

New Financial Assurance Rules Transition Period & Workflows

Operator Meeting

June 2, 2022

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CONTENTS

1. Surety ID Numbers (slide 3)
2. “Reported Plugged” Well Designation (slide 3)
3. Workflows During Rule 702 Transition Period (slides 4 - 8)
4. New Financial Assurance Rules Workflows (slides 9 – 16)
5. Types of Form 3s (slides 17 & 18)

Surety ID Numbers:

1. Some existing Surety ID Numbers may not change, others may change.
2. The approval of a Form 3A and the associated Financial Assurance will assign new Surety ID Numbers.
3. The workflow for the Financial Assurance Plan Form 3, the Form 2A for a Location, the Form 2 for a Well, and the Form 3A (with the FA) will vary.
4. In some cases a Surety ID Number will not be available at the time the Form 2A or the Form 2 is submitted, or reviewed, or approved.
5. A Surety ID Number will not be required on a Form 2A or a Form 2 if it is not available.

“Reported Plugged” Well Designation:

1. Series 100 Definition:
 - PLUGGING AND ABANDONMENT means the permanent plugging of a Well, the removal of its associated Production Facilities, and the abandonment of its Flowline(s).
2. Financial Assurance will not be required for Wells that have been Plugged & Abandoned.
3. An Annual Registration Fee will not be required for Wells that have been Plugged & Abandoned.
4. The approval of a Form 6 – Subsequent Report of Abandonment (Form 6-S) changes the Well status to Plugged & Abandoned (PA).
5. There is a backlog of Form 6 – Subsequent Reports of Abandonment pending staff’s approval.
6. Upon receipt of a Form 6-S:
 - The Well will be designated as **“Reported Plugged”** and excluded from FA and the Annual Registration Fee.
 - The Well status will not change to PA until the Form 6-S has been approved.

Workflows During Rule 702 Transition Period (1 of 5)

New Financial Assurance Rule 702

1. The **Transition Period** is from April 30, 2022 until the Operator's Initial Financial Assurance Plan has been approved.
2. Financial Assurance Plans are required for Operators of one or more Wells. (Rule 702.b.)
3. Initial FA Plan Form 3 Due Dates: (Rule 702.b.(1).A.)
 - Operators with 50 or more Wells: July 1, 2022
 - Operators with 11 - 49 Wells: October 1, 2022
 - Operators with 10 or fewer Wells: December 31, 2023

Rule 702. FINANCIAL ASSURANCE FOR PLUGGING, ABANDONMENT, AND RECLAMATION

Rule 702.b. Form 3, Financial Assurance Plan. Operators of 1 or more Wells will file Financial Assurance Plans as required by this Rule 702.b. Each Financial Assurance Plan will demonstrate how the Operator is financially capable of fulfilling its obligations under the Act and the Commission's Rules.

Rule 702.f. Transition Period. The Director or Commission will consider any Financial Assurance in place as of April 29, 2022 as being applied towards the Operator's ongoing Financial Assurance obligations after April 30, 2022, unless the Commission issues an order specifying otherwise.

NOTES:

1. Rule 702 requirement for FA Plans does not apply to Operators without Wells.
2. Rule 702.f transition period FA coverage does not apply to Operators without Wells.

Workflows During Rule 702 Transition Period (2 of 5)

Existing Wells and Locations

1. Existing (includes unexpired permits) Wells and Locations will be included in the Operator's Initial FA Plan.
2. Additional FA may be required upon approval of the Initial FA Plan Form 3.

OGDPs & APDs for New (or expanded) Locations and New Wells

1. Prior to Operator's Initial FA Plan due date: OGDPs and APDs will be reviewed, processed, and approved.
2. After Operator's FA Plan Due Date: OGDPs and APDs will be reviewed, processed, and approved only if the Operator's Initial Plan Form 3 and hearing application (if required) have been submitted.
3. Additional FA may be required by the Commission order approving the OGDP (Rule 702.f.).
4. Additional FA may be required by the Director's COA on the approved APD.

Workflows During Rule 702 Transition Period (3 of 5)

Transfer of Operatorship with Wells

1. Prior to the Selling and Buying Operators' Initial FA Plan due dates transfers will be reviewed, processed, and approved.
 - Form 3As and FA will be filed concurrently with Form 9 - Subsequent.
2. After an Operator's FA Plan Due Date: No transfers will be approved until that Operator's Initial FA Plan Form 3 is approved.
3. Selling and Buying Operators will file Revised FA Plan Form 3s for the transfer.

Transfer of Operatorship without Wells

1. Form 3As and FA will be filed concurrently with Form 9 - Subsequent.

Workflows During Rule 702 Transition Period (4 of 5)

Existing Facilities and Operations

Operators with Wells

1. Existing Facilities and Operations are included in the Operator's Initial FA Plan
2. **Additional** FA will be required upon approval of the Initial FA Plan Form 3

Operators without Wells

- **File Form 3A and required additional FA for each facility by September 1, 2022**

New Facilities and Operations

- All Operators - File Form 3A and FA concurrently with registration or permit application form.

New Financial Assurance Rule 703 - Other (non-Well) Facilities and Operations

1. Rule 703.a. Centralized E&P Waste Management Facilities
 - Individual for actual cost to remediate and reclaim the facility (no change)
2. Rule 703.b. Remediation Projects
 - Individual project costs (no change)
3. Rule 703.c. Seismic Operations
 - Statewide Blanket \$25,000 (no change)
4. Rule 703.d. Gas Gathering, Gas Processing, and Underground Gas Storage Facilities
 - **Change Statewide Blanket from \$50,000 to \$100,000**
 - No change to individual \$5,000 for small systems
5. Rule 703.e. Produced Water Transfer Systems
 - **Change from Statewide Blanket \$50,000 to Individual \$50,000**
 - No change to individual \$5,000 for small systems
6. Rule 703.f. Commercial Disposal Facilities
 - **Change Individual from \$50,000 to \$100,000**

Workflows During Rule 702 Transition Period (5 of 5)

Existing Surface Owner Protection Bonds

1. Existing Surface Owner Protection Bonds will be included in the Operator's Initial FA Plan.
2. **Additional** FA will be required upon approval of the Initial FA Plan Form 3.

New Surface Owner Protection Bonds for New Locations and New Wells

1. Prior to Operator's Initial FA Plan due date: OGDPs and APDs will be reviewed, processed, and approved.
2. After Operator's Due Date: OGDPs and APDs will be reviewed, processed, and approved only if the Operator's Initial Plan Form 3 and hearing application (if required) have been submitted.
3. **Additional** FA may be required by the Commission order approving the OGD (Rule 702.f.).
4. **Additional** FA may be required by the Director's COA on the approved APD.

New Financial Assurance Rule 704 – Surface Owner Protection Bond

- **Change per Well for non-irrigated land from Individual \$2,000 to Individual \$4,000**
- **Change per Well for irrigated land from Individual \$5,000 to Individual \$10,000**
- **Change Statewide Blanket from \$25,000 to \$100,000**

New Financial Assurance Rules Workflows (1 of 8)

Financial Assurance (FA) Plan Form 3 (per Rule 702.b.)

1. Operator drafts FA Plan Form 3 in WebForms
2. Operator files concurrent Hearing Application for *modified* Option 3 & 4 and Option 5 & 6 Plans
 - Hearing Application includes Document Number of Form 3
3. Operator files FA Plan Form 3 in WebForms
 - *Modified* Option 3 & 4 and Option 5 & 6 Form 3s include Docket Number of Hearing Application
4. FA Staff reviews Form 3
5. Director approves Option 1 & 2 and *unmodified* Option 3 & 4 FA Plan
 - COA on approved Form 3 requires Operator to file Form 3A and FA in 90 days
6. Director recommends approval of *modified* Option 3 & 4 and Option 5 & 6
7. Hearings Group reviews Hearing Application
8. Commission approves *modified* Option 3 & 4 and Option 5 & 6 FA Plan
 - Commission Order requires Operator to file Form 3A and FA within 90 days or another specified timeframe
9. Operator files Form 3A and FA within timeframe per approved FA Plan
10. FA Staff reviews & approves Form 3A and FA

NOTES:

1. Full compliance with due date for Form 3A and FA requires the ***correct amount*** of FA.
2. Options 3 & 4:
 - a. ***Unmodified*** Option 3 & 4 means the Plan uses the presumptive amount for annual contributions of 5 % & 10 %.
 - b. ***Modified*** Option 3 & 4 means the Plan does not use the presumptive amount for annual contributions.
 - c. The initial annual contribution is due within 90 days if FA Plan is approved by Director.
 - d. The initial annual contribution is due within 90 days or another timeframe if FA Plan is approved by Commission.
 - e. Annual contributions are due on each anniversary of the Operator's **Initial FA Plan Form 3 approval date**.

New Financial Assurance Rules Workflows (2 of 8)

OGDP - Operator has an Approved FA Plan

1. Operator files OGDP application
2. OGLA staff coordinates with FA Staff regarding
 - a. Status of Operator's FA Plan
 - i. Current Plan Option
 - ii. Most recent Annual Review
 - iii. Pending FA Plan Form 3s
 - b. Operator's Compliance with FA Rules
3. Director's recommendation for OGDP approval may recommend FA requirements such as, but not limited to, the following:
 - a. Operator must file an FA Plan Form 3 Revised - Change of Circumstance within a specified timeframe
 - b. Operator must file a Form 3A and additional FA for Location(s) within a specified timeframe and/or prior to construction
 - c. Operator must file a Form 3A and additional FA when APD(s) are approved
4. Commission's approval of OGDP (and associated Form 2As) may include FA requirements such as, but not limited to, the following:
 - a. Operator must file an FA Plan Form 3 Revised - Change of Circumstance within a specified timeframe
 - b. Operator must file a Form 3A and additional FA for Location(s) within a specified timeframe and/or prior to construction
 - c. Operator must file a Form 3A and additional FA when APD(s) are approved

NOTES:

1. A Form 2A may be approved without additional FA in some circumstances
2. FA Plan Form 3 Revised – Annual Review/Change of Circumstance filed after a Form 2A has been approved will include the new Location if a Form 2 has been approved for a Well on the Location
3. Additional FA may be required for a new Location
4. Series 100 Definition of Location Reclamation Cost is \$100,000 per Location

New Financial Assurance Rules Workflow (3 of 8)

APD - Operator has an Approved FA Plan

1. Operator files Form 2
2. OGLA staff checks approved OGDG for any FA requirements for a new Well
3. Director's approval of APD may include FA requirements such as, but not limited to, the following:
 - a. Operator must file an FA Plan Form 3 Revised - Change of Circumstance within a specified timeframe
 - b. Operator must file a Form 3A and additional FA within a specified timeframe and/or prior to spudding the Well
 - c. Operator must file an FA Plan Form 3 Revised - Annual Review within a specified timeframe

NOTES:

1. A Form 2 may be approved without additional FA requirements in some circumstances.
2. If no additional FA is required in conjunction with Form 2 approval, an FA Plan Form 3 Revised – Annual Review/Change of Circumstance filed after the Form 2 has been approved will include the new Well.

New Financial Assurance Rules Workflows (4 of 8)

Transfer of Operatorship with Wells - Operators have Approved FA Plans

1. Selling Operator files Form 9 - Intent
2. Selling & Buying Operators file Revised – Proposed Transfer of Operatorship Form 3s
3. FA Staff reviews Form 3s to identify concerns about the proposed transfer
4. Buying Operator files Form 9 – Subsequent
5. Buying & Selling Operators file Revised - Transfer of Operatorship Form 3s
6. FA Staff reviews Form 9s
7. FA Staff reviews Form 3s
8. Director Recommends or Approves Form 3s with COAs:
 - Operator must file Form 3As and FA in 90 days
 - Form 3A and FA must be approved prior to Form 9 approval
9. Commission Approves Form 3s with Order:
 - Operator must file Form 3As and FA in 90 days or another specified timeframe
 - Form 3A and FA must be approved prior to Form 9 approval
10. Buying & Selling Operators file Form 3As and FA
11. FA Staff reviews & approves Form 3As and FA
12. Director approves Form 9s

New Financial Assurance Rules Workflows (5 of 8)

Transfer of Operatorship *without* any Wells

1. Selling Operator files Form 9 - Intent
2. Buying Operator files Form 9 – Subsequent
3. Buying Operator files Form 3A and FA
4. FA Staff reviews Form 9s
5. FA Staff reviews Form 3As and FA
6. Director approves Form 9s
7. FA Staff approves Form 3A and FA
8. Selling Operator files Form 3A requesting release of FA after facilities have changed to new operator

New Financial Assurance Rules Workflows (6 of 8)

New Operator

1. New Operator files Form 1 to register
 - An FA Plan Form 3 is not required because the Operator has no Wells yet.
 - A Form 3A and FA are not required because the Operator has no facilities yet.
2. New Operator files Form 1A to designate agents
3. FA Staff approves Form 1 & Form 1A and provides Webforms credentials to Operator

Newly Registered Operator Buys Wells

1. Selling Operator files Form 9 – Intent
2. Selling Operator files Proposed Transfer Form 3
3. Newly registered Buying Operator files Proposed Transfer Form 3
4. Newly registered Buying Operator files Form 9 – Subsequent
5. Both Operators file Transfer Form 3s
6. Newly registered Buying Operator files Form 3A and FA
7. Form 9s and Form 3s and Form 3As and FA are approved

Newly Registered Operator Buys Facilities

1. Selling Operator files Form 9 – Intent
2. Newly registered Buying Operator files Form 9 – Subsequent
3. Newly registered Buying Operator files Form 3A and FA
4. Form 9s and Form 3As and FA are approved

Newly Registered Operator Applies for OGD

1. Newly registered Buying Operator files OGD application
2. OGD/Form 2A are approved; approval may require Form 3 and/or Form 3A and FA
3. Newly registered Buying Operator files Form 2s
4. Form 2s are approved; approval may require Form 3 and/or Form 3A and FA

Rule 703 - Other (non-Well) Facilities and Operations

1. Rule 703.a. Centralized E&P Waste Management Facilities
 - Operator files Form 28 permit application
 - Operator files Form 3A and FA concurrently with Form 28
2. Rule 703.b. Remediation Projects
 - Operator files Form 27
 - Operator files Form 3A and FA if required
3. Rule 703.c. Seismic Operations
 - Operator files Form 20
 - Operator files Form 3A and FA concurrently with Form 20 if required
4. Rule 703.d. Gas Gathering, Gas Processing, and Underground Gas Storage Facilities
 - Operator files Form 12
 - Operator files Form 3A and FA concurrently with Form 12 if required
5. Rule 703.e. Produced Water Transfer Systems
 - Operator files Form 44
 - Operator files Form 3A and FA concurrently with Form 44 if required
6. Rule 703.f. Commercial Disposal Facilities
 - Operator files Form 2 and Form 31 and Form 33 for UIC permit
 - Operator files Form 3A and FA concurrently with UIC forms if required

NOTE:

1. Form 3A and FA must be received and approved before the Permit or Registration will be approved.

Rule 704 – Surface Owner Protection Bond

1. Commission's approval of OGD (and associated Form 2As) may include FA requirements such as, but not limited to, the following:
 - a. Operator must file an FA Plan Form 3 Revised - Change of Circumstance within a specified timeframe
 - b. Operator must file a Form 3A and additional FA for Location(s) within a specified timeframe and/or prior to construction
 - c. Operator must file a Form 3A and additional FA when APD(s) are approved
2. Director's approval of APD may include FA requirements such as, but not limited to, the following:
 - a. Operator must file an FA Plan Form 3 Revised - Change of Circumstance within a specified timeframe
 - b. Operator must file a Form 3A and additional FA within a specified timeframe and/or prior to spudding the Well
 - c. Operator must file an FA Plan Form 3 Revised - Annual Review within a specified timeframe

Types of Form 3, Financial Assurance Plans (1 of 2)

1. Initial Plan

- a. Filed by existing Operators per Rule 702.b.(1).A.
- b. Filed by new Operators per Rule 702.b.(1).B.
- c. Director approves Option 1 & 2 & *unmodified* Option 3 & 4 FA Plan
- d. *Modified* Option 3 & 4 and Option 5 & 6 Plans require concurrent Hearing Application
- e. Commission approves *modified* Option 3 & 4 and Option 5 & 6 FA Plan
- f. Options 3 & 4 Operators: Initial Form 3 approval date sets annual contribution due date

2. Revised - Change in Circumstance

- a. Filed per Rule 702.b.(2).
- b. Replaces existing FA Plan when approved – except the due date for Option 3 & 4 annual contributions
- c. If existing FA Plan was approved by the Commission, concurrent hearing application to rescind that Order is required
- d. Director approves Option 1 & 2 & *unmodified* Option 3 & 4 FA Plan
- e. *Modified* Option 3 & 4 and Option 5 & 6 Plans require concurrent hearing application
- f. Commission approves *modified* Option 3 & 4 and Option 5 & 6 FA Plan

3. Revised - Annual Review

- a. Filed per Rule 702.b.(3).
- b. Replaces existing plan when approved – except the due date for Option 3 & 4 annual contributions
- c. If existing FA Plan was approved by the Commission, concurrent hearing application to rescind that Order is required
- d. Director approves Option 1 & 2 & *unmodified* Option 3 & 4 FA Plan
- e. *Modified* Option 3 & 4 and Option 5 & 6 Plans require concurrent hearing application
- f. Commission approves *modified* Option 3 & 4 and Option 5 & 6 FA Plan

Types of Form 3, Financial Assurance Plans (2 of 2)

4. Revised – Proposed Transfer of Operatorship

- a. Filed per Rule 218.d.
- b. Filed by both Selling & Buying Operators
- c. Includes summary of transfer and FA based upon Form 9 – Intent

5. Revised - Transfer of Operatorship

- a. Filed per Rule 218.d.
- b. Filed by both Selling & Buying Operators
- c. Includes details of transfer based upon Form 9 – Subsequent
- d. Replaces existing plan when approved – *except* the due date for Option 3 & 4 annual contributions
- e. If existing FA Plan was approved by the Commission, concurrent hearing application to rescind that Order is required
- f. Director approves Option 1 & 2 and *unmodified* Option 3 & 4 FA Plan
- g. *Modified* Option 3 & 4 and Option 5 & 6 Plans require concurrent hearing application
- h. Commission approves *modified* Option 3 & 4 and Option 5 & 6 FA Plan