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F I S C A L I M P A C T R E P O R T

SPONSOR:	Whitaker	DATE TYPED:	02/11/00	HB	10
SHORT TITLE:		Irrevocable Letter of Credit		SB	
				ANALYST:	Valenzuela

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring	Fund
FY00	**FY01**	**FY00**	**FY01**	**or Non-Rec**	**Affected**
	NFI				

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

LFC Files

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

House Bill 10 amends a section of the Oil and Gas Act (70-2-14 NMSA 1978) to allow the use of "an irrevocable letter of credit" to satisfy the bonding requirement in the act. The requirement is a condition of operating oil and gas wells in the state. Currently, the law permits the use of cash and surety bonds as acceptable types of financial assurance for the plugging of oil, gas and service wells.

Significant Issues

Two major issues are addressed by the bill; difficulty in obtaining bonding to cover plugging liabilities and whether the state's risk would be increased by accepting letters of credit.

EMNRD staff concludes that operators who may encounter difficulty in finding bonding would be aided by the use of irrevocable letters of credit. The use of irrevocable letters of credit could also prove to be lower in cost than bonding.

The state's risk is not increased by accepting irrevocable letters of credit is the conclusion drawn by EMNRD staff. However, the suggest that steps can be taken to minimize any risk the state might have.

MV/sb