



# pennsylvania

DEPARTMENT OF ENVIRONMENTAL PROTECTION

OFFICE OF OIL & GAS MANAGEMENT

MEMO

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**FROM** Scott R. Perry  
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Office of Oil and Gas Management

**DATE** April 18, 2012

**RE** Act 13 Bonding – Administrative Implementation Plan

## I. BACKGROUND.

Section 3225 of the 2012 Oil and Gas Act, 58 Pa.C.S. § 3225, changes the bonding requirements for all oil and gas operators. The changes increase the required bond amounts for per-well bonds, and for “blanket” bonds that cover a number of wells. Section 3225 continues the current requirement that bonds in the specified amount must be filed with the Department “upon filing an application for a well permit, and before continuing to operate an oil or gas well.”

Section 3225 establishes two classes of wells for bonding purposes – those with a total well bore length of less than 6,000 feet (shallow wells) and wells with a total bore length of more than 6,000 feet (deep wells). In terms of bond amounts required, for shallow wells the required bond amount is \$4,000 per well, with caps by the total number of wells operated, with increasing capped bond amounts required depending on the number of shallow wells operated. The maximum shallow well bond amount is \$250,000 (for 288 or more shallow wells operated). For deep wells the required bond amount is \$10,000 per well, with increasing capped bond amounts required depending on the number of deep wells operated. The maximum deep well bond amount is \$600,000 (for 167 or more deep wells operated).

If an operator has both deep and shallow wells, that operator is required to provide bonds in amounts covering each category of well in accordance with Section 3225. Therefore, for example, an operator of 288 or more shallow wells and 167 or more deep wells would be required to submit a bond in the amount of \$850,000.

There are approximately 1300 active oil and gas well bonds. The majority of these bonds are blanket bonds. Under Section 3225, virtually every operator will be required to provide additional bond amounts. Processing all of these new bonds immediately after the effective date of Act 13 would be an overwhelming administrative undertaking by the Department. As a result, the Department will be implementing the new bonding requirements using the following administrative implementation plan.

**Processing Bonds.** The Northwest and Southwest Districts will conduct the preliminary evaluation of the bond form prior to submitting the documents to Central Office as they have in the past. However, it is likely that the two Districts may receive well permit applications from the same operator soon after April 16. To avoid duplicating bond reviews or requesting the submittal of duplicative bond forms, a database of well operators will be developed and placed on a shared folder that can be reviewed by permit staff. The database will track bond forms received and bonds approved. The Office of Oil & Gas Management will work with operators to determine the proper bonding amounts that each

operator is required to submit. Given the relative number of operators in each category and the amount of bonding required, the Department will address deep and shallow wells separately.

## **II. DEEP WELLS.**

Operators of deep wells must submit new or additional bonds in the new amounts based on the number of deep wells operated immediately after April 16 for all of their operating deep wells. Additionally, Section 3225 provides that an operator must file a bond in the new amount upon filing an application for a new permit. Accordingly, the Department will not issue a new permit unless the operator is in compliance with this administrative implementation plan. The permit applicant must include any new bond amounts, if required as a result of operation of the new well (e.g., the operator has not reached the capped or maximum amount before submitting the new permit application). Any shallow wells permitted an operator of deep wells should be bonded in accordance with the following section.

## **III. SHALLOW WELLS.**

Given the much larger universe of shallow well operators, the Department will phase-in the new Act 13 bonding requirements for such operators in the following manner.

**New permits and existing wells.** Although shallow well operators are free to submit increased bond amounts at any time after April 16, because of the associated administrative burden for the Department, shallow well operators are required to bring their bond amounts into line with section 3225 of Act 13 incrementally according to the following schedule. The Department will not issue a new permit for a shallow well unless the operator is in compliance with this administrative implementation plan and the schedule outlined below.

- i) By July 1, 2012, all shallow well operators should have proper bond amounts in place to cover up to 50 shallow wells. For eight or fewer shallow wells operated, this amount is \$4,000 per well. For between nine and fifty wells, the new bond amount is capped at \$35,000.
- ii) By September 1, 2012, all shallow well operators should have proper bond amounts in place to cover between 51 and 150 shallow wells. For between 51 and 57 wells, this amount is \$35,000 plus \$4,000 per well. For 57 and 150 wells, the new bond amount is capped at \$60,000.
- iii) By November 1, 2012, all shallow well operators should have proper bond amounts in place to cover between 151 and 250 shallow wells. For between 151 and 159 wells, this amount is \$60,000 plus \$4,000 per well. For between 160 and 250 wells, the new bond amount is capped at \$100,000.
- iv) By January 1, 2013, all shallow well operators should have proper bond amounts in place to cover more than 250 shallow wells. For between 251 and 287 wells, this amount is \$100,000 plus \$4,000 per well. For 288 or more wells, the new bond amount is capped at \$250,000.