

# New Mexicans Are The Real Losers Under Biden Oil Ban

Officials in the state of New Mexico professed to be taken aback last week by President Joe Biden's day-one decision to impose a 60-day moratorium on all oil and gas-related leasing and permitting actions on federal lands. It is a decision that will have major ramifications on the state budgets of New Mexico and other Western states, especially if it is extended beyond its initial term and backed up by Biden's promised ban on hydraulic fracturing on federal lands.

A little more than 2 years ago, in September, 2018, I wrote about the half-billion dollar windfall the State of New Mexico had just received during the course of a single sale of oil and gas leases on federal lands in the state. Those federal leases lie in the segment of the Permian Basin that spills over from Texas into the southeastern portion of New Mexico, part of the Delaware Basin play area that has become the hottest oil play in North America since 2016.

Like other oil and gas-producing western states, vast swaths of lands in New Mexico are owned by the federal government, including heavy concentrations of the lands in the southeastern part of the state, and in the northwestern corner that is home to a great deal of natural gas production. Although the state cannot collect its severance tax on production from those lands, it does enjoy a 50% share of the royalties that the federal government assesses on that production, which ranges from 12.5% to 16.667% of the gross value of the oil

or gas. New Mexico's collections of that share of federal royalties and proceeds from lease sales annually outpaces that of all the other Western states.

Some New Mexico officials are now trying to defend themselves by saying they didn't anticipate the new President would issue such a ban, but such protests ring rather hollow given that they most assuredly did understand that Biden plans to move ahead with his fracking ban, which would for all intents and purposes have the same effect. After all, virtually 100% of the drilling activity in southeast New Mexico targets the various shale formations in the Delaware Basin, and all shale wells require a frac job in order to be productive. Thus, a ban on fracking is the same thing as a ban on leasing and drilling.

New Mexico's Democratic Governor, Michelle Lujan Grisham, said through a spokeswoman that "Certainly we all understand the critical importance of this industry to New Mexico's bottom line and of the imperative to diversify our state economy and energy portfolio." and that's all fine. But the reality is that she and her administration can strive to "diversify" the state's energy portfolio all they want, but the state will still lose hundreds of millions of dollars every year should the Biden administration succeed in shutting down her state's oil and gas business.

To be clear: Neither the state nor the federal government collects any royalties on solar installations or wind farms. There is no severance tax to be collected from those alternative forms of energy with which to fund the state's schools or hospitals, or to sustain the free in-state college tuition program Lujan herself established in 2019 thanks to New Mexico's new Permian/Delaware Basin windfall. Moreover, many states actually subsidize wind and solar through tax abatements and credit programs, making them a net-negative to the state budget. Diversifying the portfolio is a noble goal, but Gov. Grisham

and the New Mexico legislature will still have to find other ways to try to balance the state's budget.

These are just some of the actual potential costs of the Biden assault on the New Mexico oil industry. They are the things that happen in the real world, as opposed to the fantasies pushed by many politicians.

Steve Pearce, the former New Mexico congressman who now serves as Chairman of the state's Republican Party, pointed to another certain cost of this Biden policy action late last week. "I think we're going to see companies choosing not to invest in New Mexico and take their jobs and drilling to Texas just 3 miles away," Pearce said. "They can just scoot across the border where they don't have federal lands."

Pearce is absolutely correct. Big Permian drillers like Diamondback Energy FANG 0.0%, Chevron CVX -0.6%, Oxy, ExxonMobil XOM -0.6% and many others have lease holdings in both the New Mexico and Texas sides of the greater Permian region. It will be a fairly simple thing for them to focus most of their coming drilling programs onto the Texas side for the next four years should Biden follow through with his fracking ban or extend his leasing/permitting ban on federal lands.

With his state facing a budget crunch of its own thanks to the impacts of the COVID-19 pandemic, Texas Governor Gregg Abbott will no doubt be only too happy to welcome the increased oil and gas activity to his state and the higher revenues it will produce. Meanwhile, the people of New Mexico, who gave President Biden a 55% margin in the 2020 election, are no doubt confused about what it was they actually voted for.

Elections have consequences. For New Mexico, the consequences of the 2020 election are only now starting to be understood.