



P.R. Patton & Associates

505/622-9106

Petroleum Bldg. / Roswell, N.M. 88201

*Consulting Engineers*

May 29, 1987

Oil Conservation Division,  
P. O. Box 2088  
Santa Fe, NM 87501

Re: Case 8878 (Reopened)  
Order No. R-8235  
Rule 101

Gentlemen:

As a principal of a firm affected under section (a) of your Rule 101, I respectfully request that the comments that follow be included in the record of testimony in the above captioned case.

The provision of Rule 101 permitting the posting of a cash bond in lieu of a surety bond is just and equitable. It benefits oil and gas operators by providing an alternative to buying surety bonds, and the people of New Mexico by increasing bank deposits. It further provides a more secure bond to the State than reliance on the financial strength of some surety, who is ultimately as susceptible to financial failure as any other private company.

Given the requirements of some surety companies, and their agents' unwillingness to write new surety bonds except for extremely solvent operators, and in some instances the surety's requirement of a cash bond to the surety in addition to the normal premium, it is occasionally actually more economical for an operator to post a cash bond and earn interest on that money, rather than purchase a surety bond.

As it now stands, the requirement of an affidavit attesting to the operator's inability to obtain a surety bond prior to the acceptance of a cash bond is discriminatory in favor of surety companies. Similarly, the provisions relating to an operators' standing with the Division and/or his financial condition, which are imposed for cash bonds but not for surety bonds, are also discriminatory in favor of surety companies, and should also be eliminated in order that all parties may be treated equally. In terms of secure bonding, a cash bond exposes the entity posting that bond to far greater financial risk than does purchasing a surety bond, and would thus seem to compel greater attention to prevention of forfeiture than would be associated with a purchased surety bond. A cash bond, therefore, is perhaps in actuality a "better" bond than a surety company bond, and should receive equal consideration and treatment.

In summary, I would respectfully request that the Division amend Rule 101 to permit the option of either cash or surety bonds without discrimination or partiality in favor of either type.

Respectfully,

A handwritten signature in cursive script, appearing to read "P. R. Patton".

P. R. Patton, PEELS



## NEW MEXICO OIL & GAS ASSOCIATION

1227 Paseo de Peralta • P.O. Box 1864 • Santa Fe, N.M. 87504-1864  
Telephone (505) 982-2568

May 13, 1986

Richard L. Stamets  
Director, Oil Conservation Division  
P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

Dear Dick:

I am writing on behalf of the New Mexico Oil & Gas Association to urge the Division to adopt a \$50,000 blanket cash plugging bond in lieu of a \$50,000 surety bond.

I believe the Division's proposed amendment to Rule 101 to allow only well-by-well cash bonds is inconsistent with the understanding and intent of HB 223 as signed. The legislation was proposed and supported with the understanding that cash bonds would be equal in all ways to surety bonds.

Surety bonds are becoming more difficult to obtain through no fault of the operator. The intent of the legislation was to remove that obstacle and to provide the option of cash bonds. The failure to include a blanket cash bond in the rule will have a severe impact on small operators. It will also affect the ability of major companies to complete farmouts to smaller operators and will unnecessarily increase costs of doing business if each new well must have a separate bond.

While many members of our Association will probably not utilize cash bonding, large and small operators join in supporting rules and regulations of the Division that treat all operators equally. If you have questions, I would be pleased to hear from you.

Very truly yours,

  
D. Van De Graaff  
Executive Vice President

DV:ra

**BONEY & MOORE, INC.**

*Insurance Agents*

P. O. DRAWER 310      TELEPHONE 505/524-8686  
255 E. LOHMAN AVE.      LAS CRUCES, NEW MEXICO 88004

May 7, 1986

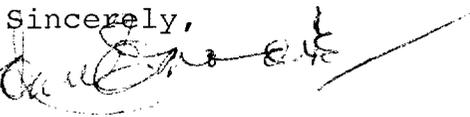
Mr. Jeff Taylor  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, N.M. 87501

Dear Jeff,

Following our conversation of this morning concerning the new regulations you are formulating as alternatives to the oil well plugging bonds, I am posing the question and recommendation that the new regulations permit the filing of an irrevocable letter of credit from an acceptable financial institution in the State of New Mexico. This irrevocable letter would be for the sole benefit and use of your division as an alternative to a surety bond or cash collateral.

Hopefully you will find this recommendation acceptable.

Sincerely,



John E. Moore

JEM/tm

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>1</u>
CASE NO: _____



April 30, 1986

Called by the Oil  
Conservation Division  
on its own motion to  
amend Rule 101 ~~and~~<sup>by</sup>  
establishing rules for  
cash bonds.