Introduction

California’s largest oil producers have set aside a miniscule fraction of the money that would be required to properly plug their oil and gas wells. According to state records obtained by the Center for Biological Diversity, California’s major oil companies have submitted state bonds — which are supposed to serve as financial assurance that an operator will cover its legal obligations to pay for the cost to plug and remediate its wells — as low as $80 per well. This is a direct result of state regulators routinely allowing operators to submit a single “blanket bond” to serve as the financial backstop for all of the company’s wells, even if the wells number in the tens of thousands.

The underfunded bonds are a boon for the state’s largest oil companies but create a stark risk for Californians. As more and more oil companies face bankruptcy, companies may try to walk away from their legal obligation for pay for well cleanup. If bonds are insufficient to remediate these wells, taxpayers may be on the hook for cleanup costs or the state may allow these dangerous wells to remain unplugged and unattended, jeopardizing our health, safety and climate.

California’s Oil Companies Face Billions in Cleanup Costs

California’s oil and gas companies operate about 107,000 new, active, and idle oil and gas wells in the state. The California Council on Science and Technology estimates that the cost to plug all of California’s 107,000 oil and gas wells could exceed $9.2 billion.¹ According to the Council,

¹ CCST, Orphan Wells in California (July 2020).
the average cost of plugging an onshore well is $68,000, and may be much higher. An offshore well would cost about $1.5 million to plug.

Although operators are legally required to plug their oil and gas wells, most wells producing little or no oil are left unplugged and idle. Operators can pay a nominal fee to avoid plugging these wells. But by leaving idle wells unplugged, operators create dangers to public health and safety. Idle wells corrode over time and can act as pathways for gas and contaminants to migrate to the surface, causing leaks, spills and even explosions.

**Blanket Bonds Allow Companies to Under-insure Polluting Activities and Cleanup Costs**

State bonding requirements are far too low to cover these costs. For an individual well, the minimum bonding requirement is $25,000, or $40,000 for a deep well. Given that the average cost of plugging a well is $68,000 by conservative estimates, the state’s bonding requirement for individual wells is already inadequate to cover the average cost of proper plugging and abandonment.

But even more problematic are ultra-low bonding requirements made possible by state laws permitting so-called “blanket bonds,” which allow an operator to submit a single bond to cover all its wells. The blanket bond requirement for 500 wells is $2 million, amounting to $40,000 per well. However, the same amount can cover up to 10,000 wells, in which case the bond would equal only $200 per well. The maximum bond requirement, which can cover any number of wells over 10,000, is $3 million. The state’s largest operators can submit this amount and meet the bonding requirements for a limitless number of wells.

In July 2020 the Center for Biological Diversity submitted to the California Geologic Energy Management Division (CalGEM) a request under the California Public Records Act for documents summarizing bonds submitted by oil companies. In October 2020 CalGEM produced a spreadsheet listing companies and the amount of state bonds filed with the state regulator. The Center aggregated the total number of active bond amounts for each of the 10 largest producers and divided the company’s aggregate bonding amount by the number of that company’s new, active, and idle wells.

The results demonstrate the dangerous consequence of allowing large oil companies to submit blanket bonds. In effect the blanket bond becomes an interest-free loan that subsidizes the largest

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2 Id., p. 21.
3 For example, a single well near Rio Vista, California leaked an estimated 30 tons of methane into the air. See Frazier, Mya “Gas Companies Are Abandoning Their Wells, Leaving Them to Leak Methane Forever,” *Bloomberg*, https://www.bloomberg.com/news/features/2020-09-17/abandoned-gas-wells-are-left-to-spew-methane-for-eternity
6 Id., § 3205(a)(3).
7 Id., § 3205(a)(4).
oil companies by reducing the relative amount of financial resources they must set aside to cover the costs of remediation. Worse still, the state risks being unable to collect if oil companies seek bankruptcy protection before paying for well cleanup.

Blanket Bonds for California’s 10 Largest Oil Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Wells 8</th>
<th>Active State Bonds 9</th>
<th>$ per well</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aera Energy LLC</td>
<td>24,911</td>
<td>$2,000,000</td>
<td>$80.29</td>
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<tr>
<td>Chevron U.S.A.</td>
<td>27,452</td>
<td>$3,000,000</td>
<td>$109.28</td>
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<tr>
<td>Berry Petroleum Co.</td>
<td>5,413</td>
<td>$2,000,000</td>
<td>$369.48</td>
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<tr>
<td>Sentinel Peak Resources</td>
<td>4,320</td>
<td>$2,000,000</td>
<td>$462.96</td>
</tr>
<tr>
<td>E&amp;B Natural Resources Management Corp.</td>
<td>2,918</td>
<td>$2,025,000</td>
<td>$693.97</td>
</tr>
<tr>
<td>Seneca Resources Co.</td>
<td>2,293</td>
<td>$2,000,000</td>
<td>$872.22</td>
</tr>
<tr>
<td>California Resources Corporation (and affiliates 10)</td>
<td>18,661</td>
<td>$17,250,000</td>
<td>$924.39</td>
</tr>
<tr>
<td>HVI Cat Canyon</td>
<td>912</td>
<td>$1,000,000</td>
<td>$1,096.49</td>
</tr>
<tr>
<td>Crimson Resource Management Corp.</td>
<td>1,650</td>
<td>$2,000,000</td>
<td>$1,212.12</td>
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<tr>
<td>Holmes Western Oil Corp.</td>
<td>888</td>
<td>$4,000,000</td>
<td>$4,504.50</td>
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</table>

Under blanket bonds, larger operators with more wells are allowed to set aside less money per well to cover cleanup costs. For example, according CalGEM’s records, Aera Energy, which operates close to 25,000 wells, has a single $2 million bond filed with the state, amounting to $80 per well. Not only is the per-well amount the lowest of any large operator in the state, Aera’s current blanket bond fails to meet the new legal minimum for operators having over 10,000 wells — the minimum as of Jan. 1, 2018 is $3,000,000. 11

Chevron submitted blanket bonds of $3 million to cover nearly 28,000 wells, equal to just $109 per well. Chevron’s onshore wells are only bonded for $2 million, and offshore wells are separately bonded for $1 million. Like Aera, Chevron fails to meet the legal minimum for operators with more than 10,000 wells. California Resources Corporation and its affiliates, which filed for bankruptcy this year, collectively operate 18,661 wells. They filed bonds totaling $17 million to the state, or $924 per well.

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8 Well tallies include “new,” “active,” and “idle” wells entered in CalGEM’s database as of October 15, 2020. For simplicity, tallies include onshore and offshore wells.
9 CalGEM Bond Summary, Active Bonds, produced Oct. 14, 2020. Some companies have separate bonds covering onshore, offshore, or specific wells. For simplicity, the bonded amount reflects the aggregate of all active bonds listed in CalGEM’s summary document.
10 Includes wells operated by CRC Elk Hills, CRC Long Beach, THUMS Long Beach, and Tidelands Co.
Connected Companies Have the Lowest Bonding Rates

The three companies with the lowest per-well bonding requirements each have ties to the Newsom administration. Aera Energy’s lobbyists have deep ties to Gavin Newsom. One was Gov. Newsom’s former policy director and another a senior advisor and head of Newsom’s 2018 transition team. Newsom’s top oil and gas regulator, Uduak-Joe Ntuk, was a former employee at Chevron. Supervisor Ntuk replaced former acting Supervisor Jason Marshall, who took a position Berry Petroleum almost immediately after his departing CalGEM.

California at Financial Risk

Underfunded bonding levels create a significant threat to public safety and the environment, increasing the risk of deserted wells that corrode and leak toxic chemicals. It also means taxpayers may be forced to pay for well cleanup when companies have insufficient funds. For example, California operator Venoco filed for bankruptcy and walked away from its obligation to clean up wells in Southern California. A municipality and school district were left to pay close to $50 million in cleanup costs. A Delaware bankruptcy judge awarded the city a mere $760,000 from Venoco’s assets for the cleanup project.

The Governor’s Authority to Increase Bonds

Gov. Newsom can help protect communities from pollution and taxpayers from the costs of cleanup by taking proactive steps to aggressively limit the environmental and financial risks from idle and abandoned wells. First the governor should stop issuing permits to drill new wells and adding to the state’s inventory of oil and gas wells that must be cleaned up.

The governor must also set bonding requirements high enough on existing wells to cover the costs of cleanup. With decreasing demand for oil and gas, many operators are facing bankruptcy. It is crucial that the governor act before oil companies seek to offload their cleanup costs by using the flawed bankruptcy process.

CalGEM, the state oil and gas regulator, can require up to $30 million for bonding to reflect the actual costs of well remediation, but the records do not show active bonds for any company totaling more than $3 million.

CalGEM is also authorized, at any time, to require higher “life of well” bonds from an operator “with a history of violating [environmental and safety laws], or that has outstanding liabilities to the state associated with a well or production facility.” Life of well bonds must “cover the cost to properly plug and abandon each well, including site restoration, and the cost to finance a spill response and incident cleanup.” The largest oil and gas operators have a prolific history of environmental and safety regulation violations, and CalGEM could apply the life of well bonds to any of the companies listed above.

Finally CalGEM can increase fees on oil producers to ensure the industry as a whole pays for the cleanup of wells that do not have an active operator. CalGEM is authorized to collect assessment fees to help fund the regulatory activities of CalGEM and other state agencies that oversee oil and gas activities. Currently it collects 56 cents per barrel of oil or 10,000 cubic feet of gas. CalGEM, however, rejected calls to increase the assessment fee this year.

18 Id., § 3270.4(a); 14 Cal. Code Reg. § 1722.8(b).
19 Id., § 3270.4; 14 Cal. Code Reg. § 1722.8(c).