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 VERN ANDREWS

Intervenor Independent Petroleum Association of New Mexico submits the following testimony of Vern Andrews:

Q: Please introduce yourself to the Commission.

A: My name is Vern Andrews. I am an engineer working for Walsh Engineering in Farmington, New Mexico.

Q: Describe Walsh Engineering's business.

A: We operate oil and gas wells in the San Juan Basin areas of Colorado and New Mexico.

Q: Describe your education after high school and role at Walsh Engineering.

A: I studied Civil Engineering with a specialization in Environmental Engineering at New Mexico State University.

Q: Are you familiar with the proposed rule makings submitted by Western Environmental Law Center, et al. and by the Oil Conservation Division?

A: I am.

Q: What do you think about the proposed financial assurance requirements of $150,000 bonding requirement on "marginal" wells?

A: In my experience, costs are exceedingly high for the San Juan Basin. Walsh's business model is, since we are working interest owners, is to use a metaphor, squeeze the last juice out of the rind before throwing the rind away. We have an annual plugging program accelerating plugging and abandoning or, to go back to my metaphor, throwing away a rind that still had juice in it.

Q: Please explain.

A: First, $150,000 per well greatly exceeds the costs of plugging and abandoning a well and reclaiming the surface in the San Juan Basin. Because of recent changes in New Mexico regulations, plugging and abandoning and reclamation costs have gone up recently. This is mainly due to NMOCD policy requirements of waiting 6 hours for cement to set on isolation plugs in every zone and similar additional requirements added in the past few years. The cost to plug shallow coalbed methane wells producing from the Basin Fruitland formation (about the shallowest common formation in the San Juan Basin) was typically less than $20,000 for under-pressured FRC wells a few years ago.

Q: How much would it cost you today under the current regulatory environment?

A: Our last two wells, with surface reclamation, cost about $50,000 each to plug, abandon and reclaim, an increase driven by regulation of about 250%.

Q: Where does the $150,000 financial assurance number come from?

A: You would have to ask the Division, but I understand that it is supposed to represent about the average cost for the Division to plug, abandon and reclaim a well.

Q: What do you think of that cost simply not engaging in the plugging and abandoning operation?

A: I am not familiar with the Permian Basin issues and geology, but in the San Juan Basin, that significantly exceeds the commercial costs to plug, abandon and reclaim even the deepest wells in the Basin.

Q: What would happened to the wells that Epic owns and operates that would qualify as a marginal or are approaching marginal well status?

A: It would obviously be cheaper to plug and abandon the well rather than put up an individual well bond at the level of $150,000, so we would be forced to plug and abandon wells sooner, before we had produced the last oil and gas from the well. Technology also changes yearly, with new methods of stimulating and producing wells, there would simply be valuable hydrocarbons that are commercially producible left in the ground.

Q: How much per well?

A: It is hard to say. Many of the gas wells in the San Juan Basin can produce economically for years at very low volumes because there are lower overhead costs associated with operating those wells.

Q: Do you have other concerns about financial assurances rules provided?

A: Yes. We also operate in Colorado. While I have significant issues with Colorado's new financial assurances as a scheme, one thing that I think they did correctly was carve out wells regulated by the Bureau of Indian Affairs (BIA) which requires separate bonding. The BIA's task is not to look out for the oil and gas industry and is a formidable regulatory agency. I see no reason for the Oil Conservation Commission to impose additional financial assurances above and beyond what BIA thinks is appropriate.

Q: If the Commission decides that it should impose some new bonding requirements under this proposed rulemaking, what would you suggest.

A: First, that there is some staggering of the amounts of bonding taking into consideration the depth of the well. Second, that the requirements do not apply to wells subject to the bonding requirements of the Bureau of Land Management (which I think is the current status of the OCD's regulations) or BIA. Third, all the wells we own and produce will not become non-economic at the same time, so added financial assurance should only apply to low producing/marginal wells. Last, EPIC Energy contributes $700,000.00 per month to the economies of San Juan, Rio Arriba and Sandoval counties in New Mexico. EPIC Energy has a proven and develop reserve-based value of $29.5M with an additional $30M in proven but undeveloped value, PUD wells are wells that will be drilled. With the additional bonding requirement of $150,000 per well, EPIC would not be able to afford the $70M bonding required for the existing wells, and would not be able to drill the additional PUD wells. Walsh Engineering has 110 employees and currently operates all of EPIC's wells and an additional 2000 producing wells that would not be able to afford the additional requirements. This is would be a disastrous loss of high paying energy industry jobs!

Sincerely,
Vern O Andrews

Vern O. Andrews

President
EPIC Energy, LLC.
Managing Partner
Walsh Engineering & Production, Inc.