



**NOTICE TO OPERATORS
NTO 2023-10**

December 15, 2023

**NEW BONDING REQUIREMENTS ASSOCIATED WITH ASSEMBLY BILL 1167
(CARRILLO, CHAPTER 359, STATUTES OF 2023)**

This notice is to ensure that operators are aware of new bonding requirements that must be complied with in advance of acquiring certain wells and production facilities. Assembly Bill 1167 (Carrillo, Chapter 359, Statutes of 2023) was signed into law by Governor Gavin Newsom on October 7, 2023, amending section 3204 and adding section 3205.8 to the Public Resource Code.

Effective January 1, 2024, anyone who intends to acquire one or more marginal or idle wells or production facilities is prohibited from completing the acquisition until receiving a determination from CalGEM of estimated total costs associated with plugging and abandonment, decommissioning, and site restoration related to those wells and facilities and filing a bond with CalGEM in the amount determined.

A marginal well is any well with an average daily production level less than or equal to 15 barrels of oil or 60,000 cubic feet of natural gas during the 12 months preceding the date of acquisition. It does not include natural gas storage wells.

Prior to **any acquisition**, operators are encouraged to complete and submit a Transfer Worksheet available at https://www.conservation.ca.gov/calgem/pubs_stats/Pages/forms.aspx. CalGEM will verify the submitted information against CalGEM's records, including previously timely submitted monthly production reports. If CalGEM determines the well is a marginal well, CalGEM will contact the operator to inform them if additional information is required for CalGEM to make its determination regarding the estimated costs and the associated bonding in the amount determined.

Operators may submit their Transfer Worksheet or requests for cost estimates to CalGEMEntRiskUnit@conservation.ca.gov.

Operators may post an indemnity bond for a well or production facility or a blanket indemnity bond that meets the requirements of section 3205.8 for multiple wells and facilities. In lieu of an indemnity bond and written approval of the supervisor, the operator may submit an equally effective means of financial assurance, which includes a deposit as allowed under Public Resources Code section 3205.5, an irrevocable letter of credit, or a fully funded trust fund, but does not include self-insurance or corporate guarantees. The required financial assurance may be obtained or funded by the transferor of the covered well. Compliance with the requirements of Public Resources

Code section 3205.3 does not excuse compliance with these new bonding requirements.

Please take time to review these revisions to the Public Resources Code (attached).

If you have any questions or concerns regarding this notice, please contact the CalGEM Enterprise Risk Unit by email at CalGEMentriskunit@conservation.ca.gov.

Douglas Ito

Doug Ito
State Oil and Gas Supervisor

Amendments to Current Law that Will Take Effect January 1, 2024

Deletions are red and stricken, additions are blue and in italics.

SEC. 3.

Section 3202 of the Public Resources Code is amended to read:

3202.

(a) A person who acquires the right to operate a well or production facility, whether by purchase, transfer, assignment, conveyance, exchange, or other disposition, shall, as soon as it is reasonably possible, but not later than the date when the acquisition of the well or production facility becomes final, notify the supervisor or the district deputy, in writing, of the person's operation. The acquisition of a well or production facility shall not be recognized as complete by the supervisor or the district deputy until the new operator provides all of the following material:

- (1) The name and address of the person from whom the well or production facility was acquired.
- (2) The name and location of the well or production facility, and a description of the land upon which the well or production facility is situated.
- (3) The date when the acquisition becomes final.
- (4) The date when possession was or will be acquired.
- (5) An indemnity bond for each well as required ~~under Section 3204 or 3205.~~ *pursuant to Section 3204, 3205, or 3205.8, as applicable.*

(b) (1) Upon request of the supervisor, the new operator shall, within 15 days, provide to the division copies of the documents recorded with a governmental office involving the sale, assignment, transfer, conveyance, exchange, or other disposition of the well or production facility.

(2) If after reviewing the documents submitted pursuant to paragraph (1) the division determines additional documentation is needed to validate the sale, assignment, transfer, conveyance, exchange, or other disposition of the well or production facility, the division shall notify the new operator.

(3) Upon receiving notice pursuant to paragraph (2), the new operator shall, within 30 days, provide to the division documents necessary to identify the operator of the well or production facility. If the documents are not otherwise publicly available, the new operator may redact information from the documents before submitting them to the division if the division agrees the

information is not relevant to identification of the current operator of the well or production facility.

(c) After notice is given pursuant to subdivision (a) and until another person acquires the well or production facility, the new operator shall notify the supervisor whether any of the rights have changed. That notification shall be in writing and occur every other year by July 1.

(d) The new operator shall also notify the supervisor within 30 days of any quitclaim of a well or production facility.

(e) The supervisor shall maintain records of all transfers recognized as complete pursuant to subdivision (a), including all materials required to be provided by the new operator under that subdivision, and shall make those records available on the division's internet website.

SEC. 4.

Section 3204 of the Public Resources Code is amended to read:

3204.

(a) An operator who, on or after January 1, 2018, engages in the drilling, redrilling, deepening, or in any operation permanently altering the casing, of a well, ~~or who acquires a well,~~ shall file with the supervisor an individual indemnity bond for each well so drilled, redrilled, deepened, or permanently ~~altered, or acquired~~ *altered* in the following amount:

(1) Twenty-five thousand dollars (\$25,000) for each well that is less than 10,000 feet deep.

(2) Forty thousand dollars (\$40,000) for each well that is 10,000 or more feet deep.

(b) The bond shall be filed with the supervisor at the time of the filing of the notice of intention to perform work on the well, as provided in Section 3203, or at the time of acquisition of the well, as provided in Section 3202. The bond shall be executed by the operator, as principal, and by an authorized surety company, as surety, on the condition that the principal named in the bond shall faithfully comply with all the provisions of this chapter, in drilling, redrilling, deepening, or permanently altering the casing in any well or wells covered by the bond, and shall secure the state against all losses, charges, and expenses incurred by it to obtain the compliance by the principal named in the bond.

(c) The conditions of the bond shall be stated in substantially the following language: "If the _____, the above bounden principal, shall well and truly comply with all the provisions of Division 3 (commencing with Section 3000) of the Public Resources Code and shall obey all lawful orders of the State Oil and Gas Supervisor or the district deputy or deputies, subject to

subsequent appeal as provided in that division, and shall pay all charges, costs, and expenses incurred by the supervisor or the district deputy or deputies in respect of the well or wells or the property or properties of the principal, or assessed against the well or wells or the property or properties of the principal, in pursuance of the provisions of that division, then this obligation shall be void; otherwise, it shall remain in full force and effect.”

~~(d) This section shall become operative on January 1, 2018.~~

SEC. 5.

Section 3205.5 of the Public Resources Code is amended to read:

3205.5.

In lieu of the indemnity bond required by Sections 3204, 3205, 3205.1, 3205.2, [3205.8](#), and 3206, a deposit may, with the written approval of the supervisor, be given pursuant to Article 7 (commencing with Section 995.710) of Chapter 2 of Title 14 of Part 2 of the Code of Civil Procedure, other than a deposit of money or bearer bonds or bearer notes.

SEC. 6.

Section 3205.8 is added to the Public Resources Code, to read:

3205.8.

(a) (1) Notwithstanding any other provision of this chapter, a person who acquires the right to operate a well or production facility, by purchase, transfer, assignment, conveyance, exchange, or other disposition, except a well that has an average daily production level that exceeds 15 barrels of oil or 60,000 cubic feet of natural gas during the 12 months preceding the date of acquisition or a natural gas storage well, shall, as soon as possible, but not later than the date when the acquisition of the well or production facility becomes final, file with the supervisor an individual indemnity bond for the well or production facility, or a blanket indemnity bond for multiple wells or production facilities, in an amount determined by the supervisor to be sufficient to cover, in full, all costs of plugging and abandonment, decommissioning of the facility, and site restoration pursuant to Section 3208 and regulations implementing this chapter.

(2) A person who acquires the right to operate more than one well or production facility, by purchase, transfer, assignment, conveyance, exchange, or other disposition, or who operates more than one well or production facility may file with the supervisor one blanket indemnity bond to cover all the operations in any of its wells in the state in lieu of an individual indemnity bond for each operation. The blanket indemnity bond shall be executed by the operator, as principal, and by an authorized surety company, as surety, and shall be in substantially the same

language and upon the same conditions as provided in Section 3204, except for the difference in the amount.

(b) A person who intends to acquire the right to operate a well or production facility, by purchase, transfer, assignment, conveyance, exchange, or other disposition, shall submit a request to the supervisor for a determination of the amount of the bond required pursuant to subdivision (a) before completing the acquisition and shall not complete the acquisition until the determination is received and the bond has been filed with the supervisor.

(c) The supervisor shall determine the amount of an individual indemnity bond required pursuant to subdivision (a) based on the supervisor's determination of the full costs of plugging and abandonment, decommissioning the facility, and site restoration using any reasonable method, including, but not limited to, consideration of the factors listed in subdivision (b) of Section 3205.3, or the cost estimation criteria described in subdivision (b) of Section 3205.7, or consultation with a contractor to obtain an estimate of the cost to plug and abandon the wells, decommission the facility, and complete site restoration. The supervisor shall determine the amount of a blanket indemnity bond required pursuant to subdivision (a) based on the sum total of combining the costs from the same determinations as individual indemnity bonds for each well or production facility covered by the blanket indemnity bond.

(d) In lieu of the bond required to be provided pursuant to subdivision (a), the operator may, with the written approval of the supervisor, provide the required security through an equally effective means of financial assurance, which includes a deposit pursuant to Section 3205.5, an irrevocable letter of credit, or a fully funded trust fund, but does not include self-insurance or corporate guarantees. The required financial assurance may be obtained or funded by the transferor of the covered well.

(e) The department shall post on its internet website the information on all indemnity bond determinations made by the supervisor and shall include for each determination the bond amount and calculations used.

