



Institute for Energy Economics
and Financial Analysis

Plugging the gap

As rising number of inactive wells grows, New Mexico costs of orphan well cleanup soar

Trey Cowan, Energy Finance Analyst



Contents

Key findings.....	3
Executive summary	4
Framing New Mexico’s orphan well issues.....	5
Inactive well list spans 40+ years.....	8
Rapid growth of the state’s average plugging costs	9
Operators waiting longer to plug wells.....	9
List of low-producing stripper wells is growing.....	11
Conclusion.....	12
About IEEFA.....	13
About the author.....	13

Figures

Figure 1: Projected cost for plugging, remediation, and reclamation of orphan wells in New Mexico, 2020 and 2025.....	4
Figure 2: State’s average cost to plug a well.....	5
Figure 3: Inactive wells tracked by New Mexico OCD by last year of production	8
Figure 4: New Mexico annual average oil and gas well production, in year prior to plugging	10
Figure 5: New Mexico stripper wells producing 2 barrels oil equivalent or less per day.....	11

Key findings

The number of orphan wells in New Mexico is growing faster than the state can plug them.

Well-plugging costs are rising rapidly, with one 2025 estimate putting the low end of liabilities at \$700 million.

The annual average number of wells falling into inactive status—where last production took place more than a year prior to classification change—quadrupled between 2016 and 2025.

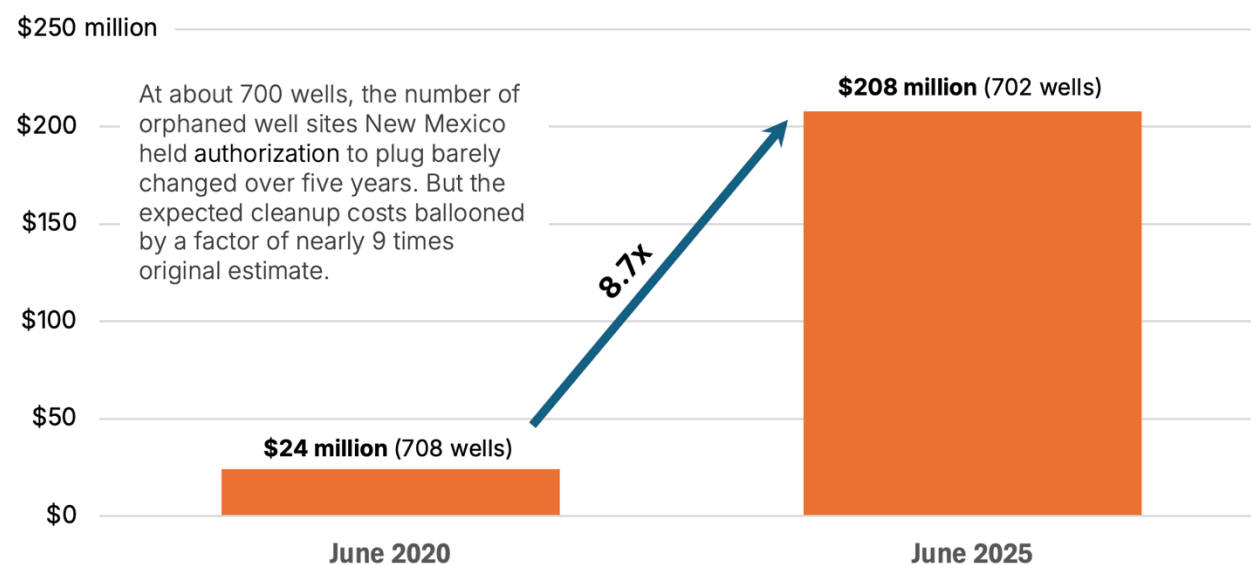
Slightly more than 1 in 5 of the 576 New Mexico registered owners had only inactive wells in 2025.



Executive summary

New Mexico has doubled its annual rate of plugging orphan wells and is updating financial assurance rules for well operators. But the number of wells producing less than 2 barrels of oil equivalent (BOE) per day—wells that are likely to become orphans—is growing faster than the state can plug and remediate its existing inventory of idle wells. Making matters worse, orphan well costs are skyrocketing: The state’s total estimated costs for plugging and remediating orphan wells have risen more than 750% since 2020, even though the number of approved orphan wells has remained roughly constant.

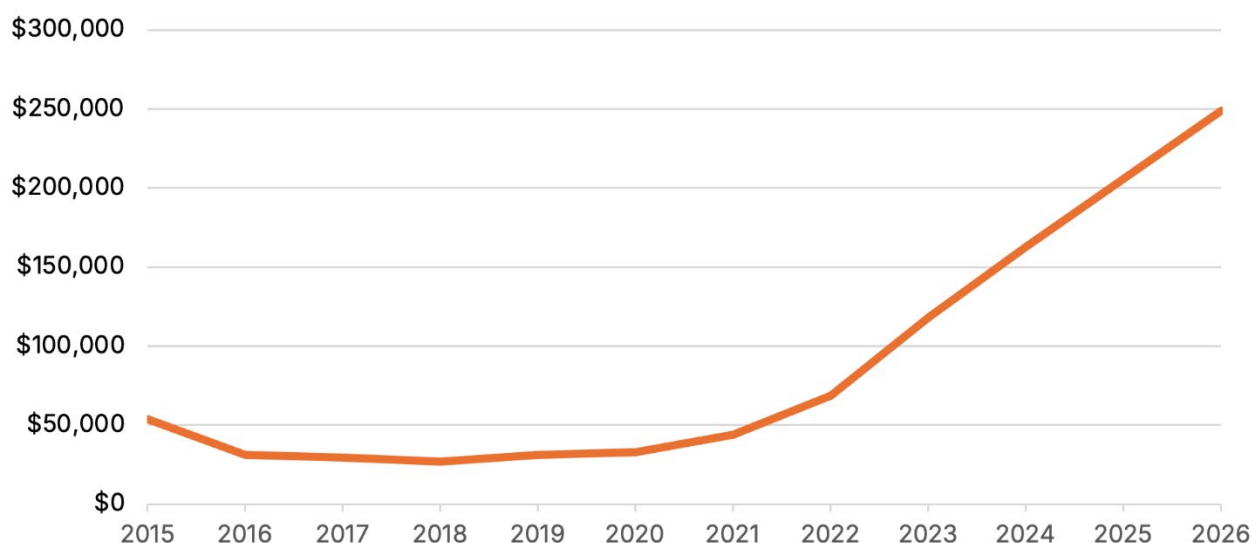
Figure 1: Projected cost for plugging, remediation, and reclamation of orphan wells in New Mexico, 2020 and 2025



Source: New Mexico energy, Minerals, and Natural Resources Dept., Oil Conservation Division; IEEFA.

A modicum of cost inflation in plugging, remediation, and reclamation services over a five-year period is expected. But this is not what the state's plugging program has experienced. Before 2021, the state's average cost to plug a well hovered around \$50,000. However, by 2026, that figure had ballooned to \$250,000, a fivefold increase. The steep rise in average plugging costs underscores the state's failure to control these expenses in recent years. In other words, this hockey stick-shaped surge suggests that more than just normal market pressures are at play.

Figure 2: State's average cost to plug a well



Source: New Mexico EMNRD – Adrienne Sandoval Presentation (August 2022), EMNRD Annual Reports 2023 to 2025, EMNRD – Ben Shelton Presentation (August 2026); IEEFA.

Framing New Mexico's orphan well issues

New Mexico's Oil Conservation Division (OCD), the agency that regulates the state's oil and gas industry, reports that the cost of plugging and remediating orphan wells has skyrocketed. IEEFA's analysis of the state's stripper wells (those producing 10 or fewer BOE/day) in conjunction with data found in the New Mexico Legislative Finance Committee's (LFC) 2025 report indicates that orphan well liabilities will continue to expand.^{1,2}

The 2025 LFC report, *Policy Spotlight: Orphaned Wells*, noted the New Mexico Energy, Minerals and Natural Resources Department's (EMNRD) Oil Conservation Division (OCD) listed 702 orphaned wells on its roll and another 1,400 inactive wells likely to be added to the state's orphan well roster. Using recent average per-foot plugging costs and average well site reclamation costs, the LFC

¹ NM Stat § 7-29B-3 (2025) certifies an oil or gas property as a stripper well for tax incentives if its daily production in the preceding calendar year is less than 10 barrels of oil equivalent (BOE) per day using a 6,000 cubic feet to 1 barrel ratio for conversion of natural gas production. Note, federal stripper well definition applies to wells having less than 15 BOE per day.

² New Mexico Legislative Finance Committee. [Policy Spotlight: Orphan Wells](#). June 24, 2025.

estimated that the state's liabilities for plugging and remediating orphan wells exceeded \$700 million.³

The report cited several factors for rising costs. First, plugging costs are a function of well depth, which has increased over time, boosting the cost of future orphan wells. Second, state plugging costs are rising faster than industry inflation and faster than in other states. Lastly, the lack of a consistent state definition of an orphan well has led to confusion and ambiguous tracking, and may have contributed to uncertainty and undercounting in prior years' estimates.

The LFC focused only on inactive wells on state and private lands that the OCD had authority to plug and did not consider inactive wells on tribal or federal sites. For the 702 wells under OCD authority, the LFC projected costs of \$208 million for plugging, remediation, and reclamation. Their projection for the additional 1,400 inactive wells assumed to become the state's future responsibility was \$468 million. The cost liabilities for both actual and assumed orphaned wells projections were based on the individual actual depths of the roughly 2,100 identified wells multiplied by an average of \$43.85/foot for plugging cost (with an assumption that gas wells cost 9% more than oil wells) and reclamation costs averaging \$83,000 per well. In addition to adjacent infrastructure costs required for the cleanup process, the LFC estimated the state's financial liabilities at \$700 million.⁴

But the LFC also noted that the \$700 million projection was likely the low end of state costs in the "near future." IEEFA's analysis of the data supports the conclusion that New Mexico will need to spend significantly more than \$700 million to plug and remediate wells left behind by financially incapable or unknown operators. We observed several patterns in the state's data that indicate a disproportionate number of orphaned wells are being added to the rolls, along with cost inflation, causing the state's financial liability to balloon.

Aside from our observations, recent statements by OCD reveal the difficulty it has had making headway on its orphan well roster:

- In 2020, OCD Director Adrienne Sandoval told the New Mexico House Committee on Natural Resources that the agency was responsible for 708 orphan wells.⁵
- By the 2024-25 fiscal year, the agency reported that it was responsible for plugging 702 orphan wells on state or private lands; it spent \$28.4 million to plug 114 wells.
- In August 2026, OCD Deputy Secretary Ben Shelton told New Mexico lawmakers that the number of orphan wells needing to be plugged still stood around 700.⁶

³ *Ibid.*

⁴ *Ibid.*

⁵ New Mexico Oil Conservation Division. [Reclaiming Orphaned Oil and Gas Wells—Creating Jobs and Protecting the Environment by Cleaning Up and Plugging Wells](#). June 1, 2020.

⁶ New Mexico Oil Conservation Division. [FY26 Plugging Program Update](#). August 3, 2026.

The implication is clear: About as many wells are added to the state's list every year as wells that are plugged in any one year's time.

The agency, however, isn't even treading water. The status of orphaned well cleanup depends upon the state's pursuit of inactive well operators who failed to clean up their drilling sites. An oil or gas well attains orphan status if it has been inactive (defined as not producing hydrocarbons for 15 months); has no financially viable operator (or the operator and state have entered an agreement); and the state has pursued and received legal authority to plug the well.⁷

It is the third characteristic (*i.e.*, when the state receives legal authority) that gives the OCD discretion over the size of its orphan well roster. The roster would be much larger if the state pursued all out-of-compliance operators. And closer attention to out-of-compliance operators led the OCD in December 2021 to claim 1,741 documented orphaned wells in its application for federal funding under the Infrastructure Investment and Jobs Act, increasing its acknowledged responsibilities by more than 1,000 wells.^{8, 9}

In its FY26 program update, the OCD estimated its liability for currently authorized wells and facilities at approximately \$200 million.¹⁰ In the same update, the agency said there were "thousands of orphan wells statewide,"¹¹ even though it had told the federal government in 2021 that cleaning up 1,741 orphan wells would cost \$291 million. Obviously, the OCD was aware that its future liabilities for plugging orphan wells far exceed the cost of the wells that it currently has legal authority to clean up.

In other words: The \$200 million estimate is only a small portion of the state's ultimate financial liabilities for plugging orphaned wells.

⁷ New Mexico Administrative Code. [19.15.5.9 Compliance: Section B](#). December 1, 2008.

⁸ Grist. [How New Mexico abandoned 1,000 oil and gas wells overnight](#). February 16, 2022. Also see: New Mexico Oil Conservation Division. [Cover letter and Notice of Intent to apply for Formula Grant funding pursuant to Section 40601 \(Orphaned Well Site Plugging, Remediation, and Restoration\) of the Infrastructure Investment and Jobs Act](#). December 22, 2021.

⁹ New Mexico Energy, Minerals and Natural Resources Department. [Orphan well clean-up work begins](#). November 3, 2022.

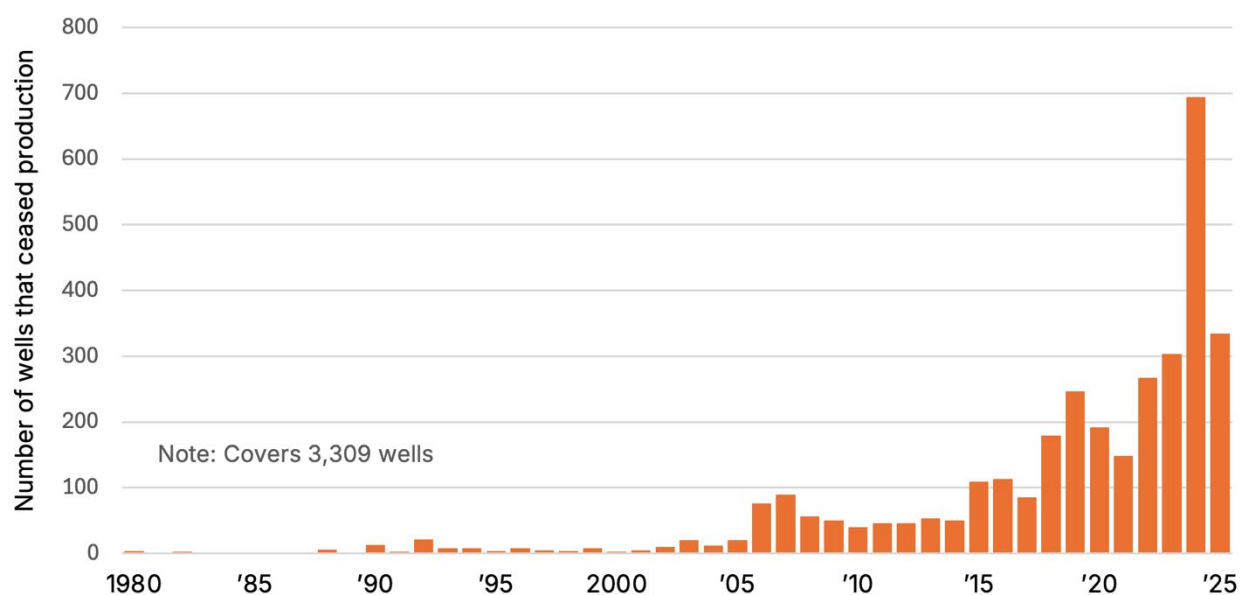
¹⁰ New Mexico Oil Conservation Division. [FY26 Plugging Program Update](#). August 3, 2026.

¹¹ *Ibid.*

Inactive well list spans 40+ years

OCD was tracking 3,309 inactive wells in mid-August 2026. Between 2006 and 2015, it added about 61 wells per year to its list of inactive wells. Between 2016 and 2025, however, the average annual number more than quadrupled to 255 wells. If the percentage of inactive wells that are ultimately orphaned holds steady over time, New Mexico could see more than four times as many wells becoming orphans by 2030 as it found in the prior decade.

Figure 3: Inactive wells tracked by New Mexico OCD by last year of production



Source: New Mexico Energy, Minerals and Natural Resources Dept., Oil Conservation Division; IEEFA.

Typically, the costs of plugging and remediating older wells are higher than those of wells that have gone inactive in recent years. More can go wrong over time, making these older wells more costly to remediate. There are more than 800 wells that last reported production more than a decade ago. Since OCD currently has plugging orders for about 1,600 inactive wells, there is a high probability that half the wells where OCD has authority to plug could exceed current costs.¹²

LFC's spotlight on orphaned wells also found that 121 companies hold only inactive wells. Together, these companies own 1,034 inactive wells. Each company is out of compliance with the Oil and Gas Act because they have too many inactive wells. Simple math suggests that 21% of the 576 oil and gas operators registered in New Mexico last year have only inactive wells.¹³ And the odds that New Mexico will have to pay for the cleanup are approaching 100%.

¹² New Mexico Oil Conservation Division. [FY26 Plugging Program Update](#). August 3, 2026.

¹³ New Mexico Legislative Finance Committee. [Policy Spotlight: Orphan Wells](#). June 24, 2025.

Rapid growth of the state's average plugging costs

The probability that many orphan wells will exceed typical well costs is exacerbated by the changing trajectory of the state's well-plugging costs. Between FY19 and FY24, the per-foot cost for state-contracted plugging rose roughly 270% from \$12 to \$44, according to LFC. Using EMNRD annual reports, the OCD Well Plugging Update FY26, and an EMNRD presentation, we were able to cobble together the state's average spending per well plug between FY2015 and FY2026.^{14,15,16,17,18}

Our analysis showed that plugging costs per well are rising steadily. The LFC orphan well report also highlighted weaknesses in the well-plugging program due to OCD's lack of cost-tracking mechanisms, procurement process, and quality oversight. If no further mitigation of OCD spending occurs, it's highly likely that the bill to plug and remediate orphaned wells in the state could exceed the \$700 million LFC estimate.

Operators waiting longer to plug wells

Operators are waiting longer to plug wells, according to the LFC analysis of 13,134 oil and gas wells plugged between 2007 and 2024. The longer waits have led to lower and slower production in recently plugged wells. The barrel-of-oil-equivalent (BOE) production was about 5 BOE/day in early years (i.e., 2007 to 2010) and has fallen to about 2 BOE/day.¹⁹ All else being equal, the value of wells in the year prior to plugging is now about one-third, or 33%, of their former value. While dependent on commodity prices, a prima facie conclusion is that operators who build their business strategy around stripper wells are increasing the percentage of wells that are either near the end or even past the end of their useful economic life.

¹⁴ New Mexico Oil Conservation Division. [FY26 Plugging Program Update](#). August 3, 2026.

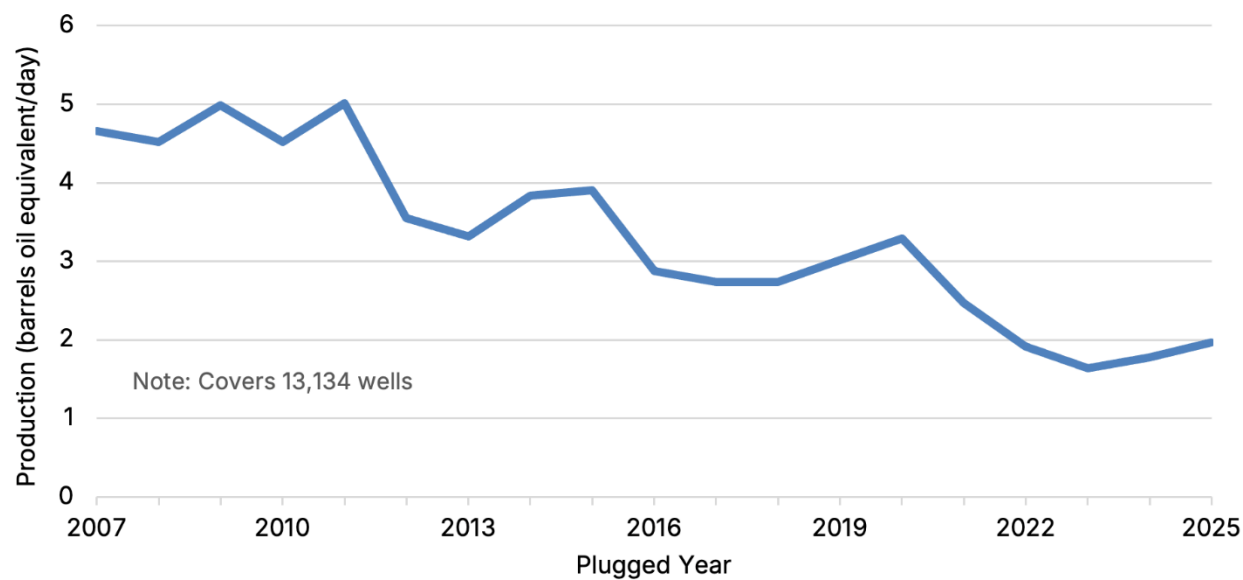
¹⁵ New Mexico Legislature: Water & Natural Resources Committee. [Orphan Well Program Handouts](#). August 25, 2022.

¹⁶ New Mexico Energy, Minerals and Natural Resources Department. [Annual Report 2023](#).

¹⁷ New Mexico Energy, Minerals and Natural Resources Department. [Annual Report 2024](#).

¹⁸ New Mexico Energy, Minerals and Natural Resources Department. [Annual Report 2025](#).

¹⁹ New Mexico Legislative Finance Committee. [Policy Spotlight: Orphan Wells](#). June 24, 2025.

Figure 4: New Mexico annual average oil and gas well production, in year prior to plugging

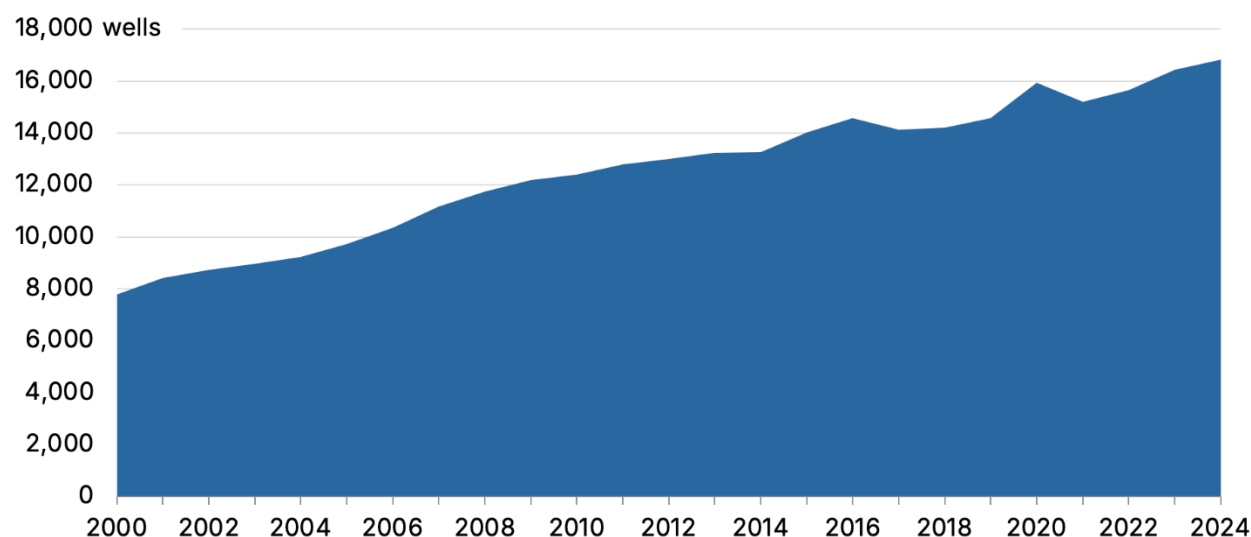
Source: Enverus, as presented by New Mexico Legislative Finance Committee; IEEFA.

List of low-producing stripper wells is growing

The trend of oil and gas operators waiting until production falls to less than 2 BOE/day before plugging and abandoning wells may explain another pattern: The number of NM stripper wells producing less than 2 BOE/day grew from 7,800 in 2000 to 16,831 in 2024.²⁰

The growth of prolonged low-productive or unproductive wells raises a related concern: As low-output wells accumulate, the financial health of their operators will likely deteriorate. The combination is likely to result in a growing share of inactive wells with no viable owner to properly decommission them, forcing the state to take on more orphan wells than expected.

Figure 5: New Mexico stripper wells producing 2 barrels oil equivalent or less per day



Source: U.S. Energy Information Administration, based on Enverus well production data; IEEFA.

The increasing population of the lowest-producing stripper wells (and the rising number of financially insecure owner-operators) suggests New Mexico will be responsible for far more than the roughly 2,100 orphaned and inactive wells, which the LFC estimates would require a low-end cost projection of \$700 million to plug and remediate.

²⁰ U.S. Energy Information Administration. [Appendix C: Full Datasheet](#). Accessed August 14, 2026.

Conclusion

The facts are clear. The costs of well plugging, remediation, and reclamation have steadily risen in New Mexico on a per-well basis. The OCD staff is much smaller than in other oil and gas-producing states. The number of low-producing wells that could ultimately become orphan wells within the state is growing faster than the OCD's plugging rate. Given that more than 300 wells were added to the state's inactive list in 2025, the pace of likely orphan wells is growing three times faster than New Mexico's well-plugging program.

The LFC's 2025 report detailed many of the issues the OCD will face in the coming years. Getting a better handle on plugging and remediation costs will help New Mexico temper its future orphan well liabilities. The state needs to slow the well status flow from low-producing to long-term inactive. The only way to do that is to establish a system that ensures the timely plugging of wells by operators.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

About the author

Trey Cowan

Trey Cowan is an IEEFA oil and gas analyst with 30 years of experience focused primarily on providing commentary & analysis to capital markets and upstream oil & gas management teams. Prior to his current position, he was an analyst with S&P Global (Platts Analytics) where he focused on U.S. upstream drilling activities and fundamental energy trends. He is a Texas licensed CPA and holds an MBA in Finance from Vanderbilt University.

This report is for information and educational purposes only. The Institute for Energy Economics and Financial Analysis ("IEEFA") does not provide tax, legal, investment, financial product or accounting advice. This report is not intended to provide, and should not be relied on for, tax, legal, investment, financial product or accounting advice. Nothing in this report is intended as investment or financial product advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, opinion, endorsement, or sponsorship of any financial product, class of financial products, security, company, or fund. IEEFA is not responsible for any investment or other decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific or general recommendation or opinion in relation to any financial products. Unless attributed to others, any opinions expressed are our current opinions only. Certain information presented may have been provided by third parties. IEEFA believes that such third-party information is reliable, and has checked public records to verify it where possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice.

