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 MIKE CANTRELL

Intervenor Independent Petroleum Association of New Mexico submits the following rebuttal fact testimony of Mike Cantrell:

Q: Please introduce yourself to the Commission.

A: My name is Mike Cantrell. I am the Legislative Committee Co-Chairman of the National Stripper Well Association ("NSWA"), the President and Board Member of the Oklahoma Energy Producers Alliance, and the owner of Cantrell Energy and Cantrell Investments in Ada, Oklahoma. I also own and run Pivotal Strategic Solutions, an oil and gas consulting group. I am a third generation oilman and have owned and run exploration and production companies since 1975. I am offering this testimony based on my five decades of experience, especially in relation to marginal or stripper wells, and active membership as a Boardmember with the NSWA.

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 is your educational and employment experience?

A: I received a Bachelor of Arts in Psychology from East Central University in Ada, Oklahoma in 1972, but began working in the oil field on the production side with my father after graduating, until I started my own company, Oklahoma Basic Economic Corporation in 1975. I sold that company in 2000, started Cantrell Investments, LLC, and also consulted with Continental Resources and became their Vice President of Government and Regulatory Affairs, before returning to my own business. Since 1984, I have served in the following organizations: Oklahoma Energy Producers Alliance, Texas Alliance of Energy Producers, National Stripper Well Association, North Dakota Petroleum Council, Oklahoma Independent Petroleum Association, Domestic Energy Producers Alliance, Save Domestic Oil, Inc., Texas Independent Petroleum Producers and Royalty Owners Association, Oklahoma Independent Petroleum Association, Oklahoma Energy Resources Board, National Association of Royalty Owners: Industry Advisory Board, Oklahoma Independent Petroleum Association, Liaison Committee of Cooperating Oil & Gas Associations, and the Wildcatter Club of Oklahoma.

Q: What is the National Stripper Well Association?

A: The NSWA represents thousands of small, independent oil and gas producers across the United States. Our members operate the majority of the nation's stripper wells—low-production but long-lived assets that are essential to maintaining domestic energy production, rural economic stability, and critical tax revenue streams. A stripper well is defined as producing less than 15 barrels of oil or 90 MCF of gas per day and represent a significant source of long-tail energy production in New Mexico. With over 38,000 stripper oil wells and an estimated 25,000 gas wells nationwide, these assets contribute over $412 million annually in severance and school taxes. Stripper wells are part of a responsible extraction industry that maximizes recovery from existing wells to prevent waste.[1] Even after primary production of oil and natural gas, 60% to 70% of the original hydrocarbons remain in place in the reservoir. With advancing technologies such as enhanced oil recovery (EOR), CO2 injection, and improved artificial lift systems, these remaining molecules can be economically harvested by stripper wells. This creates not only long-term economic opportunity but also sustained tax revenue for generations to come. However, once a well is prematurely plugged, that remaining resource is permanently lost.[2]

Q: Have you reviewed the WELC Applicant's proposed rule changes?

A: Yes, and I understand that the Commission is considering adding a bonding requirement proposed by the Applicants of $150,000 single wells bond for "marginal wells" and a single well bonding requirement for every well in an operator's inventory if "marginal wells" make up 15% of the well count. As defined by the WELC Applicants, "marginal wells" are active wells, and would otherwise be subject to the blanket bonding cap of $250,000.

Q: Do you have any concerns about this proposed rule change?

A: Yes. First, the context and scope of a rule change like this is more far reaching than the current concern or activity of the day. All the great horizontal wells that New Mexico has will deplete and will deplete quickly (on average in three years). When they

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[1] U.S. Department of Energy NETL, "Stripper Well Consortium Advances Production Technology," Spring 2010. https://netl.doe.gov/sites/default/files/2018- 02/EPNews2010Spring.pdf

[2] Society of Petroleum Engineers, JPT: "Hundreds of Thousands of Stripper Wells: Massive Liability or Golden Opportunity?" https://jpt.spe.org/hundreds-of-thousands-of-stripper- wells-massive-liability-or-golden-opportunity

do, those wells will become stripper wells at some point. So New Mexico needs there to be a stripper well industry in place to continue the life of these wells from that time to their economic end. The proposed rules endanger not only New Mexico's economy today, but the economy from oil and gas in New Mexico's future by ignoring alternate possibilities and advances. Second, WELC's proposal mimics Colorado's efforts to eliminate small producers through unsustainable financial assurance levels, enacted in 2022 after the Colorado Legislature passed SB19-181. Since then, Colorado has seen a surge in orphan wells, with 576 added in FY2023 alone, doubling the backlog of abandoned wells.[3] We have also seen average plugging costs soar to greater than $93,000 per well, and $15 million expended in annual taxpayer-funded plugging efforts. In other words, regulations proposed to eliminate orphan wells created both more wells and made them costlier to plug.

Q: Have you reviewed any testimony by the witnesses in this proceeding?

A: Yes, and WELC's witnesses appear to view stripper wells and marginal wells as simply a "net liability." But stripper wells are not a liability—they are low-risk, high-option value assets that contribute, on average, $14 million a year in tax revenue to the State of New Mexico, create 3,160 jobs, and generate $30 million in royalties. These numbers come from a study by Energy and Industrial Advisory Partners, attached as Exhibit A to my testimony, predicting the economic impact of premature plugging and abandonment

[3] Colorado Public Radio, "Colorado Oil and Gas Companies Orphaned a Record Number of Wells," Sept. 2024. https://www.cpr.org/2024/09/17/colorado-oil-and-gas-companies- orphaned-a-record-number-of-wells/

of stripper wells.[4] Not considered in the WELC testimony I reviewed is the wider reaching effect of independent producers, outside of production numbers and well counts. The stripper well industry supports jobs across a variety of sectors, outside of oil and gas to include real estate, retail, healthcare, finance and insurance, manufacturing, professional, scientific and technical services, and construction, and all in the small towns, communities, and rural areas where independent producers are located. As the Commission can see from the study results, New Mexico is the fourth-most affected state and the cumulative effect on revenue, employment, and royalty income cannot be ignored. Rounding out the top five with stripper well inventory and operation are Colorado, Oklahoma, Texas, and California.

Q: What effect have you seen in Colorado following that state's adoption of escalated financial assurance requirements?

A: Following adoption of the new FA levels in 2022, orphan well numbers have skyrocketed in Colorado. Colorado now has an estimated 27,000 orphaned wells, with increased average plugging costs of $93,000 per well. On top of those expenses, with smaller and stripper well operators eliminated, Colorado has also cut an average of $10 million in state revenue and $27 million in royalties from its economy, compounded by a projected job losses averaging 2,700 per year. *See* Ex. A._In contrast, Texas and Oklahoma have taken a more balanced policy approach to plugging orphan wells and

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[4] *See also* New Mexico Tax Research Institute, *Potential State and Local Revenue Impacts of Proposed Ozone Precursor Rule on the Oil and Gas Industry* (August 2021), attached as Exhibit B, and John Dunham & Associates, *Memorandum Re: Estimated Costs of Proposed Ozone Precursor Rule on Oil and Natural Gas Development in New Mexico* (Juen 13, 2021), attached as Exhibit C.

maintain an extensively funded and managed plugging budget which has kept average plugging costs much lower. For easy comparison, I have prepared thistable:

Metric	Colorado	New Mexico (Projected)	Oklahoma	Texas
Avg. Plugging Cost Per Well	$93,000	$150,000	$34,000[5]	$25,000 - $40,000
Estimated Orphaned Wells	27,000	30,000	16,000 (idle)	150,000 (idle/orphaned)
Annual Plugging Budget	$15 million	$0 (currently)	Funded & managed	Extensive state-managed fund
Annual Tax Revenue Loss (Stripper)	Already lost	$412.7 million	Preserved via balanced policy	Preserved via balanced policy

Q: What kind of effect in New Mexico do you predict to result from the WELC bonding rule?

A: First, the increase in financial assurance requirements will create tens of thousands of orphan wells out of the productive 60,000 oil and gas stripper wells in the state, caused by unmanageable bonding burdens imposed by WELC's proposal. Second, the state will forfeit a significant portion of the $412 million in tax revenue, without any alternative in place to supplement or offset those losses. Finally, without an alternate funding source or plugging budget, those newly orphaned wells will fall to the state to plug and abandon. I have reviewed testimony from the Oil Conservation Division witnesses and the Legislative Finance Committee's Policy Spotlight report which recounts the difficulties, delays, and expense that OCD faces in plugging the existing inventory of orphaned wells on state and private lands. Applicants may think they are "solving" the "problem" of orphan wells by increasing financial assurance requirements, but I worry that

[5] Oklahoma Corporation Commission Plugging Cost Reports

New Mexico is wholly unprepared, in terms of finances, resources, and staffing, to handle the unintended consequences of WELC's proposal. Ironically, the effects of WELC's proposed changes will increase orphan well counts, like we saw in Colorado, and the burden falls not on the Applicants, but on the Division and the industry to navigate the aftermath.

Q: Are there any portions of specific testimony by the WELC Applicants' witnesses that you would like to respond to?

A: Yes, WELC's expert witness Thomas M. Alexander states that the proposed rules are "not directed at prudent stripper well operators but those who are problematic based on OCD staff experience." *See Direct Testimony of Thomas M. Alexander*, WELC Ex. 3, 43:3-5. Unhelpfully, Mr. Alexander does not expand to identify the substance of the"staff experiences." Nevertheless, I fail to see how blanket increases in financial assurance which apply to all operators of active wells, regardless of compliance or environmental history, targets "problematic" operators. The changes proposed by WELC to NMAC 19.15.8.9(C)(1) & (2) and NMAC 19.15.8.9(D)(1)-(4), *see WELC Ex. 1-C* at 22-23, make no provision, carve-out, or safe-harbor for prudent stripper well operators. I do not understand how a one-size-fits-all $150,000 single well bond can be described as targeted or selective. The bonding increase will burden responsible, prudent stripper well operators with millions of dollars of newly required financial assurance, with no discretion for Division staff experience or consideration of operational history.

In the same way, Mr. Alexander also claims that the WELC Applicants' rule changes target operators "at the edge of solvency." *Alexander*, Ex. 3, 44:17. But as I explained above, there is no criteria or discretion embedded in the proposed rule change that targets only imprudent, insolvent operators are at the greatest risk of walking away from their wells. Instead, it would appear that WELC's desire is to simply drive small operators out of business by making it impossible to remain in New Mexico under unmanageable bonding burdens, much like Colorado's strategy to "eliminate small producers." And this desire aligns with WELC's stated mission of ending oil and gas production.

Mr. Alexander also asserts that an operator who "cannot 'pay' for adequate financial assurance" has "no business remaining business," and equates an inability to meet unanticipated capital demands in the millions with imprudent operations. Alexander, WELC Ex. 3, 12:23-13:2. I think this statement ignores the fact that it is industry operators that plug the vast majority of wells—to the tune of over 90% annually—and if stripper well operators are overseeing late-life assets, it stands to reason that stripper well operators contribute a substantial amount to that percentage. In fact, of the 50,000 plugged wells reported by OCD in New Mexico, over 3,600 were plugged and released in the past five years. These responsible operators come in all sizes and business models, from Armstrong to XTO, and number over 200 entities and individuals.

Q: Is there any other witness testimony you would like to respond to?

A: Yes, WELC's expert witness Mr. Dwayne Purvis believes that if stripper well operators disappear from New Mexico, they will not be missed. He makes no attempt to hide or buffer his opinion, asserting that "the companies at risk… [are those] who will be missed the least." *See Direct Testimony of Mr. Dwayne Purvis*, WELC Ex. 30, 44:19-20. But in my review of his statistical analysis, he has limited himself strictly to well count and production levels, with no appreciation of the larger, indirect economic effects made by stripper well operators. I will refrain from repeating myself on the economic impact of stripper wells to New Mexico, other than to point out to the Commission that this position is short-sighted on a number of fronts.

Q: On behalf of the National Stripper Well Association, what recommendations would you make in response to the WELC Applicants' proposed rule changes and supporting testimony?

A: The Commission needs to understand that stripper wells are not a liability—they are low-risk, high-option value assets with a vast inventory of future possibilities. A one-size-fits-all $150,000 bond would devastate small producers, shrink tax revenue, and shift cleanup costs to the public. New Mexico can lead with a smarter, more balanced regulatory path that is effective now and in the future. A more balanced approach must consider and include the following at a minimum:

- Reflect actual plugging costs incurred by industry (~$34,000 in Oklahoma)
- Encourage continued production from marginal wells
- Preserve the economic benefits of stripper wells for local communities
- Avoid replicating Colorado's costly and counterproductive model

The business model of the stripper well producer is to take assets and restore them to profitability through technology or production efficiencies. Although today's relatively low prices limit that ability, future prices will enable operators to return these wells to production. But if regulations force operators to prematurely plug stripper wells, those opportunities are gone forever, robbing royalty owners, producers, and the state coffers of future revenue.

In short, the NSWA urges the Commission to reject the proposed blanket bonding requirement by the WELC Applicants and instead support policies that sustain New Mexico's energy economy, environmental responsibility, and rural livelihoods.

MIKE CANTRELL

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: 9/18/25

MIKE CANTRELL