

Entered May 24, 1977
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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION COMMISSION ON ITS
OWN MOTION TO CONSIDER THE ESTABLISHMENT
OF CATEGORIES OF PLUGGING BONDS, INCLUDING
BLANKET BONDS NOT EXCEEDING \$50,000.00,
AND ONE-WELL BONDS IN AMOUNTS DETERMINED
SUFFICIENT TO REASONABLY PAY THE COST OF
PLUGGING THE WELL COVERED BY EACH BOND;
ALSO TO CONSIDER THE EXCLUSION FROM FUTURE
BOND FORMS OF PROVISIONS CONDITIONING
PERFORMANCE ON RECOMPENSE FOR DAMAGES TO
LIVESTOCK, RANGE, WATER, CROPS OR TANGIBLE
IMPROVEMENTS; ALSO TO CONSIDER THE AMENDMENT
OF RULE 101 OF THE COMMISSION RULES AND
REGULATIONS CONCERNING THE ABOVE PROVISIONS.

CASE NO. 5912
Order No. R-5432

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 5, 1977, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 24th day of May, 1977, the Commission, a quorum being present, having considered the testimony and exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That pursuant to the provisions of Section 65-3-11(1), N.M.S.A., 1953 Comp., the Commission heretofore has promulgated Rule 101, PLUGGING BOND, to secure plugging of abandoned oil and gas wells in the State of New Mexico.

(3) That said Rule 101 requires that operators of oil and gas wells in New Mexico obtain one-well surety bonds in an amount to be determined by the Commission, but not more than \$10,000, for each well, or blanket surety bonds covering more than one well in the amount of \$10,000.

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(4) That since 1950, the Commission by practice has adopted \$5,000 as being the usual amount for one-well bonds.

(5) That the number of wells called up by the Commission for "forced plugging" hearings has increased greatly during the past several years.

(6) That due to increased costs of plugging operations, the presently required \$5,000 one-well plugging bond is inadequate to cover plugging costs of any but shallow wells in the near vicinity to the service centers of New Mexico's oil and gas fields, and the presently required \$10,000 blanket bond is inadequate to cover plugging costs of one deep well, much less a number of wells.

(7) That by Chapter 237, Laws of 1977, Subsection (1) of Section 65-3-11, ENUMERATION OF POWERS, N.M.S.A. 1953 Comp., was amended mandating the Commission....

"(1) To require dry or abandoned wells to be plugged in such a way as to confine the crude petroleum oil, natural gas or water in the strata in which they are found, and to prevent them from escaping into other strata; the Commission shall require a corporate surety bond in a sum not to exceed fifty thousand dollars (\$50,000) conditioned for the performance of such regulations;"

(8) That in view of past inadequacy of certain bonds to cover the cost of plugging wells, and the great increase in the number of "forced plugging" cases called by the Commission during the past few years, as described in Findings Nos. (6) and (5) above, and pursuant to the authority granted to the Commission by the above-described amendment of Subsection (1) of Section 65-3-11, N.M.S.A., 1953 Comp., this case was called to consider the establishment of categories of plugging bonds, including blanket bonds not exceeding \$50,000, and one-well bonds in amounts determined sufficient to reasonably pay the cost of plugging the wells covered by each bond; also to consider the exclusion from future bond forms of provisions conditioning performance on recompense for damages to livestock, range, water, crops, or tangible improvements; and also to consider the amendment of Rule 101 of Commission Rules and Regulations concerning the aforesaid provisions.

(9) That the evidence adduced at the hearing of this case establishes that the blanket plugging bond for wells drilled on privately owned or state owned lands within this state

should be a surety bond in the amount of fifty thousand dollars (\$50,000) conditioned that all oil, gas, or service wells drilled, acquired, or operated in this state by the principal on the bond be plugged and abandoned in compliance with the rules, regulations, and orders of the Commission.

(10) That the evidence further establishes that each one well plugging bond should be a surety bond conditioned that the well covered by the bond be plugged and abandoned in compliance with the rules, regulations, and orders of the Commission, and that said one-well plugging bonds should be in the amounts stated below in accordance with the following depths and locations of wells:

In Chaves, Eddy, Lea, McKinley, Rio Arriba, Roosevelt, Sandoval, and San Juan Counties:

<u>Actual or Projected Depth of Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 5,000
5,000 feet to 10,000 feet	\$ 7,500
More than 10,000 feet	\$10,000

In all other counties of the state:

<u>Actual or Projected Depth of Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 7,500
5,000 feet to 10,000 feet	\$10,000
More than 10,000 feet	\$12,500

(11) That in order to prevent costly delays to operators when drilling wells, the aforesaid one-well plugging bonds should stipulate that an actively drilling well could be granted a revised drilling permit for drilling as much as 500 feet deeper than the normal maximum depth allowed on the well's bond.

(12) That inasmuch as the above-described bonds are plugging bonds intended to secure the plugging of abandoned wells, and the amounts of the one-well bonds for various depths and locations, as well as the above-described blanket bond, are all the minimum amounts deemed by the Commission to be required for proper plugging and abandonment, the bond form presently used by the Commission and conditioned not only for the plugging of the affected well or wells, but also to secure the payment of damages to the livestock, range, water, crops or tangible

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improvements on state oil and gas leases where the surface of the land involved was sold by the state prior to the oil and gas lease, should be amended to delete the securance of such payment.

(13) That Rule 101 of the Commission Rules and Regulations should be revised to read in its entirety as follows:

"RULE 101. PLUGGING BOND

"(a) Any person, firm, corporation, or association who has drilled or acquired, is drilling, or proposes to drill or acquire any oil, gas, or service well on privately owned or state owned lands within this state shall furnish to the Commission, and obtain approval thereof, a surety bond running to the State of New Mexico, in a form prescribed by the Commission, and conditioned that the well be plugged and abandoned in compliance with the rules and regulations of the Commission. Such bond may be a one-well plugging bond or a blanket plugging bond. All bonds shall be executed by a responsible surety company authorized to do business in the State of New Mexico.

"(b) Blanket plugging bonds shall be in the amount of fifty thousand dollars (\$50,000) conditioned as above provided, covering all oil, gas, or service wells drilled, acquired or operated in this state by the principal on the bond.

"One-well plugging bonds shall be in the amounts stated below in accordance with the depth and location of the well:

Chaves, Eddy, Lea, McKinley, Rio Arriba, Roosevelt,
Sandoval, and San Juan Counties, New Mexico:

<u>Projected Depth of Proposed Well or Actual Depth of Existing Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 5,000
5,000 feet to 10,000 feet	\$ 7,500
More than 10,000 feet	\$10,000

All Other Counties in the State:

<u>Projected Depth of Proposed Well or Actual Depth of Existing Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 7,500
5,000 feet to 10,000 feet	\$10,000
More than 10,000 feet	\$12,500

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"Revised plans for an actively drilling well may be approved by the appropriate District Office of the Commission for drilling as much as 500 feet deeper than the normal maximum depth allowed on the well's bond. Any well to be drilled more than 500 feet deeper than the normal depth bracket must be covered by a new bond in the amount prescribed for the deeper depth bracket.

The bond requirement for any intentionally deviated well shall be determined by the well's measured depth, and not its true vertical depth.

"(c) Any bond required by this rule is a plugging bond, not a drilling bond, and shall endure until any well drilled or acquired under such bond has been plugged and abandoned and such plugging and abandonment has been approved by the Commission, or has been covered by another bond approved by the Commission.

"(d) Transfer of a property does not of itself release a bond. In the event of transfer of ownership of a well, the appropriate form, C-103 or C-104, properly executed, shall be filed with the District Office of the Commission in accordance with Rule 1103 or Rule 1104 by the new owner of the well. The District Office may approve the transfer providing that a new one-well bond covering the well, or a request that the well be covered by the new owner's blanket bond, has been approved by the Santa Fe office of the Commission.

"Upon approval of the bond and the Form C-103 or C-104, the transferor is released of plugging responsibility for the well, and upon request, the original bond will be released. No blanket bond will be released, however, until all wells covered by the bond have been plugged and abandoned or transferred in accordance with the provisions of this rule.

"(e) All bonds shall be filed with the Santa Fe office of the Commission, and approval of such bonds, as well as releases thereof, obtained from said office.

"(f) All bonds required by these rules shall be conditioned for well plugging and location cleanup only, and not to secure payment for damages to livestock, range, water, crops, tangible improvements, nor any other purpose."

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(14) That the effective date of the aforesaid amendment of Rule 101 of the Commission Rules and Regulations should be June 17, 1977, and any bond approved by the Commission on or after that date should be written in accordance with the amended rule.

(15) That a reasonable period of time should be allowed for operators of wells in New Mexico to obtain new bonds replacing existing bonds, said new bonds to be written in accordance with Rule 101, as amended, and that four months is such reasonable period of time.

(16) That between September 1, 1977, and December 31, 1977, all existing plugging bonds in effect on June 16, 1977, should be replaced by new bonds written in compliance with Rule 101, as amended.

(17) That the Supervisor of each District Office of the Commission should have authority to shut in, or shut down operations on, any well not covered by a bond written in compliance with Rule 101, as amended, on January 1, 1978.

(18) That new bond forms should be prepared and attached to this order as Exhibits A, B, and C prescribing the format and language to be used on all plugging bonds issued after June 16, 1977.

IT IS THEREFORE ORDERED:

(1) That effective June 17, 1977, Rule 101 of the Commission Rules and Regulations shall read in its entirety as follows:

"RULE 101. PLUGGING BOND

"(a) Any person, firm, corporation, or association who has drilled or acquired, is drilling, or proposes to drill or acquire any oil, gas, or service well on privately owned or state owned lands within this state shall furnish to the Commission, and obtain approval thereof, a surety bond running to the State of New Mexico, in a form prescribed by the Commission, and conditioned that the well be plugged and abandoned in compliance with the rules and regulations of the Commission. Such bond may be a one-well plugging bond or a blanket plugging bond. All bonds shall be executed by a responsible surety company authorized to do business in the State of New Mexico.

"(b) Blanket plugging bonds shall be in the amount of fifty thousand dollars (\$50,000) conditioned as above provided, covering all oil, gas, or service wells drilled, acquired or operated in this state by the principal on the bond.

"One-well plugging bonds shall be in the amounts stated below in accordance with the depth and location of the well:

Chaves, Eddy, Lea, McKinley, Rio Arriba, Roosevelt, Sandoval, and San Juan Counties, New Mexico:

<u>Projected Depth of Proposed Well or Actual Depth of Existing Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 5,000
5,000 feet to 10,000 feet	\$ 7,500
More than 10,000 feet	\$10,000

All Other Counties in the State:

<u>Projected Depth of Proposed Well or Actual Depth of Existing Well</u>	<u>Amount of Bond</u>
Less than 5,000 feet	\$ 7,500
5,000 feet to 10,000 feet	\$10,000
More than 10,000 feet	\$12,500

"Revised plans for an actively drilling well may be approved by the appropriate District Office of the Commission for drilling as much as 500 feet deeper than the normal maximum depth allowed on the well's bond. Any well to be drilled more than 500 feet deeper than the normal depth bracket must be covered by a new bond in the amount prescribed for the deeper depth bracket.

The bond requirement for any intentionally deviated well shall be determined by the well's measured depth, and not its true vertical depth.

"(c) Any bond required by this rule is a plugging bond, not a drilling bond, and shall endure until any well drilled or acquired under such bond has been plugged and abandoned and such plugging and abandonment has been approved by the Commission, or has been covered by another bond approved by the Commission.

"(d) Transfer of a property does not of itself release a bond. In the event of transfer of ownership of a well, the appropriate form, C-103 or C-104, properly executed, shall be

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filed with the District Office of the Commission in accordance with Rule 1103 or Rule 1104 by the new owner of the well. The District Office may approve the transfer providing that a new one-well bond covering the well, or a request that the well be covered by the new owner's blanket bond, has been approved by the Santa Fe office of the Commission.

"Upon approval of the bond and the Form C-103 or C-104, the transferor is released of plugging responsibility for the well, and upon request, the original bond will be released. No blanket bond will be released, however, until all wells covered by the bond have been plugged and abandoned or transferred in accordance with the provisions of this rule.

"(e) All bonds shall be filed with the Santa Fe office of the Commission, and approval of such bonds, as well as releases thereof, obtained from said office.

"(f) All bonds required by these rules shall be conditioned for well plugging and location cleanup only, and not to secure payment for damages to livestock, range, water, crops, tangible improvements, nor any other purpose."

(2) That after June 16, 1977, except as provided under Order (3) below, no new well drilling permit (Form C-101), and no well transfer of ownership, (Form C-103 or Form C-104, whichever is applicable), shall be approved unless said well is covered by a new bond filed in accordance with Rule 101 of the Commission Rules and Regulations, as amended above.

(3) That between September 1, 1977, and December 31, 1977, all existing bonds in effect on June 16, 1977, shall be replaced by new bonds filed in accordance with Rule 101 of the Commission Rules and Regulations, as amended above.

(4) That effective January 1, 1978, the Supervisor of each District Office of the Commission is hereby authorized to shut in, or shut down operations on, any well not covered by a new bond filed in accordance with Rule 101 of the Commission Rules and Regulations, as amended above.

(5) That after June 16, 1977, no plugging bond shall be approved by the Commission unless it is in the form and style of, and employs the language used in, the bond forms hereby approved and adopted by the Commission, and attached hereto and made a part hereof, as follows:

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Exhibit A: \$50,000.00 Blanket Plugging Bond

Exhibit B: \$ 5,000.00, \$7,500.00, or \$10,000.00
one-well Plugging Bond for use in
Chaves, Eddy, Lea, McKinley, Rio Arriba,
Roosevelt, Sandoval, and San Juan Counties
only.

Exhibit C: \$7,500.00, \$10,000.00, or \$12,500.00
One-well Plugging Bond for use in
all counties except those named above.

(6) That jurisdiction of this cause is retained for the
entry of such further orders as the Commission may deem
necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove
designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



PHIL R. LUCERO, Chairman



EMERY C. ARNOLD, Member



JOE D. RAMSEY, Member & Secretary

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