

New Mexico's Industry Fills State Coffers

By Dan Larson
Special Correspondent

SANTA FE, N.M.—Oil production across the Permian Basin continues to set records as it expands the United States' role on the global energy stage. A key part of that growth comes from New Mexico's portion of the Delaware Basin, say leaders of the New Mexico Oil & Gas Association.

The seemingly limitless potential of prospects in the three southeastern New Mexico counties overlying the state's portion of the Delaware is a rare opening even for an industry accustomed to uncertain outcomes, they say.

"Some people say the spectacular potential of the Delaware Basin is providing a once-in-a-generation opportunity, but it really is more of a once-in-a-lifetime opportunity," considers NMOGA Chairman Ken Waits.

Waits, president and chief executive officer of privately-held Mewbourne Oil Co. in Tyler, Tx., projects that production growth will yield a windfall in state revenue and greatly benefit New Mexico public education and infrastructure. Improving education remains a top priority

for state leaders, he adds, noting that oil and gas revenue generates a large portion of the state budget for education.

The tremendous growth of Southeast New Mexico oil and gas development and the challenges that come with it will be a prominent topic at the NMOGA annual meeting, scheduled for Oct. 7-9 at the Eldorado Hotel, in Santa Fe. "Given where we are with growth in the Delaware and the increasing interest from the investment community in new production, this is a critical time for operators in New Mexico to meet and hear what industry leaders and government regulators are saying," reflects NMOGA Executive Director Ryan Flynn.

Growth Engine

With a long history of oil and gas operations, New Mexico has weathered its share of expansions and contractions, industry observers say. As oil prices firmed after the most recent downturn, many producers turned their attention to the Delaware Basin, a prolific multiple stacked-play that one published report calls "a growth engine for worldwide oil production."

The Delaware Basin overlaps the Texas/New Mexico border, with the latter state's portion lying primarily in Lea,

Eddy and Chavez Counties. According to one investment banking advisory service, the Delaware Basin offers "highly attractive returns, with estimated ultimate recoveries per well exceeding 1 million barrels of oil equivalent."

Keen to take advantage of the favorable economics, oil and gas companies are developing on public and private lands across the Delaware, Waits says. The result is trend lines that point up for all key industry indicators.

"This summer, we are seeing record production and rig counts that match our all-time high," Flynn reports.

However, such rapid expansion is starting to squeeze take-away capacity, Waits relates. "It is true that the industry is straining to keep up with all that new production," he observes. "You could say we are a victim of our own success but that is a problem everybody would like to have.

"One thing I have learned in my career is that this is a resilient, innovative industry and I am confident we are up to the challenge," he continues. "It is going to require good people and enormous investment in the infrastructure, but the Permian is still a spectacular story and we have a long way to go."

According to a recent report from the U.S. Energy Information Administration, New Mexico ranks a solid third among states with oil production. Output has been trending up for years, but especially has surged since the middle of last year (Table 1).

TABLE 1

New Mexico Oil Production (million barrels)	
June 2017	13,323
Dec. 2017	16,636
Jan. 2018	16,780
Feb. 2018	16,396
March 2018	19,319
April 2018	19,447
May 2018	20,168

Source: Energy Information Administration

NMOGA Annual Meeting – Santa Fe, N.M.

Saturday, Oct. 6

- 8:30 a.m. Halliburton Golf Tournament, Marty Sanchez Links de Santa Fe
- 6 p.m. Baker Hughes Inc. Reception, La Fonda Hotel, Santa Fe

Sunday, Oct. 7

- 8:30 a.m. Schlumberger Golf Tournament, Las Campanas Country Club, Santa Fe
- 10 a.m. Registration Opens, Eldorado Hotel, Santa Fe
- 6 p.m. NMOGA Opening Night Reception, Eldorado Hotel

Monday, Oct. 8

- 7:30 a.m. Membership Breakfast, Eldorado
- 9-11:30 a.m. General Session
Year in Review, NMOGA Chairman Kenneth Waits
Assistant Secretary for Land and Minerals Joe Balash

- NMOGA Executive Director Ryan Flynn
- Noon-1:30 p.m. NMOGA Membership Luncheon, Santa Fe Convention Center
Speaker: Former Airforce Staff Sergeant Spencer Stone

2-4 p.m. Candidates Forum

- 6 p.m. NMOGA Reception Honoring Board of Directors, Santa Fe Convention Center

Tuesday, Oct. 9

- 7-9 a.m. Membership Breakfast, Eldorado Hotel
- 8 a.m. Board of Directors Meeting
- 9 a.m. Membership Meeting
Election of 2019 Officers and Incoming Board Members
Presentation and Approval of 2019 Budget
Bylaws Review
- 9:30-11:30 a.m. General Session
Alex Epstein

Important Hurdle

Market indicators point to a reasonably stable period for commodity prices, Flynn suggests, and the state regulatory climate has thawed after an extended winter of slow-growth policies. "If we can stay on track, I believe New Mexico has entered an era of oil and gas expansion that will continue for the next several years," he predicts.

Last year, investments in oil and gas development topped \$13 billion, Flynn notes. "These investments clearly are having an overwhelmingly positive impact," he holds. "If you step back and look at this from a statewide perspective, we have a unique opportunity to make this state a great place to live and work, provided it remains a favorable place to do business."

According to Waits, state government leaders recognize the oil and gas industry's remarkable contribution to state coffers, but they also have come to see that production growth can be safe and responsible. "Oil and gas is the economic engine of New Mexico," Waits says. "We should be proud of what we are doing here."

Waits and Flynn agree operators' success at bringing new production on line is testing the industry's ability to process and ship the region's additional resource. "We can see it in the West Texas Intermediate differentials that are offered to operators across the Permian," Flynn observes. "Gas prices also remain under pressure thanks to a shortage of processing capacity."

The unprecedented investment in Delaware Basin exploration, drilling and production during the past 18 months has, in turn, prompted new midstream investments, he describes. Since the beginning of the year, several pipelines in Texas have been announced, while announcements of more pipeline, gas compression and processing projects are imminent, Flynn says.

"This is an extremely important hurdle for development in Southeast New Mexico," Flynn says. "When producers get full value for the resource, then expansion continues and the state reaps the benefit of additional revenue."

Waits adds that midstream companies have been growing in the Permian "but have been straining to keep up with the

amazing growth in production." He adds that one outcome is a rise in the number of drilled uncompleted wells. A July report from the U.S. Energy Information Administration backs that assessment, noting a monthly increase of 167 drilled uncompleted wells, from 3,303 in June to 3,470 in July.

The Permian's frenetic pace, especially in the Delaware Basin, eventually will plateau, Waits predicts. As new infrastructure comes on line, operators will bring on corresponding production "provided we can get the frac crews we need," he allows.

With high levels of interest in midstream projects, NMOGA's annual meeting will feature a keynote speaker with unique insights into the subject, Flynn observes. Plains All American GP Executive Vice President, Chief Operating Officer and Director Willie Chiang is scheduled to address NMOGA members on midstream opportunities.

Water Study

Southeast New Mexico's arid climate averages 10 inches of rainfall a year, published reports indicate, making water

a particularly scarce and valuable resource. The customary industry practice is to dispose of flowback and produced water in licensed Class II underground injection control wells, Flynn says, but that practice is being reconsidered.

In July, the U.S. Environmental Protection Agency announced it had entered a memorandum of understanding with the State of New Mexico to consider produced water treatment and possible beneficial reuse. "NMOGA has been working on this agreement for more than a year," Flynn reports. "We are not interested in taking credit for any of it, but it is gratifying to see that effort come to fruition. The big picture is how we can remove impediments and allow operators to unlock this valuable resource."

The MOU between EPA and New Mexico seeks to form a "collaborative work group to clarify and understand existing regulations and permitting frameworks" as applied to produced water. It says the work group is to "identify those existing and potential technologies for increased treatment and possible uses of produced water." The water work group is to meet on a quarterly or an ad hoc basis and conclude within two years.

The document defines produced water as "fluid from a hydrocarbon bearing strata brought up during extraction that may include formation water, injection water and chemicals added down hole." The MOU does not differentiate between produced water and well completion flowback. Under its definitions, recycled water is generated from an oil or gas well, "significantly treated" and used again before UIC well disposal. Renewable water is produced from a well, significantly treated and then added to the hydrologic cycle rather than injected in a disposal well. Re-used water is minimally treated and used again in an oil or gas well before ultimate UIC disposal.

The MOU instructs the work group to:

- Synthesize existing produced water regulatory and permitting frameworks;
- Identify gaps in data and policy regarding produced water useage;
- Identify possible uses of renewable water, re-used water and recycled water; and
- Identify any process or other improvement opportunities for such uses.

"While underground injection certainly has its utility and place, alternatives are available that treat oil and gas wastewater for re-introduction into the hydrologic cycle, says EPA spokesman David P. Ross. "This is especially important in arid areas suffering from drought like New Mexico."

"The technology available for treatment of produced water has come a long way," Flynn notes. "Now, industry can eco-

nomically bring what was considered a waste product up to drinking water standards. This MOU can help update the regulations for water discharge and allow treated water to go where it is needed, such as the agricultural industry."

Spill Rule, Horizontal Wells

NMOGA was also instrumental in getting the state to update rules governing oil spills that were promulgated during the administration of Governor Bill Richardson, Flynn recounts, and which he describes as "incredibly vague, lacking clarity or substance."

NMOGA has no problem with the principle of a fair and reasonable spill rule, he emphasizes. "The industry recognizes that having responsible regulations is critical to maintaining our social license to operate," Flynn acknowledges. "We also need fair and consistent application of those rules."

The revision to the state Oil Conservation Division rule clarifies operator responsibilities for initial spill response, site characterization, remediation, closure, reclamation and enforcement. Industry representatives worked with the OCD to develop a rule that both parties deemed stronger and would raise industry standards, Flynn reports, adding that the OCD completed the revisions and adopted them in April.

Meanwhile, earlier this year, the division also amended its horizontal well rules, Flynn observes, characterizing the revisions as realistic and practical. The changes deal with sections of OCD's spacing, drilling and reporting rules by consolidating horizontal well regulations under a single section and clarifying definitions for "affected persons" and "royalty interest owners."

New Mexico's drilling rules were written when vertical wells were the industry norm, Flynn indicates. "We worked with OCD to modernize the rules to mirror existing technology and what the industry

is doing today," he reports.

The OCD also announced plans to accelerate its abandoned well plugging program to address 60 abandoned wells—41 on state land and 19 on private land—during the current fiscal year. State Land Commissioner Aubrey Dunn in January challenged the OCD to increase the pace of its well plugging program to address the 600 wells abandoned on state lands, press accounts note.

Governor's Race

Looking ahead to this year's gubernatorial election, Flynn indicates he is encouraged by the quality of the candidates, both of whom represent New Mexico in Congress. Republican Steve Pearce hails from the Hobbs area and Democrat Michelle Lujan Grisham is from Albuquerque. "Both of them are very qualified and represent their constituents well," Flynn describes. "We will work with whoever is elected governor."

With Republican Governor Susana Martinez term-limited to leave office this year, the next governor will inherit an oil-powered state budget that media accounts say is on pace to enjoy a \$600 million surplus. "Thanks to the hard work of the oil and gas industry, whoever wins the governor's race can hit the ground running," Flynn comments.

Both Pearce and Lujan Grisham have been invited to address the NMOGA annual meeting, Flynn says. "This is a good opportunity for the candidates to meet members of one of New Mexico's most important industries," he relates.

With a membership that tops 1,000 members, this year's meeting will be well attended, Flynn predicts. "We cap meeting attendance at 1,200 people," he details, adding "we anticipate a sold-out meeting. Anyone who has attended will tell you it is special." □

Chairman Expresses Pride In NMOGA's Accomplishments

TYLER, TX.—Since his election as chairman of the New Mexico Oil and Gas Association last year, Ken Waits has both witnessed and helped direct some dramatic changes in a group that represents one of the state's largest industries.

"Of the things we have accomplished at NMOGA this year, I am most proud of the great team we have built," Waits observes. "The future of NMOGA and the oil and gas business in New Mexico have never been brighter."

Waits adds that the association, under

the leadership of NMOGA Executive Director Ryan Flynn, "has really beefed up its public relations and communications with the people of New Mexico. The oil and gas industry contributes more than 100,000 jobs and more than one-third of the revenue for the state budget."

A third effort involves Waits' work with the state's elected leadership to improve permitting at the Bureau of Land Management's Carlsbad, NM, regional office. "We worked closely with Governor Susan Martinez, Congressman Steve

Pearce, R-N.M., and the Department of Interior under Secretary Ryan Zinke to streamline the permitting process in the new Carlsbad Resource Management Plan," Waits reports.

"Permitting at Carlsbad has been a challenge for years," he notes. "One of my main goals as NMOGA chairman was to help come up with solutions. We have made progress but there is more work to do."

Waits is president and chief executive officer at Mewbourne Oil Co., a privately held company headquartered in Tyler, which has been his employer for more than three decades. During his tenure, Mewbourne has grown to the fifth-largest oil producer in New Mexico, currently producing more than 100,000 barrels of oil equivalent a day. The regionally-focused producer has operated in the Permian Basin for 50 years and the Anadarko Basin for 40 years.

"We have managed to 'fly under the radar' for many years, but now our growth in the Delaware is drawing notice," Waits considers.

Mewbourne, Waits points out, has made "a major commitment to New Mexico."

In June, the company opened a new state-of-the-art regional headquarters in Hobbs, N.M., the largest facility the company operates, he reports.

"When we stepped back to look at our long-term plans in New Mexico, even though we were in the middle of the downturn, this building just made sense," he says. "We plan on being active and successful in New Mexico for another 50 years."

Moreover, Waits says, the time seemed right for him to devote more attention to policy and regulatory matters in the state in which Mewbourne has invested so much. New Mexico constitutes the company's top priority, he advises, so it was "well worth my time to get more involved."

And similar to how New Mexico's resources fuel much of Mewbourne's business, Waits notes, they are doing much the same for the state. "Oil and gas are the economic engine that drives New Mexico," Waits says. "We are creating great jobs, growing the economy and providing much-needed revenue for education." □