

**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 GEORGE SHARPE

Intervenor Independent Petroleum Association of New Mexico submits
the following testimony of George Sharpe:

1 **Q: Please introduce yourself to the Commission.**

2 **A: My name is George Sharpe. I am Investment Manager at Merrion Oil & Gas.**

3 **Q: Do you understand that this testimony is sworn testimony as if you were live**
4 **at the Commission and under oath?**

5 **A: I do.**

6 **Q: Have you reviewed the rule making proposals before the Commission?**

7 **A: Yes, I have reviewed both the Amended Proposals from the Western**
8 **Environmental Law Center and other Applicants and the Division's Proposals.**

9 **Q: Briefly introduce the Commission to Merrion Oil & Gas.**

10 **A: Merrion is a small, third-generation family-owned and operated business based in**
11 **Farmington, New Mexico The current company started with J. Greg Merrion, a petroleum**
12 **engineer who moved to the San Juan Basin in the 1960s and drilled the Edna No. 1 near**
13 **Gallup, New Mexico. After drilling shallower development wells with a partner, he started**
14 **Merrion Oil and Gas in 1981. For the past forty years, Merrion has operated and produced**
15 **from over 400 wells in New Mexico, including the Edna No. 1, which Merrion plugged in**

2003 after over 40 years of production, and the Edna No. 2, spud on May 3, 1961, and still producing today.

Q: How long have you been working in the industry?

A: Over 40 years. I graduated from Colorado School of Mines in 1982 with a bachelor's degree in civil engineering and a master's degree in petroleum engineering. I then spent eight (8) years with Chevron, primarily in reservoir engineering positions before coming on board with Merrion Oil and Gas in 1990. Since 1993, I have managed the investment group overseeing acquisition, divestiture, and development

Q: Describe Merrion's business in the San Juan Basin.

A: After the Fruitland Coalbed methane areas became largely drilled up 20 to 25 years ago, Merrion has been operating primarily gas wells in the San Juan Basin that produce from the Fruitland, Dakota, Mesa Verde, and/or Picture Cliffs formations. We operate depleting gas wells that typically have very long-lived production lives but often spend many years producing at quite low volumes. We operate vertical gas wells in the San Juan Basin at depths ranging from approximately 5,000 to 6,500 feet. Of the 63 wells we operate today on a combination of federal, state, and private surface and mineral, about 85% are over 20 years old. Looking at 2023 and 2024, average production was approximately 50 MCFD per well, which is below the IRS definition of marginal. Merrion itself has plugged and reclaimed 144 wells and well sites in New Mexico alone. Merrion only has 63 currently active wells, so we have plugged more than twice as many wells as we currently operate. Therefore, Merrion clearly didn't need to be forced by regulations to do what prudent operators do; namely properly plug, abandon, and reclaim their wells when they are no longer viable.

1 **Q: Are all the wells you operate wells that Merrion drilled originally?**

2 **A:** No, while we have drilled some of the wells we operate, most were purchased later
3 in their producing lives. The San Juan Basin for some decades was dominated by larger
4 companies such as Conoco (now part of ConocoPhillips), Amoco (which merged into BP)
5 as well as some large companies that generally are not classified as major oil and gas
6 companies such as Devon and Cross Timbers, later known as XTO (now a part of
7 ExxonMobil). As drilling activity died out in the gas formations and production began to
8 decline, those companies slowly sold out. For instance, we bought a larger package of
9 wells from Conoco in the late 1990s, some of which have been plugged, but most of which
10 Merrion still operates today.

11 **Q: What effect would the financial assurance requirements have on Merrion's**
12 **business?**

13 **A:** The definitions of a marginal well, combined with the requirement that each
14 marginal well be bonded at \$150,000, would be devastating. Most of the wells that
15 Merrion Oil & Gas operates are marginal and would fall under this requirement. Merrion
16 Oil & Gas does not have the ability to meet the requirements of various surety companies
17 that sell bonds and, therefore, has to post cash bonds. Cash bonds at the level being
18 discussed would have killed the deal I described where Merrion purchased the Conoco
19 wells, many of which have continued to produce for almost 30 years after the purchase,
20 because those wells would not have justified the bonding costs. Basically, productive
21 profitable low volume gas producers would need to be plugged and abandoned
22 prematurely in order to avoid higher bonding costs.

1 **Q: Are there any other aspects of the proposed financial assurance rules that**
2 **concern you?**

3 **A:** Yes. In addition to requiring single-well bonding for lower producing wells, WELC
4 has also proposed a 15% trigger, where if “marginal wells” make up more than 15% of an
5 operator’s total well count, the operator must then put up bonds for every well it operates.
6 Merrion definitely falls into this category, and thus Merrion would be required to single-
7 well bond all of its wells, increasing our FA obligations to \$9.45 million. In comparison,
8 the current OCD Inactive Well Additional Financial Assurance Report anticipates an
9 average \$36,600 per well in additional financial assurance for plugging.

10 **Q: How would Merrion finance an additional \$9.45 million in bonding or financial**
11 **assurance?**

12 **A:** We have some legacy surety bonds still in place, but today smaller, independent
13 operators are generally limited to all-cash bonds. Because of the huge administrative
14 burden (not to mention the expense) to acquire audited financials, Merrion is not currently
15 qualified to get new surety bonds. Even if we were able to jump through all the hoops to
16 acquire surety bonds, maintaining the bonds would require annual premiums of 10% of
17 the face value. Thus, if WELC’s proposed FA rules were adopted and Merrion went that
18 route, Merrion would be paying \$945,000 annually out of pocket just to secure the bonds.
19 Our other avenue is cash bonds. Because we don’t have \$9.45 million lying around
20 without a purpose, we would have to borrow money at today’s high interest rates, so our
21 ongoing costs would still be close to the same number. Most of the wells we operate only
22 make \$10,000 to \$20,000 per year in profit, so covering the \$15,000/year/well bonding

1 costs would render the bulk of our reserve base uneconomic, and would severely eat into
2 the profit of the wells that can still squeak by.

3 **Q: In your experience, how does a \$150,000 single-well bonding level compare**
4 **with actual costs of plugging wells in New Mexico?**

5 **A:** The cost to plug a well is very site-specific, and I think that is one of the reasons
6 our Legislature linked financial assurance to a well's individual characteristics: the depth
7 of the well involved, the length of time since the well was produced, the cost of plugging
8 similar wells, and other factors. Merrion operates older vertical gas wells in the San Juan
9 Basin with depths averaging between 5,000-6,500 feet in total vertical depth. We've also
10 plugged and remediated over 144 wells, many less than 3,500' in depth. In my
11 experience, these shallower wells can be plugged and abandoned for about \$35,000 with
12 equipment offset. Wells in the 3,500 to 7,000 feet depth cost about \$80,000-\$85,000 to
13 plug and abandon, if no extensive remediation work is needed. Therefore, for operators
14 like Merrion working primarily with vertical wells, the proposed \$150,000 is almost double
15 actual costs. And the funds which are tied to the financial assurance are not available in
16 real time for the operator to access when it comes time to plug the well. On top of that, it
17 can take years to get OCD to approve a site for release, requiring us to keep our bonds
18 in place well past the time they are possibly needed. Ultimately, an operator like Merrion
19 is paying out of pocket multiple times: in capital securing the bond, and then paying the
20 actual costs of plugging and reclamation while the capital securing the bond remains tied
21 up.

22 **Q: Are there other provisions of the rule that you find problematic?**

1 **A:** Yes. The Applicant's Proposal suggests a change to Rule 19.15.5.9 requiring that,
2 to be in good standing, an operator must meet the waste prevention requirements in
3 Sections 27 and 28 of the OCD's Rules. There are other enforcement provisions open to
4 the OCD. In my view, the OCD should be working with operators to get isolated wells into
5 compliance and using other mechanisms to induce compliance for operators that do not
6 act with speed. However, it would be incredibly harsh to basically pull an operator's
7 license to operate because the operator is out of compliance on the one well. In fact, you
8 want the person to remain an operator so that they can physically go out and address the
9 problem with their wells. There is simply no mechanism in the industry for replacement
10 operators to step in at a moment's notice.

11 **Q: Do you have any other comments about the proposed rulemaking?**

12 **A:** Yes. I have 43 years experience working for operators and with other operators. I
13 understand how reputable, well run operating companies will react to rule proposals and
14 economic disincentives. If the goal of the proponents of this rule is to make it harder to
15 operate in New Mexico and to put all small operators like Merrion out of business, they
16 will succeed if the proposal is adopted. If their goal is to make sure that uneconomic wells
17 in NM get properly plugged, not only is the rule unnecessary, it will almost certainly have
18 the opposite effect. Further, if adopted, the rule will cause premature plugging of many
19 wells that are currently profitable, but won't be under the new rule. Let me elaborate.
20 First, the rule is unnecessary because most operators are reputable operators like
21 Merrion who plug their uneconomic wells on an ongoing basis. Rules are already in place
22 to address the bad actors who let their wells languish and it is difficult to envisage any of
23 those operators changing their behavior based on this proposal. If reputable operators

1 like Merrion are forced to comply with this proposed rule, then most of our wells are
2 uneconomic and would need to be plugged immediately. Even though those wells don't
3 make much profit, they still support a lot of jobs, from pumpers to compression companies
4 to water haulers and on and on. Further, they still pay royalties and production taxes to
5 the State and local municipalities that will now go away.

6 Second, there will be very few, and perhaps no, future sales of wells from majors to small
7 independents, like our acquisition from Conoco so many years ago. Because of Conoco's
8 high operating expenses, those wells were marginally economic to them at the time, and
9 Conoco would just have had to plug the wells. But with Merrion's lower operating costs,
10 those wells have produced for over thirty years, supported many, many jobs, and paid
11 hundreds of thousands of dollars in royalties and taxes to local landowners, local
12 communities, and the State. And unless we are forced to plug them now, most of them
13 will continue to do so for another 20 years.

14 Finally, the biggest issue with the rule is that when you force small operators who may be
15 barely getting by to plug all their wells immediately, many of those operators will have no
16 choice but to walk away. They certainly will not be able to sell the wells to someone else.
17 So rather than protecting the State from the potential cost of orphaned wells, this new
18 rule is going to immediately dump hundreds if not thousands of orphaned wells in the
19 States lap to plug.

20 In closing, the proposed rule is unnecessary, will reduce production of reserves that
21 otherwise could be economically extracted from existing wells, will cost the State millions
22 in lost royalties and taxes, will result in the loss of hundreds if not thousands of jobs, and

- 1 will backfire by significantly increasing the number of orphaned wells for which the State
- 2 is responsible.

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:

7-31-25


GEORGE SHARPE