

## ASSEMBLY THIRD READING

AB 2716 (Ávila Farías)

As Amended April 27, 2026

Majority vote

**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.

**Major Provisions**

- 1) Prohibits the additional security required of an oil and gas well operator by the California Geologic Energy Management Division (CalGEM) from exceeding the lesser of CalGEM's estimation of the reasonable costs of properly plugging and abandoning all the operator's wells and decommissioning any attendant production facilities (consistent with current law) or the maximum amount of additional security established by this bill, based on the total number of active and idle wells under the control of the operator pursuant to a specified schedule – instead of \$30 million, as provided under current law.
- 2) Prohibits CalGEM from increasing the amount of additional security required of an operator that had an additional security agreement approved by CalGEM as of January 1, 2027, until five years after the effective date of the agreement, as specified.
- 3) Requires CalGEM, when making an estimation of the reasonable costs of properly plugging and abandoning an operator's well or wells and decommissioning any attendant production facilities, to additionally consider industrywide financial trends, including those trends affecting the solvency and creditworthiness of oil and gas operators in California.
- 4) Provides that CalGEM may only approve self-insurance or a corporate guarantee as an equally effective means of financial assurance if, in addition to existing requirements, the approval is conditioned upon six additional requirements specified in the bill, including an enforceable schedule for the plugging and abandonment of wells and decommissioning of production facilities consistent with an operator's idle well management plan, as provided; requires that CalGEM's approval be set forth in an additional security agreement between the operator and CalGEM; and requires CalGEM to reevaluate whether self-insurance or a corporate guarantee approved by CalGEM continues to constitute an equally effective means of financial assurance at least once every three years, or upon a material change in the financial condition of the operator or guarantor entity, whichever occurs first.
- 5) Repeals the exclusion of self-insurance or corporate guarantee as an acceptable form of financial assurance that a person who acquires the right to operate a well may provide in lieu of an existing bonding requirement and additionally authorizes an operator to, in lieu of the bonding requirement and with the written approval of CalGEM, provide the required security through a specified means of financial assurance, including pursuant to the above-referenced process for obtaining division approval for self-insurance or a corporate guarantee applicable to existing operators, as provided.

- 6) Exempts from specified bonding and financial assurance requirements (a) 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, as specified, or (b) an operator with additional security approved by CalGEM, as specified.
- 7) Specifies numerous conditions and requirements related to a person acquiring the rights to a well or production facility for the sole purpose of plugging and abandoning that well or decommissioning that production facility, including, among other things, that the well or production facility not be used for oil or gas production or injection, that CalGEM has the authority to require an acquiring person who fails to commence operations within a specified timeframe to require the person to file financial assurance, and that a person who was responsible as an owner or operator of the well or production facility before an acquisition remain responsible for the well or facility and any unfunded costs associated with plugging and abandonment of the well or facility.
- 8) Requires CalGEM, on and after January 1, 2028, to include in its annual report to the Legislature, as part of its existing reporting on well transfer activity and financial assurance, specified information, including, among other things, the number and location of wells and production facilities acquired for the sole purpose of plugging and abandoning that well or decommissioning the production facility, the status of plugging and abandonment or decommissioning operations for those wells and facilities, and a description of any wells or production facilities located in, or within one mile of, a disadvantaged community. Specifies that the information reported be based on data available to CalGEM and not require the division to conduct new studies or analysis beyond those already required under existing law.
- 9) Becomes operative only if AB 2461 (Hart) of the current legislative session is enacted and becomes effective on or before January 1, 2027. AB 2461 expands bonding requirements for a person that acquires the right to control a well or production facility.

## COMMENTS

In California, bonds are required to be posted, based on specified statutory amounts, when a drilling permit is issued to cover plugging and abandonment costs. AB 1167 (Carillo), Chapter 359, Statutes of 2023, further 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.

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.

**According to the Author**

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.

**Arguments in Support**

According to the California Intendent Petroleum Association, AB 2716 is a necessary and carefully tailored bill to correct serious problems created by AB 1167 (2023). As you know, AB 1167 imposed an inflexible transfer-bonding structure that has effectively frozen the lawful sale and transfer of California oil and gas assets. In practice, the law has blocked recapitalization, stranded assets, and prevented wells and facilities from moving into the hands of operators with the financial capacity and regulatory commitment to maintain, manage, and retire them most effectively. This is precisely the kind of unintended consequence Governor Newsom warned about in his signing message when he noted that the statute could increase the risk of well desertion and would require legislative revision.

**Arguments in Opposition**

A coalition of environmental organizations writes that the financial risk to the state associated with oil well cleanup is obvious and daunting. The total cost to clean up California's wells and production facilities has been estimated at \$21.5 billion - a bill that will come due in the foreseeable future as California's forty-year long decline in oil production inevitably continues. Although oil and gas operators are legally obligated to pay that cost, that is not what is happening. Hundreds of millions of dollars in public funds have already been dedicated to clean up wells deserted by operators who have failed to honor their obligations. AB 1167 took a step to reverse course on this dangerous situation by ensuring that, at the very least, no operator can transfer a well without financial assurance in place sufficient to cover the full cost of plugging and abandonment. AB 2716 would punch holes in that safety net, harming every taxpayer in the state to benefit only oil companies.

**FISCAL COMMENTS**

According to the Assembly Appropriations Committee, CalGEM estimates ongoing annual costs of about \$1.4 million (Oil, Gas and Geothermal Administrative Fund) for one attorney, four associate oil and gas engineers, and one analyst for additional operator communication, meetings, document review and preparation, and financial reviews and analysis. The Appropriations Committee notes CalGEM may incur additional costs to determine whether purchasers qualify for the "sole purpose" exemption and to comply with the bill's reporting requirements.

**VOTES**

**ASM NATURAL RESOURCES: 8-1-5**

**YES:** Bryan, Ellis, Alanis, Haney, Hoover, Macedo, Muratsuchi, Wicks

**NO:** Connolly

**ABS, ABST OR NV:** Garcia, Kalra, Pellerin, Schultz, Zbur

**ASM APPROPRIATIONS: 13-0-2**

**YES:** Wicks, Hoover, Aguiar-Curry, Calderon, Dixon, Fong, Mark González, Krell, Pacheco, Sharp-Collins, Solache, Ta, Tangipa

**ABS, ABST OR NV:** Caloza, Pellerin

**UPDATED**

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