ISSUES FOR HEARING
Permian Basin Drilling and Production Update

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Permian Drilling

- Active drilling rigs in the Permian basin peaked at 493 rigs in November 2018 and began steadily declining, primarily in Texas, due to low oil prices and producers favoring free cash flow and investor returns over capital spending.
- The oil price crash that began in March 2020 caused a more rapid decline in drilling rigs in Texas and New Mexico.
    - New Mexico's drilling rigs declined 59 percent from their peak of 117 rigs in March 2020, falling to 48 rigs by the first week of July. Drilling rigs were down 44 percent in Eddy County and 62 percent in Lea County.
    - Texas' active drilling rigs declined 74 percent in the same period.
- Drilling rigs in Texas are currently below their lowest point in the 2015-2016 price crash, although New Mexico's rig counts have not yet fallen below the trough of the last downturn.
    - The pace of decline is leveling off, but rig counts are expected to remain low or continue declining as long as prices remain below $45 per barrel.
- Drilling in the Permian basin was down 64 percent in May 2020, with 201 new wells drilled that month, compared to 561 new wells in May of last year.
    - Comparably, drilling in the Eagle Ford basin was down 72 percent, Bakken drilling was down 74 percent, and Anadarko drilling was down 89 percent.
- U.S. mining investment, which track closely with New Mexico rig counts, is projected by IHS Markit to continue declining through the end of 2020.
    - Unlike the 2015-2016 downturn, investors now have limited access to debt and equity markets to deal with the current price environment.
- Less drilling of new wells will cause the natural decline rate to takeover, causing production declines.

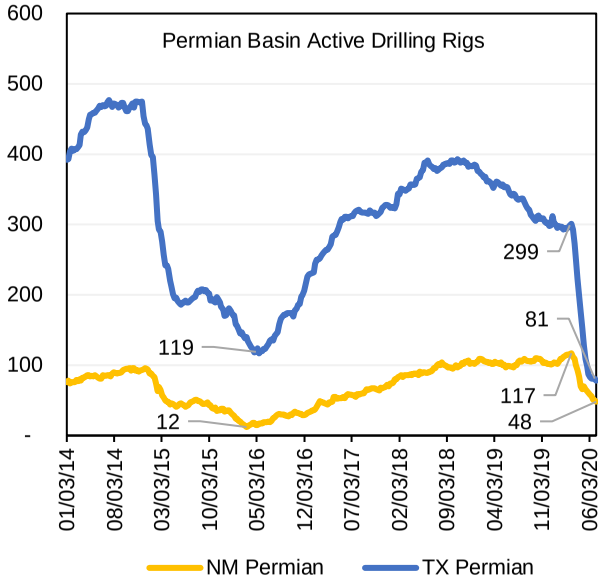
New Mexico Production and Prices

- The Oil Conservation Division reports 5,743 wells have shut in since April, or about 12 percent of all oil and gas wells in New Mexico, and about 64 percent of the shut-ins are oil wells.
- Oil production in New Mexico declined 112.4 thousand barrels per day (bpd), or 10 percent, from March to April, based on data from the Taxation and Revenue Department. Natural gas production declined 11 percent, or 553.3 million cubic feet per day.
- New Mexico's average oil price in April was $14.38/bbl. New Mexico's average natural gas price in April was $1.04/mcf.

- However, natural gas transportation and processing deductions jumped to 60 percent in April, compared to a historical average of about 30 percent. The resulting net natural gas price, which best represents the price received by producers and the taxable value of the product, averaged just 38 cents in April.

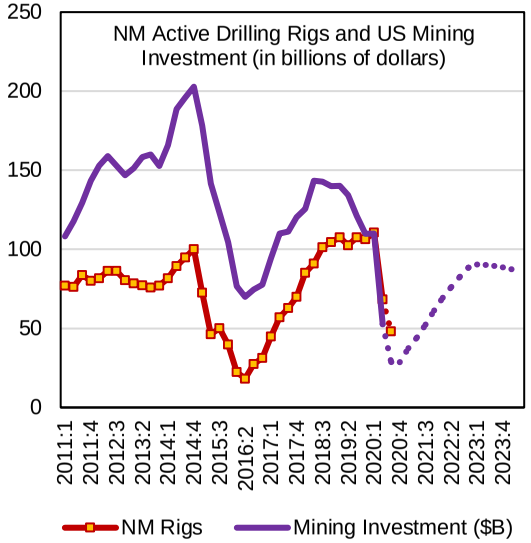
- Oil price forecasts are currently tracking at about $39/bbl for FY21, above the June 2020 consensus estimate of $31/bbl for the fiscal year.
  - However, uncertainty in the oil market remains, particularly regarding potential extension of the OPEC+ production cuts and potential fuel demand amid rising coronavirus cases in the U.S.
- The June 2020 consensus revenue estimate projected a 28 percent decline in oil production in FY21, and a 14 percent decline in natural gas production.
  - Companies may use higher oil prices to return more to investors or pay down debt rather than expand investment in new drilling.
  - As shut-in wells come back online, New Mexico may see a temporary increase in production in the near term, but reduced drilling and investment is still expected to lead to an overall production decline in FY21.
- New Mexico's mining sector lost 6.4 thousand jobs from February 2020 to May 2020, a decline of 24 percent in just three months, according to data from the Bureau of Labor Statistics.
  - In the 2015-2016 downturn, it took about a year for the state to lose the same amount of mining jobs. Employment declines continued from December 2014 to August 2016, with peak-to-trough of mining employment falling 34 percent (or nearly 10 thousand jobs), and job levels never returned to previous peaks.

New Mexico's active drilling rigs are down almost 60 percent from their peak in March 2020.



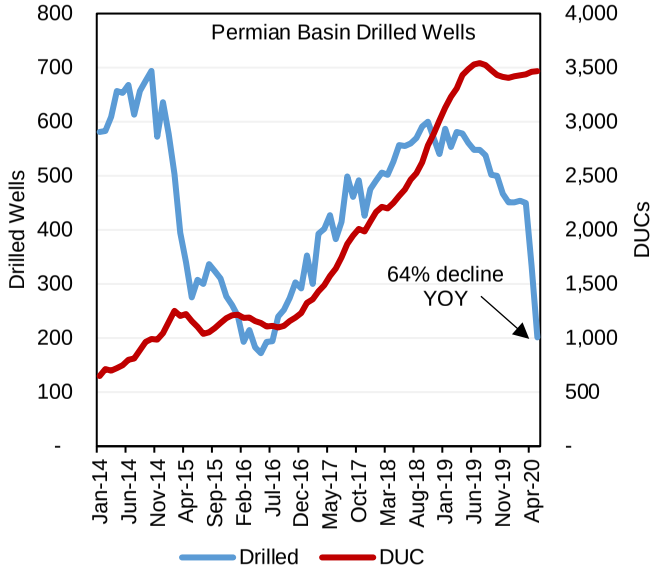
Source: Baker Hughes

U.S. mining investment is projected to continue declining through the end of 2020 and is not expected to return to 2019 levels.



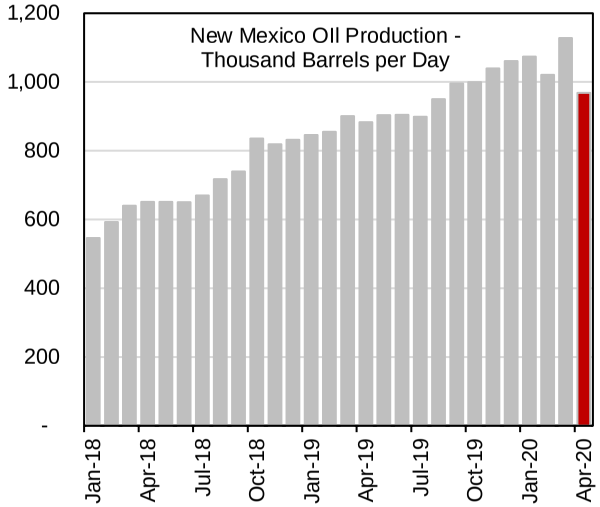
Source: IHS Markit, Baker Hughes

New drilling in the Permian fell sharply in April and May. Drilled but uncompleted (DUC) wells remain high.



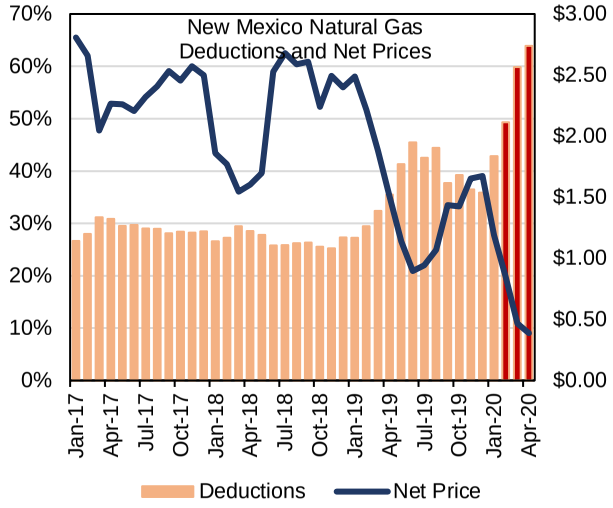
Source: Energy Information Administration

Daily oil production in New Mexico declined 10 percent from March to April.



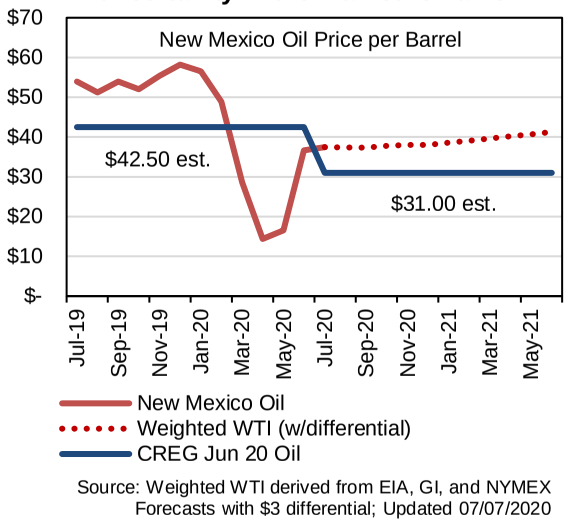
Source: GenTax

Natural gas transportation and processing deductions jumped in March and April, and net prices statewide fell below $1/mcf.



Source: GenTax

Oil prices are currently tracking above the June 2020 consensus forecast for FY21, but significant uncertainty in the market remains.



Source: Weighted WTI derived from EIA, GI, and NYMEX Forecasts with $3 differential; Updated 07/07/2020