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U.S. Department of the Interior
Attn: Secretary Deb Haaland
Department of the Interior
1849 C Street, N.W.
Washington DC 20240
energyreview@ios.doi.gov *(e-mail submittal)*

Thursday, April 15, 2021

RE: Executive Order 14008 &
Response to the March 25, 2021
National Forum on Federal Oil & Gas Policy

Dear Secretary Haaland and Members of Department of Interior,

On behalf of the 350+ members comprised of independent oil & gas producers and associated industry members who work in New Mexico, I'd like to respectfully submit these comments on the Department of Interior's comprehensive review of the federal oil and gas program as called for in Executive Order 14008. These comments also are submitted in response to the March 25, 2021 National Public Forum on the Federal Oil and Natural Gas program.

The Independent Petroleum Association of New Mexico (IPANM) is a non-profit 501c(6) that serves as the voice of independent oil and gas producers in New Mexico. Our mission is to preserve and advance 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. We support the return of a responsible, balanced and robust federal leasing program, while also ensuring the safe extraction of the abundant natural resources on federal lands in New Mexico.

The oil and gas industry is adapting to the "new normal" that was imposed upon the State of New Mexico as a result of the COVID-19 pandemic, the 2020 oil price crash, and significant loss of state jobs within the industry. While oil prices have improved, our operators report significant challenges in their struggle to remain solvent.

IPANM operators definitively point to both the temporary 60-day federal moratoriums and the continuation of federal leasing moratoriums as the cause of economic distress that has slowed industry recovery while keeping workers unemployed in New Mexico's oil & natural gas producing basins. Combined with the moratoriums, the new regulatory uncertainty at the federal level since the beginning of President Joe Biden's administration threatens the present and future wellbeing of New Mexicans, the oil & gas industry, and billions of dollars in state revenue.

IPANM's main concern is the prospect of prolonged or permanent federal leasing and permitting moratoriums. These moratoriums are destructive to state livelihood, as evidenced in recent history, state economics, and scientific studies. Through this letter, IPANM will demonstrate that moratoriums lead to

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significant state job losses, domestic insecurity, increased environmental damage, more bureaucratic delays, and undermine fundamental multiuse land principles.

Oil Production in New Mexico

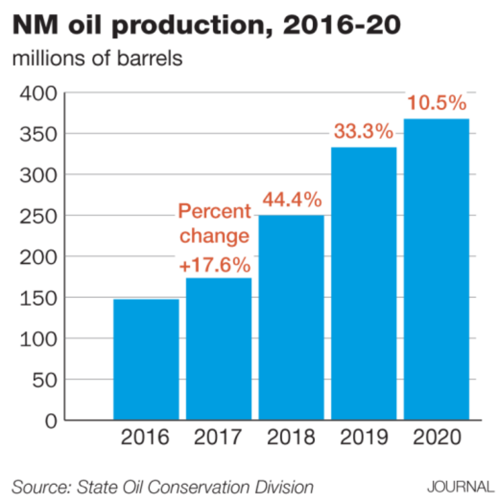
New Mexico is the third-largest producer of oil and the eighth-largest producer of natural gas in the United States. The state's dramatic production increases the past five years can be directly linked to the development of natural resources on the New Mexico side of the Permian Basin.

In 2020, New Mexico hit a record production of 357.8 million barrels of oil. Likewise, natural gas production set a new record of 1.9 trillion cubic feet produced. Despite these new records, the annual rate-of-growth from 2019 to 2020 declined significantly in BOTH oil and natural gas compared prior years.

Consider the following data from the New Mexico Oil Conservation Division:

- The growth of oil production in New Mexico from 2019 to 2020 represented a 10.8% increase compared to a much more robust 33.2% increase from 2018 to 2019. *(Figure 1 data courtesy the NM Oil Conservation Division; Illustration courtesy the ABQ Journal*).

Figure 1: Percentage Rate of Growth of NM Oil Production



- The growth of natural gas production in New Mexico had a modest 7% increase from 2019 to 2020 compared to a 19% growth rate from 2018 to 2019.

These growth rate declines can be attributed to the temporary shutdown of thousands of New Mexico wells due to the oil price crash of March 2020. However, ongoing federal moratoriums will contribute to further slow production growth. With future permanent moratoriums, overall barrel production in New Mexico will be reduced due to natural decline in the production of existing wells.

Future Revenues from Federal Lands in New Mexico

Oil & natural gas production is the main driver of revenues for the overall New Mexico state budget. In 2020, the oil & natural gas industry contributed $2.8 billion dollars to New Mexico's state budget. This staggering number represented approximately 34% of all state revenues into New Mexico's General Fund

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in 2020. However, a deeper-dive into the source of lands generating these revenues indicates how vulnerable New Mexico is to a dramatic oil & natural gas policy shift on the federal level.

According to the New Mexico Tas Research Institute, oil & natural gas operations on federal lands represented 54 percent, or $1.5 billion of the $2.8 billion the industry contributed to state revenue in 2020. Compared to other producing states, New Mexico is one of the most dependent states for revenues from federal land oil & natural gas leasing, permitting and production.

If New Mexico continues to face federal moratoriums on leasing and if permitting is curtailed, conservative estimates from the state's Legislative Finance Committee show a $300 million decline in state revenues from oil & gas production in 2022, and a $400 million decline in 2023. Further estimates released by a December 2020 University of Wyoming study (*Figure 2, courtesy University of Wyoming / Wyoming Energy Authority*) indicate a massive, annual $1.7 billion dollar decline by 2040 (an average loss of over $900 million/year from 2022 to 2040) in New Mexico. IPANM concludes that New Mexico cannot afford these massive revenue losses which will hit all sectors hard, especially general funds for education, public safety, and infrastructure.

Figure 2: Leasing & Drilling Ban Future Impact

Average annual oil and gas production losses in dollars

Leasing Moratorium	2021-25	2025-30	2031-35	2036-40
Wyoming	$872,000,000	$2,405,000,000	$4,246,000,000	$6,310,000,000
New Mexico	$3,206,000,000	$6,703,000,000	$10,125,000,000	$14,370,000,000
Colorado	$265,000,000	$599,000,000	$963,000,000	$1,353,000,000
Alaska	$469,000,000	$2,355,000,000	$9,902,000,000	$23,698,000,000

Drilling Ban	2021-25	2025-30	2031-35	2036-40
Wyoming	$1,055,000,000	$2,510,000,000	$4,364,000,000	$6,458,000,000
New Mexico	$4,394,000,000	$7,182,000,000	$10,533,000,000	$14,792,000,000
Colorado	$336,000,000	$627,000,000	$990,000,000	$1.385,000,000
Alaska	$506,000,000	$2,412,000,000	$10,378,000,000	$24,239,000,000

Rig Counts

Federal moratoriums have already negatively impacted New Mexico. Consider what is happening in onshore drilling as measured by rig counts. Rig counts are an important barometer of industry activity given the additional business services needed for all phases of well development. Likewise, a single drilling rig accounts for approximately 80 to 100 high paying jobs.

The rig count in New Mexico took a major dive following the oil price crash of March 2020, but consistently began to rebound from a low point in September 2020 (*See Figure 3, courtesy Baker Hughes*

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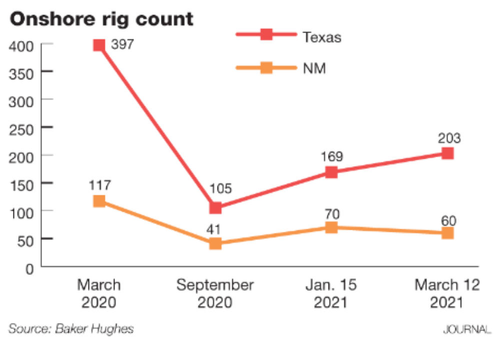
as published in the ABQJournal). In New Mexico, rig counts rebounded to a high of 70 on Jan. 15, the week before President Biden took office. However, once the federal moratoriums were announced the third and fourth week of January, New Mexico's rig count started falling again, dropping to 65 on Jan. 22, and down to 60 as of mid-March. In contrast, Texas' rig count has continued to steadily increase since September 2020, up to 203 rigs as of March 20.

Figure 3: New Mexico & Texas Rig Counts – Year Long Snapshot



As Figure 3 shows, given the choice to drill in Texas, where a majority of land is private, compared to the decision to drill in New Mexico, where the biggest chunk of land is federal, operators are already moving their drilling activity to Texas. The federal regulatory uncertainty created by the federal moratoriums is the definitive cause of this realignment.

The rig count migration matches what IPANM member producers are reporting to IPANM staff, citing a more favorable business environment in Texas on its non-federal lands. With the exodus of rigs across statelines, also comes the departure of oil service companies, workers, and jobs, along with the secondary retail and hospitality markets.

<u>Investment Money</u>

The federal moratoriums are already keeping new investment money on the sidelines. One IPANM member reports a private equity group and multiple investors backed out of his oil & natural gas production deal in Southeast New Mexico upon the announcement by the Biden administration to freeze all leasing activity on federal lands. This is typical of many other independent operators who now have development deals with private equity financing on an indefinite hold. Other IPANM operators are self-financing drilling activity with remaining federal leases where permits and right of ways have already been acquired. Once those wells are drilled and completed, two things will happen:

1. Drilling activity in New Mexico will decline with no new federal leases available for new wells, and,
2. Production in New Mexico will quickly drop due to the natural decline of production in existing wells that occurs after the first six months to two years of production.

The University of Wyoming study puts the number of lost investment dollars into New Mexico into the billions. In the next five years, the average annual losses in new drilling investment dollars under a

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federal lease moratorium alone are $2.625 billion/year in New Mexico. Under a federal drilling ban, the average annual losses are an additional $3.141 billion/year in New Mexico. By the end of 2024, New Mexico will lose an estimated cumulative total of $12.5 billion. These losses represent new money that could have been spent on developing oil and gas in New Mexico were it not for the federal leasing or permitting moratoriums.

Jobs

The job losses alone would be devastating to New Mexico. The most recent study on industry jobs by the New Mexico Tax Research Institute showed that oil & natural gas industry supported more than 134,000 jobs through direct or indirect spending in New Mexico, representing 13% of the total labor income.

Two recent studies illustrate the forthcoming anguish under continued federal moratoriums on leasing and permitting. The first study released by API and the New Mexico Oil & Gas Association in September 2020 indicates a loss of over 62,000 jobs by 2022. This scientific extrapolation was further confirmed by the December 2020 University of Wyoming study which pushes the New Mexico job losses over 100,000 by 2024. That would account for $9.8 billion in lost wages alone for New Mexico.

Domestic Security

The clear winners of federal moratoriums are foreign oil producing countries. Coming out of the pandemic, Americans will want to fly and drive again. While the demand for fossil fuels will increase, the federal moratoriums will lead to inevitable domestic production decreases. The supply to meet increasing domestic demand will have to come from foreign adversaries.

The implications of the major loss of federal production in New Mexico alone increases geopolitical risks. New Mexico accounts for 57% of all federal onshore oil production. Reducing New Mexico's federal production, coupled with all other domestic federal production losses, would lead to increased imports of fossil fuels from Russia, Iran, and Saudi Arabia. This scenario is not just theoretical conjecture. API most recent analysis definitively concludes the long-term ban on leasing and development on federal lands would cause the United States energy supply to rapidly shift to foreign sources.

IPANM operators believe that cutting off our domestic energy supply will upend the long-term domestic security of the United States. This upheaval comes at a time when the United States just reached the milestone of becoming energy independent for the first time in decades.

Environmental Considerations

Most distressing about the Biden Administration's insistence on halting oil & gas production, in the name of climate change, is the fact that these drastic policy changes actually undermine the environmental goals the administration seeks to achieve.

Domestic oil & gas production ensures safe and environmentally-responsible development with regulatory oversight. Likewise, domestic oil and natural gas producers have led the world with new technologies that have decreased emissions, even with increased production. Likewise, in New Mexico, IPANM and industry partnered with the state and environmental groups in a two-year long state Methane

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Rule process which will significantly reduce methane emissions down to 98% capture by the year 2025. Sequestration programs continue to be developed that further reduce industry's carbon footprint.

However, foreign oil & natural gas producing countries, including Russia and those countries in the Middle East, have far fewer environmental regulations in place, with lower standards that produce much higher levels global greenhouse gas emissions. With potential domestic production handcuffed by our own federal moratoriums, the United State will undoubtedly have to increase fossil fuel imports from these higher-emitting countries. Swapping lower GHG, domestically-produced oil & natural gas production for higher GHG, foreign-produced oil & natural gas is losing proposition in the global fight against climate change.

An additional consideration regarding moratoriums on New Mexico's federal lands is proportionality. Only 17-percent of New Mexico's 27.6 million federal acres are currently used for oil & natural gas production. On the global scale, the emission proportions from within our state from federal lands doesn't even amount to a rounding error on the global level. Yet, back on the state level, it is on this 17% of New Mexico's federal lands where a bulk of the state's wealth is generated. Therefore, it can be concluded that the federal government is imposing a flawed, socio-economic trade-off to reduce our state emissions on the backs of New Mexican citizens.

New Mexico is a state that already has 18.2% of its population living below the poverty line, per the U.S. Census Bureau. Given one-third of the state budget comes from oil & natural gas revenues, New Mexico citizens will face the brunt of oil & natural gas revenue losses due to the state's significant federal acreage percentage. Such a revenue stream in New Mexico is vital for adequate education, increased public safety, improved infrastructure, new environmental initiatives, and safe & affordable human health services.

Increased Delays

IPANM members believe an additional, significant problem will be the certain, future, federal government delays that will be forthcoming to all aspects of the oil & natural gas regulatory structure. As already demonstrated by the Biden administration's recent March 19th DOI directive, the authority to review and approve specific permits now rests in Washington, D.C., away from the local, regional BLM offices. This policy will continue to introduce uncertainty and delays for companies involved in the development of existing federal leases. There are already backlogs and delays in the approval process for APD's, sundries and rights of way. Thus, the March 19th DOI directive only exasperates the situation. In short, federal submittals will continue to face delays due to the bureaucratic paper (or email) shuffle. Instead, DOI should be working to provide adequate staffing in the local BLM offices, and give those local officers the authority to address the backlogs which currently exist.

These delays, and the inevitable federal fee increases, will disproportionately hit smaller operators hardest, whereby fewer staff exist to handle the associated work hour increases to properly submit, monitor, and protest consequential operational decisions.

For those operators who wish not to endure the federal bureaucracy in New Mexico, the decision is simple: produce oil & natural gas elsewhere, out of state and off federal lands. For Southeast New Mexico operators, that will exacerbate the one-way flow of jobs and equipment out of New Mexico to the less costly private acreage in the Texas Permian.

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Conclusion

Last month, Governor Michelle Lujan Grisham urged President Biden for relief to federal leasing and permitting moratoriums, writing that oil & natural gas "revenues fund public schools, infrastructure projects, and a range of other priorities, including environmental initiatives." She also shared a warning from economists employed by state government. "An analysis conducted by our state Department of Finance and Administration shows that New Mexico stands to lose approximately $709 million between fiscal years 2021-2025 if there's a relatively modest 10 percent decline in production."

IPANM agrees with Governor Lujan Grisham's warning and assessment above. New Mexico's federal lands must be available under a balanced, multi-use land program. Existing federal law mandates it. Oil & gas cannot simply be regulated out-of-business with sudden bans and moratoriums. Such drastic measures, as already demonstrated, fail to consider New Mexico's communities, citizens and jobs.

Using science, innovation, and collaboration, IPANM's operators work to prevent waste, reduce emissions, and improve air quality, all while growing production, creating jobs for New Mexicans, and revenues for New Mexico. To continue federal land leasing moratoriums and introduce uncertainty for permit approvals as part of new, federal policy is discompassionate and foolhardy.

Thank you for your careful consideration of comments.

Highest Regards,

Jim Winchester
Executive Director
Independent Petroleum Association of New Mexico

CC: Steve Wells, Director NM BLM State Office
Ryan Davis, IPANM Board President