

AMENDED IN ASSEMBLY JUNE 24, 2013

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 3205.1, and 3205.2 of, and to add and repeal Section 3206.1 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.~~
wells.

Existing

(1) 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.

(2) *Existing law requires any person who engages in the operation of a class II commercial wastewater disposal well to file an indemnity bond with the supervisor for \$50,000.*

This bill would raise the amount of the required bond to \$100,000.

(3) *Under existing law, various provisions regulate idle oil and gas wells.*

This bill would require the Department of Conservation, in consultation with the State Water Resources Control Board and the regional water quality control boards, on or before September 30, 2014, to prepare a report to the Legislature and the Governor regarding the management, disposition, and potential repurposing of idle oil and gas and idle water wells.

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, re-drilling, 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, re-drilled,
8 deepened, or permanently altered.

9 (b) The bond shall be filed with the supervisor at the time of
10 the filing of the notice of intention to perform work on the well,
11 as 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 re-drilling, deepening, or permanently altering the casing in any
16 well or wells covered by the bond, and shall secure the state against
17 all losses, charges, and expenses incurred by it to obtain the
18 compliance by the principal named in the bond.

1 (c) The conditions of the bond shall be stated in substantially
2 the following language: “If the _____, the above bounden principal,
3 shall well and truly comply with all the provisions of Division 3
4 (commencing with Section 3000) of the Public Resources Code
5 and shall obey all lawful orders of the State Oil and Gas Supervisor
6 or the district deputy or deputies, subject to subsequent appeal as
7 provided in that division, and shall pay all charges, costs, and
8 expenses incurred by the supervisor or the district deputy or
9 deputies in respect of the well or wells or the property or properties
10 of the principal, or assessed against the well or wells or the property
11 or properties of the principal, in pursuance of the provisions of
12 that division, then this obligation shall be void; otherwise, it shall
13 remain in full force and effect.”

14 SEC. 2. Section 3205 of the Public Resources Code is amended
15 to read:

16 3205. An operator who engages in the drilling, redrilling,
17 deepening, or in any operation permanently altering the casing, of
18 20 or more wells at any time, may file with the supervisor one
19 blanket indemnity bond to cover all the operations in any of its
20 wells in the state in lieu of an individual indemnity bond for each
21 operation as required by Section 3204. The bond shall be executed
22 by the operator, as principal, and by an authorized surety company,
23 as surety, and shall be in substantially the same language and upon
24 the same conditions as provided in Section 3204, except as to the
25 difference in the amount. The bond shall be provided in one of the
26 following amounts, as applicable:

27 (a) The sum of two million dollars (\$2,000,000), which does
28 not include the bond or fee required in Section 3206. A blanket
29 cash bond or blanket surety bond provided prior to January 1,
30 2014, shall be increased to comply with this subdivision on or
31 before January 1, 2016.

32 (b) The sum of five million dollars (\$5,000,000), which does
33 include the bond or fee required in 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, a person
37 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 one million dollars (\$1,000,000) to cover all
2 his or her operations in drilling, redrilling, deepening, or
3 permanently altering the casing in any of his or her wells located
4 on those submerged lands. The bond shall be executed by the
5 person, as principal, and by an authorized surety company, as
6 surety, and the conditions of the bond shall be the same as the
7 conditions stated in Section 3204, except for the difference in the
8 amount.

9 (b) In addition to providing the bond required by subdivision
10 (a), a person who operates one or more wells that are located on
11 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 *SEC. 4. Section 3205.2 of the Public Resources Code is*
34 *amended to read:*

35 3205.2. (a) Notwithstanding Section 3204, any person who
36 engages in the operation of a class II commercial wastewater
37 disposal well, as defined in subdivision (d), shall file an indemnity
38 bond with the supervisor for ~~fifty one hundred thousand dollars~~
39 ~~(\$50,000) (\$100,000)~~ for each well so used. The bond shall cover
40 all operations of drilling, redrilling, deepening, altering casing,

1 maintaining, or abandoning the well and attendant facilities. The
2 bond shall be executed by the person as the principal, and by an
3 authorized surety company as the surety, and, except for differences
4 in the amount, shall be in substantially the same language and upon
5 the same conditions as provided in Section 3204.

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

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

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

20 *SEC. 5. Section 3206.1 is added to the Public Resources Code,*
21 *to read:*

22 *3206.1. (a) On or before September 30, 2014, the Department*
23 *of Conservation, in consultation with the State Water Resources*
24 *Control Board and the regional water quality control boards, shall*
25 *prepare a report to the Legislature and the Governor regarding*
26 *the management, disposition, and potential repurposing of idle oil*
27 *and gas and water wells. The report shall include, but is not limited*
28 *to, all of the following:*

29 *(1) The number of idle wells and long-term idle wells, as defined*
30 *in Section 3008, located in each district in the state.*

31 *(2) The number of water wells, as defined in Section 13710 of*
32 *the Water Code, located within an oil and gas field in each district*
33 *within the state.*

34 *(3) The surface and subsurface location of all idle oil and gas*
35 *wells and water wells within an oil and gas field in the state.*

36 *(4) A determination of the risks to ground water from idle oil*
37 *and gas wells within the state.*

38 *(5) Definitions of water quality designations used in the report.*

39 *(6) An evaluation of the benefits and drawbacks of, and potential*
40 *public health, safety, and environmental issues regarding, the*

1 *elimination or repurposing of idle oil, gas, and water wells in the*
2 *state.*

3 *(7) Options to eliminate, repurpose, or otherwise ensure the*
4 *safe and proper management of idle wells in the state.*

5 *(8) Determination of proper well construction and design for*
6 *the options identified for repurposing wells.*

7 *(9) Legislative, administrative, or rulemaking changes necessary*
8 *to accomplish the options suggested under paragraph (7).*

9 *(b) The report required pursuant to subdivision (a) shall be in*
10 *compliance with Section 9795 of the Government Code.*

11 *(c) Data collected and reviewed for this report shall be used to*
12 *develop maps and accessory data to ensure the protection and*
13 *directives under Section 3107.*

14 *This section shall become inoperative on September 30, 2016,*
15 *and, as of January 1, 2017, is repealed, unless a later enacted*
16 *statute, that becomes operative on or before January 1, 2017,*
17 *deletes or extends the dates on which it becomes inoperative and*
18 *is repealed.*