

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

REBUTTAL TESTIMONY OF JOHN NABORS

Intervenor Independent Petroleum Association of New Mexico submits the following rebuttal testimony of John Nabors:

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

2 **A:** My name is John Nabors. I am the Executive Vice-President, Operations for Spur
3 Energy Partners LLC.

4 **Q: Can you tell us briefly about Spur Energy and its business?**

5 **A:** Yes. Spur Energy operates roughly 2,700 wells in New Mexico. Our development
6 focus is drilling and completion of horizontal wells. Much of Spur's acreage in
7 southeastern New Mexico was held by production from vertical wells drilled by prior
8 owners and operators. Spur acquired the acreage and many of the vertical wells holding
9 that acreage. Accordingly, Spur operates a significant number of vertical wells in addition
10 to the horizontal wells that it has drilled.

11 **Q: What is the purpose of your testimony?**

12 **A:** I have read the testimony and reviewed the PowerPoint slides of John Garcia
13 (OCD Exhibits 1 and 3) and would like to comment and provide further information to the
14 Commission concerning some of his testimony. Additionally, I would like to provide the

1 Commission with some facts about Spur in light of some of the testimony of Dwayne
2 Purvis.

3 **Q: Regarding Mr. Garcia's testimony, what testimony in particular are you**
4 **concerned about?**

5 **A:** Beginning on Page 4, Line 16 of Mr. Garcia's testimony, and continuing through
6 Page 5, Line 9 he testifies about the Electra Federal # 022 Well (API No. 30-015-36317).
7 Spur Energy is the operator of that well.

8 **Q: Was there anything inaccurate in Mr. Garcia's testimony?**

9 **A:** I do not believe Mr. Garcia misstated any facts concerning the Electra 22 well. He
10 uses the Electra 22 Well as his first example of a marginal well and, as I read his
11 testimony, of one that recently went into marginal status. I doubt that Mr. Garcia had the
12 context behind this, but in my mind, this well is a good example of why the one-size-fits-
13 all aspect of this rulemaking is misguided. I am concerned, however, that Mr. Garcia's
14 testimony about the Electra 22 well may suggest that the OCD intends to enforce the
15 proposed rulemaking in a manner inconsistent with the proposal before the Commission.

16 **Q: Please explain your inconsistency concern to the Commission.**

17 **A:** The Revised Application proposes that a "Marginal Well" is one "that produced less
18 than 180 days **and** less than 1,000 [BOE]" in a twelve consecutive month period. In
19 reviewing OCD Exhibit 15 at page 8, it seems as if the OCD supports this definition. I am
20 not a lawyer, but the meaning seems plain to me that a well must be under both the
21 volumetric threshold and the production day threshold to be "marginal." As I understand
22 the proposed rulemaking, if it had been in effect, I understand that the Electra 22 well
23 would not be a "marginal well" because it produced more than 180 days even though its

1 annual BOE fell below 1,000. The chart on the right side of Page 5 of OCD Exhibit 3
2 shows Mr. Garcia's awareness that the Electra 22 produced over 300 days in fiscal years
3 2023, 2024, and 2025. However, Page 6 of that Exhibit states that the Electra 22 "would
4 be deemed a Marginal well under the Petition" based on its fiscal 2024 production of 361
5 BOE without reference to the number of days it produced. The suggestion is that the
6 Division will either disregard the number of production days reported or reads "and" as
7 "or" in the marginal well definition. Until Mr. Garcia's testimony, we at Spur Energy had
8 no inkling that this rulemaking would cause wells that produce for 180+ days, like the
9 Electra 22, to be deemed "marginal."

10 **Q: Explain to the Commission the factual background that is missing from the**
11 **discussion.**

12 **A:** Absolutely. First let me say that I do not think that this information is available from
13 filings at the OCD, so I am not suggesting that Mr. Garcia knew any of these facts or had
14 the facts available to him. In the latter portion of 2023, the Electra 22 well experienced a
15 tubing failure. Around the same time, Spur Energy began to experience increased
16 gathering-line pressure in the area in which the Electra 22 well is located which makes it
17 harder for that well and all other gas wells to produce. A midstream or gathering company
18 that wishes to receive less gas from producers (or to curtail production) will reduce
19 compression on the gathering system thereby increasing the pressure in its lines and
20 making it harder for connected wells to "buck" or produce into the gathering system. Given
21 those midstream curtailments, repairs to the Electra 22 were not economical. Spur
22 produced the well through the casing annulus which, with the curtailments, resulted in the
23 decreased levels of production that Mr. Garcia notes. Spur Energy recently was advised

1 by the third-party gathering company that it expects to have increased compression and
2 processing capacity online sometime in the fourth quarter of 2025 which will allow more
3 gas to flow into the gathering-lines. With that information, Spur will be in a position to re-
4 evaluate whether the Electra 22 well is a candidate for workover operations.

5 **Q: What are the costs associated with that repair work?**

6 **A:** It remains to be seen as sometimes repairs can be more costly than estimated but,
7 currently, I would estimate the costs to be about \$65,000.

8 **Q: Why would Spur spend that money?**

9 **A:** After looking at various issues closely, my team believes the Electra 22 well may
10 still have several productive years left if the tubing is repaired and midstream take away
11 capacity is increased by lower pressures. Spur will achieve a return on investment that is
12 appropriate to Spur's business model. In simple terms, we would consider such an
13 operation, with the increased midstream takeaway capacity, in hopes of achieving a profit.
14 We believe that the well may again exceed 1,000 BOE annual production and could
15 remain above that level for some years in the future.

16 **Q: Explain "return on investment" as you are using that term.**

17 **A:** Every exploration and production company that undertakes capital projects has
18 some forward-looking pricing projections as well as what is called a hurdle rate which is
19 a minimum or floor return on investment that, over time, a proposed expenditure must
20 meet or exceed under those price projections and reasonable production projections.
21 Both the pricing projections and hurdle rates are confidential information for all oil
22 companies, and I would not volunteer those in a public setting. Very basically, the
23 engineer who directly oversees the Electra 22 would determine the cost of the tubing

1 repair, rationally project increases in production over the future, discount the future cash
2 flow to present value based on Spur's future price models, and determine whether the
3 expected revenue would repay the repair costs plus meet or exceed the return on
4 investment hurdle. The engineer's work would be checked by others in the company and,
5 if it checks out, be considered as a future project by management.

6 **Q: What effect would the proposed financial assurances regulation have on**
7 **Spur's decision making concerning the Electra 22 well?**

8 **A:** If the \$150,000 bonding requirement had been applicable, Spur would have had
9 to make its decisions based on different economics. Spur recently visited with its bonding
10 provider about this proposed rulemaking and the associated costs. It was obvious that
11 the bonding provider did not understand that every "marginal well" in Spur's New Mexico
12 portfolio would have to be bonded at the \$150,000.00 level under this proposal so I do
13 not know about the costs at this time. However, in 2023 when the problem emerged and
14 the midstream curtailment issue was of indefinite length, Spur would have had to decide
15 whether to plug rather than endure the cost of a \$150,000.00 bond. Also, today, in
16 determining whether the repair of the tubing would be profitable, the future cost of
17 maintaining the bonding for the Electra 22 well would have to be factored in. That extra
18 costs might tip the balance between repair and abandonment.

19 **Q: What is the bottom line as to the fate of the Electra 22 well?**

20 **A:** It is impossible for me to testify with certainty what Spur Energy would have done
21 in 2023 – 2024 with different financial assurances requirements. However, I think that
22 with the hole in tubing and the indefinite gas take away curtailment, it is very possible
23 Spur Energy would have made the business decision to plug the Electra 22 rather than

1 incur the costs of bonding. As I mentioned, it is also possible that the costs of bonding will
2 tip the scales and make the repair of the Electra 22 that we anticipate making uneconomic
3 under Spur Energy's business model. While it is impossible for me to predict the future
4 with any certainty, but my staff and I are in the business of projecting out future production
5 and returns on investment under certain assumptions that I have discussed. In my view,
6 there would be considerable waste of otherwise produceable and valuable hydrocarbons
7 if Spur Energy were to have plugged and abandoned the Electra 22 well in the 2023 –
8 2024 timeframe or if it elects to do so soon if there are new financial assurances
9 requirements.

10 **Q: You mentioned that you were critical of the proposed rulemaking's "one size**
11 **fits all" approach. Can you describe that concern considering your testimony**
12 **about the Electra 22 Well?**

13 **A:** Yes. If the Commission adopts any version of the rulemaking, the timeline should
14 be changed. For instance, determination of marginal status should be done over a longer
15 period of time than 12 successive months. A well like the Electra 22 show that the
16 timelines do not reflect the realities of the oil business. If you remove the constrained
17 takeaway issue, it took time to diagnose the problem. Then the well would be put on a
18 company's maintenance schedule. It is very easy for a well that would not be marginal in
19 normal circumstances to temporarily slip into marginal status under the proposed
20 rulemaking. When you add constrained takeaway/low gas pricing issues, the time horizon
21 can validly and for good reasons for repairs can be even longer.

22 **Q: Do you have any more commentary about Mr. Garcia's testimony?**

1 **A:** No. In fact, this is a logical place to transition to my testimony about Mr. Purvis and
2 other witnesses.

3 **Q:** **Describe for the Commission your concerns about Mr. Purvis' testimony.**

4 **A:** I do not intend to detail every concern I have with Mr. Purvis' testimony, but his
5 testimony clearly presumes every supposed "marginal well" is at a material risk of
6 becoming an orphan well that the State will have to plug and abandon. He is not
7 considering how many responsible operators, and I believe Spur is one, conduct
8 business. As I mentioned, Spur's primary business model to accumulate acreage for
9 development was to acquire existing production that held oil and gas leaseholds where
10 we thought and continue to think that there are productive horizons for development of
11 previously unexploited horizontal formations. Part of the process that Spur Energy has
12 after it acquires such acreage is that it works to keep the vertical wells producing at
13 economic levels both to return some of Spur's investment and to hold the acreage for
14 future horizontal development.

15 **Q:** **How does that business model affect your views on Mr. Purvis' testimony?**

16 **A:** As Spur evaluates some of the vertical wells and moves in with horizontal
17 development, we recognize that some vertical wells reach the end of their economic life
18 and need to be plugged, abandoned and reclaimed. For 2025, Spur budgeted to plug
19 and abandon 100 New Mexico wells. As of the date I am signing this testimony, Spur
20 Energy plugged and abandoned 57 wells in New Mexico that it operated plus four more
21 wells where Spur Energy was not the operator, but legal requirements concerning State
22 and Federal oil and gas leases meant that Spur was asked by governmental authorities
23 to plug and abandon and/or remediate four wells on State and Federal oil and gas leases.

1 Q: Mr. Purvis uses the term “decommission” and you are using “plug and
2 abandon.” What is the difference?

3 A: I am using plug and abandon in the same sense that Mr. Purvis testifies about
4 decommissioning. It involves the plugging and abandonment of the well, removing
5 surface equipment, and restoring or reclaiming the surface where the well and equipment
6 were in accordance with applicable legal requirements.

7 Q: What about the other 40 wells in Spur’s 2025 plugging and abandoning
8 budget?

9 A: Some of those are in process right now. When I use the number 57, that means
10 the wells where all the work has been done, and Spur has either received or is awaiting
11 approval from the applicable regulators. I do not know exactly what that number will be
12 on December 31, 2025, but it is Spur’s goal to plug and abandon 100 wells by year’s end.



JOHN NABORS

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: 9/18/2025



JOHN NABORS