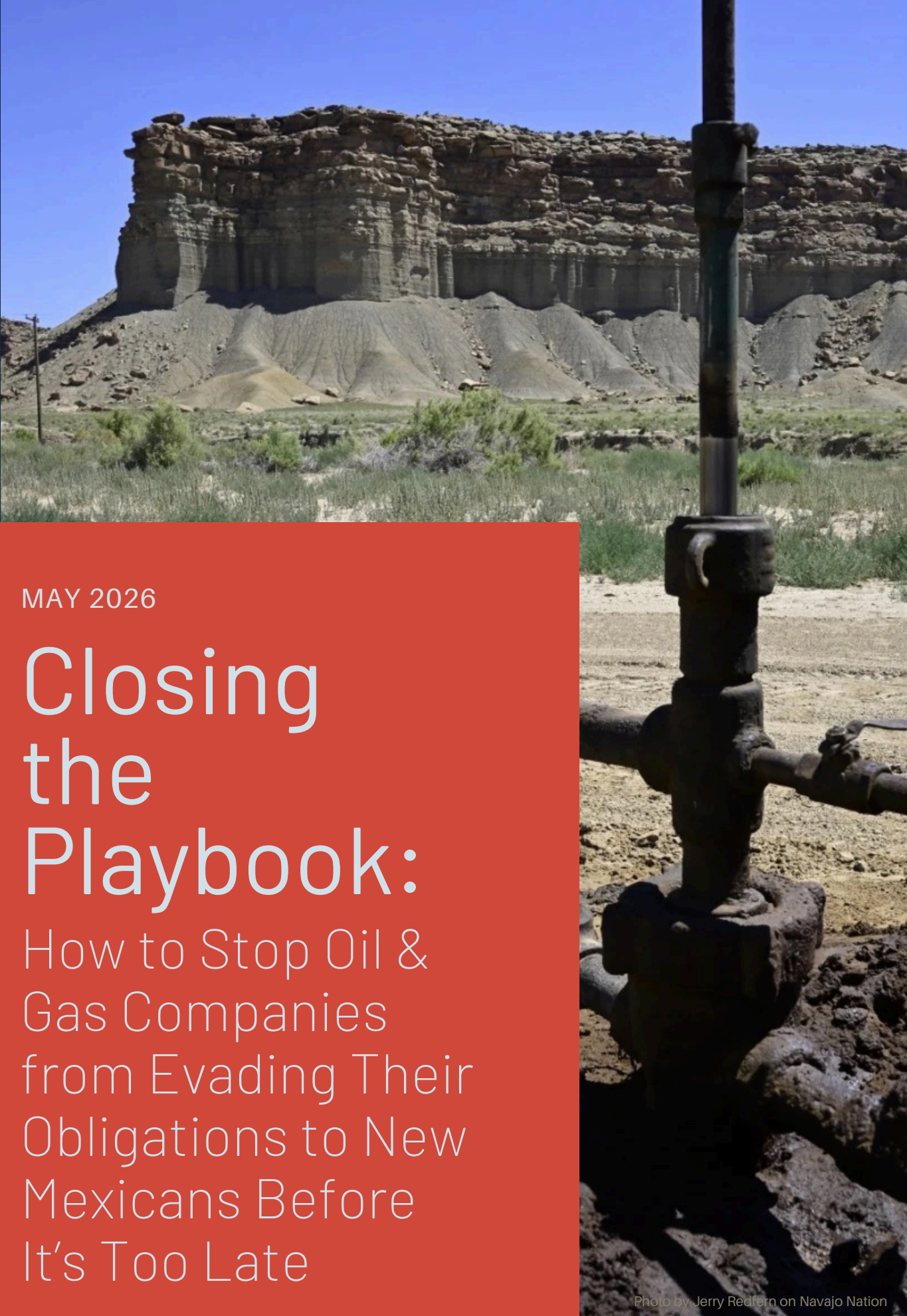


A photograph of a desert landscape. In the background, a large, flat-topped mesa with distinct horizontal rock layers rises against a clear blue sky. The foreground features a wellhead with a vertical pipe and various valves, set in a dry, sandy area with sparse green shrubs. A red rectangular box is overlaid on the left side of the image, containing white text.

MAY 2026

Closing the Playbook:

How to Stop Oil &
Gas Companies
from Evading Their
Obligations to New
Mexicans Before
It's Too Late

Photo by Jerry Redfern on Navajo Nation

We New Mexicans have always known that encouraging oil and gas drilling in our Permian and San Juan Basins has reflected a devil's bargain: We get tax revenue we sorely need, but at the expense of our environment. If anyone doubts this, a quick drive around Southeast New Mexico reveals immediately the toxic gas in the air, the degradation of the land, and the billions of gallons of liquid fracking waste stored in huge ponds that have no safe disposal solution.

For better or worse, we've accepted this devil's bargain because, as a poor state, the revenue appears indispensable.

But at what cost?

What this report reveals is how the diabolical nature of this bargain is about much more than harm to our environment; if we realistically assess the size of the bill we will have to pay for clean up when the fossil fuel industry goes bust, it becomes abundantly clear that we should never have made the bargain in the first place. The oil and gas industry will move on and the state will be left broke, broken and burdened with a toxic legacy that will harm the health and prosperity of generations of New Mexicans.

It doesn't have to be this way.

New Energy Economy
May 2026

"Another world is not only possible, she is on her way. On a quiet day, I can hear her breathing," by Arundhati Roy, Indian author, essayist, and activist.

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Introduction

New Mexicans are likely aware of the state's status as the number two producer of crude oil in the country and as a significant producer of natural gas. What they may not be aware of are the business practices through which oil and gas operators have evaded their obligation to plug and clean up abandoned well sites, and that these evasions are like to saddle New Mexicans with an insurmountable bill for cleaning up wells that are no longer profitable.

According to state records, there are **3275 inactive wells[1] and close to 39,000 stripper wells producing less than 10 barrels of oil or equivalent (BOE) per day[2]**, most of which are emitting climate-altering and toxic gases, and many of which threaten our water. No one has suggested that these wells don't need to be plugged and remediated. But the state's experience with decommissioning orphan wells – unplugged wells abandoned by their operators – shows **the average cost to properly plug a well is \$163,000 for plugging and \$40,000 to remediate** surface contamination and reasonably restore the site. Analysts note, however, that plugging costs can be as high as \$778,000, and remediation can easily reach into the millions.[3] This could bring the cost to decommission the state's abandoned wells into the billions!

Meanwhile oil and gas industry operators are drilling more wells all the time.

A 2025 Policy Spotlight: Orphaned Wells Report by the New Mexico Legislative Finance Committee (LFC) reported that the amount of surety bonds guaranteeing performance is only \$117 million.[4] **The New Mexico Reclamation Fund – a state fund used to cover the costs to decommission orphan wells has a balance of just \$77 million[5]**, a small fraction of what will likely be needed.

Recent trends suggest the Permian Basin is likely nearing or has already reached its peak. The legal requirement that an operator has to plug and reclaim the well at the end of its useful life—which is triggered as soon as the drill bit pierces the land—and which is required to be recognized as a liability on its balance sheet, is called an Asset Retirement Obligation (“ARO”). If the state's oil industry has not already set aside the funds to discharge AROs, and they haven't, it is about to be too late.

How did we get here? While the legislature and the state's the Oil Conservation Division (“OCD”) have acted to “conserve” the state's finite petroleum resources with cleanup as an afterthought, the oil industry has developed a proven playbook for avoiding AROs.

There is little doubt that if the industry were forced to clean up after itself, as the law requires, it would significantly alter the economic factors that make oil and gas so profitable.

Across the country, however, these oil and gas operators have followed the “Playbook” to skirt their financial obligations to the people and their property—dumping their messes into the laps of local taxpayers and landowners [6] by intentionally selling their low-producing wells to smaller companies that cannot, and will never

be able to make good on their Asset Retirement Obligations.

Those operators continue to generate cash flow. But instead of earnings being set aside for AROs, funds are distributed to investors via “dividends” until ultimately the final owners declare bankruptcy.

Meanwhile, methane, benzene and other noxious pollutants stream into the air and water from tens of thousands of unplugged wells.

In a landmark case *Stephanie Garcia Richard vs Marathon Petroleum* decided in the NM Court of Appeals on May 14th, 2025, Justice Bosson addressed the Playbook directly in his opinion, stating unequivocally that the law does not allow oil and gas companies to shift their liabilities to New Mexico taxpayers, writing:

"This is because larger oil and gas companies tend to assign their leases to smaller and less profitable companies, which then reassign the leases to even smaller and less profitable operations. Under Marathon's interpretation, the burden of paying for a former lessee's tortious conduct would be shifted to these assignees, even though they are less likely to have the resources to remediate the land. Marathon acknowledged that this may lead to situations where the State would need to fund such remediation. There is no evidence before this Court that the Legislature intended to subsidize the tortious conduct of oil and gas companies at the expense of New Mexico's taxpayers." At 35-36. NMCA Docket No. A-1-CA-40747.

Nevertheless, this is exactly what has been occurring for decades.

Key Findings

- **Cost of Decommissioning is Higher than Admitted:** While some independent analysts have incorrectly estimated that plugging a well costs between \$20,000-\$40,000, those numbers underestimate the actual cost of plugging and leave out the significant cost of reclamation and remediation of the well site. The LFC reported that well plugging alone can reach as high as \$778,000, and that remediation at some sites can reach into the millions of dollars. Even these higher estimates still do not take into account the complexities involved in plugging unconventional, fracked wells.
- **State Bonding Requirements Are Inadequate:** Current law in New Mexico allows bonds for AROs to cover an unlimited number of wells for only \$250,000, which lags behind federal law and represents a fraction of the liability owed.
- **State Programs Cannot Cover Current Liability:** Although OCD has access to some funding for orphan well decommissioning through the New Mexico Reclamation Fund, the overwhelming majority of funding used to plug and remediate orphan wells has so far come from the federal government, and that funding has been halted under the Trump Administration. The new challenges posed by fracked wells will far surpass the expenses borne by OCD up until now.
- **Liability to Taxpayers:** According to the LFC, oil and gas operators have posted just \$117 million in financial assurance bonds. A 2021 study commissioned by the State Land Office found a gap of about \$8.1 billion between bonds collected and likely plugging and remediation costs [7]. In 2024, Pro Publica and Capital & Main conducted calculations based on Oil and Conservation Division's documents, filed with the Department of the Interior, and estimated the bonding gap to be \$11.8 billion.[8] A Vertex Resources Services report, also commissioned by the State Land Office, found that the total cost of decommissioning all upstream infrastructure would be over \$22 billion.[9] Even at the low-end of these estimates the costs per taxpayer could reach \$6,459![10]

POTENTIAL
COST OF
WELL
CLEANUP
FOR EACH
NM
TAXPAYER:

\$6,459

- **Regulatory Overhaul is Required:** There is no single solution that can adequately address the systemic nature of this problem. Full-scale legislative and regulatory reform is necessary.

DEFINITIONS: OIL & GAS WELLS ARE CATEGORIZED BY PRODUCTION VOLUME

Producing Wells:	Wells producing more than 5 barrels of oil or 30,000 cubic feet of natural gas per day.
Idle Wells:	Wells producing less than 1 barrel of oil or 6,000 cubic feet of natural gas per day.
Low-producing Wells:	Wells producing between 1 and 5 barrels of oil or 6,000 and 30,000 cubic feet of natural gas per day.
Stripper Wells:	A larger category containing producing, idle, and low-producing wells, stripper wells produce less than 10 barrels of oil or 60,000 cubic feet of natural gas per day over a consecutive 12-month period.
Orphan Wells:	Unplugged wells the owner of which is insolvent, or which have no identifiable owner of record.
Decommissioning:	Once a well is no longer beneficial to operate, or is left idle, the operator is legally obligated to plug the well "in a manner that permanently confines all oil, gas and water in the separate strata in which they are originally found," "level the location," remove surface equipment, and "restore the location to a safe and clean condition." [3] This is often referred to under the umbrella phrase "plugging and abandonment" or "plugging and reclamation."
Asset Retirement Obligation:	Often shortened to "ARO," this is an accounting term referring to the costs of these legally required "decommissioning" activities.

2

The State of New Mexico's Wells—Orphans in Waiting, But Not For Long

By law, a company that wishes to drill for oil or gas must first secure a permit, and assure the state that it has the financial ability to plug the wells and restore and remediate the land once the wells are no longer economical. AROs are a debt owed to ARO creditors – the state of New Mexico and the owners of land burdened by the wells. Under state and federal law, AROs are usually secured by requiring well operators to post a surety bond as a condition of the extractive lease. In New Mexico however, the current minimum requirements for ARO bonds are grievously inadequate to cover the growing liability from the state's inactive wells.

The “bonding gap” between the surety bonds posted to cover New Mexico's wells and the predicted actual costs for plugging and remediation is especially threatening because a common practice among operators following the Playbook is to acquire obligations (in the form of AROs for wells) that exceed their assets (in the form of the remaining productive value of the wells).[9] When this happens, operators frequently declare bankruptcy, thwarting attempts by the Oil Conservation Division (“OCD”) to hold them liable for their AROs in court, and rendering their wells “orphans.”[11]

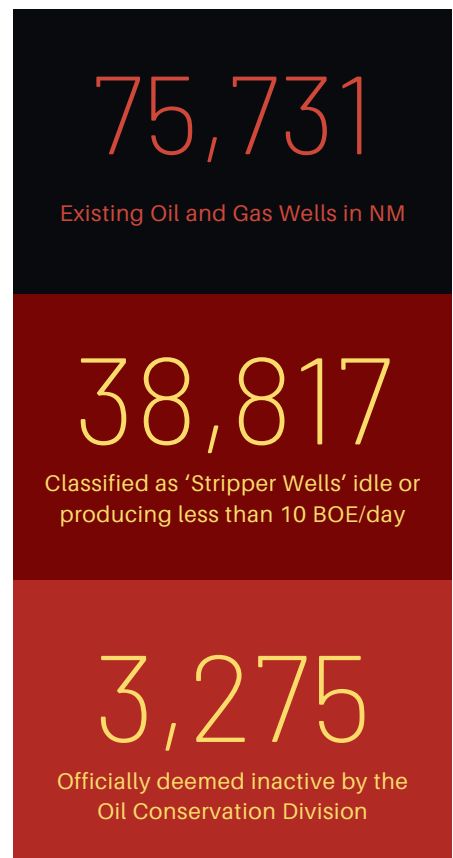
The health and environmental dangers posed by New Mexico’s orphaned wells—left unplugged and abandoned as a result of corporate irresponsibility and greed—could not be more severe. Abandoned wells have been shown to leak volatile organic compounds (“VOCs”), as well as benzene and other compounds that damage the human nervous, immune, and respiratory systems.[12] Benzene, in particular, was found in air concentrations more than 250,000 times higher than the established safety threshold for human health.[13] The other VOCs leaked by abandoned wells include the precursors for ozone, another cause of respiratory and cardiovascular diseases. The majority of these wells also leak methane, which is a major known contributor to climate change.[14]

The bill for plugging and remediating these wells is coming due much sooner than expected, and New Mexico is woefully underprepared for the environmental and health crisis heralded by this inevitable wave of orphaned wells. Every legislative solution attempted so far has failed, and the time has come to dramatically restructure New Mexico’s regulatory framework for oil and gas operations, or else risk environmental contamination and human health catastrophe on a scale never before contemplated.

According to the OCD website there are 75,731 active wells in New Mexico.[15] There are 3275 that have been deemed inactive by OCD, but the LFC reports that as of 2023 about 39,000 of active wells are stripper wells - producing less than 10 barrels of oil equivalent - and could be at risk of becoming abandoned or orphaned.

According to the LFC report, 702 wells are already officially orphaned and require plugging and remediation by the state[16], but **in fiscal year 2025 OCD plugged just 42 wells, down from more than 100 in 2024[17], and OCD records show the division has remediated and reclaimed just five of the wells it has plugged since 2013.[18]**

On top of the already inactive and abandoned wells, tens of thousands of New Mexico’s wells that are technically productive at the moment are producing in such low quantities that they may soon operate at a loss, and are likely to be abandoned in the near future. A predicted decline in production across the Permian Basin will act as a catalyst in expediting this process.[19]



Oil Prices are Volatile, Producing Drastic Swings in the Economic Viability of Less Productive Wells

The risk posed by inactive or low-producing wells, frequently referred to as 'orphans in waiting,' is exacerbated by the volatile nature of oil and gas prices, which are dictated by international markets. When prices drop precipitously low, as they were prior to the Iran war when Brent crude was trading at just \$55.9 per barrel, low-producing and stripper wells become uneconomic, resulting in more idle and abandoned wells along with fewer funds for plugging and remediation.

When prices rise precipitously, as they did recently, oil and gas operators rake in windfall profits. The NY Times recently estimated that oil and gas companies in the US have earned more than \$45 billion in new revenue as a result of the Iran war.[20] Now is the time to ensure that oil and gas operators use that windfall revenue to cover their cleanup obligations.

Permian Production Will Not Continue to Grow at the Same Pace Forever

Numerous analysts have warned that production is at or near its peak. In fact a recent Oilprice.com article noted that production is nearing its geological limits, stating that "The best drilling acreage—the so-called "Tier 1" sweet spots—has been heavily developed over the past decade. While technology continues to improve well productivity, operators are increasingly drilling outside the core, where wells tend to produce less oil and deplete faster." [21]

In other words, the number of inactive, abandoned, and orphaned wells is almost certainly going to increase dramatically over the next decade.

"THE BEST DRILLING
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– Robert Rapier,
"Why U.S. Oil Growth is
Slowing," Oilprice.com
(September 22nd, 2025)

Unconventional, Fracked Wells Become Unproductive Much Faster than Traditional Wells

Fracking wells are also characterized by a far steeper decline in production relative to traditional wells. Unlike conventional wells, which can produce for decades before dropping past the point of economic viability, fracking wells tend to hit peak production within the first year of operation—as a result of the initial gush of oil and gas that occurs right after the well is fracked.[22] Unconventional wells tend to see production declines of more than 50% after the first year, and an additional 30% in the second year.[23]

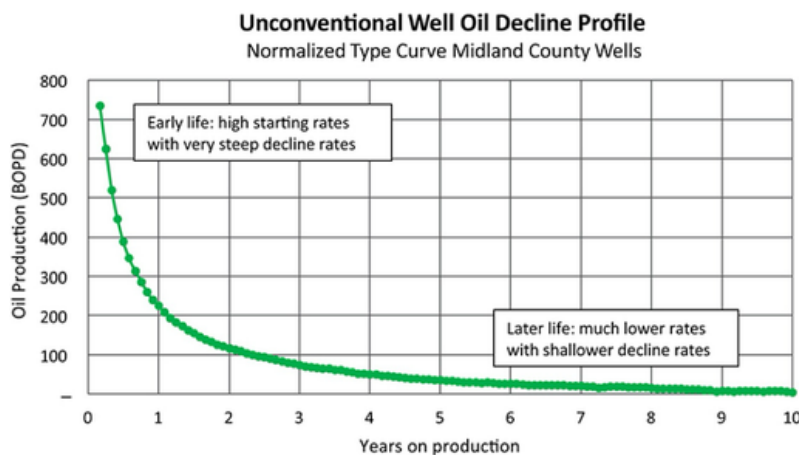


Fig. 2: Oil production profile for a sample set of unconventional wells in Midland County, Texas. For this set of wells production has already dropped to one-tenth of the IP in only 3 years. Source: Laura Freeman, "Aging US Shale Wells: Years of Remaining Opportunities or Growing Asset Retirement Obligations," 1 March 2022, <https://jpt.spe.org/aging-us-shale-wells-years-of-remaining-opportunities-or-growing-asset-retirement-obligations?ref=powering-the-planet.ghost.io>

3

The Human and Environmental Cost of Low-Producing and Orphaned Wells



New Mexico already suffers from thousands of abandoned and unplugged wells, and tens of thousands of orphans in waiting. The cost of decommissioning these wells is titanic, but the cost to human health and the environment is even more devastating.

Fourth-generation West Texas rancher Schuyler Wight surveys an abandoned oil well located on his property. Credit: Pu Ying Huang/The Texas Tribune

Orphaned Wells Risk Turning New Mexico Into a Toxic, Impoverished Wasteland

An orphaned well is a festering wound—leaking poison into the soil, water, and air of nearby communities. When oil and gas operators evade financial responsibility for their toxic wake, they shift the burdens—financial, environmental, and health—to local residents. As abandoned wells proliferate and corrupt the surrounding environment with toxic pollutants like benzene and VOCs, property values in the surrounding areas plummet and the tax base shrinks. The final result is a blighted landscape and impoverished municipalities too broke to clean up the mess.

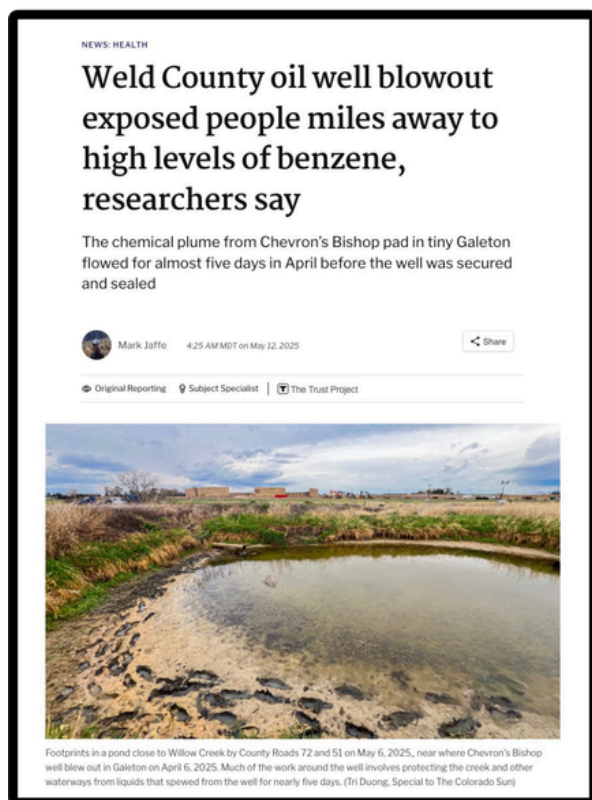
Methane—the second-largest contributor to climate change and more than 80 times more powerful than carbon dioxide[24]—has been found to leak from abandoned wells in such high concentrations that the surrounding air literally becomes explosive. [25] These same orphaned wells also leak hydrogen sulfide, which turns the surrounding air toxic and makes it painful to breathe.[26]

A 2023 study found that in Pennsylvania alone, there were 133 confirmed cases in which gas from abandoned wells had leaked directly into the nearby soil, surface water, or water wells since 1987.[27] These leaks were often due to corrosion of the well casing, or—in some cases—to defects in construction. When gas leaks from an abandoned well it carries with it chemicals used in drilling and fracking, methane, benzene, and other volatile organic compounds (in particular heptane, hexane, and cyclohexane)[28] which can cause cancer as well as severe cardiovascular, nervous, immune, and respiratory diseases.[29] These same chemicals, as well as methane—a leading contributor to climate change—have been found to leak directly from unplugged well heads, even if the gas and oil itself is contained.

Orphan wells are also more likely to be the location of well blow-outs, which can spew toxic gas and chemicals into the air and the surrounding environment.[30]

In Texas, “at least eight orphaned wells have blown out since late 2024, spewing brine... laden with chemicals from drilling, and toxic gas. One leaked for more than two months before it could be capped. Another has created a 200-foot-wide sinkhole.”[31] While blowouts can happen in any well “orphan wells and older, plugged wells are less likely to withstand the pressure and blow.”





The financial cost for emergency plugging of blown-out wells far surpasses all common expectations; in Texas, the government spent \$9 million to plug just two of them in recent years.[32] In April, an “unprecedented” blowout occurred in Weld County, Colorado, at a well operated by Chevron.[33] According to the Colorado Energy and Carbon Management Commission, “[t]here was a failure of the designed well barriers and a loss of control over the pressure within the wellbore, resulting in uncontrolled flow... [of] wellbore fluids and fluids native to the formation, such as condensate and crude oil.”[34] The uncontrolled flow of fracking fluid, produced water, and other toxic materials lasted “almost five days” before the well was finally sealed,[35] and exposed people miles away to dangerously high levels

of benzene,[36] caused the two-week closure of Galeton Elementary School, and triggered evacuations within a half-mile radius.[37] Fortunately, the blown-out well was still owned and operated by a solvent company, Chevron, which can afford to pay the price of cleanup and recovery, but even with Chevron’s immense resources, the clean-up efforts are expected to take around five years.[38]

It is difficult to fully comprehend the devastating impact that this toxic pollution from orphaned wells will have in New Mexico, where 78% of residents rely on groundwater aquifers for their drinking water[39]—aquifers that remain especially vulnerable to the deadly seepage from these corroded and abandoned wells.[40]

Even beyond the direct threat to human health and the environment, orphaned wells also rob local property owners by directly devaluing their land. A study in 2021 found that construction and development on the land surrounding unplugged wells is reduced by as much as 50%, resulting in a substantially depressed local tax base.[41] The halving of local property values was estimated to have cost one school district near orphaned wells at least \$1,000 per student in foregone property taxes.[42]

“A STUDY IN 2021 FOUND THAT CONSTRUCTION AND DEVELOPMENT ON THE LAND SURROUNDING UNPLUGGED WELLS IS REDUCED BY AS MUCH AS 50%, RESULTING IN A SUBSTANTIALLY DEPRESSED LOCAL TAX BASE.”

Low-Producing Wells: Life-Support for Oil and Gas Operators, But at What Cost?

Of the approximately 75,000 producing wells in New Mexico, tens of thousands are producing merely a trickle a day—some as low as a single barrel of oil.[43] In fact, as of 2022 New Mexico had some of the highest concentrations of low-producing stripper wells in the country.[44] In Eddy County, 70.34% of the active wells were stripper wells (9,448 stripper wells); in Lea County, 67.44% of the active wells were stripper wells (8,885 stripper wells); in San Juan County, 65.91% of the active wells were stripper wells (8,005 stripper wells).[45]

When production drops so low, the expense to plug and restore the well can surpass the total remaining value of operating the well, and well operators often shut down production intermittently—whether illegally[46] or by placing the wells under “temporary abandonment.”[47] When a well is left idle for more than a year at a time, OCD is empowered to require immediate decommissioning of the well.[48] Powerful economic incentives often deter state regulatory and enforcement agencies from exercising their authority against insolvent or border-line insolvent companies, however, for fear that additional financial strain could cause these wells to become orphans even more quickly than expected.[49]

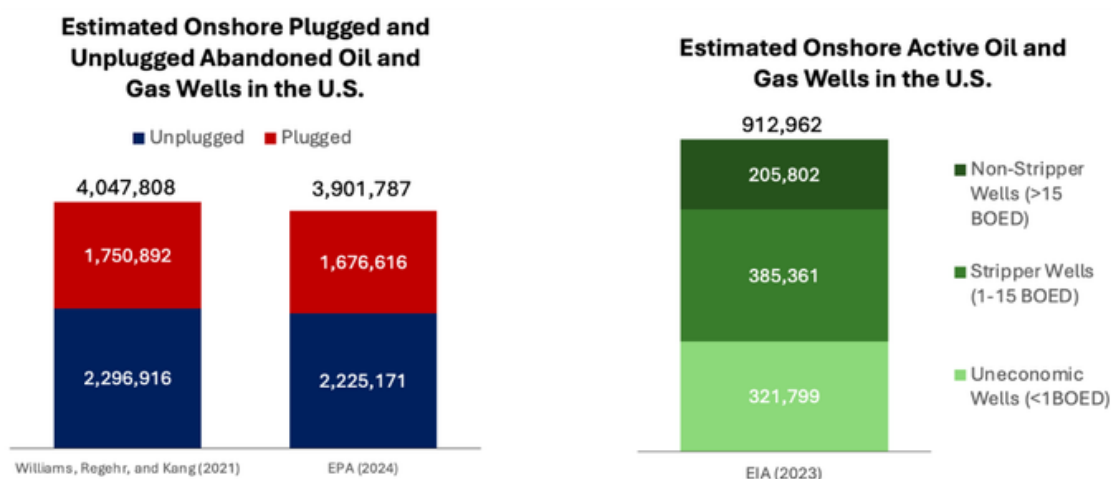


Fig. 1: National estimate of the proportion of abandoned wells plugged and unplugged, and the ratio of low-producing and stripper wells versus profitable, non-stripper wells. Source:
<https://ohiorivervalleyinstitute.org/wp-content/uploads/2024/11/Screenshot-2024-11-08-at-2.41.30%E2%80%AFPM-1536x650.png>



Even though these wells are producing almost no oil or gas, the operators are still kept afloat by tax preferences and subsidies.[50] According to the Congressional Research Service, there are at least eight “special tax provisions” that benefit oil and gas operators, including “exclusions, deductions, credits, deferrals, or preferential tax rates.”[51] Altogether, these policies “reduce the tax liability of the oil and gas sector by \$1.5 billion annually.”[52] Two of these policies that benefit low-producing well operators the most are the percentage depletion and the marginal well tax credit.[53] The Ohio River Valley Institute has explained how companies can actually claim a percentage depletion tax credit that “result[s] in total deductions exceeding the taxpayers investment in the well, lowering their tax liability.”[54] These and other state and federal incentives encourage stripper well operators to forestall plugging for as long as possible.[55]

These low-producing wells are not only extraordinarily inefficient and uneconomical to operate, they also carry additional heightened environmental risks. In the context of natural gas wells, a 2020 study of low-producing wells in Ohio found that 21% of gas produced was emitted directly into the air.[56] Because unburned natural gas consists mostly of methane, if even 3% of gas produced at a well escapes into the atmosphere, the environmental profile can be even worse for the planet than coal.[57] According to environmental scientist Amy Townsend-Small, some marginal wells actually emit even more natural gas than they produce.[58] Nationally, these stripper wells “are responsible for approximately half of the methane emitted from all well sites... while accounting for only 6% of the nation’s oil and gas production.”[59]

While methane emissions are often intentional and can occur at nearly every phase in the production of LNG,[60] methane also escapes from low-producing wells in the form of intermittent leaks, [61] which are difficult to track. As a result, companies frequently use a formula devised by the Environmental Protection Agency for estimating their methane emissions based on a theoretical “leak rate” for each well component.[62] The EPA’s formula has been proven to dramatically underestimate actual methane emissions, however, and studies have shown some wells actually emit as much as 700% of the predicted amount.[63]

4

New Mexico's State Programs are Entirely Unprepared for the Coming Crisis



Blowout of forgotten well on a Crane County ranch could be a sign of a “whack-a-mole” future in the Permian Basin.

Despite efforts by New Mexico's OCD, the state orphaned wells program is simply not equipped for the herculean challenge ahead.

Current Bonding Requirements in New Mexico are Dangerously Inadequate

The current bonding requirements for AROs under New Mexico state law are grossly inadequate to cover the expected costs for plugging and remediating these wells, and have resulted in a "bonding gap." [64]

Current ARO bond requirements are set forth in N.M Admin Code § 19.5.8.9(C)-(D):

- For a single active well lease: \$25,000 plus \$2 per foot of the projected depth of a proposed well;
- For a "blanket" lease for multiple active wells:
 - \$50,000 for one to 10 wells;
 - \$75,000 for 11 to 50 wells;
 - \$125,000 for 51 to 100 wells; and
 - \$250,000 for more than 100 wells
- For a single inactive well lease: \$25,000 plus \$2 per foot of the depth of the well
- For a "blanket" lease for multiple inactive wells:
 - \$150,000 for one to five wells;
 - \$300,000 for six to 10 wells;
 - \$500,000 for 11 to 25 wells; and
 - \$1,000,000 for more than 25 wells.

In other words, New Mexico currently allows oil and gas operators to put up a single statewide blanket bond of \$250,000 to cover the ARO for an unlimited number of wells. The bonds are held by the OCD, which can request additional funds to cover the actual costs of plugging and remediation, but companies consistently avoid paying an amount that insures plugging and remediation. [65]

New Mexico also lags behind federal bonding requirements, which increased in June 2024 and are now substantially higher than New Mexico's. The minimum individual lease bond on federal land is now \$150,000, and the minimum statewide lease bond for wells on federal land is \$500,000. [66] This differential means that orphaned wells on state and private land are even less likely to be remediated than wells on federal land.

The Bonding Gap Is Currently Estimated in the Billions and Will Only Keep Growing

Estimates of the total liability for plugging and reclamation of existing wells in New Mexico vary, but the total is certainly in the billions. If the industry playbook is not closed and the state is left to clean up all the current low-producing stripper wells - 39,000 as of 2023 - that number could metastasize, especially given that some oil and gas infrastructure, like tank batteries have reached remediation costs of up to \$7.6 million at a single site. [67]

These enormous costs are only increasing as more wells continue to be drilled. New Mexico taxpayers will ultimately foot the bill for billions of dollars in cleanup costs unless something is done to hold these oil and gas operators accountable.

The current state bonding rates therefore remain dangerously inadequate. Although there was a statewide effort in 2024 for a reform bill that would have increased the maximum blanket lease to \$10 million, it failed in the House of Representatives.[68]

Figure 1 – Graphical representation of oil, gas, and saltwater disposal wells subject to analysis

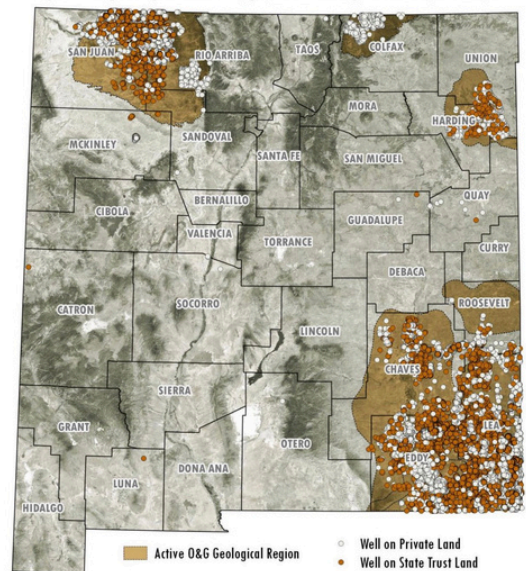


Figure 1: Center for Applied Research Report for State Land Office, 2021.[7]

New Mexico's Orphaned Wells Program Depends on Federal Funding, Which Has Evaporated Under the Trump Administration

The federal government allocated \$4.7 billion for decommissioning of orphaned wells, beginning in 2021, under the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA).[69] In 2024, New Mexico, along with California, Colorado, and Montana, plugged more than one hundred orphaned wells using federal funds.[70] Shortly after taking office, however, President Trump issued an

executive order which immediately halted any further distribution of these plugging and reclamation funds.[71]

This loss of federal funding for plugging and remediating orphaned wells makes it even more essential that New Mexico develop strict legislation and regulations which can ensure that oil and gas operators cover the full cost of restoring these lands. Up until now, the majority of funding for New Mexico's orphaned wells program has come directly from these federal sources.[72]

Sweetheart Deals for Bad Actors: Lenient Settlement Terms for Oil and Gas Operators

Instead of forcing operators to plug and reclaim the tens of thousands of low-producing or idle wells, states often negotiate unfavorable and economically unreasonable settlements intended to keep the operators financially afloat while recuperating pennies on the dollar for urgent plugging and remediation efforts.

For example, Diversified is a company that operates thousands of low-producing and idle wells, and rather than force the company to plug and remediate more than 3,000 idle wells in Kentucky, Ohio, Pennsylvania, and West Virginia, those state governments offered Diversified a deal that only required it to plug twenty wells per year in each state. [73] At that rate, Diversified's wells will remain idle and unplugged for the next 750 years.[74]

It's Settled: New Mexico to Bankroll Plugging of Oil Wells for Texas Company

The company at the center of the settlement is called a "poster child" for state Oil and Gas Act reforms.



Published on December 21, 2023

By Jerry Redfern [Twitter](#)



This New Mexico well, owned by Ridgeway Arizona, last produced oil in 1982, even though it is marked as "active" in the state's database. Photo: Jerry Redfern.

Similarly in New Mexico, a 2023 settlement between the state government and Ridgeway Arizona Oil Corp. resulted in New Mexico's Energy, Minerals and Natural Resources Department (EMNRD) taking responsibility for plugging and remediation of 299 idle wells owned by the company, in exchange for as little as \$30,000 per month for the life-span of the company.[75] **According to EMNRD, the actual cost to plug and remediate the 299 wells could easily surpass \$30 million.[76] By that conservative estimate, "assuming the company is still solvent and making money... they'll finish paying off the costs in late spring of the year 2107."**[77]

Ridgeway Arizona Oil Corp. had already defrauded the state through misuse of OCD's temporary abandonment rule instituted during the COVID-19 pandemic—by registering many wells that had not been active for decades as 'temporarily' abandoned, the company sought to avoid penalties for failure to fully plug and remediate those wells.[78] On top of that, Ridgeway had also been issued fines totaling \$270,000 due to separate violations of produced water and flaring regulations.[79] The 2023 settlement waived those fines, resolved the charges for misusing the pandemic program, and absolved Ridgeway of the vast majority of the actual cost for cleaning up its messes—saddling those burdens squarely on taxpayers and the cash-strapped OCD.

Ridgeway is run by Pedevco, a Houston firm led by Russian-born American citizen Simon Kukes—who entered the media spotlight in the early 2000s as a close business associate of President Putin.[80] Kukes is notorious for claiming to be part of Trump's "election strategy development group" in 2016,[81] and he donated more than \$270,000 to the Trump Victory Committee.[82]

Big donor to Trump campaign made overture to top Russian official, boasting of connections

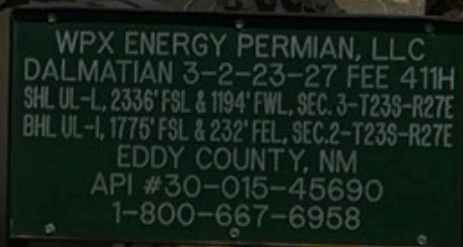
The businessman, who donated \$273,000 in 2016, wanted a face-to-face meeting with a Russian official.



Simon Kukes, right, with Rudy Giuliani at a fundraiser in the Hamptons on Aug. 13, 2016, hosted by Woody Johnson, now U.S. ambassador to the UK. The Dossier Center

5

The Actual Cost of Plugging and Remediation is Much Higher than Estimated



Scholars at Resources for the Future have identified multiple factors that can make the ultimate cost of well plugging and remediation much higher than the estimated average.[83] These include:

- **Age and Deterioration:** Damage to the well bore or casing can easily “multiply plugging costs”, and turn a relatively straightforward plugging operation into a million-dollar project.[84]
- **Depth:** Plugging cost increases exponentially in relation to the depth of the well.[85]
- **Surface Topography:** Each 10-foot change in elevation in the five acres surrounding the well site increases decommissioning cost by 3%.[86]
- **Shape and Use:** Whereas conventional wells feature a straight vertical borehole, the ‘unconventional’ wells typical of the past two decades feature a single vertical borehole that splits off into spokes at a certain depth, then travels horizontally along a geological feature. These wells are fracked to loosen the rock enough for oil and gas to flow. Plugging horizontal, fracked wells is an engineering challenge that substantially increases cost.[87]

Unconventional Fracked Wells Present a Novel Engineering Challenge, With Complications Far Exceeding OCD’s Experience to Date

New Mexico has allowed fracking in natural gas wells for decades, and it has become standard practice across the industry since the fracking boom of the mid-2000s. Not only are fracked wells significantly more costly to plug, but they present unique environmental and health hazards as well.[88] New Mexico lacks a full list of the chemicals used by well operators in the fracking process.[89] Up until this year, those secret ingredients have often included incredibly hazardous ‘forever chemicals’ (PFAS) that accumulate in the human body over time and directly cause cancer.[90] It is impossible to say how many wells sit idle and unplugged today, leaking residual PFAS or other toxic fracking ingredients. Fracked wells are also suspected of leaking radium into groundwater,[91] which can end up in local wildlife.[92] Even in Colorado, where the law requires strict disclosure of the chemicals used in oil and gas operations, operators are still systematically failing to disclose their toxic constituents.[93]

As explained above, unconventional fracked wells also have a much more severe decline curve in terms of production, and a far shorter lifespan than traditional wells as a result.[94] Where oil and gas companies use projection models based on data from conventional wells, their estimates of the due date for these wells ARO are also often inaccurate.[95] **The shorter productive lifespan of these wells, combined with the higher cost to plug and remediate them, makes well abandonment significantly more likely.[96]**

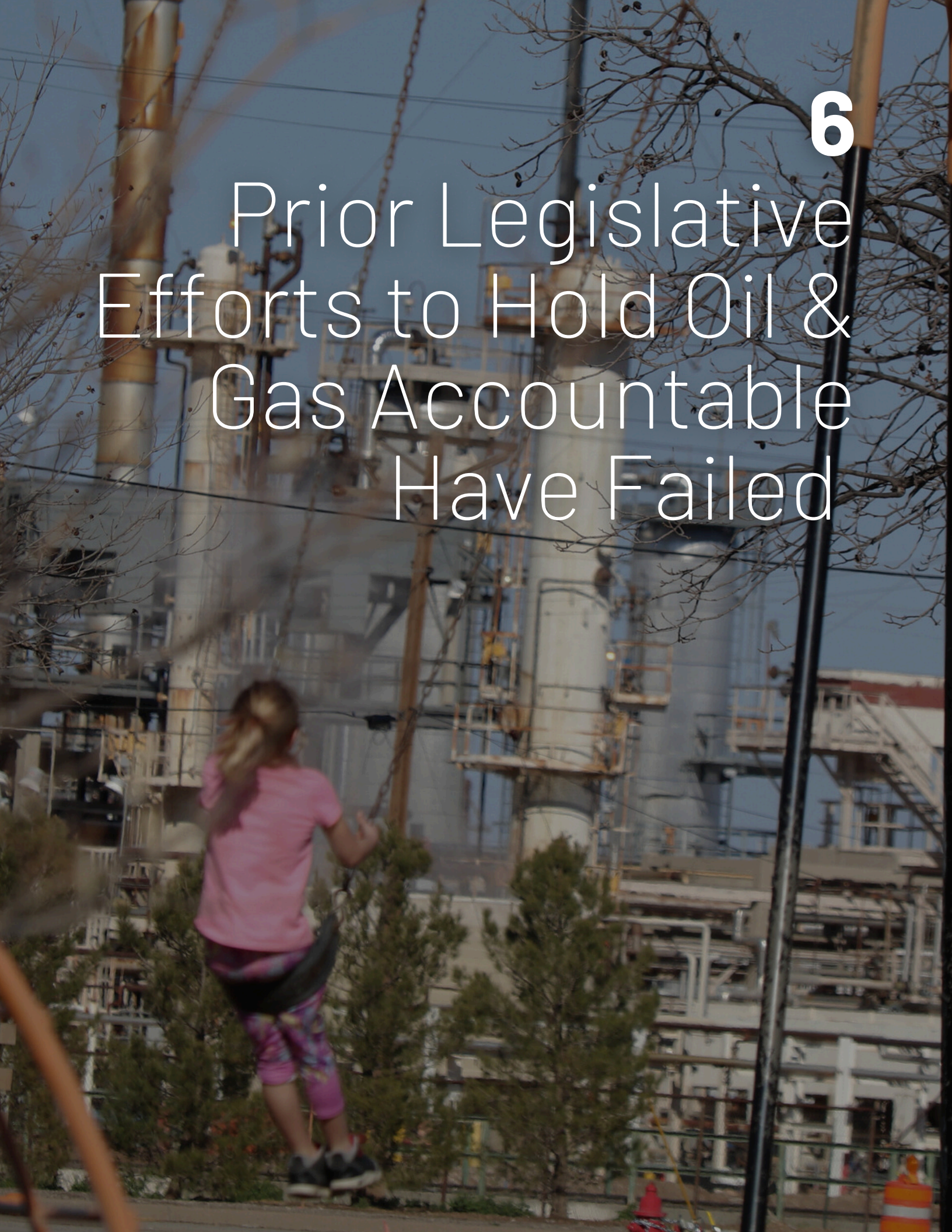
The overwhelming majority of wells that have been plugged and remediated thus far are conventional wells. The added cost to plug unconventional fracked wells relative to traditional vertical wells will consume even more of the agency's limited resources.



A fracking well head. Photo by Joshua Doubek via Wikimedia Commons.

6

Prior Legislative Efforts to Hold Oil & Gas Accountable Have Failed



Currently, New Mexico’s government-led plugging and restoration of abandoned wells is funded in part by the Reclamation Fund. The Oil and Gas Conservation Tax—created in 1959—is deposited primarily into the General Fund, where it supports core public services such as education, health care, public safety, and infrastructure.[97] A smaller portion has historically been allocated to the Oil and Gas Reclamation Fund, which was created later as a backstop to pay for well plugging and site remediation only when operators abandon their legal obligations and cannot be compelled to comply. Under the Conservation Tax oil and gas operators in New Mexico are taxed at a rate of 0.0019 or 0.0024, depending on the average oil price during the preceding quarter. Of that tax revenue, a certain percent is allocated to the Reclamation Fund (10.5% or 19.7% depending on the average oil price).[98]

HB 80 (2026) Reallocates Existing Conservation Tax Revenues Toward Industry Reclamation Costs in Lieu of Adequate Bonding and Enforcement

In 2026 the New Mexico Legislature passed House Bill 80, which will increase the share of the Conservation Tax to the Reclamation Fund in phases, setting the distribution at 50 percent beginning July 1, 2027; to 75 percent beginning July 1, 2028; to 100 percent from July 1, 2029 through June 30, 2037; and then finally back to 50 percent beginning July 1, 2037. [99]

In effect, HB 80 uses an existing tax—never intended solely to cover industry cleanup liabilities—to subsidize oil and gas well plugging and remediation costs that operators are already legally required to pay as a condition of doing business in New Mexico. By shifting these costs into the Reclamation Fund to be paid with funds diverted from the General Fund, the bill transfers financial responsibility from industry to the public. The Reclamation Fund redirects \$46.4 million in FY28, \$76.4 million in FY29, and \$108.5 million in FY30, with a maximum projection of \$142 million by 2037 away from the General Fund. [100].

Importantly, even with 100% of the Conservation Tax revenue specifically dedicated to the Reclamation Fund, the amount collected will come nowhere near the billions necessary to cover clean-up costs for all the wells abandoned by insolvent operators.

House Bill 481 (2025): Allowing OCD to Collect Reimbursement for Actual Costs of Plugging

Sponsored by Representative McQueen, Chair of the House Energy, Environment & Natural Resources Committee in 2025, House Bill 481 would have required oil and gas operators to directly reimburse OCD for the actual costs of plugging orphaned wells and remediating and restoring the surrounding areas.[101] The bill allowed various operators to decide amongst themselves how to divide up their obligations.[102]

While certainly a step in the correct direction, even if the bill had passed, OCD would still have had to pursue expensive and time-consuming litigation to collect reimbursement from the responsible parties.

As the Legislative Finance Committee noted, the bill “d[id] not provide a clear mechanism for collection of the reimbursement or specify if the reimbursement is deposited into the oil and gas remediation fund” and did not “specify clear guidelines for OCD to determine proportional responsibility of current and prior operators.”[103] Due to deceptive record-keeping and transfers between operators, the company left in control of an orphaned well is usually financially insolvent, which limits OCD’s ability to collect reimbursement.[104]

One other bill introduced in 2025, House Bill 257, would have given OCD authority to intervene in certain transfers of oil and gas wells in order to prevent them from landing in the hands of insolvent operators.[105] That bill died in the New Mexico House of Representatives.



CONCLUSION: It's Time for a Regulatory Overhaul

**WE NEED
REAL SOLUTIONS**

REAL ZERO EMISSIONS STANDARDS
BASED ON THE TIMELINE SET BY SCIENCE

A JUST TRANSITION FUND
FOR IMPACT ASSESSMENTS, PLANNING, CLEANUP, AND WORKERS

ENVIRONMENTAL PROTECTIONS
THAT PROTECT OUR HEALTH & RIGHTS TO CLEAN AIR, WATER, LAND

CLEANUP INVESTMENTS
PAID FOR BY POLLUTERS, ENFORCED BY THE STATE

ENERGY DEMOCRACY
LOCAL CHOICE - ENERGY BY AND FOR THE PEOPLE

**WE DEMAND A
LIVABLE FUTURE**

STATE OF NEW JERSEY
SECRETARY OF COMMERCE
MAX GOSWAMI
PAUL T. RUTLEDGE
H. R. SELLERS
B. L. WOOD
AND ASSOCIATES
ENGINEERS, INC.
ROBERT J. CONERAGH, INC.
1966



New Mexico has no choice but to urgently disrupt the Playbook and force these companies to cover the actual costs of plugging and reclamation. That is the only way to avoid externalizing environmental, financial, and human health costs onto local communities and landowners.

At a minimum:

- 1 The obligation to properly decommission a well must apply to all parties who have held an interest in that well, and they must be held jointly and severally liable.
- 2 All transactions that effect or shift the ownership of a pre-existing well must be approved by the New Mexico state government, which can deny the proposed transaction in the public interest. Any such transaction that would increase the risk of orphaning a well must be rejected.
- 3 All new drilling of wells or transactions that effect or shift the ownership of a pre-existing well must be accompanied by a well-specific bond, the amount of which must be determined by the State of New Mexico and not be based on blanket bonds, flawed productivity projections, or inappropriate discounting of future costs.[106] In the alternative to a well-specific bond, financial assurance amounts should cover at-least the average cost for plugging and remediation.
- 4 Any additional cost of properly plugging and remediating a well that exceed the posted bond must be covered through a levy on the liable companies' current production.
- 5 The obligation to plug and remediate a well must be permanent, and companies must not be released from their obligations following initial plugging of a well. Plugged wells must be monitored for damage or leaks and must be repaired at the operators' joint expense. The plugs do not last forever, and hazardous and costly leaks can occur for any number of reasons.[107]
- 6 The obligation to plug and remediate inactive wells must be fully and promptly enforced.

There are myriad risk factors that drive the orphaned wells crisis in New Mexico, and only holistic legislative and regulatory reform will give New Mexicans the power to overcome this imminent threat.

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Time is running out to
make sure that the oil
and gas industry cleans
up their mess...

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