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# SENATE COMMITTEE ON NATURAL RESOURCES AND WATER

Senator Josh Becker, Chair

2025 - 2026 Regular

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**Bill No:** AB 2716 **Hearing Date:** July 1, 2026  
**Author:** Ávila Farías  
**Version:** April 27, 2026 Amended  
**Urgency:** No **Fiscal:** Yes  
**Consultant:** Katharine Moore

**Subject:** Oil and gas: bonding requirements

## SUMMARY

This bill would raise the existing maximum additional financial surety that certain risky oil and gas operators are required to provide to the Geologic Energy Management Division to \$80 million; codify requirements for self-insurance for low risk operators; remove the prohibition on self-insurance or a corporate guarantee for the full bond required upon the transfer, acquisition or other conveyance of a well or production facility; and exempt from the full bond requirement the transfer, acquisition or other conveyance of a well or facility purely for the purpose of plugging-and-abandonment or decommissioning, among other provisions.

## BACKGROUND AND EXISTING LAW

### *Oil production in California*

California is a major oil and gas producing state. According to the U.S. Energy Information Administration, the state was 8<sup>th</sup> and 15<sup>th</sup> for oil and marketed natural gas production, respectively, among the 50 states.<sup>1</sup> Oil exploration and production in California started in the 19<sup>th</sup> century. Production of oil was about 105 million barrels in 2025,<sup>2</sup> and continues to decline from the 1985 peak. Many of the state's oil and gas fields have been in operation for decades, if not longer, and require costly enhanced oil recovery methods, such as steam injection, to continue to produce oil.

The Geologic Energy Management Division in the Department of Conservation (CalGEM) is the state's oil and gas production regulator. The State Oil and Gas Supervisor (supervisor) leads CalGEM.

There are currently approximately 54,585 active and 30,258 idle oil and gas wells in the state.<sup>3</sup> Idle wells do not generate oil production revenue for the operator, and are more likely to become orphan wells. Orphan wells are deserted wells that the state has to address because no responsible operator has been found to do so. Orphan wells are likely to not be maintained consistently, and emissions from wells that fail or are failing may be hazardous to the surrounding environment, and public health and safety.

By multiple estimates, the orphan well problem the state faces is already on the order of billions of dollars. Recent reforms at CalGEM have resulted in operators plugging and abandoning more wells and long-term idle wells, but concerns remain about the potential liability to the state's taxpayers.

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<sup>1</sup> Ranking based upon 2024 data.

<sup>2</sup> According to the WellSTAR data dashboard (accessed May 31, 2026).

<sup>3</sup> According to the Well STAR data dashboard (accessed June 28, 2026).

In order to help address this problem, an indemnity bond or a similar financial surety is now required to be provided by the operator to CalGEM prior to drilling a well, and then is held by CalGEM until the well is plugged-and-abandoned.<sup>4</sup> Operators who engage in the drilling, re-drilling, deepening, or in any operation permanently altering the casing of a well are required to file an individual indemnity bond for each well drilled, re-drilled, 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 their wells in the state in lieu of an individual indemnity bond for each well. These bond amounts are \$200,000 for 20 - 50 wells, \$400,000 for 51 – 500 wells, \$2,000,000 for 501 – 10,000 wells, and \$3,000,000 for more than 10,000 wells.

According to CalGEM's regulations, the estimated cost of plugging-and-abandoning a well and site remediation in its Northern, Central, and Southern Districts are \$142,918, \$100,927, and \$256,089, respectively, on average. The required indemnity bond amounts are generally significantly less than the cost to decommission and remediate the site. It is implicit in the bond amounts set that sufficient oil and gas will be produced to help pay for the eventual cost of plugging-and-abandoning the well, decommissioning facilities, and site remediation.

***AB 1057 (Limón, Chapter 771, Statutes of 2019)***

In order to help address the significant gap between the liability for decommissioning costs and the nominal indemnity bond amounts provided to CalGEM, AB 1057 provides CalGEM the authority to assess up to an additional \$30 million in financial surety based upon CalGEM's determination 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.

As of May 4, 2026, CalGEM had collected about \$261.5 million from 16 operators representing 77% of the state's oil or gas wells. Efforts to implement AB 1057 for additional operators continue.

***AB 1167 (W. Carillo, Chapter 359, Statutes of 2023)***

In another effort to address the issue of insufficient bonding, the Legislature passed and the Governor signed AB 1167 into law. This bill required that upon the transfer, acquisition, or other conveyance of an existing well or facility to a new operator that an individual bond for the full cost of plugging-and-abandonment, the decommissioning of the facility and site restoration be provided to CalGEM. This effort was in part to combat the general industry practice of transferring wells, rather than plugging-and-abandoning them as costs associated with the transfer – particularly for those operators with blanket bonds – were far less. Another key feature of AB 1167 was to prohibit the use of self-insurance or a corporate guarantee to provide the required financial surety. If not closely monitored by CalGEM, the risk of self-insurance is that bankruptcy could result in the state's taxpayers becoming liable for the clean-up. In the last decade, for

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<sup>4</sup> Prior to January 1, 2018, the indemnity bond was only required until the well was successfully drilled and then was returned to the operator. CalGEM is authorized to require an indemnity bond be provided for certain facilities as well.

example, numerous coal operators have gone bankrupt and were self-insured, leaving the cost for mine clean-up to taxpayers.

In the four years prior to AB 1167 going into effect, CalGEM processed about 3,500 well transfers annually, according to the Assembly Natural Resources Committee. Since then, fourteen transfers have been proposed of which only 3 – 4 were completed.

**AB 1866 (Hart, Chapter 548, Statutes of 2024)**

AB 1866 is the most recent of multiple bills in the last several years that require an operator to either pay certain idle well fees annually for any wells idle during the year or to develop and implement an Idle Well Management Plan with a schedule for the plugging-and-abandonment of their idle wells (Public Resources Code (PRC) §3206). AB 1866 accelerated the plugging-and-abandonment rate in the Idle Well Management Plans and increased substantially the alternative idle well fees.

According to the most recent Idle Well report for 2023 available from CalGEM<sup>5</sup> (which predated the AB 1866 reforms), 70 Idle Well Management Plans were approved and 59 operators were in compliance with them. Nine operators voluntarily voided their Idle Well Management Plans that year and CalGEM cancelled the other two.

**Existing law:**

- 1) Establishes the Geologic Energy Management Division (CalGEM) in the Department of Conservation under the direction of the supervisor. (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.

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<sup>5</sup> Dated December 2025

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 an operator to either file with the supervisor certain annual idle well fees per well that increase the longer the well has been idle, or file an Idle Well Management Plan with the supervisor that eliminates between 5 – 15% of the idle wells each year (for 2025 – 2027). Failure to pay idle well fees or file a plan is sufficient evidence for the well to be considered legally deserted. (PRC §3206)
- 11) 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)

**PROPOSED LAW**

This bill would:

- 1) Revise 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) Increase the amount of additional surety from certain operators from \$30 million on the following schedule:
  - a) \$45 million/\$65 million/\$80 million after January 1, 2028/January 1, 2030/January 1, 2032 for operators who have more than 10,000 wells.
  - b) \$35 million/\$40 million/\$60 million after January 1, 2028/January 1, 2030/January 1, 2032 for operators who have between 4,000 – 10,000 wells.
  - c) Operators with fewer than 4,000 wells remain at \$30 million.
- 3) Provide that any agreement reached for the additional financial surety prior to January 1, 2027 is good for five years and may be raised thereafter, as provided.
- 4) Establish explicit requirements for self-insurance as an acceptable method to provide additional financial surety, including an enforceable schedule for plugging-and-abandoning wells and decommissioning production facilities consistent with the operator's Idle Well Management Plan.
  - a) Prohibit an operator without an Idle Well Management Plan or out of compliance with its Idle Well Management Plan from using self-insurance.
  - b) Require an operator to provide the previous year's certified reserve reports and financial statements including balance sheet and income statements, as provided.
  - c) Require the security agreement to include financial criteria the operator is required to satisfy for the duration of the agreement.
  - d) Require the operator to notify CalGEM if it fails to meet one of the criteria subject to certain penalties if it does not, as provided.
  - e) Authorize CalGEM to terminate the self-insurance agreement with 180 days notice. Require the operator to provide the financial surety by another method.
  - f) Authorize a parent company to provide a corporate guarantee.
  - g) Require the self-insurance guarantee to remain in force until terminated or decommissioning is complete.
  - h) Require CalGEM to reevaluate the self-insurance or corporate guarantee at least once every three years or upon a material change, as provided.

- 5) Strike the prohibition on self-insurance and corporate guarantees as an equally effective means of financial assurance for well or production facility sales or transfers.
- 6) Exempt an operator that already has an additional financial surety from having to provide a full bond amount upon the transfer of a well. Require an operator to update their additional financial surety to reflect the transferred well. Provide 36 months for the operator to fund any additional financial surety required.
- 7) Exempt a well or production facility acquired solely for plugging-and-abandoning the well or decommissioning the facility from the full bonding on transfer requirement. Require individual or blanket bond amounts specified in statute to be provided instead.
  - a) Prohibit the use of a well or production facility purchased for plugging-and-abandonment or decommissioning from being used to produce oil or for injection.
  - b) Require the person acquiring the well or production facility to declare, subject to perjury, that the well or production facility is not going to be used for oil or gas production. Require a work plan to be provided that provides for decommissioning to commence within 24 months of the date of acquisition, subject to extension.
- 8) Require a legislative report starting January 1, 2028 to contain relevant information related to transfers, as specified.
- 9) Provide that no reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution.
- 10) Require that both this bill and AB 2461 (Hart) become law or neither does (contingent enactment).

### **ARGUMENTS IN SUPPORT**

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 (Chapter 359, Statutes of 2023) 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 OPPOSITION**

In a joint sign-on letter in opposition, the Natural Resources Defense Council (NRDC) writes that this “bill that would unnecessarily increase the risk that astronomical oil and gas well cleanup costs fall on taxpayers rather than the industry responsible for those

wells. Three years ago, AB 1167 (Carrillo) took a groundbreaking step forward to address that problem by prohibiting well transfers - a major financial risk factor - without sufficient financial assurance for cleanup costs. AB 2716 would severely weaken that protection, at exactly the time when we need to be working to strengthen it.”

In addition, they note that corporate guarantees may ultimately be worthless, and raise concerns that allowing wells to be purchased for the sole purpose of plugging-and-abandonment “would create a giant loophole [...] Absent definitions and guardrails, there is simply no way for regulators to know, or assure, that the ‘sole’ purpose (whatever that may mean) of the transfer is to close the well; or that this purported purpose is carried out in a timely way.”

## COMMENTS

***Partially undoes AB 1167 reforms.*** Two of the key reforms governing the transfer of wells under AB 1167 are the prohibition on self-insurance and the requirement that the required bond be paid in full upon transfer. This bill would authorize the use of self-insurance for low risk operators and allow 36 months for the full bond to be paid.

***Reducing financial risks to the state’s taxpayers.*** The ultimate goal of many of the numerous reforms of the state’s oil and gas conservation laws over the last dozen years is to help ensure that the industry pays to clean up after itself. With the goal of reducing financial risks to the state’s taxpayers, there are multiple aspects of the bill that might be improved upon without hindering good faith operators. These include, among others:

- ***Self-insurance*** – One year of financial records is insufficient to understand the health of the operator. Failing to abide by the terms of the self-insurance agreement does not necessarily result in having to use a different method of financial assurance. Additionally, according to the data available, a significant fraction of the industry already complies with Idle Well Management Plans. It does not seem unreasonable to condition self-insurance on compliance with this requirement.
- ***Transfer solely for plugging-and-abandonment and decommissioning*** – Committee staff understand that there are at least two instances where a public agency or nonprofit was hindered in redeveloping a parcel due to the presence of one or more oil or gas wells on the property and the requirement to provide full bonding for those wells. However, as written, an unlimited number of wells could be transferred, redevelopment of the property to another purpose is not required, the timelines for plugging-and-abandonment and decommissioning are vague, and there is no provision for the oil industry to pay to clean-up if the operator who commits to plugging-and-abandoning the wells and decommissioning the facilities fails to do so.
- ***Additional financial surety*** – The bill language is ambiguous as written that a significant change in circumstances would trigger a reevaluation of the amount required, and five years is a long time to prevent CalGEM from seeking additional resources, if warranted.
- ***Providing for legislative oversight*** – Given the complexity and interaction of the provisions related to the indemnity bonding/other financial surety and the other

potentially far-reaching changes, providing an additional opportunity for legislative oversight – such as that provided by a 5 year sunset – is warranted. Additionally, requiring CalGEM to make additional information available to the legislature and public will aid in that effort.

The Committee may wish to address these issues and others by amending the bill, and further assuring an opportunity for legislative oversight of these potentially far-reaching changes in the future. Additionally, the author has requested amendments that are essentially the first step of potential chaptering out amendments with AB 2461. The Committee may wish to amend the bill to reflect the author’s proposal. [see Amendment #1]

**Additional maximum surety amounts.** Only two operators operate or control more than 10,000 wells and four additional operators operate or control more than 4,000 and fewer than 10,000 wells. The new maximum amounts for additional financial surety provided in this bill would currently apply to six operators total. The rest would remain at a maximum of \$30 million.

**Impact on local taxes.** The method used to assess the value of assets due to the requirement for immediate full bonding upon transfer has, according to the author, substantially reduced operators’ asset values. The State Board of Equalization advised county assessors last year that “the bonding mandate must be built into income-approach valuations,” although it is unknown to what extent it has been. It is possible that the bonding mandate could significantly impact asset valuation, particularly for small operators. Reduced asset valuation could then result lower property tax revenue to the County.

**Contingent enactment.** In the Assembly, this bill and AB 2461 (Hart) became linked through contingent enactment language. Both bills seek to reform AB 1167, but in different ways. Due to the contingent enactment language both bills must pass for either to become law.

### **Recent related legislation**

AB 2461 (Hart, 2026) would expand the requirement for an operator upon a transfer or sale of an existing oil or gas well and production facility to provide an individual indemnity bond for the full cost of well plugging-and-abandonment, facility decommissioning and site restoration to include a change in control of the operator, as provided. (*This bill is pending before this Committee.*)

## **SUGGESTED AMENDMENTS**

### **AMENDMENT #1**

- Add author amendments to add language to address changes in control consistent with AB 2461
- Sunset PRC §3017 in 5 years and revert to existing language
- In PRC §3205.3(a)(2)(D) change to 5 years to 3 years and clarify ambiguity related to whether changed circumstances could trigger a re-evaluation of the additional surety provided (up or down) pursuant to existing subdivision (e).
- In PRC §3205.3(f)(3)(A) require compliance with an Idle Well Management Plan to be eligible for self-insurance.

- In PRC §3205.3(f)(3)(B) – require 3 years of financial records to be provided while assessing eligibility for self-insurance.
- In PRC §3205.3(f)(3)(E) – authorize CalGEM to establish the criteria for any corporate guaranty.
- In PRC §3205.8(e)(1) – add explicit reference to the section authorizing standard indemnification bonding for wells or facilities obtained for the sole purpose of plugging-and-abandonment or decommissioning.
- In PRC §3205.8(e)(3) (and elsewhere) – replace the reference to “oil or gas production or injection” with “oil or gas production, injection, gas storage, or any associated operation” to more fully encompass current CalGEM-regulated wells and facilities.
- In PRC §3205.8(f)(1) – require compliance with an Idle Well Management Plan to be eligible. Require compliance with PRC 3205.7 reporting.
- Sunset PRC §3205.8 in 5 years and revert to existing language. Any agreement entered into under the sunset language will remain in force.
- In PRC §3205.9 – establish a redevelopment pilot program. authorize 100 wells annually to be added to the pilot program, require a redevelopment plan to be provided. Establish timelines for wells and facilities to be plugged-and-abandoned and decommissioned for redevelopment purposes. Require CalGEM to complete plugging-and-abandonment, decommissioning, and site restoration if necessary. No additional wells can be added to the pilot program after 5 years and sunset in 10 years.
- In PRC §3205.10 – modify required online reporting of implementation by CalGEM. Require the DoC director and the supervisor to report to the Legislative policy committees annually on implementation. Sunset in 5 years.
- Additional largely technical and clarifying changes.

## **SUPPORT**

California Independent Petroleum Association (sponsor)  
California Assessors' Association  
California Chamber of Commerce  
County of Kern (if amended)  
E & B Natural Resources  
Signal Hill Petroleum  
Tri-County Chamber Alliance  
Western States Petroleum Association

## **OPPOSITION**

350 Bay Area Action  
350 Humboldt  
350 Santa Barbara  
350 South Bay Los Angeles  
350 Southland Legislative Alliance  
Bay Area-System Change not Climate Change  
California Coastal Protection Network  
California Environmental Justice Alliance  
Center for Biological Diversity  
Center on Race, Poverty and the Environment

CERBAT  
Clean and Healthy California  
Clean Water Action  
CleanEarth4Kids.org  
Climate Action California  
Climate First: Replacing Oil & Gas (CFROG)  
Climate Health Now Action Fund  
Communities for a Better Environment  
Earthjustice  
Environment California  
Environmental Defense Center  
Environmental Protection Information Center (EPIC)  
Food & Water Watch  
FracTracker Alliance  
Friends Committee on Legislation of California  
Greenpeace USA  
Indivisible Alta-Pasadena  
Long Beach Alliance for Clean Energy  
NRDC  
Oil and Gas Action Network  
Physicians for Social Responsibility - Los Angeles  
Redeemer Community Partnership  
Resource Renewal Institute  
San Francisco Bay Physicians for Social Responsibility  
San Francisco Baykeeper  
SanDiego350  
Sierra Club California  
SoCal 350 Climate Action  
STAND-LA Coalition  
Sunflower Alliance  
The Climate Center  
West Berkeley Alliance for Clean Air and Safe Jobs  
Wholly H<sub>2</sub>O

One individual

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