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TONEY ANAYA  
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STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

No. 2-86

MEMORANDUM

TO: NEW MEXICO OPERATORS

FROM: R. L. STAMETS, DIRECTOR

SUBJECT: PROPOSED CASH BOND RULES

Because of industry difficulties in obtaining surety bonds, the Division proposed to the 37th Legislature that cash bonds be accepted. The legislature subsequently passed House Bill 223, to be codified at Section 70-2-14 NMSA (1978) which provides for the acceptance of surety or cash bonds by the Division. We have scheduled a hearing on April 30, 1986 to consider a revision of Rule 101, relating to bonds. The proposed rules would provide for posting of a cash bond upon a showing that the operator is unable to obtain a surety bond. The proposed language to be added to Rule 101 is shown on the reverse side of this memo.

The Division hopes to develop a system whereby an operator can place the desired bond amount in a bank account of some type, which would avoid the necessity of the Division handling and accounting for large sums of money. If you have any ideas or suggestions regarding the rule, please attend the hearing or contact Jeff Taylor at 827-5805.

April 7, 1986

RULE 101. PLUGGING BOND - ask for a period or date to Cont. This case

(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 Division, and obtain approval thereof, a surety bond running to the State of New Mexico, in a form prescribed by the Division, and conditioned that the well be plugged and abandoned in compliance with the rules and regulations of the Division. 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.

Additional language proposed for Division Rule 101.(a).

Upon a showing by an operator that it cannot acquire a surety bond, a cash bond may be filed with the Division. Cash representing the full amount of a bond shall be deposited by the operator in an interest-bearing account in a State or Federally-insured financial institution located within the State of New Mexico, such account irrevocably to name the Division as sole owner. A document evidencing the terms and conditions of the bond shall be executed by an authorized representative of the operator and filed with the Division and the depository institution prior to the effective date of the bond.

*Beneficiary or trustee to*

The Division from time to time shall be authorized to direct any accrued interest over and above the face amount of the bond to be paid to the operator.

Upon failure of the operator to properly plug and abandon the well covered by the bond, the Division shall give notice of its intent to forfeit said bond. If the operator objects to such forfeiture, a hearing shall be held to determine whether the operator has failed to abide by the provisions of the bond. Such hearing may be consolidated with the hearing on the issue of whether the well shall be plugged. If, at the hearing, it is determined that the operator has failed to plug the well as provided for in the bond conditions, the Division shall liquidate the account and place the proceeds in the Oil and Gas Reclamation Fund.

NOTE: THE DIVISION IS CONSIDERING ALLOWING ONE-WELL CASH BONDS ONLY.

HB-223

*- same value*

→ *cash blanket plugging bond*

*- surety, blanket bond*