



Chairman David Porter
Commissioner Christi Craddick
Commissioner Ryan Sitton
July 2016

Oil & Gas Statewide Rule 15

Oil & Gas Statewide Rule 15:
Surface Equipment Removal/Plugging
Extension Applications (Form W-3C & W-3X)
Presenter: Mysti Doshier



Topics

- Overview of Oil & Gas Statewide Rule 15.
- The process of obtaining a plugging extension.
- Filling out the form W-3C & W-3X
- Oil & Gas Statewide Rule 15 compliance related to acquisitions, mergers & bankruptcy.
- Enforcement process for non-compliance.



Oil & Gas Statewide Rule 14

Plugging operations on each dry or inactive well shall be commenced within a period of one year after drilling or operations cease and shall proceed with due diligence until completed unless the Commission or its delegate approves a plugging extension under §3.15 of this title (relating to Surface Equipment Removal Requirements and Inactive Wells).



Inactive Well Extension Requirements

- 1) Operator has a current organization report.
- 2) Well in compliance with RRC rules and orders.
- 3) Operator has a good faith claim to a continuing right to operate the well.

For Inactive Land Wells (Bay/Offshore wells are excluded):

- 1) Completion of required surface equipment cleanup/removal and certification on Form W-3C
- 2) Application for plugging extension and qualification on Form W-3X



Inactive Well Listing

- The P-5 renewal packet is mailed out approximately 85 days prior to the P-5 due date.
- The P-5 renewal packet contains a listing of wells that have been inactive for 12 months or longer.

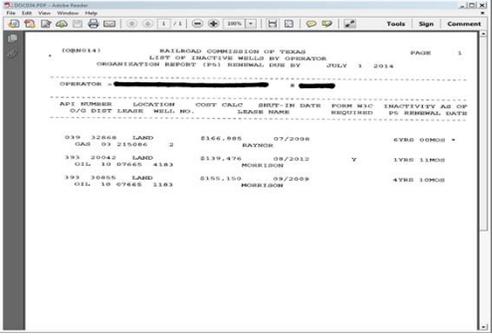


Oil & Gas Statewide Rule 15 (a)(1)

- (1) Active operation--Regular and continuing activities related to the production of oil and gas for which the operator has all necessary permits. In the case of a well that has been inactive for 12 consecutive months or longer and that is not permitted as a disposal or injection well, the well remains inactive for purposes of this section, regardless of any minimal activity, until the well has reported production of at least 10 barrels of oil for oil wells or 100 mcf of gas for gas wells each month for at least three consecutive months.



Inactive Well Listing



API NUMBER	LOCATION	ODSY CALD	BRFT-IN DATE	FORM WIC	INACTIVITY AD	PD
039 32888	LAND	2	07/2008		00000	
393 20042	LAND	4183	08/2012	Y	1300	13000
393 38806	LAND	1183	08/2009		00000	



**Surface Equipment
Cleanup/Removal Requirements**

Based on length of inactivity at P5 renewal time

Inactive at least 12 months:
must physically terminate electrical service to the well's production site.

Inactive at least 5 years but less than 10 years:
must empty or purge of production fluids all piping, tanks, vessels and equipment.

Inactive at least 10 years:
must remove all surface equipment and related piping, tanks, tank batteries, pump jacks, headers, fences and firewalls; close all open pits; and remove all junk and trash.



Surface Equipment Cleanup/Removal Requirements

Options:

- Ownership of Surface: (100% ownership interest held by operator of well)
 - Need not purge fluids
 - Need not remove equipment
 - (Electricity must still be disconnected)
- Commission recognized EOR project:
 - May leave equipment intended for future use within the project in place.
 - (Electricity must still be disconnected and fluids must still be purged.)



Form W-3C Surface Equipment Cleanup/Removal Requirements




Form W-3C: (Certification of Surface Equipment Removal for an Inactive Well)

RAILROAD COMMISSION OF TEXAS
Oil and Gas Administration, Compliance
PO Box 12887
Austin, TX 78711-2887

CERTIFICATION OF SURFACE EQUIPMENT REMOVAL FOR AN INACTIVE WELL **Form W-3C**
(Rev. 09/2011)

1. READ INSTRUCTIONS ON BACK

1. OPERATOR NAME exactly as shown on P-5, Organization Report 2. OPERATOR ADDRESS including city, state and zip code

3. OPERATOR P-5 NO.

- If you are filing for a single well:

4. LEASE NAME as shown on Poration Schedule 5. FIELD NAME as shown on Poration Schedule

6. API NUMBER 4. RR DISTRICT NO. 6. OIL LEASE GAS ID NO. 8. WELL NO. 10. COUNTY

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OR

- If you are filing for an attached listing of wells:

11. The _____ wells listed on the attached _____ pages. (See Instructions for listing requirements.)

NOTE: BY ATTACHING A LISTING OF WELLS, YOU CERTIFY THAT ALL WELLS ON THE ATTACHED LISTING HAVE BEEN PLACED IN COMPLIANCE WITH THE SURFACE EQUIPMENT REMOVAL REQUIREMENTS AS SPECIFIED BELOW.

I, the undersigned, certify that: Required for:
(check all that apply)



Application for Plugging Extension

- Operator of an inactive land well must :
 - apply for a plugging extension by filing Form W-3X qualify for an extension under one of several options.

Three "Blanket" options
Five "Individual Well" options



Application for plugging extension

- "Blanket" options:
 - 10% plugged/restored
 - Blanket additional financial security
 - If publically traded, secured creditor status.
- "Individual Well" options:
 - Abeyance of Plugging Report covering the inactive well plus \$250 fee.
 - EOR project status (if eligible)
 - H-15 well test (if eligible) plus \$125 fee.
 - Additional financial security
 - Escrow deposit (10% of "Cost Calculation")



Form W-3X: Application for an Extension of Deadline for Plugging an Inactive Well

DEPARTMENT OF COMMERCE
Oil and Gas, Admin. Compliance
PO Box 12462
Austin, TX 78711-2967

APPLICATION FOR AN EXTENSION OF DEADLINE FOR PLUGGING AN INACTIVE WELL **Form W-3X**
(Rev. 09/2011)

READ INSTRUCTIONS ON BACK.

1. OPERATOR NAME: exactly as shown on Form P-10, Organization Report 2. OPERATOR ADDRESS including city, state, and zip code

3. OPERATOR P.O. NO.

- If you are applying for a blanket plugging extension for all inactive land wells operated by this entity:

Blanket Extension Options (See instructions)

a. The filing operator has plugged or restored to active status 10% of the number of inactive land wells operated at the time of the last annual renewal of the operator's organization report.

b. The filing operator is a publicly traded entity and has filed with the Commission documentation naming the operator as "debtor" and the Railroad Commission of Texas as the "secured creditor" and specifies the funds covered by the documents in the amount of the cost calculation for plugging all inactive wells.

c. The filing operator has submitted additional financial security covering the amount of the cost calculation for plugging all inactive wells or \$2 million, whichever is less.

OR

- If you are applying for a plugging extension for a single well:

4. LEASE NAME: as shown on Plugging Schedule 5. FIELD NAME: as shown on Plugging Schedule

6. AIN NUMBER	7. REC DISTRICT NO.	8. OIL LEASE / GAS ID NO.	9. WELL NO.
42-			

10. COUNTY



Form W-3X: Application for an Extension of Deadline for Plugging an Inactive Well

Individual Well Extension Options (see instructions)

The well identified above is covered by an abeyance of plugging report and the operator has paid the required filing fee of \$100. (Please attach the abeyance of plugging report.)

The well identified above is part of a Commission-approved EOR Project.

The well identified above is not otherwise required by Commission rule or order to conduct a fluid level or hydraulic pressure test of the well, and the operator has conducted a successful fluid level or hydraulic pressure test of the well and has paid the required filing fee of \$50. (The test results must be filed with the Railroad Commission on Form H-15.)

The operator has filed additional financial security in the amount of the cost calculation for plugging the well identified above.

The operator has filed an escrow fund deposit in an amount at least equal to 10% of the cost calculation for plugging the well identified above.

CERTIFICATION: I certify under penalties prescribed by the Texas Natural Resources Code and the Texas Penal Code that, to the best of my knowledge, the information given in this application is true, complete, and correct.

Signature _____ Name (print or type) _____

Title _____ Date _____ Phone No. _____

Contact Person and Phone Number if different from above



Well transfers

- If an inactive well is transferred to a new operator, the acquiring operator will have six months to bring the well into compliance (by plugging, returning to active operation, or obtaining a plugging extension).
- Failure to bring the well into compliance will prevent approval of P-5 renewals and may result in revocation of the current P-5.
- Until the well is brought into compliance, it cannot be transferred to another operator.



Well transfers

- The transfer of wells will not reduce your 10% option well count.
- At the time of your last P-5 renewal your inactive well count was 56, you transfer 36 wells to another operator the 10% number is still 6.



Restoring a well to Active operation

- An inactive well will not be considered 'Active' for Commission purposes until the well has reported greater than minimal production for at least three consecutive months.
- (Note: does not apply to injection or other service wells.)



Acquisitions & Mergers

- Timing is the key
- If the six month compliance date ends within the P-5 renewal cycle, the well will be on the inactive well listing.
- If you have plugged or restored to "Active" status an inactive well that you acquired and have not been the operator of record for 12 months the well will NOT count towards the 10% option.



Automatic P-4 Process

For all operator, gatherer and purchaser name changes or mergers:
 A P-5, P-50, filing fee and Financial security for the new entity must be on file

*** If using a Bond Rider to transfer operatorship currently on file under original company name Drilling Permits must be resolved, and all specialty codes that require financial assurance must have paper work here to transfer those codes at the time of the Auto Renewal.

***If original Company has a Cash Deposit on file under the original company a letter would have to be submitted with the Auto P-4 request advising The P-5 dept. to transfer the Cash Deposit to the new company. This will be signed by an officer of the original company. Drilling Permits must be resolved, and all specialty codes that require financial assurance must have paper work here to transfer those codes at the time of the Auto Renewal.

In order to process an Auto P-4 the total number of lease's must be over 25.

The Auto P-4 request must contain language that the Company is transferring as an example: all wells in all districts and can include Liquid Gatherer, Gas Gatherer and Purchaser.

The Auto P-4 letter must provide a contact person along with telephone number and email address.

The Auto P-4 letter must have an original signature from an officer listed on the P-5 of the current operator of record and an original signature from an officer listed on the P-5 from the new operator of record. (if common officers are on both entities then it is ok for same signature on both)

The Auto P-4 process has a very specific timeline to be requested for the run request, "typically" the Final date is somewhere within 2 weeks from the beginning of the month . The effective date on the Auto P-4 is the 1st day of the month staff processes the Auto P-4.



Bankruptcy Notification

- The operator to whom this P-5 renewal packet is sent may be a debtor in a bankruptcy proceedings. However, such operators are still required to comply with Texas state law and rules of the Railroad Commission regarding financial assurance. 28 U.S.C. 959(b). All operators, whether or not debtors in bankruptcy, are required to satisfy the requirements of Texas Natural Resources Code §91.103 regarding financial assurance. See *Safety-Kleen, Inc. v. Wyche*, 274 F.3d 846 (4th Cir. 2001); *United States v. Power Eng'g Co.*, 191 F.3d 1224 (10th Cir.1999); *United States v. Ekco Housewares, Inc.*, 853 F. Supp. 975 (N.D. Ohio 1994), rev'd, in part, on other grounds, 62 F.3d 806 (6th Cir. 1995); *EPA v. Envtl. Waste Control, Inc.*, 917 F.2d 327 (7th cir. 1990).

The Railroad Commission understands that the operator to whom this P-5 renewal information is sent may be a debtor in a pending bankruptcy proceeding. The portion of this notice, if any, that represents pre-petition fees due is sent for information purposes, only, and is not an attempt to collect a debt. The Railroad Commission may file an appropriate proof of claim with the bankruptcy court for such pre-petition fees. Any post-petition fees due and owing as shown on this notice should be paid in accordance with this notice.

- Please be aware that, pursuant to Section 91.142, Texas Natural Resources Code, an entity required to file a P-5 organization report or an affiliate of such an entity performing operations within the jurisdiction of the commission that files for federal bankruptcy protection shall give written notice to the Commission of that action by submitting the notice of the office of general counsel not later than the 30th day after the date of filing.



Surcharge

Adopted changes to Statewide Rule 78 as it applies to certain fees charged by the commission's Oil & Gas Division. Under Rule 78 as amended, surcharges have been imposed on certain fees as required to implement the provisions of Senate Bill 1 (82nd Legislature, First Called Session, 2011). The amendments to Rule 78 are effective as of May 1,2012.



Schedule of Fees and Surcharges

Service/facilities activities	300.00	450.00	750.00
Cleanup contractor	300.00	450.00	750.00
Directional surveyor	300.00	450.00	750.00
Cementor	300.00	450.00	750.00
Mover/storage	300.00	450.00	750.00
Commercial facility	500.00	750.00	1,250.00
Gas plant	500.00	750.00	1,250.00
Reclamation plant	500.00	750.00	1,250.00
Refinery	500.00	750.00	1,250.00
Oil and gas waste hauler	500.00	750.00	1,250.00
3339 Voluntary Cleanup Application Fee	1,000.00	1,500.00	2,500.00
3369 Reimbursement for Well Plugging Costs			
- Expenses of plugging report (0.3-0)	100.00	150.00	250.00
- Well test report filing fee	50.00	75.00	125.00
3333 Rule exception fee (other than Rule 37/38)	150.00	325.00	375.00
3388 Oil & Gas certificate of compliance reissue fee	300.00	450.00	750.00
3592 Waste Disposal Facility			
- Oil and gas waste hauler permit application fee	100.00	150.00	250.00
- LQG operator hazardous oil & gas waste generation			
- Base fee	1,000.00	1,500.00	2,500.00
- Additional fee	1,000.00	1,500.00	2,500.00
- SOG operator hazardous oil & gas waste generation			
- Base fee	200.00	300.00	500.00
- Additional fee	200.00	300.00	500.00

* Fee for an application for a surface water discharge permit that meets Federal National Pollution Discharge Elimination System (NPDES) requirements for agriculture and wildlife use at 40 Code of Federal Regulations 435, Subpart E, relating to Agriculture and Wildlife Water Use Subcategory.

RULE 15 Compliance Timeline

- If you file everything needed for your P-5 renewal EXCEPT for compliance with your inactive wells, then you will gain a 90-day extension to complete that compliance.
- Extension runs from the date your P-5 would have expired.



RULE 15 Compliance Timeline

- If you are still non-compliant at the end of the 90-day extension a second notice of non-compliance will be sent.
- You will have 30 days from the date of this notice to request a hearing if you wish. If you request a hearing, you must pay the cost for the hearing, which is a non-refundable fee of \$4,500.



RULE 15 Compliance Timeline

Failure to respond within the 30-day period will begin the process to:

- Deny the P-5 renewal.
- Issue Severance/Seal orders
- Collect financial security.



Questions?



Please contact us
with any questions you may have.

(512) 463-6772
P5@rrc.texas.gov



RRC Website

Railroad Commission Website:
<http://www.rrc.texas.gov>

Expanded Website Access (EWA) – P5 Query:
<http://webapps2.rrc.texas.gov/EWA/organizationQueryAction.do>
(data updated nightly)

Oil & Gas Directory:
<http://www.rrc.texas.gov/data/operators/ogdirectory/index.php>
(data updated monthly)

HB 2259 Information (Inactive Well requirements):
<http://www.rrc.texas.gov/compliance/hb2259/index.php>



P-5 Renewal Status Query

Online system that provides information on the renewal process.

- Specifically includes only the inactive wells in your P-5 renewal.
- Shows status of W-3Cs and W-3Xs filed on those wells.

(Part of the Expanded Web Access query system at:
<http://webapps2.rrc.texas.gov/EWA/organizationQueryAction.do>)



Inactive Well Aging Report (IWAR)

Online system with information needed to comply with Inactive Well (Rule 15) requirements. Includes:

- Shut-in date
- Depth
- "Cost Calculation" Amount
- Current extension status
- Downloadable data

(Part of the Expanded Web Access query system at:
<http://webapps2.rrc.texas.gov/EWA/organizationQueryAction.do>)