

RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

NOTICE TO OPERATORS

Financial Assurance Required for Drilling Permits

The Railroad Commission has adopted changes to Statewide Rule 78 as it applies to financial assurance requirements for Drilling Permits. Under Rule 78 as amended, applicants for drilling permits are required to have some form of financial assurance in place prior to the issuance of a drilling permit.

Note: If your organization has filed a bond, letter of credit, or cash deposit as financial assurance with your Organization Report (Form P-5) filing, then this change will not affect you. Financial Assurance already on file with an operator's P-5 is sufficient to fulfill the requirement associated with the issuance of a drilling permit.

An operator who files an application for a drilling permit (Form W-1) who does not currently have financial assurance on file with their Organization Report (Form P-5) filing will be required to post financial assurance prior to the issuance of the requested permit. After issuance of the drilling permit, and for so long as the permit remains valid, the operator will be required to maintain financial assurance on file. If the operator has permits under which drilling operations have commenced, but has not posted any financial assurance, the operator's financial assurance requirement at P-5 renewal time will be calculated to include all such existing (but uncompleted) wellbores. If the operator has only drilling permits for which drilling operations have not commenced, the operator's financial assurance requirement at P-5 renewal time will be calculated based on information associated with those permits.

Required Amount. The amount of the bond, letter of credit, or cash deposit required to be filed will be calculated based upon the total depth as shown on the application multiplied by \$2 per foot of total depth, or \$25,000 (which is the blanket amount covering up to 10 wells). Alternatively, the applicant may obtain and file a well specific insurance policy as described in Rule 78 covering the well for which the drilling permit application is filed.

Termination of requirement. Operators who have no other financial assurance required under Rule 78 and who wish to be relieved of their financial assurance requirement for an issued permit may: 1) amend the permit to reflect a new operator if the new operator has the required financial assurance in place (note that an application fee will be required for the W-1 filed to amend the permit); or 2) cancel the permit if drilling operations have not yet commenced. The filing and approval of completion papers (listing the well on the Commission's proration schedules) will shift the basis of the requirement from an uncompleted wellbore (calculated based upon the drilling permit application), to a completed wellbore (calculated based on the completion papers). The filing and approval of a Form W-3 Plugging Report showing that the well was plugged as a dry hole also will terminate the requirement to maintain financial assurance under the permit.

Applicability. This requirement will apply to all drilling permits issued after December 19, 2005 (the effective date of the Rule 78 amendments); and to all wellbores for which drilling has commenced regardless of permit issuance date.

If you have any questions regarding financial assurance requirements, you may contact the P-5 Section P5@rrc.state.tx.us or by phone at (512) 463-6772.

Austin, Texas

December 2005

PLEASE FORWARD TO THE APPROPRIATE SECTION OF YOUR COMPANY