

Date of Hearing: April 20, 2026

ASSEMBLY COMMITTEE ON NATURAL RESOURCES

Isaac G. Bryan, Chair

AB 2716 (Ávila Farías) – As Amended March 25, 2026

**SUBJECT:** Oil and gas: bonding requirements

**SUMMARY:** Amends the bonding requirements for a person who acquires the right to operate a well or production facility by repealing the exclusion of self-insurance or corporate guarantee, and authorizing an operator to, in lieu of the bonding requirement and with the written approval of the supervisor, provide the required security through a specified means of financial assurance, as provided.

**EXISTING LAW:**

- 1) Establishes the Geologic Energy Management Division (CalGEM) in the Department of Conservation under the direction of the supervisor, who is required to supervise the drilling, operation, maintenance, and abandonment of oil and gas wells. (Public Resources Code (Public Resources Code (PRC) 3000 *et seq.*)
- 2) States the intent of the Legislature that, to minimize the risk that the state will be liable for costs of plugging and abandonment, no well be transferred to another owner until and unless a bond has been filed that would cover the full cost of plugging and abandonment and site restoration. (PRC 3017)
- 3) Provides that the acquisition of a well or production facility shall not be recognized as complete by the supervisor or the district deputy until the new operator provides an indemnity bond for each well as applicable. (PRC 3202)
- 4) Requires an operator who engages in the drilling, redrilling, deepening, or in any operation permanently altering the casing, of a well, to file with the supervisor an individual indemnity bond for each well so drilled, redrilled, deepened, or permanently altered in the following amount:
  - a) \$25,000 for each well that is less than 10,000 feet deep; or,
  - b) \$40,000 for each well that is 10,000 or more feet deep. (PRC 3204 (a))
- 5) Authorizes an operator who engages in the drilling, redrilling, deepening, or in any operation permanently altering the casing, of 20 or more wells at any time, to file with the supervisor one blanket indemnity bond to cover all the operations in any of its wells in the state in lieu of an individual indemnity bond for each operation. Establishes the bond amounts to be provided based on the quantity of wells covered by the bond. (PRC 3205)
- 6) Authorizes CalGEM to require an operator filing an individual indemnity bond or a blanket indemnity bond to provide an additional amount of security acceptable to CalGEM based on CalGEM's evaluation of the risk that the operator will desert its well or wells and the potential threats the operator's well or wells pose to life, health, property, and natural

resources. The additional security required by CalGEM shall not exceed the lesser of CalGEM's estimation of the reasonable costs of properly plugging and abandoning all of the operator's wells and decommissioning any attendant production facilities in accordance with Section 3208 or \$30 million. (PRC 3205.3(a))

- 7) Requires an operator to provide additional security required in the form of an indemnity bond, a form of deposit, or any other equally effective means of financial assurance approved by CalGEM. Examples of equally effective means of financial assurance that CalGEM may consider for approval include a letter of credit, a corporate guarantee, a trust fund, or a demonstration of self-insurance. Authorizes CalGEM to only approve self-insurance as an equally effective means of financial assurance if the operator provides detailed financial information demonstrating to CalGEM's satisfaction that the risks associated with the operator's potential for desertion of its well or wells are low. (PRC 3205.3(f))
- 8) Requires that all operators of oil and gas wells submit cost estimates to CalGEM for the total cost of plugging and abandonment for each of their wells and the decommissioning of all production attendant facilities. (PRC 3205.7)
- 9) Requires a person who acquires the right to operate a well or production facility, by purchase, transfer, assignment, conveyance, exchange, or other disposition, except a well that has an average daily production level that exceeds 15 barrels of oil or 60,000 cubic feet of natural gas during the 12 months preceding the date of acquisition or a natural gas storage well, to, as soon as possible, but not later than the date when the acquisition of the well or production facility becomes final, file with the supervisor an individual indemnity bond for the well or production facility, or a blanket indemnity bond for multiple wells or production facilities, in an amount determined by the supervisor to be sufficient to cover, in full, all costs of plugging and abandonment, decommissioning of the facility, and site restoration and relevant regulations. (PRC 3205.8)
- 10) Requires the current operator, as determined by the records of the supervisor, of a deserted well that produced oil, gas, or other hydrocarbons or was used for injection is responsible for the proper plugging and abandonment of the well or the decommissioning of deserted production facilities. (PRC 3237)

**THIS BILL:**

- 1) Revises the intent of the Legislature that, to minimize the risk that the state will be liable for costs of plugging and abandonment, no well be transferred to another owner until and unless adequate financial assurance to cover the full cost of plugging and abandonment and site restoration has been provided, except when the well is being transferred for the sole purpose of plugging and abandoning the well or decommissioning the attendant production facility.
- 2) Strikes the prohibition on self-insurance and corporate guarantees as an equally effective means of financial assurance for well or production facility sales or transfers.
- 3) Provides that an equally effective means of financial assurance includes a means of financial assurance, as provided, or any other equally effective means of financial assurance that has been approved by CalGEM.

- 4) Provides that the specified bonding and financial assurance requirements do not apply to a person who acquires the rights to a well or production facility for the sole purpose of plugging and abandoning that well or decommissioning that production facility.
- 5) Prohibits a person using a well or production facility acquired for the sole purpose of plugging and abandoning that well or decommissioning that production facility for oil or gas production or injection.
- 6) Provides that this does not apply to operators with additional security approved by CalGEM pursuant to PRC 3205.3.
- 7) Provides that a person who has acquired the rights to a well or production facility for the sole purpose of plugging and abandoning that well or decommissioning the production facility is not subject to any of the requirements of PRC 3205.8, and requires that person to file a bond as required pursuant to PRC 3204, 3205, 3205.1, or 3205.2, as applicable.
- 8) Requires a person to be subject to the specified requirements as an operator of the well or production facility, until either of the following occur:
  - a) The supervisor determines that the well has been properly plugged and abandoned and the production facilities have been decommissioned; or,
  - b) As applied to work conducted in accordance with the approvals given by the supervisor, the supervisor subsequently determines that additional work is not practical or would pose greater environmental or safety risk.
- 9) Requires, upon a determination by the supervisor, the supervisor to release the bond, and the acquiring person shall have no further obligation or liability for the well or facility.
- 10) Requires a person who was responsible, under current law, as an owner or operator of the well or production facility before an acquisition to be responsible for the well or production facility.
- 11) Prohibits the use of a well or production facility acquired under this section for purposes of oil or gas production or injection.
- 12) Provides that no reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution.

**FISCAL EFFECT:** Unknown

**COMMENTS:**

- 1) **Financial assurances.** In every state, operators have to provide some form of financial assurance for a well at the time that it is drilled. This assurance is intended to cover or mitigate the eventual costs of plugging the well and/or environmental impacts caused by the

well, in the event the operator at the time the well is terminated is unable or unwilling to do so.

In California, bonds are required to be posted when a drilling permit is issued to cover plugging and abandonment costs. Operators are required to file an individual indemnity bond for each well drilled, redrilled, deepened, or permanently altered, or acquired at \$25,000 for each well that is less than 10,000 feet deep, and \$40,000 for each well that is 10,000 or more feet deep. Operators are also allowed to file a blanket indemnity bond to cover all the operations in any of its 20+ wells in the state in lieu of an individual indemnity bond for each operation. The amount for the blanket bonds is also specified in statute.

To ensure the sufficiency of these indemnity bonds, the Legislature gave CalGEM authority, per SB 551 (Jackson), Chapter 774, Statutes of 2019, to develop criteria to be used by operators for estimating costs to plug and abandon wells and decommission attendant production facilities, including site remediation. SB 551 also requires each operator of an oil or gas well to submit a report to the supervisor that demonstrates the operator's total liability to plug and abandon all wells and to decommission all attendant production facilities, including site remediation, on a schedule determined by the supervisor.

Further, AB 1057 (Limón), Chapter 771, Statutes of 2019, authorizes CalGEM to require an operator to provide an amount of security acceptable to CalGEM based on CalGEM's evaluation of the risk that the operator will desert its well or wells and the potential threats the operator's well or wells pose to life, health, property, and natural resources. That law sets a floor on the amount of the reasonable costs to plug and abandon operator's wells at \$30 million.

Lastly, under current law (PRC 3237), if CalGEM determines the current operator does not have the financial resources to fully cover the cost to plug the well, previous operators that made a valid transfer after January 1, 1996, may be held responsible for the cost to plug the well.

- 2) **Sales and transfers.** In the fall of 2022, supermajors Shell and ExxonMobil agreed to sell more than 23,000 wells in California, which they owned through a joint venture called Aera Energy, to German asset management group IKAV for an estimated \$4 billion. Aera accounts for about a quarter of California's oil and gas production, largely from pumping in Kern and Ventura counties. The Los Angeles Times reported at the time that IKAV stood to inherit a portfolio littered with wells past their prime. Nearly 9,000 Aera wells were idle as of early October 2022, meaning about 38% of the company's unplugged inventory wasn't producing oil or gas, according to state data.

In response, AB 1167 (Carillo), Chapter 359, Statutes of 2023, requires a person who acquires the right to operate a well or production facility to file with the supervisor a bond for the well or production facility in an amount determined by the supervisor to be sufficient to cover, in full, all costs of plugging and abandonment and site restoration. AB 1167 prohibits companies from using their existing indemnity bonds and requires new, individual bonds for any well that is purchased or transferred. The author's intent with AB 1167 was not to shutter the oil industry; it was to ensure the financial responsibility of clean up and remediation falls with the oil well operators and not California tax payers in the event the well is "orphaned."<sup>1</sup>

When Governor Newsom signed AB 1167, he included a signing message that stated, “increasing the financial assurances required for oil and gas well transfers also potentially creates risk of current oil and gas well operators deserting these hazardous wells. I look forward to working with the Legislature to enact legislation to make any necessary revisions to address this risk and otherwise align this law with programs that [CalGEM] is already developing to address orphaned and abandoned wells.”

- 3) **Frozen bond market?** According to CalGEM, from January 1, 2019, when AB 1057 went into effect through 2023, CalGEM processed an average of 3,500 well transfers per year. From January 1, 2024, when AB 1167 went into effect through today, 501 well transfers have occurred. Of those, 62 transfers of wells have taken place under PRC 3205.8. The first transfer was for one well, and the second was a transfer of 61 marginal wells for the purposes of a housing development. In other words, a single project accounts for 61 of those 62 wells.

The California Independent Petroleum Association (CIPA) states that bonds are unavailable for owners or operators to sell, transfer, or acquire new wells because AB 1167 essentially “froze and devalued oil and gas operators’ assets, increasing the likelihood of financial insolvency and well desertion.” Since AB 1167 took effect, no active wells subject to the law have been transferred for continued operation. When responsible, well-capitalized operators cannot purchase wells from struggling operators, those assets are stranded with companies that may lack the resources to maintain them or properly shut them down. The author notes that the inability to transfer wells has also reduced operators’ asset values, reduced local tax revenue, limited operators’ access to capital, and made it harder for them to fund maintenance, regulatory compliance, and decommissioning.”

- 4) **Learning from the past.** The specific exclusion of self-certification and “equally effective” means was purposeful when crafting AB 1167.

The federal Surface Mining Control and Reclamation Act of 1977 required coal companies to restore the land after mining, post financial assurance before mining, and ensure funds would be available if the company failed. The law allowed several forms of bonding, including surety bonds, collateral bonds, and self-bonding (corporate guarantee based on financial strength). Self-bonding was intended only for financially strong companies that met specific criteria. Beginning around 2012–2015, the coal industry started to crash due to competition from natural gas and renewables, falling coal prices, and other factors. Major producers filed bankruptcy. At the time of bankruptcy, companies held billions in self-bonded reclamation obligations. For instance, Peabody held roughly \$1.4 billion in self-bonded reclamation liabilities, and Arch Coal and Alpha also carried hundreds of millions to over a billion in self-bonds.

Self-bonding failed because when companies entered bankruptcy, reclamation liabilities were treated as unsecured claims or renegotiated. By the time coal prices collapsed, companies technically no longer qualified for self-bonding — but regulators had not forced earlier replacement with secured bonds. States were left holding the bag with liability for reclamation due to large unsecured reclamation risks. The Abandoned Mine Land (AML) Program was funded by fees on coal production, and the funds were designed for pre-1977 “orphaned” mines, not modern bankruptcies. As insolvencies increased, the risk increased that AML or taxpayer funds would indirectly support cleanup. Total U.S. coal self-bonding

exceeded \$3–4 billion. By the early 2020s, most large coal companies had replaced or eliminated self-bonds. Coal industry self-bonding is now a cautionary tale about allowing industry self-certification of cleanup obligations.

- 5) **Providing flexibility without undermining appropriate protections.** The purpose of AB 1167 was to protect the state – and taxpayers – from financial liability for plugging and abandoning orphaned wells. According to the Department of Finance, bonding companies are becoming hesitant to approve indemnity bonds due to California's current regulatory environment and future outlook for oil and gas operations, and the Department expressed concerns that AB 1167 could also increase that problem.

Providing sufficient financial assurances is critical to ensuring the polluter pays, so to speak, because CalGEM does not have the cash on hand to cover all the uninsured costs to plug and remediate abandoned wells and production facilities. Flexibility may need to be provided under current law so that financial mechanisms that are accessible – and financially appropriate – are secured and approved ahead of any transfer, sale, or acquisition.

- 6) **Separate rules for developers.** Developers are increasingly purchasing former oil and gas well sites for redevelopment, driven by urban infill demand, the need for affordable housing, and high land value in areas such as Southern California. These redevelopment projects often involved converting dormant or orphan oil fields into residential, commercial, or recreational spaces. Developers inherit significant responsibility for plugging, abandoning, and remediating wells to current safety standards.

In 2023, the L.A. Neighborhood Land Trust purchased for \$10 million a 2-acre site with 36 decommissioned wells for conversion into a park and affordable housing, known as the Jefferson Park Project. The land trust did not obtain bonds for the acquisition; instead, legacy regulatory bonding requirements tied to the former oil operator and a general expectation that remediation costs would be handled through acquisition terms, grants, and environmental cleanup processes.

This bill provides that a person who has acquired the rights to a well or production facility for the sole purpose of plugging and abandoning is subject to the state oil and gas laws as an operator, until a determination by the supervisor that the well has been properly plugged and abandoned or the production facilities have been decommissioned. Upon this determination by the supervisor, the bill requires the supervisor to release the bond, and would release the acquiring person from any further obligation or liability for the well or facility. The person who, before the acquisition, was responsible as an owner or operator, remains responsible for the well or production facility.

- 7) **Author's statement:**

To protect the state against the risk of an orphaned well after a transfer from one owner to another, AB 1167 adjusted the required indemnity bond amount to be sufficient to cover, in full, all costs of plugging and abandonment and site restoration. Since the law was changed, nearly all well transfers have stopped.

If transfer approvals continue to stagnate, current well operators may abandon hazardous wells, leading to greater financial and environmental burdens for the state.

AB 2716 delivers the legislative revisions that Governor Newsom called for when he signed AB 1167 by giving oil and gas well operators greater financial flexibility to cover the cost of plugging idle wells after a transfer of ownership, reducing the occurrence of orphaned wells and protecting California's environment and public health.

- 8) **Committee amendments.** The *committee may wish to consider amending the bill* as follows:
- a) Increase the bonding cap in PRC 3205.3 and tier the bonding amounts by well ownership.
  - b) Qualify the use of self-insurance and corporate guarantees to provide that only operators with idle well management plans and solid finances are eligible to purchase/acquire wells.
  - c) Provide asset retirement obligations to be qualified as an equally effective means of financial assurance.
  - d) Require additional information to be provided to CalGEM for a person acquiring a well solely for the purpose of plugging and abandoning the well.
  - e) Require CalGEM to report the Legislature.
  - f) Make this contingent upon the enactment of AB 2461 (Hart).
- 9) **Related legislation.** AB 2461 (Hart) Extends the bonding requirements under AB 1167 to a person who acquires, or intends to acquire, as applicable, the right to control a well or production facility. Provides that, for purposes of filing an indemnity bond, a person who "acquires a right to operate or control a well or production facility" includes, but is not limited to, the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the operator of more than 50% of the voting stock of the operator and a liquidation or dissolution of the operator, among other transactions. This bill is referred to the Assembly Natural Resources Committee.

## REGISTERED SUPPORT / OPPOSITION:

### Support

California Chamber of Commerce  
 California Independent Petroleum Association  
 Western States Petroleum Association

### Opposition

350 Bay Area Action  
 Center for Biological Diversity  
 Center on Race, Poverty & the Environment  
 Cerbat  
 Clean & Healthy California  
 Cleaneart4kids.org  
 Climate First: Replacing Oil & Gas  
 Courage California

Environment California  
 Environmental Defense Center  
 Epic - Environmental Protection Information  
 Center  
 Food & Water Watch  
 Fossil Free California  
 Frackracker Alliance  
 Greenpeace USA

Long Beach Alliance for Clean Energy  
Natural Resources Defense Council  
Physicians for Social Responsibility - Los  
Angeles  
Redeemer Community Partnership  
San Diego 350  
San Francisco Bay Physicians for Social

Responsibility  
San Francisco Baykeeper  
Sierra Club California  
Sunflower Alliance  
The Climate Center  
Wholly H2o

**Analysis Prepared by:** Paige Brokaw / NAT. RES. /

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<sup>i</sup> See author's statement for AB 1167 (Carrillo) in Assembly Natural Resources Committee analysis, March 27, 2023