

New Mexico Oil & Gas Association (NMOGA)

- Represent Companies That Produce Approximately 95% of the Oil & Natural Gas in New Mexico
- Pipeline Companies
- Refineries
- Service Companies

New Mexico Oil & Gas Industry Overview

- Over 54,000 producing oil and gas wells
(2015 - NMOCD)
- 5th in oil production and 7th in natural gas production among the states
(2014 oil, 2013 gas – Energy Information Administration)
- 105,600 jobs: 39,200 direct, 66,400 indirect and induced jobs
(API July 2013)
- \$2.1 Billion - 35% of State of New Mexico General Fund Revenues
(NMTRI - Fiscal Year 2014)
- Severance Taxes and Royalties on Oil and Gas Provided 96.6% of the \$14.9 billion Land Grant Permanent Fund and 86% of \$4.8 Billion Severance Tax Permanent Fund
(NMTRI - Fiscal Year 2014)
- 32 drilling rigs operating in New Mexico as of October 14, 2016
(Baker Hughes)

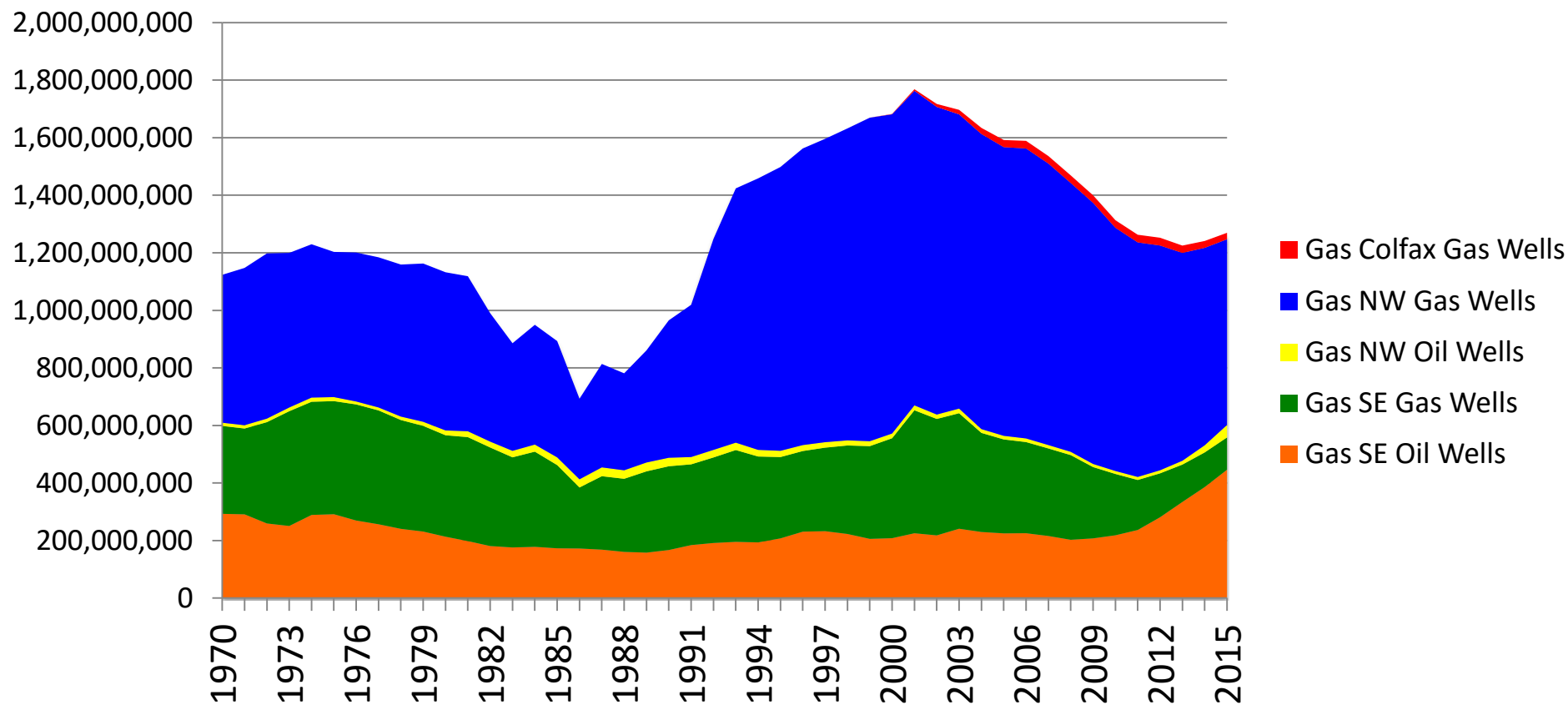
Headwinds for the Industry

- Adjusting to Lower Oil Prices: Challenges to State of New Mexico, Companies, Communities, Employees
- Onslaught of Federal Regulations: EPA and BLM and disproportionate impact on New Mexico
- BLM Resource Management Plan: Process of Setting Rules that Will Impact Development in New Mexico for the Next Decade

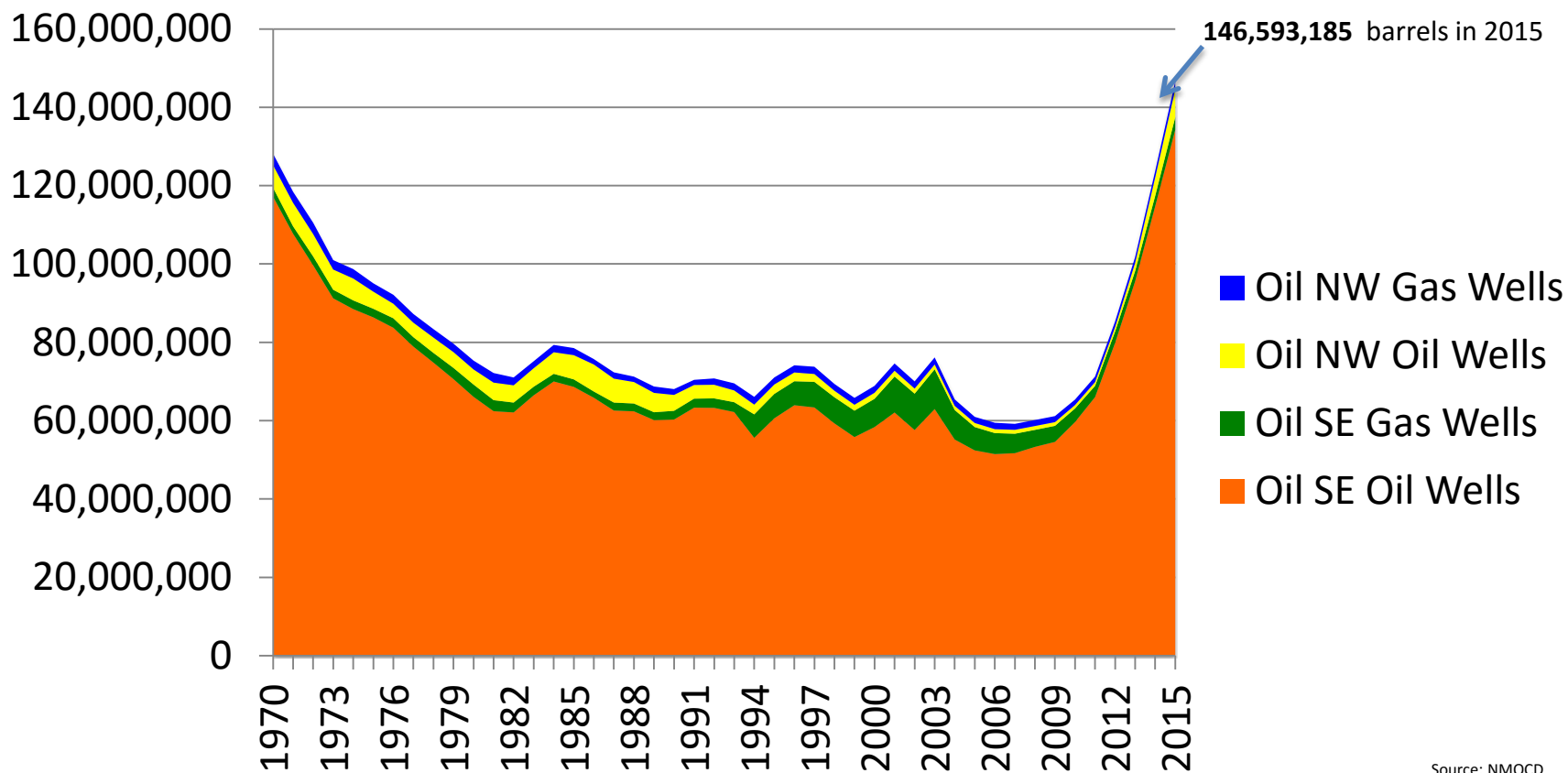


New Mexico Natural Gas Production (MCF)

1970-2015



New Mexico Oil Production (barrels) 1970-2015

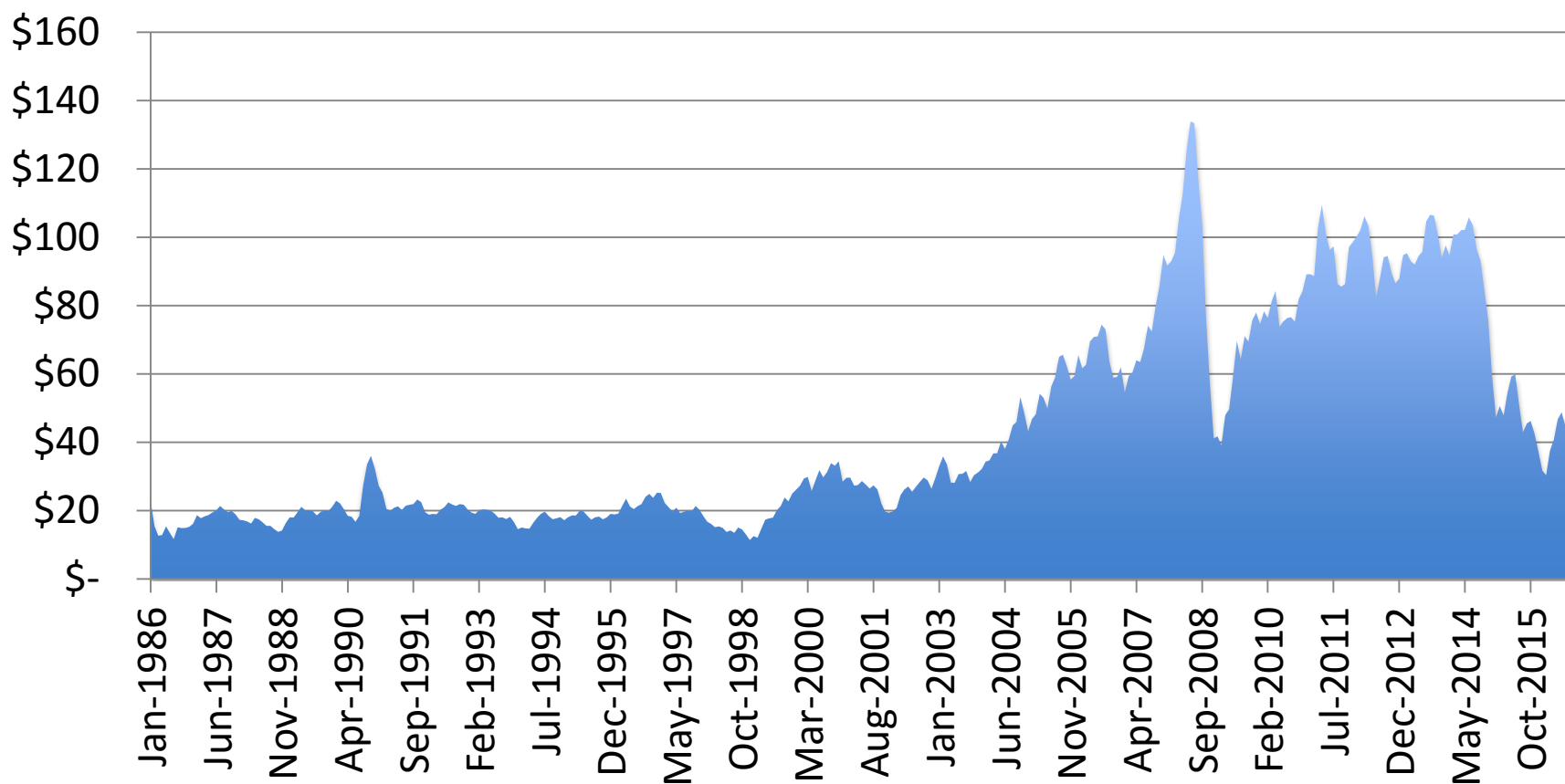


Source: NMOCD

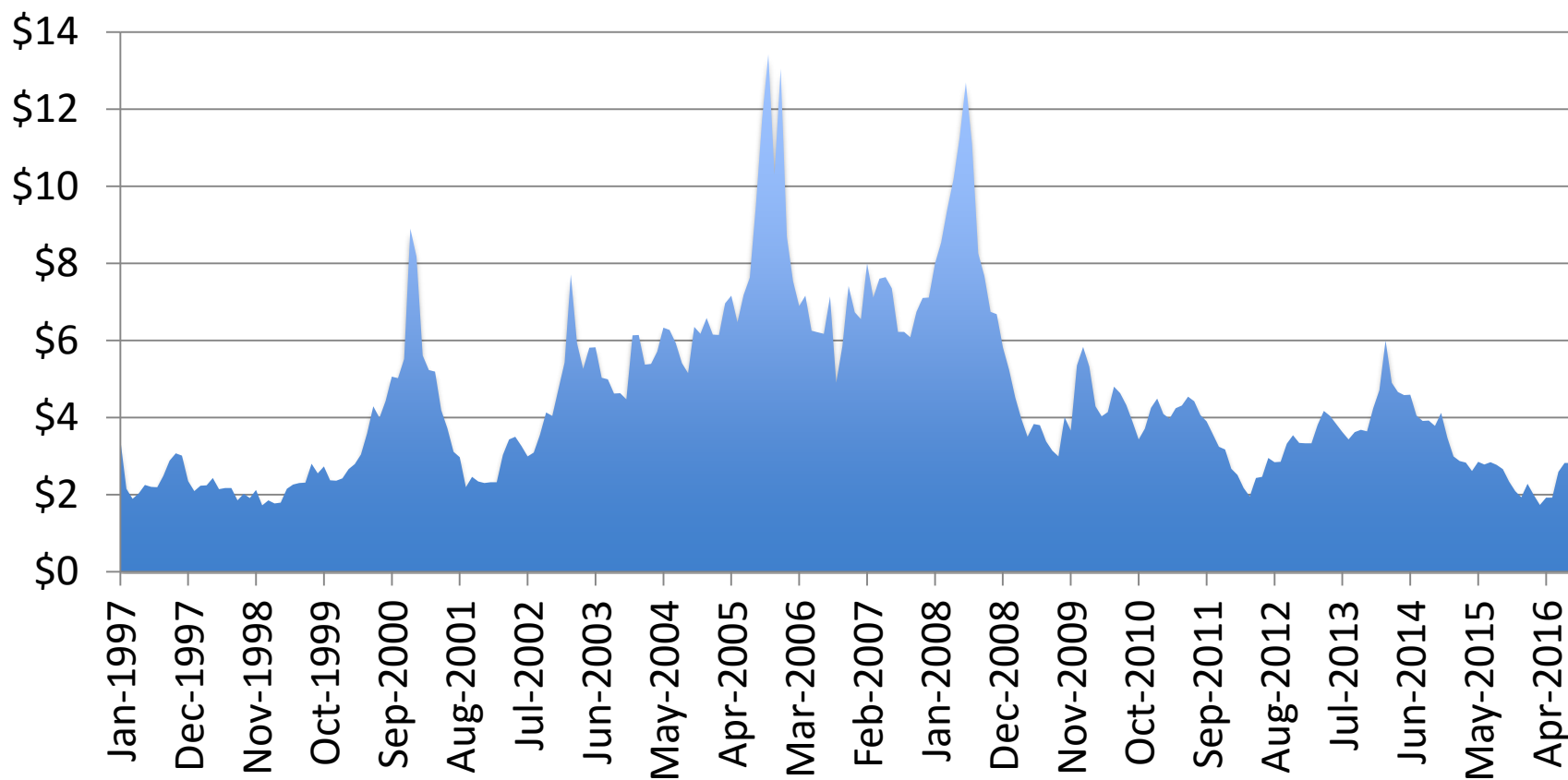
New Mexico Oil & Gas Production 2014 thru 2016

- Oil
 - 2014 124.1 million bbls
 - 2015 147.3 million bbls
 - 2016 144 million bbls (projected)
- Natural Gas
 - 2014 1.241 billion MCF
 - 2015 1.272 billion MCF
 - 2016 1.240 billion MCF (projected)

Historical Oil Prices (WTI): \$ per barrel January 1986 - September 2016



Historical Gas Prices (Henry Hub): \$ per MCF January 1997 – September 2016

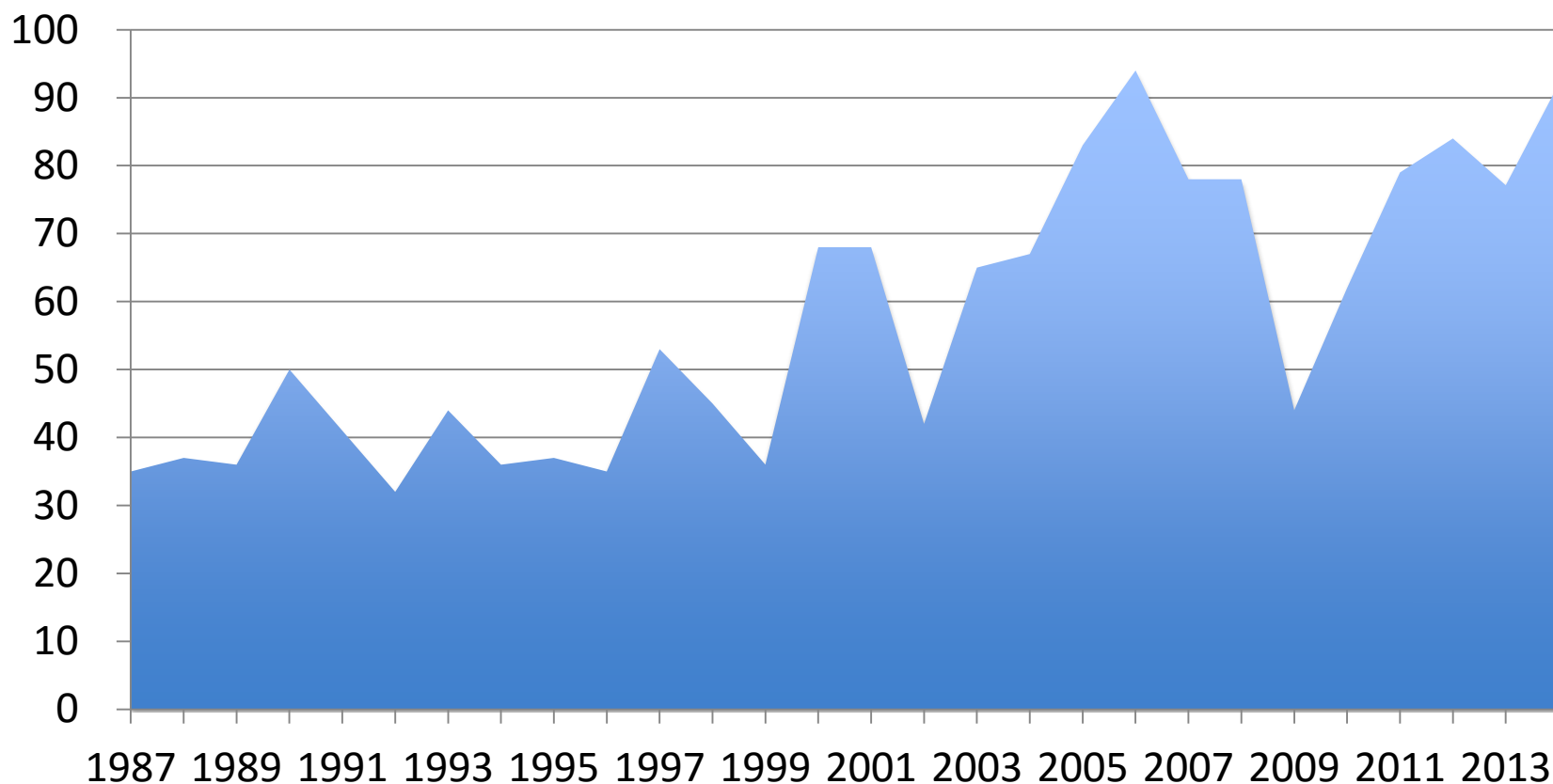


Futures Oil Price – West Texas Intermediate Crude

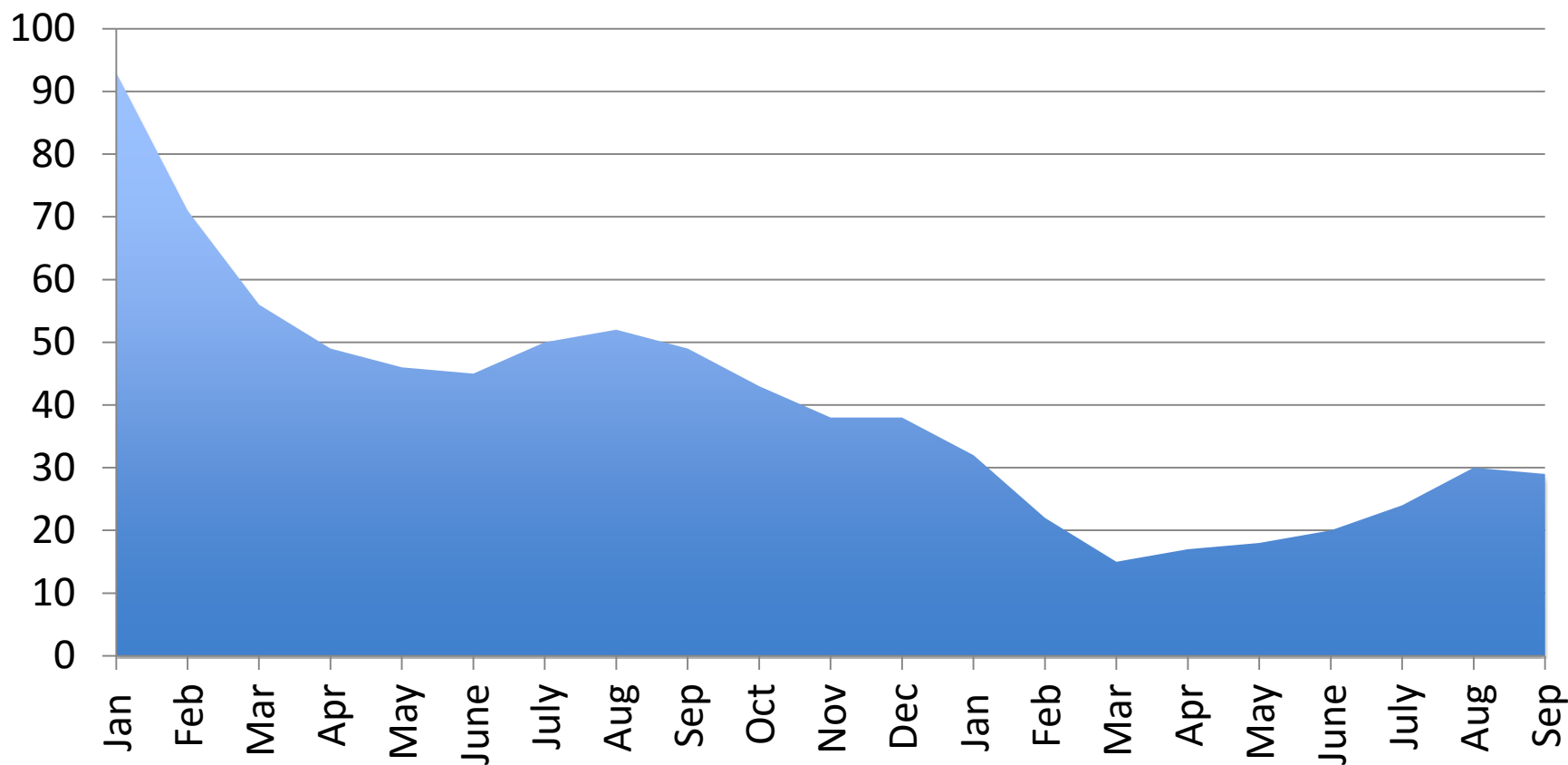
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|----------------------|-------------------|
| • Nov 2016 - \$50.23 | Recent Avg Prices |
| • Feb 2017 - \$51.66 | 2014 \$93.17 |
| • May 2017 - \$52.74 | 2015 \$48.67 |
| • Aug 2017 - \$53.31 | 2016 \$41.16 |
| • Dec 2107 - \$53.85 | |
| • Dec 2018 - \$54.81 | |

Source: <http://www.cmegroup.com/trading/energy/crude-oil/light-sweet-crude.html> October 14, 2016

New Mexico Annual Average Rig Count 1987-2014



New Mexico Monthly Average Rig Count January 2015-September 2016



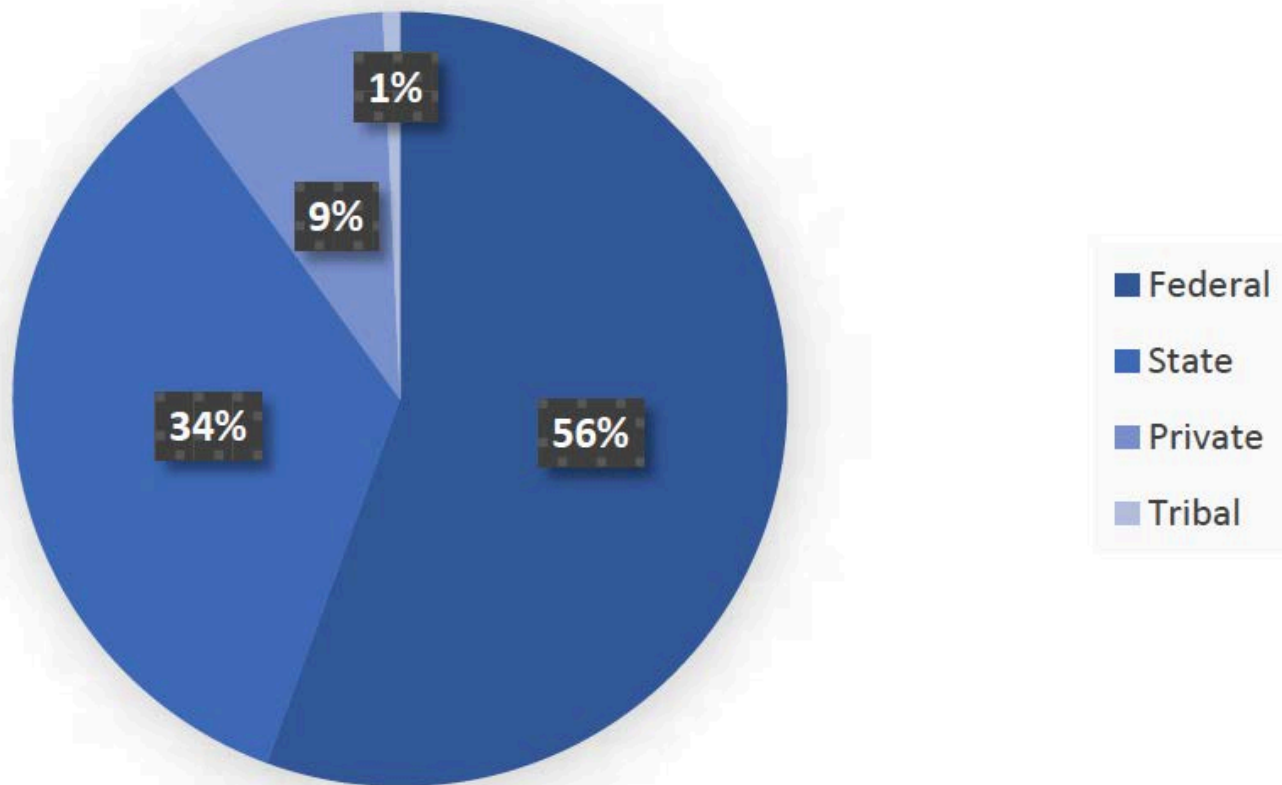
Status of Selected Federal Issues

- BLM Hydraulic Fracturing Rule – Blocked in Federal Court
- Waters of the United States Rule – Federal Court Injunction
- Listing of Lesser Prairie Chicken as Threatened- Overturned in Federal District Court but recent petition filed by wildlife groups to reconsider
- Texas Hornshell mussel

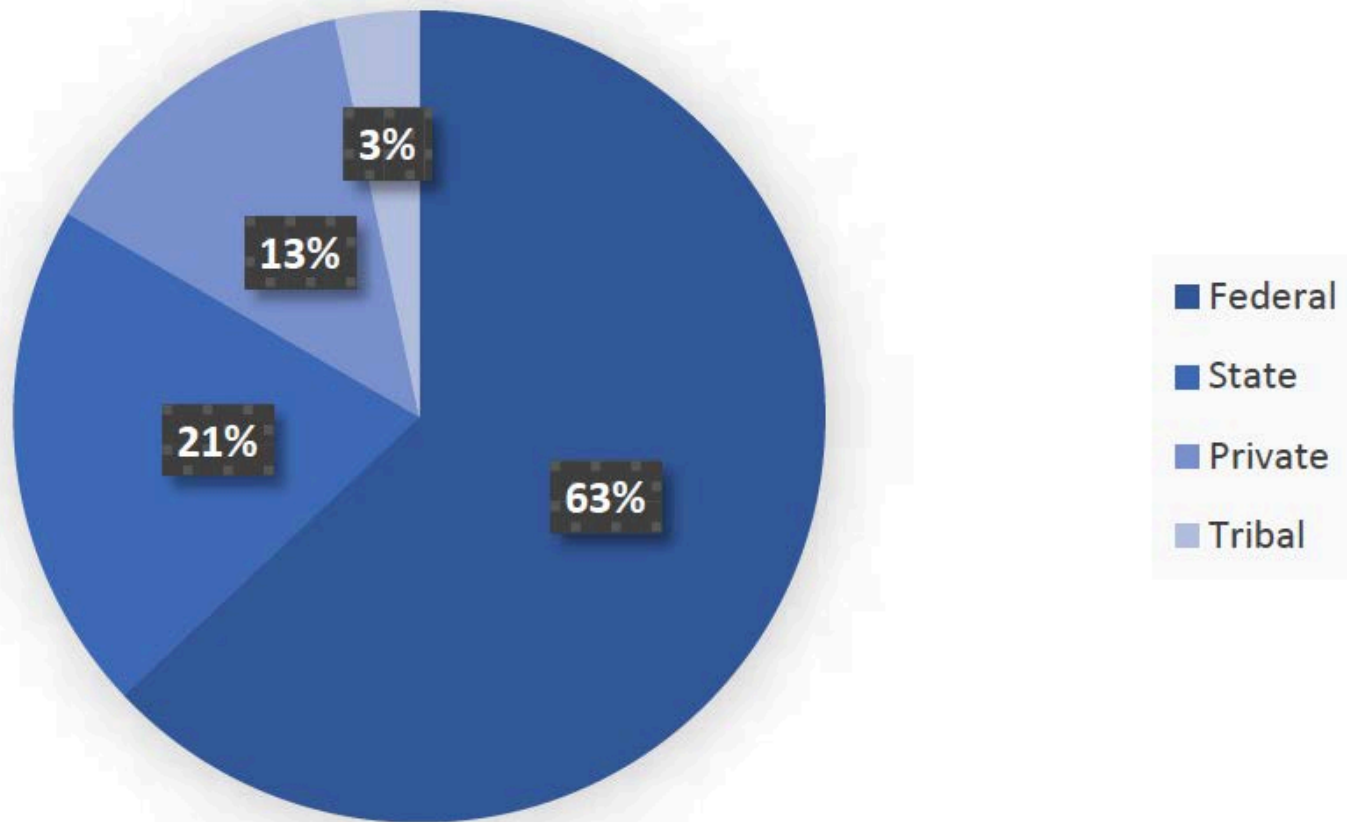
Regulation: The Coming Federal Threat

- New Mexico faces disproportionate risk from Bureau of Land Management (BLM) Regulations

2015 Oil Production by Land Type



2015 Natural Gas Production by Land Type



Onshore Orders 3, 4 and 5

- Rules finalized 10/17/2016; Industry still evaluating the impacts
- Onshore Orders 3 (commingling), 4 (oil measurement) and 5 (gas measurement) are each major rules affecting oil and gas operating and reporting functions on federal lands.
- It is unprecedented for the BLM to undertake major revisions to each of these long-standing and extraordinarily complex rules simultaneously.
- Industry has extensively commented on how these Onshore Orders, if implemented as proposed by BLM, will result in termination of many existing approvals potentially leading to premature cessation of existing production, resulting in waste and permanently stranded resources; it will also raise breach of contract, due process and takings issues.
- Industry recommended the major components of these Onshore Orders should only apply prospectively; retroactive application to thousands of wells and facilities is not only arbitrary and capricious for operators but will strain BLM resources beyond any reasonable capability to continue with current operations while attempting to backdate every single well and facility already in operation.

Onshore Order 9 - Venting Flaring

- The rule was released to the National Registry on February 8, 2016. Final rule due out later this year
- The venting and flaring rule aims to reduce the amount of methane released. Part of this rule is expected to require the twice yearly inspection of all gas-producing wells with special, costly cameras. In northwest New Mexico alone, where there are over 20,000 active wells, the annual cost would be over \$24 million a year.

High Level View of What is at Risk

- Over 7,500 operating gas wells in the San Juan Basin representing 13% of gas production
- Thousands of oil wells and up to 10% of oil and gas production in the Permian Basin
- Federal, state and local revenue
- Schools and Colleges
- The Future of Our Communities

Interstate Oil & Gas Compact Commission Marginal Well Report 2015

- Marginal oil wells
 - Produce < 10 bbl/day
 - 11.3% of NM oil production in 2015 from marginal wells; 16.4 million bbls
 - 56% of NM oil production from federal lands
 - Federal rulemaking compliance costs will cause marginal well shut ins
 - Premature shut in of wells reduces current state revenues and future revenues as oil left in ground

Interstate Oil & Gas Compact Commission Marginal Well Report 2015

- Marginal gas wells
 - Produce < 60 mcf/day
 - 9.7% of NM gas production in 2015 from marginal wells; 127.5 million mcf
 - 63% of NM gas production from federal lands
 - Federal regulation compliance costs will cause marginal well shut ins
 - Negative impact on state budget and jobs

Impact of Venting and Flaring Rule on New Mexico General Fund

Fiscal Years 2017, 2018 and 2019

Case	Conservative	Medium	High
Lost Production Oil (barrels)	6,173,606	8,232,475	10,000,000
Lost Production Natural Gas (mcf)	42,060,100	63,090,150	84,120,200
General Fund Direct Impact-Oil			
FY 2017 \$42/bbl	(\$23,104,500)	(\$30,809,600)	(\$37,424,500)
FY 2018 \$46/bbl	(\$25,304,800)	(\$33,743,900)	(\$40,988,800)
FY 2019 \$50/bbl	(\$27,505,200)	(\$36,678,100)	(\$44,553,000)
General Fund Direct Impact-Natural Gas			
FY 2017 \$3.00/MCF	(\$9,034,000)	(\$13,551,100)	(\$18,068,000)
FY 2018 \$3.30/MCF	(\$9,937,500)	(\$14,906,200)	(\$19,874,800)
FY 2019 \$3.40/MCF	(\$10,238,600)	(\$15,357,900)	(\$20,477,100)
General Fund Direct Impact-Total			
FY 2017	(\$32,138,500)	(\$44,360,700)	(\$55,492,500)
FY 2018	(\$35,242,300)	(\$48,650,100)	(\$60,863,600)
FY 2019	(\$37,743,800)	(\$52,036,000)	(\$65,030,100)

New Mexico Employment

105,600 Direct, Indirect and Induced Jobs in New Mexico¹

32 drilling rigs operating in state – 100% of those in Permian Basin (Baker Hughes: September, 2016)

- Each rig accounts for approximately 50 total employees
- Average annual wages approximately \$75,000+ per employee
- \$3,750,000 annual payroll per rig

1: “The Economic Impacts of the Oil and Natural Gas Industry on the U.S. Economy in 2011: Employment, Labor Income and Value Added,” PwC, July 2013. Based on 2012 IMPLAN database

Job Impact to State of New Mexico

- Interstate Oil & Gas Commission Report 2015 from 2012 thru 2015
 - Direct oil & gas job losses 2,245 (statewide)
 - Total job losses (direct and indirect) 5,390 (statewide)
- San Juan County data
 - Population loss 11,500 over last 2 years; job losses of 6,500 over last 8 yrs

Job impact to State of NM (cont'd)

NM Dept of Workforce Solutions 10/21/2016

- Mining (includes oil & gas) contracted by 6,900 jobs (27.9%) over the last year statewide
- Farmington – 967 jobs lost over the last year
- Eddy County – 1504 jobs lost over the last year
- Lea County – 1739 jobs lost over the last year

Carlsbad and Farmington Field Offices BLM Resource Management Plan (RMP)

Carlsbad – Draft RMP out early 2017 followed by a 90-day comment period

Farmington- Scoping just beginning with meetings scheduled for the Navajo Chapter Houses late 2016; Draft RMP expected 2018

BLM Resource Management Plan

To ensure the best balance of uses and resource protections for America's public lands, the BLM undertakes extensive land use planning through a collaborative approach with local, state and tribal governments, the public, and stakeholder groups. The result is a set of land use plans – called Resource Management Plans – that provide the framework to guide decisions for every action and approved use on the National System of Public Lands.

Importance of the Resource Management Plans to New Mexico

- Access to Acreage for Development and Production
- Rules for Operation
- Themes
 - Less Acreage
 - Operating Restrictions

Overarching Themes of Current Federal Regulatory Proposals

Increasingly Stringent and Costly Rules and Regulation with Limited and Diminishing Environmental Protections

Questions?

