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New Burdensome Regulations' On Oil And Gas Could Hurt New Mexico's Recovery

Tougher restrictions on oil and gas development on federal lands in New Mexico potentially stand in the way of the state's economic recovery from the COVID-19 pandemic, an industry group warns.

Jim Winchester, Executive Director of Independent Petroleum Association in New Mexico, said that while he expects overall production levels in 2021 to decline a small degree, he's concerned about smaller, independent producers that may be disproportionately hurt by new regulations put in place by the incoming Biden administration.

President-elect Joe Biden pledged during his campaign to reinstate regulations that were rolled back under the Trump administration, along with a ban on new leases for oil and gas development on federal lands.

“New Mexico has a very high percentage of federal land that produces oil and gas compared to other producing states,” Winchester said in an interview with The Center Square. “Any efforts to stifle production on federal lands will lead to lower production, loss of jobs in the state, and a loss of state revenue through a lack of new leasing of federal lands.”

The market ended 2020 with per-barrel prices at $47, a $7 improvement over its lowest point in April at $40, the Carlsbad Current Argus reported in December. The coronavirus crisis caused a significant drop in rig activity, with 60% of operations closing at the worst point in 2020, the newspaper reported.

Production decreases from the lack of new drilling last year will hit sometime within 2021 and 2022, Winchester said. If that decline hits while new drilling is stymied, Winchester pointed out that production revenues will drop.

New Mexico’s current administration also continues to push aggressive regulations, Winchester noted.

“At best, new burdensome regulations threaten to further push New Mexico into an uncompetitive position versus neighboring Texas,” he said. “At worst, if extraordinarily unreasonable rules are adopted, many existing operators may be regulated out of business. While we share the goal of further reducing methane emissions ... state regulators must adopt balanced rules that encourage responsible development of oil and gas in New Mexico.”

Winchester said there are two methane rulemaking hearings set for 2021 that are critical to the industry’s ability to recover.

Winchester said the oil and gas industry’s outlook for 2021 hinges on several critical factors.

“First, the price of oil needs to increase and maintain a $50-per-barrel range for operators, especially independents in New Mexico, to keep existing wells operational and producing,” Winchester said. “While many operators have resumed production on wells that were temporarily shut down during the 2020 oil price crash, there still remains a significant percentage of wells that remain offline. The price of oil needs to increase and maintain at least a $60 to $70 per barrel level for operators to resume large scale new drilling of wells.”

A recent study funded by the Wyoming Legislature estimated that New Mexico would lose $48 billion in oil and gas tax revenue over the next 20 years under a drilling ban.