

# The Independent

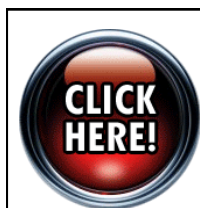
## A Message from our President: New events and new venue highlight upcoming 2018 IPANM Annual Conference

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Dear IPANM Member,

It's already late spring and summer is around the corner. For IPANM, summer means one thing: the annual conference!

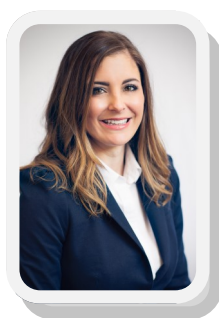


Click here to  
register for  
the Annual  
Meeting

As we first told you last week, registration is open for the 2018 IPANM Annual Conference from July 25 to 27, 2018, at Hotel Chaco in Albuquerque. The information here gives you a sneak peek at what we have scheduled and will help you make your plans. See page 7 for more information.

One of my major goals as your president is to put together a well-rounded, event-filled 2018 conference for both conference-goers and their families. As I review what we have already assembled so far, I am very excited!

Please register for our conference and bring along your family for a few days of fun at the award-winning Hotel Chaco! In addition to your participation, please reach out to your industry colleagues and urge them to join us for our largest annual event. It's our hope that this conference will create a buzz within the industry in our state and bring more members into our association.

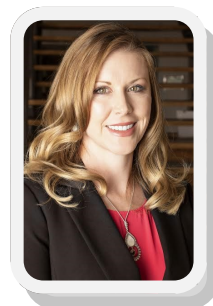


See you in July!

—Claire Chase  
President, IPANM

### Special Announcement: Introducing Megan Burnett

IPANM is excited to welcome Megan Burnett to the team. Megan was born and raised in Roswell and brings with her excellent administrative and management skills. She has been the Outreach Coordinator for a government non-profit and is enthusiastic about bringing her knowledge and experience to IPANM as Director of Operations. She graduated from Northern Arizona University in 2011 with a Bachelor of Science and is thrilled to join IPANM in its efforts to educate the public and promote policy change on behalf of the oil and gas industry in the state of New Mexico.





*"IPANM did not present any witnesses, but our attorney did ask a number of substantive questions of witnesses. IPANM's questions centered on horizontal well design, construction, well-bore provisions that protect correlative rights in horizontal spacing units."*

## New Mexico's Oil Conservation Commission: Three major rulemaking hearings in three months

The New Mexico Oil Conservation Commission (OCC) is in the midst of an unprecedented back-to-back-to-back rulemaking hearing stretch. The Horizontal Rule Hearing took place in April. Finally, the Financial Assurance Rulemaking Hearing, originally scheduled to occur May 24, has been rescheduled for July 19, 2018. The Spill Rule Hearing will occur in early June. While the hearings are occurring over three consecutive months, the input of IPANM and other industry representatives stretches back several years. IPANM will continue to be represented as all hearings to represent the concerns of independent producers.

In an effort to keep our members informed, the summaries below summarize the proposed rule changes and highlight IPANM's involvement.

### Horizontal Rule

From April 17 to 19, 2018, the Oil Conservation Commission held two-and-a-half days of testimony on proposed changes to the Horizontal Rule. The rulemaking hearing was followed by a day-and-a-half of open deliberation by the OCC that concluded on April 20.

The petitioner for the proposed changes was the New Mexico Oil and Gas Association (NMOGA), who provided recommended changes that evolved out of discussions between industry, including IPANM, and the Oil Conservation Division over the past two years. Any group, association, interested party or individual company with legal representation was open to petition to be active participants in the hearing. IPANM hired Roswell attorney Drew Cloutier of Hinkle Shanor to provide our legal representation. The horizontal rulemaking hearing was led by NMOGA as the petitioner, and also included Marathon Oil, Energen Corporation, Jalapeno Corporation, and the New Mexico Oil Conservation Division (OCD) as legal parties to the hearing.

NMOGA presented six technical expert witnesses from industry to explain new rule language and offered operational field data to support the proposed changes. The NMOGA experts (from OXY, Encana, Chevron, Concho and Apache) presented field case scenarios to suggest changes on horizontal spacing units, well spacing, fracking, and horizontal drilling in New Mexico. Jalapeno Corp. also presented its owner, Harvey Yates, as a witness. Yates raised concerns on behalf of Jalapeno on issues related to correlative rights. IPANM did not present any witnesses, but our attorney did ask a number of substantive questions of witnesses. IPANM's questions centered on horizontal well design, construction, well-bore provisions that protect correlative rights in horizontal spacing units.



The New Mexico Oil Conservation Commission hears testimony during the Horizontal Rulemaking Hearing on April 18, 2018.

The new language added and approved by the OCC for the final draft will do the following:

*(Continued on page 3)*

(Continued from page 2)

- ♦ Create new definitions for horizontal spacing unit, affected persons in spacing units, first take point, last take point, infill horizontal well, multi-lateral horizontal wells, and unitized areas.
- ♦ Allow for provisions for wells to be drilled with smaller setbacks within a spacing unit.
- ♦ Allow for special provisions for wells drilled in spacing units larger than 40-acres.
- ♦ Create new provisions that allow for standard units to be created that are non-rectangular.
- ♦ Create new provisions that allow for the drilling of multi-lateral horizontal wells.
- ♦ Allow for simultaneous drilling of in-fill horizontal wells that fall within a single horizontal spacing unit.\*

This particular rulemaking hearing did not make any new rules or address any issues related to Compulsory Pooling or Risk Penalties Provisions. The decision not to include any of these issues into this rulemaking hearing was made after industry groups, including IPANM, and the Oil Conservation Division could not come up with any pre-hearing agreeable solution. As a result of this impasse, New Mexico Energy, Minerals & Natural Resources Department Secretary Ken McQueen has formed a small industry working group to attempt to find an acceptable solution. This group, chaired by New Mexico industry legal veteran Bill Carr, will meet in the next few months. IPANM will be represented in this group by Tom Mullins and Larry Scott. IPANM seeks to lower existing risk penalties (up to 200%) that currently can be charged to partial-lease holders who are compulsory pooled. At the hearing, IPANM told the Commission that the evidence put on and proposed amendments to the rule suggested that the risk profile for many of the horizontal wells drilled to source rock were considerably different from historic vertical drilling.

\*IPANM supported all of the changes recommended by NMOGA with the exception of the redefining of an Infill Horizontal Well. The proposed (and later approved) definition of Infill Horizontal Well is now defined as “a horizontal well the completed interval of which is located wholly within the horizontal spacing unit dedicated to a previously drilled or proposed horizontal well in the same pool or formation and is designated by the operator as an infill horizontal well.” IPANM warned the commission that the addition of “or proposed” horizontal well allows a major operator to potentially drill simultaneous wells within in a single track all at once, which brings into question of how a smaller interest or lease holder in the single well unit would be charged a risk penalty via compulsory pooling on each well, as there will be no production data from an initial well. Despite IPANM’s input, the OCC accepted this proposed language change. As a result of this change, IPANM still believes there is some ambiguity on how, whether, or if simultaneously-drilled wells would multiply the upfront compulsory pooling risk penalties by the number of infill horizontal wells drilled.

The Horizontal Rule is now in final drafting at the State Register’s Office. Once a final draft is complete and released, IPANM will share the final draft rule with our members. The Oil Conservation Commission may approve to officially publish the final draft for comments in late May. The commission can vote to adopt the final draft as early as June, whereby the rule would go into effect in July.

### **Financial Assurance**

The Financial Assurance Hearing was originally scheduled for May 24, but has since been rescheduled for July 19, 2018.

TO prepare for the hearing, the Board of Directors voted on April 11 to form a special Financial Assurance Policy Committee to prepare for IPANM’s appearance. The four-member team includes board members Mitch Krakauskas, Ryan Davis,

*“The Oil Conservation Commission may approve to officially publish the final draft for comments in late May. The commission can vote to adopt the final draft as early as June, whereby the rule would go into effect in July.”*

(Continued from page 3)

Rory McMinn and Ron Hillman. Some of the policy committee members will attend the hearing as IPANM Policy Advisors.

Oil and gas veteran attorney Gary Larson of Hinkle Shanor, LLC of Santa Fe has been hired to represent IPANM's interests for the Financial Assurance Hearing. With the help of Larson, IPANM is currently drafting a detailed set of arguments that will advocate for more reasonable Financial Assurance bonding levels for smaller producers. IPANM's plans to call on OCC to adopt its a proposed 5-tier blanket assurance bonding level, recommended by the Board of Directors in March. The IPANM recommended bonding levels can be seen in Figure 1.

*Figure 1: IPANM's Financial Assurance Bonding Recommendation*

IPANM Proposal		
Well Count	Amount	Implementation Timing
1-10 Wells	\$25,000	Immediately
11-99 Wells	\$50,000	Immediately
100-149 Wells	\$100,000	18 Months
149-199 Wells	\$200,000	12 Months
200+ Wells	\$250,000	12 Months

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Despite IPANM's prior efforts to convince regulators to adopt the Figure 1 bonding level recommendations, the Oil Conservation Division is proposing a 4-tier proposal as seen in Figure 2.

*Figure 2: OCD's Final Proposed Bonding Proposal*

Number of Wells	Proposed NM OCD Rule
1-10	\$50,000
11-49	\$75,000
50-99	\$125,000
100+	\$250,000

Likewise, the new OCD Proposed Rule calls for a 5x increase for Financial Assurance for a Temporarily Abandoned well in the oil and gas producing counties of New Mexico. Compare the language for the current rule below in Figure 3 to the language in the new OCD Proposed Rule.

*Figure 3: Comparing Language from existing rule to new OCD Proposed Rule for Financial Assurance*

Current Rule	OCD Proposed Rule
"Chaves, Eddy, Lea, McKinley, Rio Arriba, Roosevelt, Sandoval and San Juan counties, New Mexico: \$5000 plus \$1 per foot of projected depth of proposed well or measured depth of existing well."	"(In the same counties)...a one well financial assurance in the amount of \$25,000 plus \$2 per foot of the projected depth of a proposed well or the depth of an existing well"

IPANM will advocate that a five-fold upfront bonding increase plus doubling the rate per foot puts too much financial burden on smaller, independent producers.

While IPANM plans to push for these changes during the hearing, the Board of Directors has determined that IPANM should not stand in opposition to the overall Financial Assurance rule. IPANM does not plan to present witnesses at

(Continued from page 4)

the upcoming hearing. Given that many members are not opposed to the overall rule, the Board believes that direct opposition to the proposed rule would not be strategically beneficial to the association. However, IPANM will be legally represented at the hearing to protect the interests of independent producers to ensure the OCC does not unilaterally create higher bonding levels than those proposed.

### The Spill Rule

The OCC will consider revisions to the Spill Rule from June 5 to 8. Discussion between members of IPANM, NMOGA, additional industry representatives and the New Mexico Oil Conservation Division (OCD) has led to a final draft of developed rules governing clean-up for spills.

The goals of new Spill Rule are to:

- ♦ provide clear, consistent and reasonable timelines for addressing spills,
- ♦ provide clarity when delineation plans and closure plans are specifically required, and,
- ♦ provide regulatory certainty to operators and the New Mexico OCD.

The Spill Rule Hearing is scheduled for four days. IPANM has hired Gary Larson of the Hinkle Shanor, LLC of Santa Fe to provide legal representation who will be advised by Tom Mullins on behalf of independent producers. If you wish to join Tom on an IPANM Spill Rule Policy Committee, please email Tom Mullins at [tom.mullins@synergyoperating.com](mailto:tom.mullins@synergyoperating.com).

#### Legal Fund Contributors (through May 10, 2018)

Abo Empire  
Dugan Production Co.  
Javelina Partners  
Mack Energy Corp.  
Manzano LLC  
McElvain Energy Partners  
Patrick Gratton  
R.L. Bayless, Producer  
Sandstone Properties  
Synergy Operating  
Tierra Oil Company  
Walsh Engineering  
West Largo Corp.  
Zia Royalties, LLC

### Legal Fund Update



IPANM members have certainly noticed recent email requests for legal fund donations. The decision to appeal to the membership was not taken lightly. Recognizing the unusual occurrence of three consecutive rulemaking hearings, the Board of



Directors voted on April 11 to solicit the membership to raise \$50,000 to conservatively cover anticipated expenses for legal preparation and representation during all three hearings in 2018.

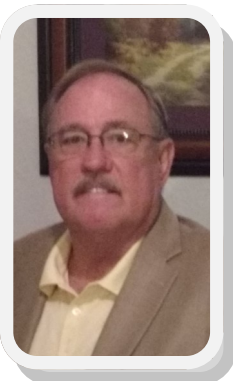
IPANM has had a seat at the table in the drafting of the new proposed rules. However, there is some degree of uncertainty related to the outcome of the rule hearing proceedings. IPANM needs to have a strong legal representation through the finish line as a party to these proceedings. The Oil Conservation Commission (OCC) rulemaking hearing process is our last chance to clearly articulate an IPANM position for the record and ensures our seat at the table for any last-minute negotiations or modifications that could occur during the hearing process.

If you haven't already contributed, please consider a donation that will be specifically earmarked for our IPANM Legal Fund. Any additional raised money left over from the 2018 hearings will remain in the Legal Fund for future representation. Since the initial solicitation to members in mid-April, IPANM has raised \$26,500 of our \$50,000. Sincere thanks to the following IPANM members and IPANM corporate members for their donations, which range from \$100 to \$10,000!

Please consider emailing Megan Burnett at [megan@ipanm.org](mailto:megan@ipanm.org) your pledged contribution to the IPANM Legal Fund. Then, please send a check with your pledged amount to: Megan Burnett, ATTN: IPANM Legal Fund, P.O. Box 6101, Roswell, New Mexico, 88202. All of these funds will be specifically directed toward these administrative hearings to ensure IPANM's voice is clearly represented.



## News Briefs



### Dwane McQuitty joins IPANM Board of Directors

Dwane McQuitty, Executive Sales Manager of Nova Mud, Inc. out of Midland, is IPANM's newest member of the Board of Directors. He has a long history working in oil and gas, spending 20-years in the natural gas compressor business before joining Nova Mud in 2006.

"Thank you for the opportunity to serve on our board," McQuitty said. "I am looking forward to doing whatever is needed to make the IPANM organization bigger, better and stronger than it has ever been."

The board unanimously approved McQuitty's nomination during the IPANM Spring Board meeting in mid-April. McQuitty assumes the remainder of a term of a board seat vacated by Tim Green earlier this year.



### Spring IPANM Board of Directors meeting update

IPANM held its Spring Board of Directors meeting on Wednesday, April 11 at Hotel Chaco in Albuquerque. The morning session focused on board procedural clarifications on board voting, policy committee assignments, and out-of-state residency considerations for future members of IPANM's Executive Committee. The afternoon session included an in-depth discussion on the upcoming May 24 Financial Assurance Rulemaking Hearing. The board voted to approve a request to solicit \$50,000 from the membership for legal representation at the April Horizontal Rulemaking Hearing, the May Financial Assurance Rulemaking Hearing and the June Spill Rule Hearing. IPANM's next Board Meeting will be the morning of Wednesday, July 25, 2018, prior to the beginning of the Annual Meeting at Hotel Chaco in Albuquerque.



### Federal Court upholds decision to reevaluate restrictive venting and flaring rule.

In early April, a federal court upheld an earlier decision to delay and reevaluate the BLM's controversial Obama-era venting and flaring rule. The original *Waste Prevention, Production Subject to Royalties, and Resource Conservation* rule, released in 2016, would have forced operators to incur massive cost increases by adding capture and leak prevention infrastructure. In December 2017, The Trump administration announced a decision to stay the rule. In addition to increasing infrastructure costs, the rule called for more burdensome monitoring and reporting requirements to the Department of Interior.

IPANM has provided comments to the federal register against the 2016 BLM rule in the past. IPANM will continue to pushback against restrictive and burdensome venting and flaring rulemaking efforts on both the federal and state levels. It is anticipated that national environmental groups will appeal the April federal court decision. Local environmental groups and anti-oil and gas legislators continue to pedal misleading methane talking-points and rhetoric to New Mexicans.

### Author of The Moral Case for Fossil Fuels speaks in Artesia

Alex Epstein, author of the *New York Times* bestselling book [\*The Moral Case for Fossil Fuels\*](#), was the keynote speaker at a special dinner hosted by the Artesia Chamber of Commerce on April 3 in Artesia. Epstein's hour-long talk focused on his philosophical argument that "human flourishing" should be the guiding principle of industrial and environmental progress. His 2014 book is widely praised as one of the most persuasive arguments ever made for the continuing use of fossil fuels. The dinner included a special welcome from IPANM Board President Claire Chase.



## 2018 Annual Conference

**IPANM invites you and your family to join us in Albuquerque on July 25-27 at the new, award-winning Hotel Chaco!**

To Register



To Become a Sponsor



### *Keynote Speaker*

Taya Renae Kyle, Widow of U.S. Navy SEAL Chris Kyle (American Sniper), is a renowned American author, political commentator, and military veteran's family activist. Taya will speak on Friday July 27, 2018 at the IPANM Annual Conference.

### **3-Day Event Schedule**

#### **Wednesday, July 25**

- |        |  |
|--------|--|
| 3-5 pm | Board of Directors Meeting<br>(Closed) |
| 6-8 pm | Welcome Reception                      |

#### **Thursday, July 26**

- |            |                       |
|------------|-----------------------|
| 7—8:30 am  | Buffet Breakfast      |
| 8:30—11 am | Opening Session       |
| 12—5 pm    | Golf Tournament       |
| 12—5 pm    | Family Outing         |
| 6—8 pm     | President's Reception |

#### **Friday, July 27**

- |              |                            |
|--------------|----------------------------|
| 8—10 am      | Awards Breakfast           |
| 10—11:45 am  | General Session            |
| 11:45 —1:00  | Luncheon (Keynote Address) |
| 1:15—2:00 pm | Candidate Forum            |
| 3—5 pm       | Happy Hour                 |

### **Featured speakers** will include:

- ◆ NM Governor Susana Martinez
- ◆ Representative from U.S. Secretary of the Interior
- ◆ Representative from IPAA
- ◆ NM State Land Office Commissioner
- ◆ Representative from State BLM
- ◆ Representative from NM Energy Department
- ◆ NM Environment Department
- ◆ State of NM Gubernatorial candidates

### **Activities** will include:

- ◆ Annual Golf Tournament, sponsored by Twin Stars, at the Albuquerque Country Club (new venue!) and for non-golfers,
- ◆ Family-friendly visit to the zoo and a swimming pool ice-cream social!

Visit <https://ipanm.org/2018-annual-meeting> for complete details.

*SPONSORSHIP opportunities still available!*

## Wildlife Photo Contest

Don't forget to enter the 18th Annual  
IPANM Wildlife in the Oilfield Photo  
Contest

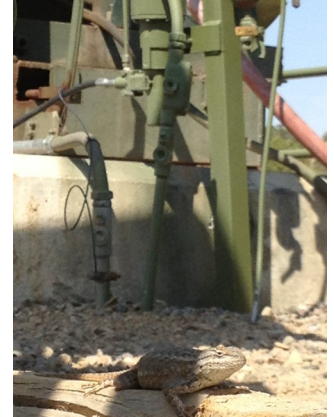
**1st Prize \$1000**

**2nd Prize \$500**

**3rd Prize \$250**

Send us your photos today!

For more information, go to <https://ipanm.org/wildlife-in-the-oilfield/>.





June 26<sup>th</sup>, 2018  
8:00 am - 5:30 pm  
Lea County Event Center  
Hobbs, New Mexico



New Mexico  
**EnergyPlex**  
Conference

FREE Event  
Sponsorships and  
Booths are available  
[www.EnergyPlexConference.org](http://www.EnergyPlexConference.org)





**Ad Space Available for  
2018 Quarterly Newsletters!**

Contact Megan Burnett at  
[megan@ipanm.org](mailto:megan@ipanm.org)



## 2018 IPANM Priorities



### MEMBERS

**Our Members Are Our Strongest Asset:** With hundreds of years worth of oil and gas experience, IPANM continues to engage our members to fight the challenges facing independents. IPANM is also in the midst of a targeted recruiting campaign to bring more members into our association.



### SESSION

**Annual Conference:** Our conference is our big annual event! Plans are moving forward for a reenergized IPANM Annual Conference from July 25 to 27, 2018. The conference will be held at Hotel Chaco in Albuquerque. Plans call for big name speakers and a golf tournament at Albuquerque Country Club.



### ALLIANCES

**Strategic Alliances:** The entire oil and gas industry is under attack in New Mexico from activists who want to put operators out of business. IPANM is already brokering strategic alliances with industry-friendly groups to add the voice of the independents into a much louder, industry-wide chorus.



### CONFERENCE

**Annual Conference:** Our conference is our big annual event! Plans are moving forward for a reenergized IPANM Annual Conference from July 25 to 27, 2018. The conference will be held at Hotel Chaco in Albuquerque. Plans call for big name speakers and a golf tournament at Albuquerque Country Club.

## A Message from IPANM's Executive Director

Dear IPANM Members,

Every morning, I open a designated folder in my email inbox that automatically collects daily news articles triggered by keywords pertaining to oil and gas production in New Mexico. I'm sure that many IPANM members go through a very similar daily ritual. On certain days, I will post particular noteworthy articles to our dedicated Facebook page. [Click here.](#)

Recently, I reviewed the past six-months of social media posts. Upon rereading these posts, I can come to one, simple conclusion: We are living through an extraordinary time in the history of oil and gas production!

Consider three recent posts and the corresponding linked news articles:

The United States is now producing more oil per day than at any other time in history. A big reason? Production increases in the Permian Basin, which has moved New Mexico up to 3rd highest oil producing state in the country! [Click here.](#)

In the next 10 years, about 50 percent of the oil and gas workforce is going to retire. IPANM joins the American Petroleum Institute in urging young New Mexicans to consider a career in oil and gas. Consider this: There will be approximately 1.9 million job opportunities in oil and gas by the year 2035! [Click here.](#)

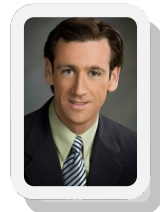
"For decades there was one country and one company that had spare capacity and that country was Saudi Arabia....Now we are seeing an analog to that in the Permian." [Click here.](#)

All of these astonishing facts run contrary to dire predictions over the past few decades that the world was running out of fossil fuels. The shale extraction revolution is the game-changer that has open the doors to oceans of domestic reserves that we've only begun to tap. Thanks to our state's abundant resources and industry-led innovations, New Mexico is ground zero for this revolution.

So, while it is easy to sometimes get caught up in the future infrastructure, regulatory, or political hurdles of our industry, I am proud to be here during this extraordinary time in New Mexico to witness and to promote the success of our independent operators to our state...and the world!

Highest regards,

Jim Winchester  
Executive Director  
IPANM



School children from the oil-producing basins of New Mexico visited House and Senate Floors of the State Capitol on Jan. 31, 2018 as part of Oil & Gas Day at the State Legislature.

### Fall Election

In light of the upcoming fall election, the IPANM Board of Directors recently reviewed and renewed our ongoing policy not to endorse specific political candidates for elected offices. However, IPANM may pass along candidate event announcements for informational purposes. Feel free to refer to our [IPANM election information policy](#) for specifics.

## INDEPENDENT PETROLEUM ASSOCIATION OF NEW MEXICO

**At IPANM, we advance and preserve the interests of independent oil and gas producers while educating the public to the importance of oil and gas to the state and all our lives.**

The Independent Petroleum Association of New Mexico was formed in 1978 by a concerned group of New Mexico independent oil and natural gas producers. In the spirit of this tradition, IPANM continues to grow and provide the services that protect, defend and promote the industry that is the very foundation of our way of life.



The voice of the independent oil and gas producers in New Mexico

### Primary Goals of IPANM

- Educate the public about the benefits provided by our industry
- Monitor industry issues on the state and national levels and get involved when necessary
- Provide industry updates, technical education and networking opportunities
- Challenge anti-industry groups who seek to intentionally deceive the public

### Board of Directors

#### Officers

Claire Chase, President  
Mack Energy Corporation

John Thomas, NW VP  
Robert L. Bayless, Producer

Gordon Goodman, SE VP  
EOG Resources, Inc.

Francisco Olvera, Treasurer  
Ritter & Company, LLC

Tom Mullins, Past President  
Synergy Operating, LLC

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Tom Blair

John Bruner

Ryan Davis

Walter Glasgow

Jared Hembree

Ron Hillman

Randall Hudson

Ed Lauer

Knute H. Lee Jr.

Rory McMinn

Dwane McQuitty

#### Past President Board of Directors

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Tucker Bayless

Richard Gilliland

Dan Girand

Frank Gorham

Jeff Harvard

Mitch Krakauskas

Kevin McCord

T. Greg Merrion

Chuck Moran

Mark Murphy

Greg Nibert

Glen Papp

Tommy Roberts

Larry Scott

John Thompson

Paul Thompson

George Yates

Frank Yates

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