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 DAVID MITCHELL

Q: Would you please introduce yourself to the Commission?

A: My name is David Mitchell and I am vice president of engineering for Longfellow Energy, LP ("Longfellow"). Longfellow is a privately owned oil and natural gas exploration and production company that focuses on exploration and development of new reserves in onshore US basins that have been underdeveloped or overlooked, based out of Dallas, Texas.

Q: Would you please give the Commission a summary of your educational experience and work history?

A: I have a Bachelors of Applied Science (Engineering) from the University of British Colombia. I have been an engineer in the oil and gas industry for over 20 years.

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: Yes, I do.

Q: Tell the Commission about Longfellow's history and business today, what it is doing and what its focus is.

A: Longfellow's story starts with Riata Energy, which was founded in 1985. Eventually, Riata Energy was taken public as Sandridge Energy. Around 2007, Riata's founder formed a new venture, Longfellow. Longfellow has developed numerous projects in the United States. Since 2019, one of Longfellow's primary projects has been in Eddy County, New Mexico, and its Loco Hills Project, where we are horizontally developing the Yeso Formation.

Q: Is Longfellow an operator in New Mexico?

A: Yes, Longfellow operates about 100 wells in New Mexico on state, federal, and fee lands, with plans to drill as many as 100 more. As of June 2024, our largest New Mexico project, Loco Hills, contained 43 horizontal wells, 100 producing vertical oil wells, and 4 salt-water disposal wells. Longfellow operates 96 of those producing wells, which hold over 9,000 acres, and has drilled 34 of the wells since 2021.

Q: Do you understand the term "stripper well?"

A: Yes, it's a common term in the industry. For oil wells, it typically means wells averaging production of less than 5 barrels of oil per day, but a lot of wells can break-even at 2 barrels of oil per day, depending on the market which can vary widely. Just this year, we have seen a swing of almost $20 per barrel.

Q: Are any of the wells in your Loco Hills project considered stripper wells?

A: It varies, but Longfellow currently operates about 50 stripper wells. Under WELC's initial financial assurance proposal, Longfellow would have been required to provide financial assurance of over $11,000,000 just for our vertical wells, whereas a similar number of wells in Texas would require financial assurance of $2,000,000.

Q: As you understand it, does Longfellow's financial assurance obligation change under the revised WELC proposals?

A: Yes., Longfellow would need to post a sizeable bond. Historically, that requires paying a percentage of that bond amount to the bonding company as a fee. Once a bond amount reaches a certain level, the bonding companies require collateral, which normally means posting actual cash or letter of credit with the bonding company. I suspect, but do not know, that bonding companies will make individual well bonds available for a similar fee to operators with strong balance sheets and, likely, collateral pledged.

Q: If New Mexico adopted WELC's proposed rule changes, would Longfellow continue to operate in New Mexico?

A: It would be really difficult to leave the state after investing so much in Eddy County and our Loco Hills project, but the regulatory scheme proposed by WELC would make it challenging to allocate additional capital to a New Mexico project rather than a project in Texas. With our background and presence in Texas, these new rules would make it 5-6 times more expensive to operate just a fraction of the number of wells in New Mexico as compared to Texas. And in that figure, I am not accounting for the other more difficult regulations in New Mexico, like gas capture rule, increased plugging costs, and stringent reclamation standards, or the administrative steps in getting projects approved and operational.

Q: Do you have any other concerns about WELC's revised proposed rules?

A: Yes, as an operator in New Mexico looking over these proposed changes, we have several. I believe the definition of "marginal well" is broad enough to include wells that provide economics that are better than just "marginal" economics. We also have concerns about the use of unclear terms like "substantial risk" to deny change of operators, regulatory constraints in converting inactive wells to a beneficial purpose, the decreased time frame to temporarily abandon (TA) wells, issues regarding bonding, and how the five-year lookback could complicate operations and maintaining our labor force.

Q: It sounds like Longfellow has some experience with permitting delays. How does that play into your concerns with WELC's revised proposals?

A: Longfellow operates five (5) saltwater disposal wells in its Loco Hills project. Two of those were vertical wells Longfellow recompleted to be saltwater disposal wells. It has been our experience that it takes 1.5 – 2 years from the filing of an application for a new disposal well to receipt of approvals. Here, the WELC proposal considers injection to be a beneficial purpose for a well, which excludes the well from inactive additional bonding. But given the normal timeline of obtaining regulatory approvals and then converting an inactive well to a disposal well, the WELC proposal would require that we post a bond for a well, go through the regulatory process, and then seek to have the bond released. All of that provides administrative and financial burdens on an operator. The timelines proposed in the rulemaking are far too compressed.

Q: Are there negative consequences to decreasing the available time for an operator to TA or plug a well?

A: Yes. No one can dispute that the oil and gas industry is highly volatile and market dependent. Just this summer, over a span of 6 weeks, WTI prices went from $57 per barrel to $75 barrel, an $18 swing. For small to mid-size operators, these kinds of price fluctuations have real-world impacts beyond the price you pay at the pump. We are constantly evaluating production days, operating costs, and price. There are many good reasons an operator may shut in an active well wholly unrelated to a decision to terminate production forever. But that is what will result from the proposed rules by reducing not only the time period in which the operator must decide whether to TA or plug a well, but also the ultimate available length of time the well can remain in approved TA status. Longfellow operates one well that, in my opinion, is the best argument against WELC's efforts to expedite plugging. We acquired the Hastie #002 Well back in 2022. The Hastie #002 was spud in November 1949 by S.P. Yates, as Executor for the Estate of Martin Yates, Jr. It produced for another 60 years before being neglected by an operator, and sat idle for another five years before the Division took action to get the operator to plug and abandon the well, which luckily never occurred. EOG Resources, Inc. acquired the Hastie #002, and while filing to plug and abandon the well, also restored production and Longfellow acquired. Since June 2019, an oil well spud in 1949 that had sat nearly idle for nine years, has produced 900 barrels of oil, with 0 mcf of gas flared and no compliance issues. Without time to evaluate the individual well and current market, WELC's proposal will force the premature plugging of hundreds of wells, because the financial assurance required to keep a marginal well in TA status is astronomical and unobtainable for most operators.

Q: What obstacles do you see with WELC's operator registration and transfer requirements?

A: In our industry, projects get bought and sold, and management personnel change companies with some frequency. This routinely happens in E&P companies as projects are assembled, developed, and then sold. It would not be unusual for a Vice President of Land in Company A to become a President or Partner in Company B.

Under WELC's proposed rule change, Company B is now bound to the compliance record of Company A for the next five (5) years, because the proposed rule makes the compliance determination "currently." *See*, *e.g.*, Proposed NMAC 19.15.9.8(B) ("that is not currently in compliance with Subsection A of 19.15.5.9 NMAC"); Proposed NMAC 19.15.9.9(B) (requiring that new operator certify past employer or entity "currently in compliance…"). To the extent WELC's proposed rules espouse a purpose of going after "bad actors", this rule penalizes new operators based on the current conduct of previous employers, over which the new operator and the former employee of the previous employer have no control. It would be very difficult for Longfellow to hire a new employee if the rule requires that Longfellow be penalized due to bad conduct that may occur at some point in the next five years by the prospective employee's current (or former) employer. Longfellow's ability to operate under the proposed rule would be tied to the compliance efforts of other companies with which Longfellow no relationship. In the circumstance where an officer transitions between competing companies, even if non-compliance arises four years after the officer left, the new operator is punished. This makes little sense to me from a legal or economic perspective, because a competitor has no economic incentive to remain compliant for the sake of others in the field and the departing officer cannot effectuate control or compliance within the past operator. This also has the potential to create a de facto non-compete arrangement for New Mexico workers, which could result in an already-scarce, highly valuable labor force moving from New Mexico to Texas.

Q: Can you speak on the use of "substantial risk" in the proposed rules and your specific concern?

A: Under the proposal, the OCD may deny transfer or registration of operator if there is "substantial risk" of not being able to meet P&A liability. This seems vague and subjective. It would be very helpful to our land and finance team to understand what test will be used to determine "substantial risk." Vague rules like this proposal create confusion and uncertainty. If, in the future, Longfellow were to sell some of its operated New Mexico wells, it would not be able to evaluate potential purchasers under WELC's ambiguous proposed criteria.

Q: Overall, what do you anticipate the impact of the proposed rules on industry?

A: Most wells are sold as part of packages between operators. For example, a package might present 300 older vertical wells, with the opportunity to drill 30 new horizontal wells on the leasehold acreage. These new financial assurance rules require potential buyers to not only evaluate each well for single-well bonding, but also whether the package itself or acquiring the package would affect the buyer's existing inventory and put the operator above the 15% mark, and require the operator to single bond *all* of its wells. The levels of financial assurance could swing wildly based on whether 1 or 2 wells were plugged, and it would not make business sense to toggle such a large commitment of capital. At the end of the day, there are going to be a lot of well packages that operators are not able to sell or market because of the unworkable toggling of financial assurance requirements. Previously, wells in these types of packages were not profitable at certain price per barrel and production equivalent per day for larger operators, but could be operated profitably by a smaller company. Under the WELC proposal, however, the up-front financial assurance costs would effectively eliminate small to mid-size operators as potential buyers and future operators.

DAVID MITCHELL

I hereby affirm under the 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: 8/1/2025

DAVID MITCHELL