



Virtual Forum Titled “Reclaiming Orphaned Oil and Gas Wells—Creating Jobs and Protecting the Environment by Cleaning Up and Plugging Wells”

Subcommittee on Energy and Mineral Resources, House Committee on Natural Resources
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Statement of Adrienne Sandoval, New Mexico Energy, Minerals & Natural Resources Department Oil Conservation Division Director and [Full Video](#)

Good morning, Mr. Chairman and Members of the Committee. I am Adrienne Sandoval, the New Mexico Energy, Minerals & Natural Resources Department Oil Conservation Division Director.

Thank you for this opportunity to speak about the environmental and economic benefits that plugging orphaned wells brings to the state of New Mexico.

The oil and gas industry has been a vital part of New Mexico’s economy since the 1920’s. The Oil Conservation Division, or OCD, is charged with regulating oil and gas production. Since 1935, the Oil and Gas Act has required that oil and gas production take place responsibly to protect oil reserves, the rights of mineral owners, and the environment. Currently, the OCD oversees more than 57 thousand producing wells and over 6 thousand environmental clean ups. These numbers have rapidly grown since 2015 with the historic drilling boom New Mexico and the US has seen thanks to advances in horizontal drilling. Since 2018, New Mexico has been the third largest oil producer in the US.



In 2019, oil and gas revenues contributed more than 45% of New Mexico's budget. However, the rapid downturn is posing new challenges for the State. From January to May of 2020, the active rig count in New Mexico dropped from 113 to 66. As of May 5, almost 41 hundred oil and gas workers filed for unemployment, with more anticipated. This results in \$500 million lost wages across New Mexico and a decline of \$20 million in personal income tax collection.

In addition to the direct financial impacts to the state the OCD faces additional challenges as oil prices drop. Operators face tough economic decisions that often result in reduced investment, decreased drilling and production, delayed site remediations and even bankruptcy. With limited capital and the possibility of bankruptcy, oil and gas operators may not be able to plug wells and reclaim facilities effectively.

The Oil and Gas Act requires that orphaned wells be plugged to protect reserves, mineral rights and New Mexico's unique environment. Most wells are plugged by oil and gas operators, but when companies go bankrupt, the state steps in. The OCD has an established plugging program that facilitates an average of 50 plugged wells per year. To manage this program, the OCD hires local oil and gas service companies to perform the work, directly injecting money into the local economy. These companies are typically small, local companies that operators contract with to perform work at wellsites. While New Mexico has some funding mechanisms in place to plug orphaned wells, additional federal dollars will help us further protect the environment.



Currently, New Mexico has 708 known orphaned wells and approximately two million dollars in financial assurance from operators to cover well plugging and site reclamation for those sites. The OCD also receives approximately one million dollars a year from the Bureau of Land Management to plug wells on federal land. On average it costs \$35 thousand dollars to plug each well, equating to plugging costs exceeding 24 million dollars for the 708 known orphaned wells. However, this estimate does not include the associated site remediation costs. For orphaned wells, the existing equipment must be removed and the site restored to its former condition. Even for a site that is in good condition, the remediation costs can range from \$50 thousand to \$80 thousand dollars. Sites with historic environmental issues, on the other hand, can require millions of dollars to remediate and restore.

New Mexico's long history of oil and gas production makes it especially vulnerable to an increase in well abandonment. In New Mexico, there are over 57 thousand active wells. Of those active wells, approximately 70% are long time producers and considered "marginal" which is defined as producing less than 60 barrels oil per day or less than 120 thousand cubic feet of gas. These wells are the most at risk in a downturn as they can quickly become uneconomic and are typically the first wells to be shut in or orphaned. So, while New Mexico has 708 known orphaned wells there is risk for many more during this downturn.

Governor Michelle Lujan Grisham and Energy, Minerals and Natural Resources Department's Secretary, Sarah Cottrell Propst, have made the protection of New Mexico's environment and economy a top priority. Additional funding would allow New Mexico to more



rapidly plug abandoned wells and reclaim sites to minimize environmental disturbance and help prevent the waste of resources for future development. Supporting an increased plugging program would allow the OCD to put in place large contracts with the service companies, enabling operators to hire back some of the 41 hundred currently unemployed oil and gas employees and help stabilize the greater New Mexican economy while also protecting the land and resources.

Mr. Chairman and members of the Committee, thank you for this opportunity to share New Mexico's perspective on the positive impacts that additional federal funding to plug and reclaim wellsites would bring to our state.