F I S C A L I M P A C T R E P O R T

ORIGINAL DATE 2/9/16
SPONSOR Strickler **LAST UPDATED** **HM** 82

SHORT TITLE Reevaluate Proposed Oil & Gas Onshore Orders **SB**

ANALYST Armstrong

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	None		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HM 81

SOURCES OF INFORMATION
LFC Files

Responses Received From
Energy, Minerals and Natural Resources Department (EMNRD)
State Land Office (SLO)

SUMMARY

Synopsis of Memorial

House Memorial 82 requests that the New Mexico congressional delegation urge the United States Bureau of Land Management (BLM) to reevaluate the overall economic impact of the proposed changes to its regulations regarding oil and gas development on federal lands, and to quantify what BLM expects to improve in the royalty accuracy process as a result of amending these regulations.

FISCAL IMPLICATIONS

Agency analysis indicates no known fiscal impacts as a result of this memorial.

SIGNIFICANT ISSUES

BLM's Onshore Order No. 3 relates to site security, production accountability, meters, and inspection of oil and gas wells and production facilities on federal and tribal lands. Onshore

Order No. 4 establishes minimum standards for the measurement of oil and provides standard operating practices for lease oil storage and handling facilities and production facilities on federal and tribal lands. Onshore Order No. 5 establishes minimum standards for the measurement of gas from oil and gas wells and production facilities on federal and tribal lands. Newly proposed Onshore Order No. 9 would establish standards to limit the waste of flared and vented natural gas and define the appropriate use of oil and gas for beneficial use.

According to Oil Conservation Division (OCD) records, approximately 49% of the active oil wells and 71% of the active gas wells in New Mexico are located on federal or tribal lands. Consequently, any change in the BLM's regulations governing operations on federal and tribal lands will have an impact on approximately 32,000 active wells in New Mexico.

Implementation of regulatory changes designed to increase site security, change the methods used to measure oil and gas production, and establish standards to limit venting and flaring of gas by operators have the potential to impact the economics associated with oil and gas production. According to EMNRD analysis, additional regulations could burden oil and gas operators with additional operating expenses that may lead to the premature permanent abandonment of uneconomic oil and gas wells. Such action could adversely affect New Mexico, which currently receives approximately 48% of the royalty from wells located on federal lands.

Over 88 percent of State Land Office (SLO) revenues come from royalties on oil and gas produced under SLO oil and gas leases, and over 82% of these revenues are generated by leased lands committed to communitization agreements or unit agreements. Given New Mexico's checkerboard distribution of land ownership, the majority of such agreements necessarily include the participation of federal or tribal lands and the proposed federal regulations on which the bill seeks clarification and further economic analysis would directly impact the ability of the SLO to independently manage state trust lands in a manner consistent with the agency's statutory fiduciary duty.

RELATIONSHIP

House Memorial 81 requests the New Mexico congressional delegation to request that the federal government reevaluate the overall economic impact of the federal Office of Natural Resources Revenue's (ONRR) proposed oil and gas valuation regulations and their unbundling efforts.

TECHNICAL ISSUES

On page 2, lines 1 through 25, the memorial states that the general fund is the primary funding source of many functions of state government, including environmental protection. However, the New Mexico Environment Department's (NMED) FY16 expenditure authority totals $90.3 million with only $13.2 million, or 14.6 percent, in general fund revenues and $25.65 million, or 28.4 percent, in federal revenues. The remainder of NMED's funding is from various special funds which receive federal revenues to implement federal environmental protection laws. Additionally, EMNRD's Mining and Minerals Division's $8.2 million FY16 operating budget includes $6.85 million in federal revenues and OCD's $11.5 million operating budget includes $8 million from the oil reclamation fund.

JA/jo