

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF PROPOSED
AMENDMENTS TO 19.15.2, 19.15.5,
19.15.8, 19.15.9, AND 19.15.25 NMAC**

CASE NO. 24683

DIRECT TESTIMONY OF SAMUEL M. BRADLEY

Intervenor Independent Petroleum Association of New Mexico submits the following testimony of Samuel M. Bradley:

Q: Please introduce yourself to the Commission.

A: My name is Samuel M. Bradley. I own and operate Impetro NonOp LLC and Summit Energy group, which operates wells in Colorado, Kansas, and Nebraska, as well as a past board member and managing member of the Small Operator Society, LLC ("SOS"), past president and current board member of the Colorado Alliance of Mineral and Royalty Owners (the "Alliance"), and a member on the Board of Directors of the National Stripper Well Association. The Alliance has about 1,000 members and the SOS consisted of about 60 Colorado-based oil and gas operators.

Q: You understand that this is sworn testimony to be submitted in writing to the Oil Conservation Commission in connection with a rulemaking proceeding concerning financial assurances?

A: I do.

Q: What was your educational background after high school?

A: I received a Bachelor of Science in Petroleum Engineering from the Colorado School of Mines in 2007, graduating with Order of the Engineer.

Q: What do you do for a living?

A: I have done quite a few things in the oil and gas industry over the past 20 years, both before and after getting my degree. First, I worked as a floorhand for Caza Drilling. Throughout school I interned with Encana Oil & Gas, El Paso Exploration & Production, and Samson Resources planning and executing drilling operations from New Mexico to North Dakota. I spent five years with Range Resources as the Drilling Engineer and their Reservoir & Development Engineer. Specific to New Mexico, I worked with Navajo Nation Oil & Gas Company as their Operations Engineer in the San Juan Basin, drilling vertical and horizontal wells, including in the Mancos Shale. In Colorado currently, I am a partner in Summit Companies, which operates horizontal wells in Colorado, and own Impetro Nonop LLC, which operates wells in Kansas and Nebraska.

Q: Did you play a specific role in the 2022 Colorado Oil and Gas Conservation Commission (COGCC) financial assurance rulemaking?

A: Yes, but referring to it as just 2022 is misleading. The process that ended with the final 700-series financial assurance rules adopted by the COGCC in March 2022 started three years earlier with the passage of Senate Bill 19-181, which overhauled the Colorado Oil and Gas Conservation Act. Section 12 of SB 19-181 specifically directed the COGCC to adopt new rules regarding financial assurance ("FA"). In response, about 60 small and mid-size operators formed SOS to participate in the financial assurance rulemaking, as well as other changes to the Oil and Gas Conservation Act. SOS was comprised of small companies that, prior to the new FA rules, operated between 10 to 250 wells.

Q: Can you summarize the major changes in financial assurance the COGCC adopted?

A: Prior to adopting the new 700 rules, a \$150,000 blanket plugging bond was available to all operators, regardless of size. The 2022 Rulemaking adopted six (6) different tiers of financial assurance plans, which sounds flexible in theory but was unworkable for most small operators in practice. Generally, any well producing less than 15 BOE per day required a single-well bond. For my company, the prior \$150,000 blanket bond covering 100 wells turned into an \$18 million financial assurance requirement. Other SOS members had similar experiences after adoption of the 2022 rules with at least one member having its bonding increased to \$30 million. The new FA rules targeted lower producing wells, requiring every operator to provide single-well bonding if total production across all wells fell below about 6 BOE per day.

Q: What effect did the 2022 FA rules have on your company's operations?

A: Because cash bonds are typically the only available financial assurance for small operators, I could not make the economics work to continue operating my wells. _____ sold its assets to another operator and has not returned to Colorado. Many of the other SOS members made the same decision and left the state. On the other hand, I know of one example where a larger operators in Colorado actually received a refund of \$10 million under the new rules, and this has been a major criticism of many of the environmental proponents of the rule changes, that the effects and unintended consequences were not as they had planned.

Q: What were the statewide effects of the new FA rules?

A: We saw orphan well counts double in the span of a year, and triple compared to 2018. Statewide total financial assurance fell by \$4 million, but another \$70 million is still to be refunded, making total lost FA in the \$75 million range, not accounting for the loss of jobs, severance taxes, and other economic losses from wells that operators walked away from. From 2021, prior to adoption of the new rules, to 2024, the number of orphaned wells reported by COGCC almost quadrupled, from 236 to 941, and orphaned sites increased from 500 to almost 2,000. At the Alliance's recent annual conference which I attended, ECMC indicated that the number in Colorado this year is closer to 1,200 orphan wells.

Q: How did the 2022 FA Rule specifically affect small operators?

A: It may seem obvious, but increasing FA levels does not equate to plugged wells. The vast majority of wells are plugged by operators and operators need capital, typically generated by production from other wells, to pay for plugging costs. A cash bond on every well penalizes small operators twice: first, tying up capital to secure the bond; then the operator must front all the plugging and reclamation costs, while continuing to pay the FA premiums. Prior to adoption of the 2022 FA rule, about 86% of operators in Colorado were stripper well operators, with average per well production of less than 15 BOE per day. Because the 2022 FA rule tied single-well bonding to stripper wells, the already thin margins under which small operators could remain economically viable in the past disappeared. Many, like my company, exited Colorado.

Q: Your companies operate wells in other states, like Nebraska and Kansas. How are other states addressing financial assurance in the oil and gas industry?

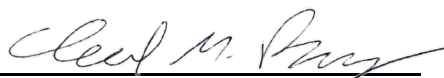
A: In my experience as an operator of oil and gas wells in other states, Kansas has one of the most successful bonding and plugging programs. With the initial \$25 million in federal grants under the Infrastructure Act, the Kansas Conservation Commission used contractors to plug 2,492 wells, and state funds to plug another 75 wells in 2024. Kansas uses several different funds and options., allowing operators to pay an annual percentage of the total bond required into the states' plugging assurance fund. The SOS suggested the same kind of program to during the 2022 FA rulemaking, based on the pool bonding model used for subsurface tanks in the gas station industry, known as the LUST Trust Fund managed by the Colorado Department of Labor and Employment since the 1970s, which provides clean up funds for underground storage tanks by collecting a small surcharge on every tank refill. This is similar to the Oil and Gas Conservation Tax already in place in New Mexico, where the costs of clean up and remediation are recouped over the productive life of the product. I'm also familiar with the model used by Oklahoma, where the state contracts with a third-party surety or insurer to provide the apool for operators to pay into as the well produces.

Q: Are you familiar with the proposed financial assurance rules in the New Mexico proceeding?

A. Yes, I have reviewed them.

Q: How does WELC's proposal compare to the 2022 FA rules adopted by COGCC?

A. At first glance, it would appear that Colorado's FA rules provided a buffet of options for operators to get into FA compliance. But as I have already mentioned, that flexibility was simply not available to the vast majority—86%—of Colorado operators. In WELC's proposals in New Mexico, I see the same kind of rigid, one-size-fits all approach that ignores critical factors like the depth of the well, the length of time the well produced, the length of time the well has been active, well construction materials and well maintenance history, the cost of plugging similar wells, and such other factors that contribute and determine the cost of plugging wells. While the WELC proposal may introduce lower production thresholds for wells, it presents the same kind of astronomical increase in financial assurance obligations. WELC's proposal also inadvertently deems wells capable of production as "Marginal Wells" if falling below barrel and daily operation requirements. Simply increasing FA levels for already responsible operators is a fool's errand and disproportionately targets the small operators who provide a vital service and economic contribution to the State.



SAMUEL M. BRADLEY

I hereby affirm under penalty of perjury of the laws of the State of New Mexico that the above statements are true and correct to the best of my knowledge, information, and belief.

DATE: 08/06/2025



SAMUEL M. BRADLEY