

**INDIVIDUAL & BLANKET PERFORMANCE BONDS  
LETTERS OF CREDIT OR CASH DEPOSITS**

**For Wells and Other Oil and Gas Operations  
Pursuant to Sections 91.103, 91.104, 91.1041, 91.1042 & 91.109 Tex. Nat. Res. Code (TNRC)**

- A. FINANCIAL SECURITY.** Except as noted below, a person required to file a P-5 Organization Report (P-5), under § 91.142, TNRC and Commission rules, must also execute and file a bond, letter of credit or cash deposit. There are two options available under which a person would be considered a “Bonded Operator” under Commission rules: **Option 1** – an individual performance bond, letter of credit or cash deposit covering only wells; or **Option 2** – a blanket performance bond, letter of credit or cash deposit covering wells and/or other oil and gas operations. A person filing a P-5 who is engaged in non-well activities that require the filing of financial security cannot use Option 1. Bonds and Letters of Credit must be filed on forms approved by the Commission; these forms are available from the Commission or on our website at [www.rrc.state.tx.us](http://www.rrc.state.tx.us). Bonds must be issued by a surety company registered in the State of Texas with the Texas Department of Insurance.

**EXEMPTION FROM FINANCIAL SECURITY REQUIREMENT:** if an operator's only activity is as a first purchaser, survey company, salt water hauler, gas nominator, gas purchaser or well plugger is not required to file financial security in connection with their P-5 filing.

**WELL SPECIFIC PLUGGING INSURANCE:** a wellbore for which the operator has filed a well-specific plugging insurance policy will be excluded from the calculation of an operator's financial security requirement. An insurance policy filed for this purpose must meet the requirements of Statewide Rule 78.

- B. INDIVIDUAL PERFORMANCE BOND (Option 1).** An individual performance bond may be submitted by any person who operates one or more wells and who has no other Commission-regulated activities that require financial security at the time of filing. An individual bond will cover all permitted wells and all current wells carried on the Commission's Oil and Gas Proration Schedules, including but not limited to active, inactive, injection or disposal, 14(b)(2) extension, or hydrocarbon storage. Additional wells that are obtained during the current year and prior to the filing of next year's P-5 may require that the bond amount be increased to cover the additional wells. Only one individual bond covering all wells is required.
- C. BLANKET PERFORMANCE BOND (Option 2).** A blanket performance bond may be submitted to cover **all** Commission-regulated operations performed by a person, including all current wells. Additional wells that are obtained prior to the filing of next year's P-5 and carried on the Oil and Gas Proration Schedules will be automatically covered by the bond provided that the total number of wells remains within the range specified for the bond amount (see I(1) below). Only one blanket performance bond is required for a person performing multiple operations.
- D. LETTER OF CREDIT.** A letter of credit may be submitted to fulfill financial security requirements, subject generally to the same requirements for bonds. If you are submitting a letter of credit in lieu of an individual performance bond under Option 1, you need not fill in Box #4 on the letter of credit.
- E. CASH DEPOSIT.** A cash deposit may be submitted in lieu of either bond. Cash deposits must be submitted by certified cashiers check and will be held in an account within the Oil Field Clean Up Fund. Any interest accruing on cash deposits will be deposited into the Oil Field Clean Up Fund pursuant to Texas statute and will not accrue to the operator's account.
- F. OIL & GAS OPERATIONS.** Statewide Rule 1 lists some of the oil and gas operations regulated by the Commission. These and others are also listed below. These operations and associated activities must be covered by a bond or alternate form of financial security. If you are submitting a blanket bond, in Box #4 on the bond (letter of credit), identify all Commission-regulated operations that you perform, by checking each appropriate operation and providing a sufficient description of any other Commission-regulated operations not listed below.

**Commission-Regulated Operations**

- (A) permitting, drilling, operating, or producing any oil, gas, geothermal resource, brine mining injection, fluid injection, or oil & gas waste disposal well;
- (B) transporting, reclaiming, treating, processing, or refining crude oil, gas & products, or geothermal resources & associated minerals;
- (C) discharging, storing, handling, transporting, reclaiming, or disposing of oil & gas waste, including hauling salt water for hire by any method other than pipeline ;
- (D) operating gasoline plants, natural gas or natural gas liquids processing plants, pressure maintenance or repressurizing plants, or recycling plants;
- (E) recovering skim oil from a salt water disposal site;
- (F) nominating crude oil or natural gas\* ;
- (G) operating a direction survey company\* ;
- (H) cleaning a reserve pit
- (I) operating a pipeline;
- (J) operating as a cementer approved for plugging wells\* ;
- (K) operating an underground hydrocarbon or natural gas storage facility; or
- (L) gas purchaser\* .

\* If an operator's only activity is as a first purchaser, survey company, salt water hauler, gas nominator, gas purchaser or well plugger is not required to file financial security in connection with their P-5 filing.

**G. WHEN & WHERE TO FILE.** When required, file the original of the bond or letter of credit (or notice of renewal, where appropriate), or tender the Cash Deposit, in the Commission's Austin office. Financial security may be required at the time of filing an initial or renewal P-5, upon acquisition of wells by P-4 transfer, or upon filing of an application for drilling permit. If a bond or letter of credit is declared forfeited, payment shall also be made to the Austin office. Financial security may be filed or modified at other times during the P-5 year subject to certain restrictions.

**H. AMOUNT OF INDIVIDUAL PERFORMANCE BOND, LETTER OF CREDIT OR CASH DEPOSIT.** Persons who elect Option 1 (if available) shall file an individual performance bond, letter of credit or cash deposit, in an amount equal to \$2.00 per foot multiplied by the total aggregate depth of all wells on the Oil and Gas Proration Schedules for the operator, or the total depth of any permitted wells if the operator has no wells on schedule. The total aggregate depth will be determined from Commission records and is provided on your Options Fact Sheet. Increases in the total aggregate depth due to an increase in the number of wells operated by a person may require that the amount of the bond, letter of credit or cash deposit, be increased. Bay and offshore well operators have additional financial security requirements as described in J below.

**I. AMOUNT OF BLANKET PERFORMANCE BOND, LETTER OF CREDIT OR CASH DEPOSIT.**

<b>1. Wells Only.</b>	<u>Number of Wells</u>	<u>Bond Amount</u>
	1 to 10	\$ 25,000
	11 to 99	50,000
	100 or more	250,000

**2. Commission-Regulated Operations Other Than Wells.** Except where excluded under **Paragraph A** above, persons performing other operations within the jurisdiction of the Commission, including, but not limited to those operations listed in **Paragraph F**, but who have no wells, shall file a bond in the amount of **\$25,000**.

**3. Wells & Other Commission-Regulated Operations.** Persons operating wells and performing other operations within the jurisdiction of the Commission for which financial security is required shall file financial security in an amount determined by the greater of that required by the wells operated or by the non-well activities. **Note:** Additional bonding for commercial facilities may be separately required by the Commission pursuant to Statewide Rule 78.

**4. New Operations.** Persons filing a P-5 Organization Report for the first time in order to perform Commission-regulated activities are not required to file financial security at the time of filing. However, the Commission may require financial security in an appropriate amount prior to granting authority for certain operations by that operator (including approval of P-4 transfers or the issuance of drilling permits).

**5. Additional Wells.** Additional wells acquired by a person will automatically be covered by the blanket bond, letter of credit or cash deposit, provided that the total number of wells does not exceed the range permitted by the amount submitted. If the total number of wells increases beyond the range permitted, the Commission will require additional coverage before further acquisitions will be approved.

**6. Bay & Offshore Wells.** Bay and offshore well operators have additional financial security requirements as described in J below.

**J. BAY AND OFFSHORE WELL BONDING.** In addition to the bonding required under H and I above, an operator of bay and/or offshore wells must provide additional entry level bonding of \$60,000 for bay wells or \$100,000 for offshore wells. Operators of such wells are required to file additional financial security equal to the presumed plugging cost of \$60,000 for each non-producing bay well or the presumed plugging cost of \$100,000 for each non-producing offshore well beyond the first non-producing well.

**K. WELLS.** All wells of a person carried on the current Commission Oil and Gas Proration Schedules must be counted in determining the bond amount for a blanket bond. In Box #3 on the bond (letter of credit), list your total number of wells. This includes active, inactive, injection or disposal, 14(b)(2) extension, hydrocarbon storage wells or other wells carried on the Schedules. For an individual performance bond or letter of credit, also state, in Box #3, the total aggregate depth of all of your wells. Well count and depth is to be given as of the date you file the bond. If you have no wells on schedule, then any uncompleted wells for which you hold drilling permits (if any) will be used to calculate your financial security requirement. Refer to your Options Fact Sheet for well information.

**L. WELL TRANSFER.** A transfer, by any means, of any well covered under a bond is not complete unless the operator acquiring the well has on file with the Commission an individual performance bond, letter of credit or cash deposit under Option 1, or a blanket performance bond, letter of credit or cash deposit under Option 2, in an amount sufficient to cover both its current operations and the wells being transferred. Any existing bond, letter of credit or cash deposit remains in effect and the prior operator of the well remains responsible for compliance with all laws and Commission rules covering the transferred well until the Commission determines that the well is covered by proper financial security and the acquiring person has assumed full responsibility for the well in accordance with all state laws, including §91.107, TNRC and Commission rules.

**M. TERM & EXPIRATION.** A person must have a valid and current bond, letter of credit or cash deposit on file while performing Commission-regulated operations. The annual **expiration date of a bond must be 150 days after your P-5 expiration date; the expiration date of a letter of credit must be 90 days after your P-5 expiration date.** When filing a bond or letter of credit for the first time, you will be required to file a bond with an extended term, in order to provide continuous coverage between your P-5 effective date and the appropriate period beyond the P-5 expiration date as stated above. Written notice of renewal of an existing bond or letter of credit must be given by the Surety or financial institution to the Commission, or a new bond or letter of credit (or other authorized form of financial security) must be filed on or before your P-5 filing date. Obligations under bonds or letters of credit may be released by written agreement between the Commission, Principal (Operator) and the surety or financial institution.