

OIL AND GAS STATUTES RELATED TO FINANCIAL ASSURANCE

(NOTE: The information contained in this document was current as of July 2012 but is subject to change without notice. It is provided here only as a convenience. For the most complete and up-to-date legal information, please access Tennessee Code Annotated [here](#).)

60-1-202. Powers of board.

(a) The board has jurisdiction and authority:

(1) Over all persons and property necessary to enforce the provisions of this chapter;

(2) To make such inquiries as necessary to determine whether or not waste exists or is imminent;

(3) To collect data; to make investigations and inspections; to examine properties, leases, papers, books, and records including drilling records and logs; to examine, check, test, and gauge oil and gas wells, tanks, refineries, and modes of transportation; to hold hearings; to provide for the keeping of records and making of reports; and to take such action as may be necessary to enforce the provisions of this chapter;

(4) To make rules, regulations, and orders for the following purposes:

(A) To require the drilling, casing, and plugging of wells in such manner as to prevent the escaping of oil and gas out of one (1) stratum to another; to prevent intrusion of water to oil and gas strata; to prevent pollution of fresh water by oil, gas, or salt water; to protect potentially minable coal and other minerals; and to require bond for the plugging of each dry or abandoned well;

(B) To require notification to the supervisor, upon such forms as the supervisor may prescribe, of the intention to drill any well for oil or gas;

(C) To require the filing of logs, including electrical logs and drilling records, cores and drill cutting samples, and all other downhole surveys and information, within thirty (30) days following the cessation of drilling operations of the well;

(D) To prevent wells from being drilled, operated, and produced in such manner as to cause injury to neighboring leases or property;

(E) To prevent the drowning by water of any oil and gas stratum in paying quantities, and to prevent the premature and irregular encroachment of water which would affect the total ultimate recovery of oil and gas;

(F) To require the operation of wells with efficient gas-oil ratios and to fix such ratios;

(G) To prevent "blow outs," "caving" and "seepage" in the same sense that conditions indicated by such terms are generally understood in the oil and gas business;

(H) To prevent fires;

(I) To identify ownership of oil and gas wells, producing leases, refineries, tanks, plants, structures, and all storage and transportation equipment and facilities;

(J) To regulate the "shooting" and chemical treatment of wells;

(K) To regulate secondary recovery methods;

(L) To regulate the spacing of wells;

(M) To provide for the forced integration of separately owned tracts and other property ownership into drilling and production units;

(N) To provide that the board may, in the absence of a voluntary agreement and after a sixty-day notice to owners, force a volumetric or surface poolwide unit, provided that the pool producers owning more than fifty percent (50%) of the pool acreage request such unitization of the pool;

(O) In the absence of an acceptable plan of unitization by the operators, the board may shut in the pool to prevent waste and to protect correlative rights until an acceptable plan is presented by the operators;

(P) To regulate and prescribe procedures with respect to applications for and determinations of whether natural gas produced from a well qualifies for a requested status under § 102, 103, 107 or 108 of the Natural Gas Policy Act of 1978, Public Law No. 95-621, 92 Stat. 3350 (including any act of Congress which amends or supersedes those sections of that act);

(Q) To require that any person conducting oil or gas operations, or causing surface disturbances preparatory to or incidental to such operations, conduct such operations in a manner which will prevent or mitigate adverse environmental impacts, such as soil erosion and water pollution, and perform reclamation of all areas disturbed by the operations, including access roads, as prescribed by part 7 of this chapter; and

(R) To require that any person conducting oil and gas operations, or causing surface disturbances preparatory to or incidental to such operations, for wells permitted and drilled after July 1, 1987, post a bond or bonds to secure compliance with the requirements of this chapter and the rules promulgated under this chapter, both for plugging of the wells and reclamation of the surface in an amount not to exceed fifteen thousand dollars (\$15,000) per single well site. At sites with more than one (1) well, the portion of the bond or bonds to secure compliance with plugging requirements shall not exceed ten thousand dollars (\$10,000) per well. The bond shall be filed with the supervisor at the time an operator's permit application is submitted, and shall be

effective from the time the initial surface disturbances begin. As an alternative to the performance bond required in this subdivision (a)(4)(R), a person may submit:

(i) A federally insured certificate of deposit issued by any financial institution in this state to be placed in a separate departmental account that shall not revert to the general fund;

(ii) An irrevocable letter of credit issued by any federally insured bank or savings and loan association; or

(iii) Other cash or securities in an amount mutually agreed to by the supervisor and the operator, to be placed in a separate departmental account that shall not revert to the general fund.

(b) All facts set out in any application for a permit to drill or deepen a well, or reopen a plugged or abandoned well, under the rules made by the oil and gas board pursuant to this title, shall be sworn to by the applicant for such permit.

60-1-704. Release of reclamation bond.

(a) Upon satisfactory completion of regrading and revegetation of all disturbed areas except active work areas and access roads needed for oil or gas production, the supervisor shall release one third (1/3) of the reclamation bond. After plugging, and upon final reclamation and satisfactory survival of the vegetation through two (2) growing seasons, the supervisor shall release the remainder of the reclamation bond.

(b) For the purposes of this section, "active work area" means that portion of the initially disturbed area necessary for production-related equipment, materials and facilities, as determined by the supervisor.

60-1-705. Failure to perform -- Forfeiture of bond -- Securing performance.

Upon failure of any operator to perform site protection or reclamation activities, as required by this chapter, and notice of default, if the default is not cured within a reasonable time by the operator or the surety, if any, on the operator's bond, the board shall declare the bond forfeited, collect the bond and use the proceeds for the required site protection or reclamation work. The supervisor may contract with any person or public agency to perform the reclamation work. Any portion of the bond not thus expended shall be refunded to the operator or the operator's surety if the conditions of the bond are fully satisfied. If the conditions of the bond are not fully satisfied, because the bond is a blanket bond or otherwise, the unexpended proceeds shall be held or applied in a manner to secure the performance of the remaining obligations secured by the bond. If the bond is a blanket bond and the unexpended portion is less than is required for the remaining wells covered by the bond, a supplementary bond shall be required.