

THE AMERICAN OIL & GAS REPORTER[®]

NOVEMBER 2018

The "Better Business" Publication Serving the Exploration / Drilling / Production Industry



Oil and Gas Computing

Oil And Gas Flourishes, New Mexico Thrives

By Dan Larson

SANTA FE, N.M.—Eighteen months of rapid production growth have propelled New Mexico to the top ranks among U.S. oil producers and presented the state with an unprecedented opportunity to dramatically improve its citizens' quality of life, declared the leaders of the New Mexico Oil & Gas Association.

"The American energy renaissance begins in New Mexico," declared NMOGA outgoing Chairman Ken Waits at the group's annual meeting in October.

"Last year, we talked about how companies had quietly invested more than \$13 billion in oil and gas development in New Mexico," recalled Waits, president of Mewbourne Oil Co. in Tyler, Tx. "I can tell you that things are not so quiet here anymore."

With new international markets for New Mexico's output and record-breaking production growth in southeastern New Mexico's portion of the Delaware Basin, the state has become the country's third largest producer behind Texas and North Dakota, Waits noted.

"And North Dakota had better watch out," Waits asserted.

Kicking off NMOGA's 90th Anniversary meeting on Oct. 8, Waits informed a packed ballroom at Santa Fe's Eldorado Hotel that New Mexico produced 172 million barrels of oil in 2017, an increase of 25 MMbbl over 2016. "This year, we passed the 100 MMbbl mark in June," he reported. "I would say 2018 is shaping up to be another banner year for oil and gas in this state."

According to Waits, New Mexico oil production is reaching heights unseen during any other period in the state's long history of energy development. "Unprecedented is a word we sometimes throw around carelessly, but in this case, it really has been a year without precedent; a year like none before," he related.

Economic Engine

The achievements by the state's oil and gas industry this year are "truly without precedence," echoed NMOGA President Ryan Flynn. Not only was the state's growing oil production climbing, he point-

ed out that New Mexico's natural gas production had climbed to ninth in the country and cited other impressive trends in the state. "We have seen record production, a record lease sale in Carlsbad and record rig counts, all while minimizing emissions, using less water and disturbing less surface land," Flynn noted.

The tremendous advancements in exploration, development and production are having an historic impact on the state and providing tangible benefits for all New Mexicans, regardless of where they live, he indicated. Flynn went on to say that oil and gas constitutes the state's largest private sector employer, with more than 100,000 direct jobs.

"These jobs drive our economy," he said. "Our industry provides \$12.8 billion in economic impact, which is remarkable since the state's budget is about \$6.2 billion. Of that budget, nearly \$2 billion is taxes and fees on oil and gas."

Record Lease Sale

The two-day, online auction by the

Bureau of Land Management's Carlsbad office produced \$973 million in bonus bids on 142 parcels in New Mexico's Eddy, Lea and Chaves counties. Held the first week in September, the lease sale generated nearly three times the \$358 million in onshore Bureau of Land Management lease sales for 2017 and double the previous annual record set in 2008, when it earned \$408.6 million (*AOGR*, October 2018, pg. 19).

The extraordinary return at the Carlsbad lease sale was among the highlights of an address by Joe Balash, Department of Interior assistant secretary for land and minerals management. "Far too often we gloss over real, tangible benefits of public access to our natural resources," Balash reflected. "The \$483 million that New Mexico collects from this lease sale amounts to 8 percent of the state's budget."

The Carlsbad lease sale is a "clear demonstration of the huge energy economy that exists in the United States," Balash stated. "When we embrace it, we can re-



NMOGA outgoing Chairman Ken Waits (left) accepts a token of appreciation from NMOGA President Ryan Flynn at the association's annual convention, held Oct. 7-9 at the Eldorado Hotel in Santa Fe, N.M.



Department of Interior Assistant Secretary for Land and Minerals Management Joe Balash (left) talks with Representative Rebecca Dow, R-Truth or Consequences, at NMOGA's convention. During his presentation, Balash reflected on the September auction by the Bureau of Land Management's Carlsbad, N.M., office which produced \$973 million in bonus bids on 142 parcels in New Mexico's Eddy, Lea and Chaves counties, more than doubling the previous record set in 2008.

alize the strength it offers our country in terms of energy security, job creation and revenue for all Americans.”

Earlier, Waits noted the impact the record lease sale would have on New Mexico.

“This sale clearly illustrates the opportunity this state has to be a national and international leader, and the commitment made by this administration to help states such as New Mexico,” Waits assessed. “The funds generated will support our schools, infrastructure and provide great jobs for our citizens.”

Through The Lens

In a review of several policy initiatives launched under Interior Secretary Ryan Zinke, Balash provided an inside look at how the BLM considered revisions to methane waste prevention rules implemented during the Obama Administration.

“As we reviewed the rules through a lens aligned with the executive orders issued by Secretary Zinke, we asked if the rules created an avoidable hindrance to operating on public lands,” Balash recalled. “That review suggested the elimination of some portions of the rule and thoughtful modifications of others.”

The revisions eliminate overlap with existing state and tribal methane emission rules by doing away with emission man-

agement plans, gas capture percentages, drilling and completion rules, pneumatic controller requirements, and leak detection and repair orders, he listed.

“We believe BLM can protect the environment while reducing administrative burden and implementation costs for operators,” Balash stated. “It is a matter of striking the right balance between protecting the environment while allowing public access and driving job growth in rural communities.”

He added that the BLM's methane waste reduction rules duplicated Environmental Protection Agency regulations to reduce methane emissions.

Midstream Expansion

Expanding pipeline capacity was a major topic on the convention's second day, when Plains All American Pipeline Chief Executive Officer Willie Chiang offered NMOGA a midstream perspective.

“When we consider the growth curves for oil production in the Permian, the added barrels must find a way to the Gulf Coast for export,” Chiang said.

First, Plains commissioned an extension of its Sunrise project in October, which has an initial capacity of 230,000 bbl/d and connects Midland to Colorado City, Tx., and Wichita Falls, Tx. At full capacity,

the line will carry 1 MMbbl/d from the Permian to Cushing, Ok., Chiang noted.

According to Chiang, by the third quarter of 2019, the Cactus II pipeline will begin operating at partial capacity, moving Permian barrels to Corpus Christi, Tx. He added that the line was projected to reach its full, 670,000 bbl/d, capacity by April 2020.

He also mentioned that Plains had entered an agreement with ExxonMobil to develop pipelines to move at least 1 MMbbl/d of Permian oil to Exxon facilities in Houston and for export at the Gulf.

“When operational, this will provide a buffer for take-away capacity through 2020, but we may need to consider additions after that,” Chiang said.

Expanded export capacity is key for continued growth of America's unconventional plays, Chiang observed.

“The downturn forced producers to bring down break-even costs, improve netbacks and optimize their best wells,” he considered. “Now, even as refiners are taking additional light barrels they do not want the ultralight crudes we are seeing from unconventional plays. The answer is for new barrels to head to the Gulf for export.”

Campaign Stop

Because NMOGA's annual meeting was held one month before Election Day, the association invited candidates for governor and state land commissioner to speak. Both major party gubernatorial



Infrastructure expansion is well under way in the Permian Basin, reports Plains All American Pipeline Chief Executive Officer Willie Chiang. During his remarks, Chiang offered updates on a number of the company's projects, including its Sunrise and Cactus II pipelines.



Public education will be a top priority in the 2019 New Mexico Legislature, indicates Speaker of the New Mexico House of Representatives Brian Egolf, D-Santa Fe. During the session, he indicated, lawmakers might endeavor to increase the number of teachers in the state by 50 percent.

candidates addressed NMOGA as they campaigned to replace term-limited Republican Governor Susana Martinez.

Congressman Steve Pearce, R-N.M., said his priorities as governor would prioritize the state's economy and educational system while addressing its poverty and crime.

His opponent, Congresswoman Michelle Lujan-Grisham, D-N.M., said New Mexico could not afford a risk-averse governor. She added that the oil and gas industry always would have a seat at the table in her administration.

Patrick Lyons, a Republican and chairman of the Public Regulations Commission, said that if he was elected Public Lands Commissioner, he would recognize the industry's key role in generating revenue from mineral leasing on state lands.

His Democratic opponent, Representative Stephanie Garcia Richard, D-Los Alamos, said she would correct mismanagement in the State Land Office, eliminate methane waste and deny the industry any new permits for freshwater withdrawals.

Education And Infrastructure

NMOGA's members are "part of something much larger than simply producing oil," Flynn declared. "This industry is woven into the fabric of this state."

The estimated \$1.4 billion budget surplus that will greet New Mexico's new governor and legislature in January provides a rare opportunity, Flynn reflected. "It is an opportunity to improve the lives of all New Mexicans," he characterized.

"We must start by investing in education. To meet the needs of the workforce of today and build a homegrown workforce of tomorrow, we have to double down on science, technology, engineering and math education, and for that, we must recruit and retain the best teachers."

Improving New Mexico education will be the primary topic of discussion when the state legislature convenes in January, predicted Speaker of the New Mexico House of Representatives Brian Egolf, D-Santa Fe. The expected investment in education could reach \$1 billion a year and include recruitment of 10,000 new teachers across the state, a 50 percent increase, he said.

"This is our moonshot," Egolf characterized.

Improvements to education were a top priority for the public officials who spoke at NMOGA, although increased funding for infrastructure, including roads, water and rural broadband, were also near the top of the list.

"Additional funding should go to highway improvements in the Southeast and then to counties and cities," declared Senator Stuart Ingle, R-Portales.

Flynn also addressed infrastructure and deemed it a necessary component of the industry's commitment to safety. "Safe roads are important not only to protect our employees and communities, but they are also good for business," he suggested. "As we continue to ask much of these communities, we must be willing to invest back into them with roads that are safe for moving people, equipment and resources."

Flynn added that the opportunity exists to grow and diversify New Mexico's economy, given the strength of its support from oil and gas. "Some in Santa Fe are not enamored with our industry," Flynn remarked. "But they love our film industry, and we should be proud of our film industry; it is flourishing.

"What some don't realize is the incentives the state provides to cultivate a film industry come from taxes on oil and gas," he pointed out. "When the state foregoes taxes from one industry, it has to be made up somewhere else to balance the budget. That somewhere else is the Permian and San Juan Basins.

"Our job is to connect the dots for policymakers," he concluded.

Flood Of Investment

New Mexico's oil and gas industry always has shown resilience during head-



With oil and gas revenue helping to swell New Mexico's coffers, additional funding should go to highway improvements in the Southeast and then to counties and cities, Senator Stuart Ingle, R-Portales, tells NMOGA.

winds, Waits maintained. He recalled how questions arose after Mewbourne Oil decided to build a new regional operations office in Hobbs, N.M., at the trough of the 2016 downturn.

"Things were looking grim," Waits described. "But we were confident in the resilience of this industry and that New Mexico would rebound. The new office underscores our long-term view and commitment to this state."

Today, that confidence is reflected in the "flood of investment in Southeast New Mexico," Waits observed.

"It is impossible to miss: Restaurants are packed, schools are seeing record enrollments, hotels are booked solid for a month out. And, you can't get a good breakfast burrito," he added. "Simply stated, a strong oil and gas industry translates to strong communities."

NMOGA's convention also saw Waits pass his chairman's gavel to Claire Chase, director of government affairs at Mack Energy Corp. in Artesia, N.M. The association notes that Chase is the first woman and youngest person to become NMOGA's top officer in its 90-year history.

According to NMOGA, she previously worked as a legislative aide to Congressman Steve Pearce, R-N.M., and served as a financial adviser at the New Mexico Finance Authority. From 2017-2018, she served as President of the Independent Petroleum Association of New Mexico.