

REIMBURSEMENT TO SURFACE OWNER OF CERTAIN COSTS INCURRED FOR PLUGGING AN ORPHANED OIL OR GAS WELL

House Bill 2161 (HB 2161), enacted by the 79th Texas Legislature (2005), established a new program in which the Railroad Commission (Commission) is authorized to make payments to surface estate owners who plug orphaned wells on their property.

HB 2161 added a new Section 89.048, relating to Plugging of Well by Surface Estate Owner, which became effective on January 1, 2006. Under the new law, a surface estate owner is defined as the owner of interest in the surface estate of a tract of land on which an orphaned well is located. An "orphaned well" is defined as a well for which the Commission has issued a permit, for which production of oil or gas or another activity under Commission jurisdiction has not been reported to the Commission for the preceding 12 months, and whose operator's Commission-approved P-5 Organizational Report has lapsed.

The following outlines the requirements under the new law.

STEP 1. SURFACE OWNER CONTRACTS WITH COMMISSION-APPROVED CEMENTER

The surface estate owner must contract with a Commission-approved well cementer to plug an orphaned well on his or her property. The list of approved cementers can be found on the Commission's web site at <http://www.rrc.state.tx.us/environmental/plugging/cementerslist.pdf>

STEP 2. WELL CEMENTER REQUIREMENTS

The well cementer under contract with the surface owner must:

- (1) not later than the 30th day before the date the well is plugged, mail notice of its intent to plug the well to the operator of the well at the operator's address as shown by Commission records
- (2) assume responsibility for the physical operation and control of the well as shown by a form the person files with the Commission and the Commission approves (file a one-signature Form P-4);
- (3) file a bond, letter of credit, or cash deposit covering the well as required by Commission rules; and
- (4) plug the well in accordance with Commission rules.

STEP 3. SURFACE OWNER APPLICATION FOR REIMBURSEMENT

Upon successful plugging of the well by the well cementer, the surface estate owner may submit to the Commission FORM OW-3, Application for Payment for Reactivating or Plugging an Orphaned Oil or Gas Well, and documentation of the plugging costs.

STEP 4. REIMBURSEMENT BY COMMISSION

The Commission will reimburse the surface estate owner from the state's Oil Field Cleanup Fund (OFCUF) in an amount not to exceed 50% of the lesser of the (1) documented well-plugging costs or (2) the average Commission costs for plugging a similar well in the same general area within the preceding 24 months.