of any well to file with the State Oil and Gas Supervisor an indemnity bond 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 instead require the amount of the indemnity bond for any well to be \$100,000 *and to be filed with the supervisor at the time of the filing of the notice of intention to perform work on a well, as specified*. 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. (a) An operator who, on or after January 1, 2014,
 4 engages in the drilling, redrilling, deepening, or in any operation
 5 permanently altering the casing, of a well shall file with the
 6 supervisor an individual indemnity bond in the sum of one hundred
 7 thousand dollars (\$100,000) for each well so drilled, redrilled,
 8 deepened, or permanently altered.

9 (b) *The bond shall be filed with the supervisor at the time of the*
 10 *filing of the notice of intention to perform work on the well, as*
 11 *provided in Section 3203. The bond shall be executed by the*
 12 *operator, as principal, and by an authorized surety company, as*
 13 *surety, on the condition that the principal named in the bond shall*
 14 *faithfully comply with all the provisions of this chapter, in drilling,*
 15 *redrilling, deepening, or permanently altering the casing in any*
 16 *well or wells covered by the bond, and shall secure the state*
 17 *against all losses, charges, and expenses incurred by it to obtain*
 18 *the compliance by the principal named in the bond.*

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

33 SEC. 2. Section 3205 of the Public Resources Code is amended
 34 to read:

1 3205. An operator who engages in the drilling, redrilling,
2 deepening, or in any operation permanently altering the casing, of
3 20 or more wells at any time, may file with the supervisor one
4 blanket indemnity bond to cover all the operations in any of its
5 wells in the state in lieu of an individual indemnity bond for each
6 operation as required by Section 3204. The bond shall be executed
7 by the operator, as principal, and by an authorized surety company,
8 as surety, and shall be in substantially the same language and upon
9 the same conditions as provided in Section 3204, except as to the
10 difference in the amount. The bond shall be provided in one of the
11 following amounts, as applicable:

12 (a) The sum of two million dollars (\$2,000,000), which does
13 not include the bond or fee required in Section 3206. A blanket
14 *cash bond or blanket* surety bond provided prior to January 1,
15 ~~1999, 2014~~, shall be increased to comply with this subdivision on
16 or before January 1, ~~2014~~ 2016. ~~A blanket cash bond provided~~
17 ~~prior to January 1, 2015, shall be increased to comply with this~~
18 ~~subdivision on or before January 1, 2016.~~

19 (b) The sum of five million dollars (\$5,000,000), which does
20 include the bond or fee required in Section 3206.

21 SEC. 3. Section 3205.1 of the Public Resources Code is
22 amended to read:

23 3205.1. (a) Notwithstanding Sections 3204 and 3205, a person
24 who engages in the drilling, redrilling, deepening, or in any
25 operation permanently altering the casing, of one or more wells
26 located on submerged lands under ocean waters within the
27 jurisdiction of this state, shall file with the supervisor a blanket
28 indemnity bond for one million dollars (\$1,000,000) to cover all
29 his or her operations in drilling, redrilling, deepening, or
30 permanently altering the casing in any of his or her wells located
31 on those submerged lands. The bond shall be executed by the
32 person, as principal, and by an authorized surety company, as
33 surety, and the conditions of the bond shall be the same as the
34 conditions stated in Section 3204, except for the difference in the
35 amount.

36 (b) In addition to providing the bond required by subdivision
37 (a), a person who operates one or more wells that are located on
38 tide or submerged lands within the jurisdiction of this state shall
39 provide an additional amount of security acceptable to the
40 supervisor, covering the full costs of plugging and abandoning all

1 of the operator’s wells. The supervisor shall determine the amount
2 of the security required of each operator, based on his or her
3 determination of the reasonable costs of that plugging and
4 abandonment. The supervisor may not adjust the amount of security
5 required of each operator more frequently than once every three
6 years, to reflect changes in those costs. An operator may self-insure
7 this security obligation if the supervisor, at his or her discretion,
8 determines that the operator has sufficient financial resources to
9 plug and abandon the wells for which the operator is responsible.
10 The security shall remain in effect until all wells are plugged and
11 abandoned in accordance with Section 3208, but the supervisor
12 shall reduce the amount of the security required of an operator to
13 reflect reduced obligations as wells are plugged and abandoned.
14 (c) If the state lease or other agreement that sets forth obligations
15 or performance requirements under the lease provides security that
16 is equal to, or greater than, the total of the additional security
17 required pursuant to subdivision (b), plus all other liabilities under
18 the lease or other agreement, the supervisor shall not require the
19 additional security.