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

SPONSOR Strickler

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HM 81

SHORT TITLE Reevaluate Proposed Oil & Gas Regulations

SB

ANALYST Amacher

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	**FY17**		
	None		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HM 82

SOURCES OF INFORMATION
LFC Files
State Land Office (SLO)

SUMMARY

Synopsis of the Memorial

House Memorial 81 requests the New Mexico congressional delegation to represent the state's interests and requests 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.

House Memorial 81 further resolves that copies of this memorial be transmitted to the New Mexico congressional delegation, the president of the United States, the United States secretary of the interior, the United States secretary of energy, the majority leader of the United States senate, and the speaker of the United States house of representatives.

FISCAL IMPLICATIONS

There are currently no known fiscal impacts to the state other than administrative costs of the relevant agencies to assist in the study with the federal government for the requested reevaluation. In the event ONRR valuations result in a positive impact from the retroactive seven year recalculation, it could possibly be a onetime beneficial impact to state revenues. However, the long term fiscal impacts of a federal rule change are not yet identified. EMNRD notes that 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 the state, which currently receives approximately 48% of the royalties from wells located on federal lands.

SIGNIFICANT ISSUES

ONRR is responsible for collecting royalties on gas and oil produced from federal and tribal lands. In calculating the value of the production which royalties are assessed, the costs of processing and transporting oil and/or gas are often deducted by the lessee of a communitization agreement. However there are no allowable deductions for the lessee in placing residue gas and plant products in a marketable condition. It is these costs and deductions by the lessee that are bundled in the calculation of the royalty. ONRR seeks to reclassify certain costs in the Marketable Condition Costs as part of a new enforcement initiative.

HM33 indicates ONRR has unilaterally reinterpreted existing oil and gas valuation rules and proposes to change the rules in a way that may make development on federal lands more costly and burdensome with which to comply.

HM33 also indicates ONRR is providing guidance to companies on how to unbundle and is posting unbundled cost allocations that are mathematically incorrect. This is a significant challenge when the agency is requiring companies to retroactively recalculate their royalties back seven years with interest. Additionally, these recalculated amounts represent a significant portion of the remaining value of the well.

RELATIONSHIP

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.

OTHER SUBSTANTIVE ISSUES

According to the State Land Office (SLO), over 88% of SLO revenues come from royalties on oil and gas leases and over 82% of these revenues are generated by leased lands committed to communitization agreements or unit agreements. The U.S. Department of the Interior's Bureau of Land Management (BLM) defines a communitization agreement as an agreement between the federal government and another party (e.g. a well operator) of a designated spacing unit determined by the state oil and gas board which a federal lease cannot be independently developed and operated in conformity with an established spacing pattern. Such agreements are authorized for areas where well-spacing or a well development program is established.

SLO notes that 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 memorial seeks clarification. Additional economic analysis would directly impact the ability of SLO to independently manage state trust lands in a manner consistent with the agency's statutory fiduciary duty.

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 thousand active wells in the state.

JMA/jo