

NM State Land Office Oil & Gas Leasing: From the Lease Sale to the Royalty Check

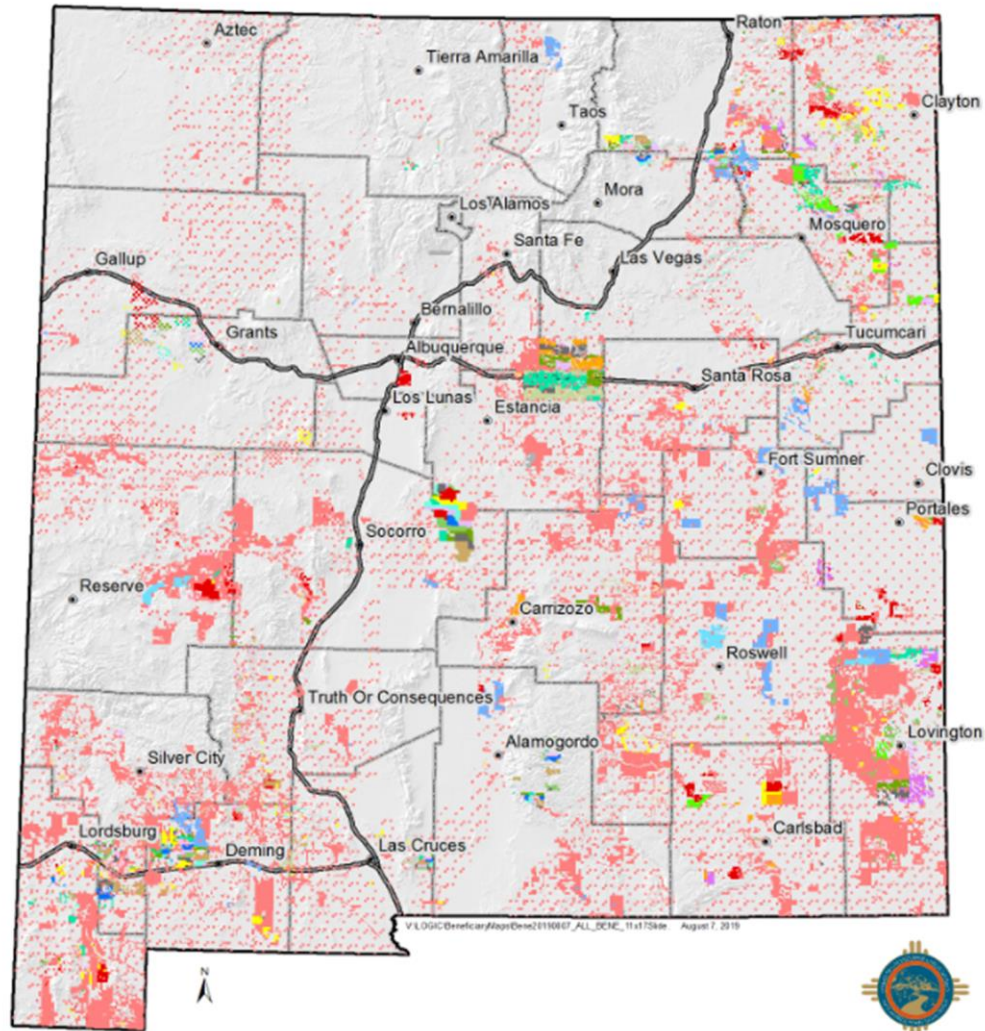
For the Economic Development & Policy Interim Committee

Hobbs ▪ September 14, 2022

Presentation by Greg Bloom,
Asst. Commissioner for Mineral Resources
New Mexico State Land Office

**\$2+ Billion Dollars in O&G
Royalties over the past 12 months**

State Land Trust Beneficiaries

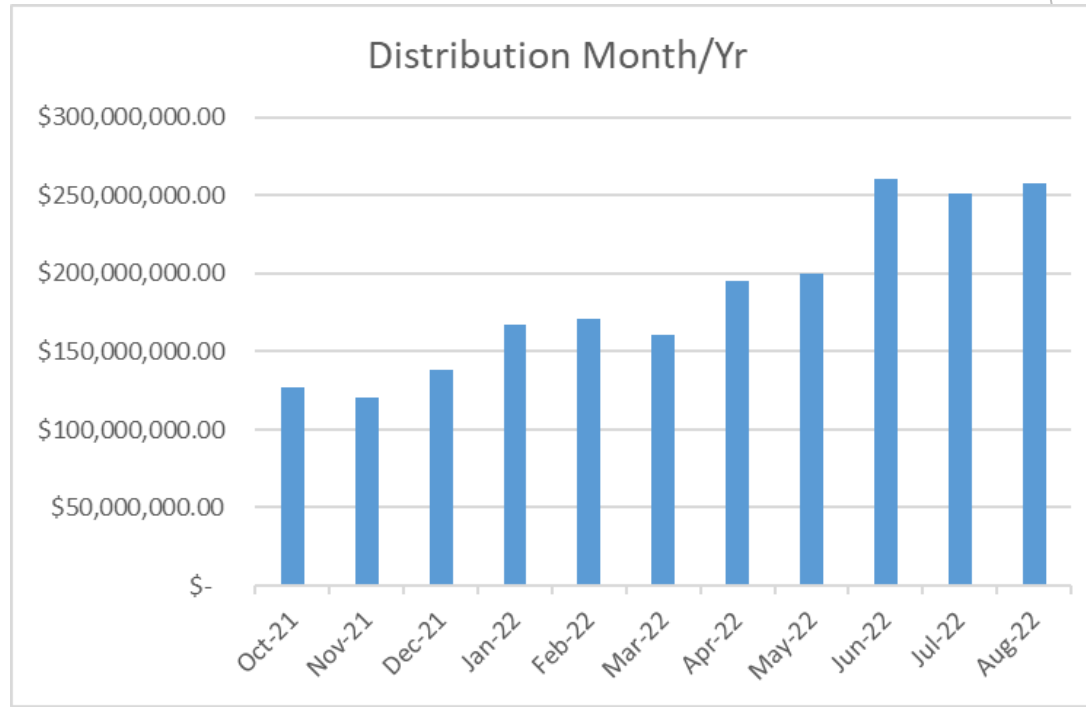


New Mexico Beneficiaries

- Carrie Tingley Hospital
- Charitable, Penal and Reform
- Common Schools
- Eastern New Mexico University
- Improvements to the Rio Grande
- New Mexico Boys School
- New Mexico Highlands University
- New Mexico Institute of Mining Technology
- New Mexico Military Institute
- New Mexico Miners Hospital
- New Mexico Penitentiary
- New Mexico State Hospital
- New Mexico State University
- New Mexico School for the Deaf
- New Mexico Schools for the Deaf/Visually Impaired
- New Mexico School for the Visually Impaired
- New Mexico State Hospital
- New Mexico State Parks Commission
- New Mexico State University
- Northern New Mexico College
- Public Buildings
- University of New Mexico
- Water Reservoirs
- Western New Mexico University
- Western New Mexico University/New Mexico Highlands University
- Western NM University/NM Highlands University

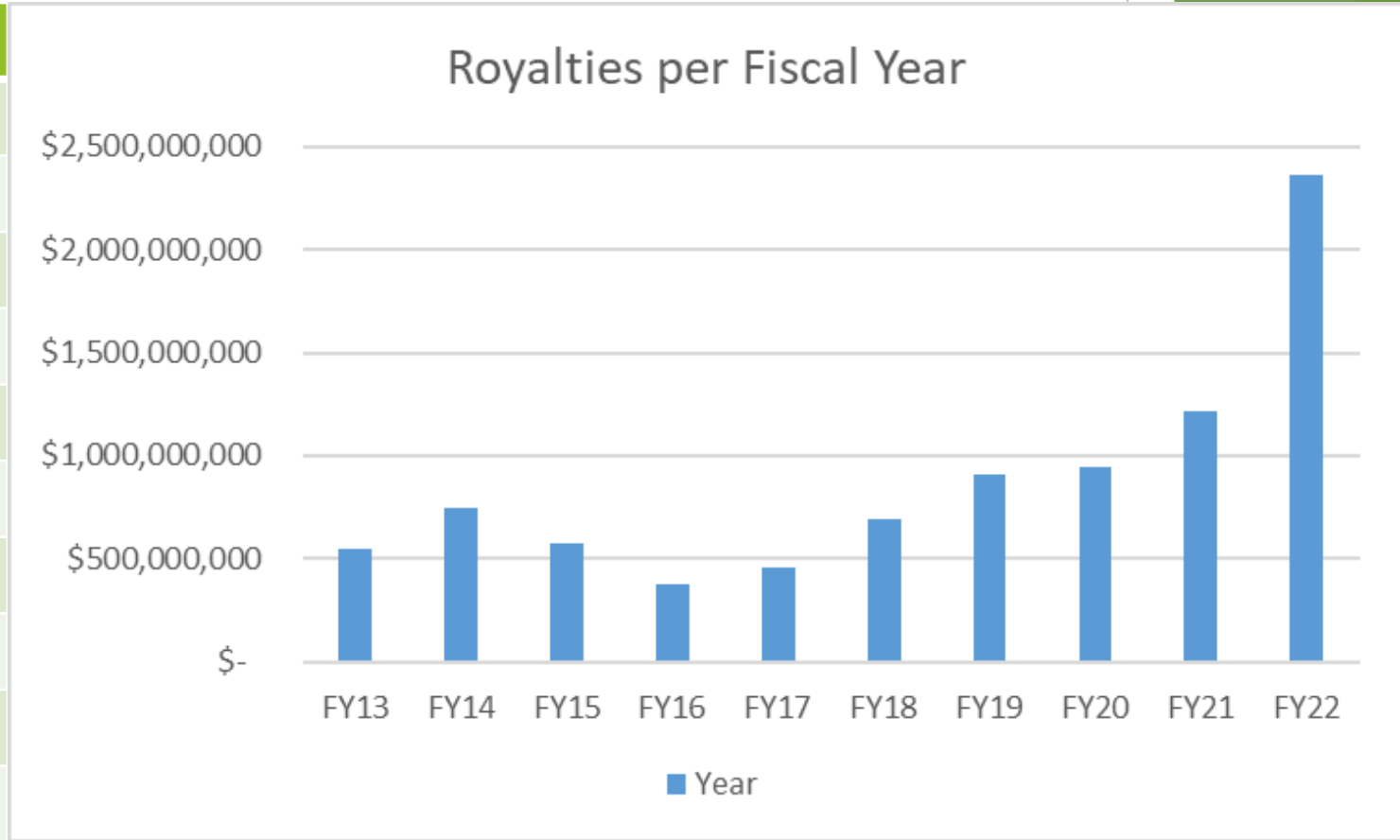
Royalties from Oil & Gas at an All Time High

Period	Total Royalty
Oct-21	\$ 127,001,086.00
Nov-21	\$ 120,872,094.00
Dec-21	\$ 137,977,879.00
Jan-22	\$ 167,417,587.00
Feb-22	\$ 171,262,215.00
Mar-22	\$ 160,444,605.00
Apr-22	\$ 195,252,954.00
May-22	\$ 200,194,384.00
Jun-22	\$ 260,898,222.00
Jul-22	\$ 251,201,092.00
Aug-22	\$ 258,074,224.00



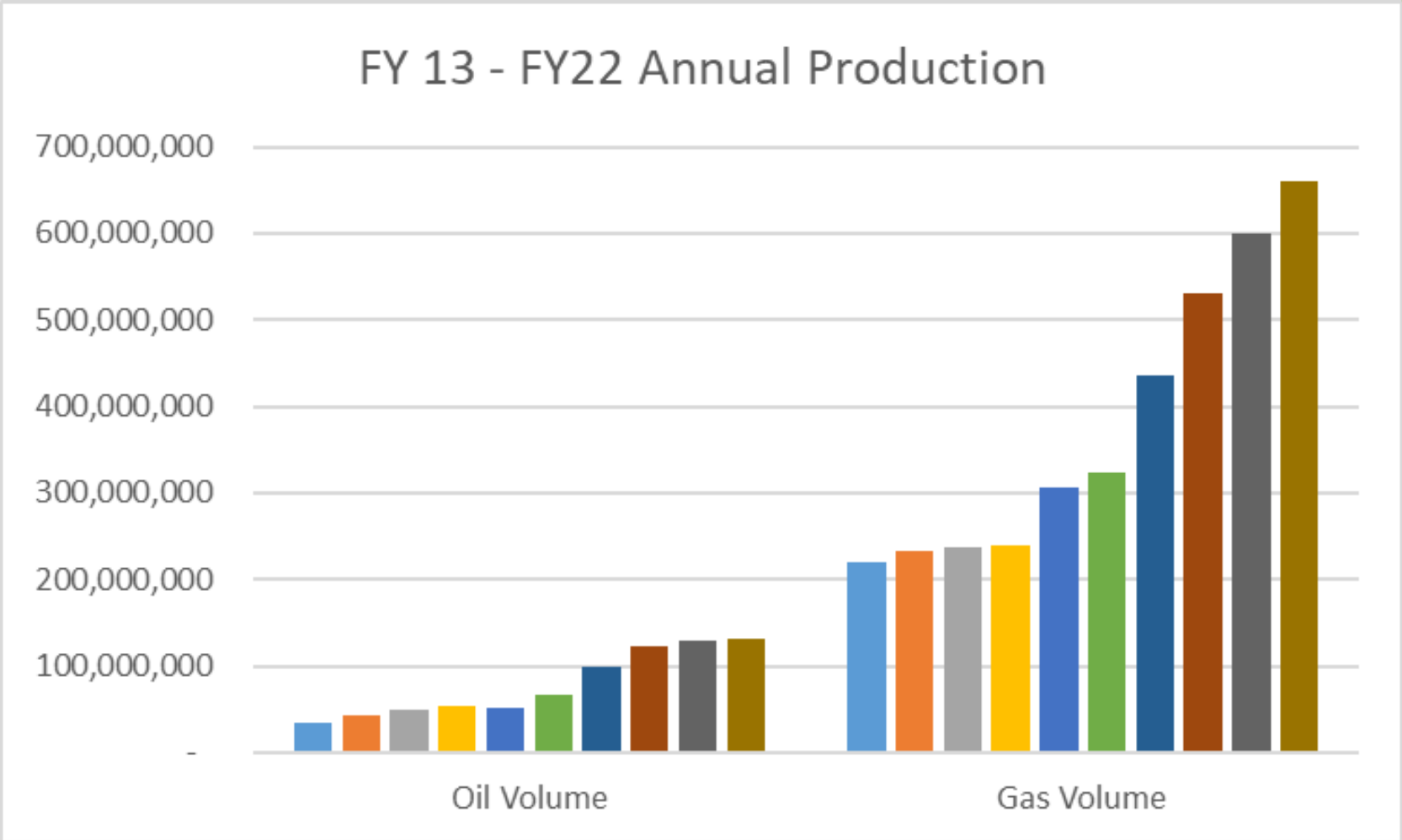
10 Year Look Back at Royalties

Fiscal Year	Total Royalty
FY13	\$ 548,253,261
FY14	\$ 746,462,135
FY15	\$ 574,543,252
FY16	\$ 375,185,053
FY17	\$ 460,577,968
FY18	\$ 692,922,556
FY19	\$ 912,924,068
FY20	\$ 941,040,571
FY21	\$ 1,218,318,004
FY22	\$ 2,362,220,520



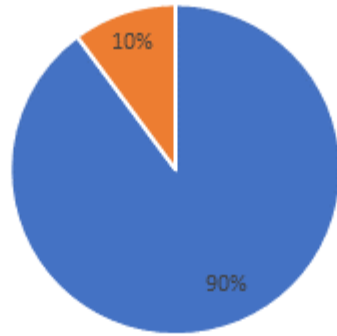
Production Over the Last 10 Years

Fiscal Year	Oil Volume (bbls)	Gas Volume (mcf)
FY13	35,312,371	219,871,865
FY14	43,540,567	233,369,423
FY15	50,519,221	236,628,206
FY16	52,952,600	239,986,878
FY17	52,221,396	306,589,582
FY18	67,451,932	322,674,665
FY19	98,366,292	436,142,785
FY20	123,886,884	531,363,093
FY21	128,701,996	600,663,555
FY22	132,397,813	659,858,937



Oil v. Natural Gas as % of O&G Revenue

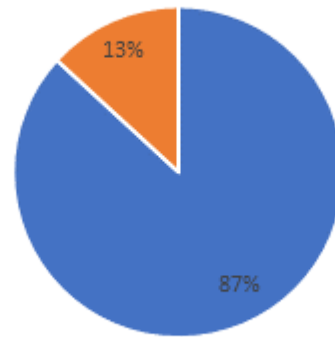
2019



■ Oil % ■ Gas %

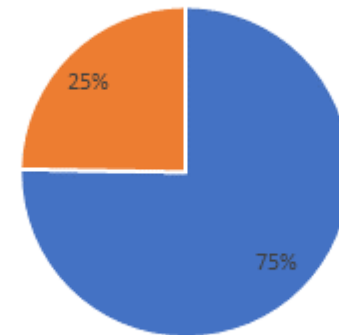
LNG exports + War in Europe = Higher Natural Gas Prices

2020



■ Oil % ■ Gas %

2021



■ Oil % ■ Gas %

Natural Gas Prices Last 12 Months

07:58 am CDT 08/09/2022

Natural Gas

7.827 -0.28%




1D | 1WK | 1M | 1YR | Max

Copy

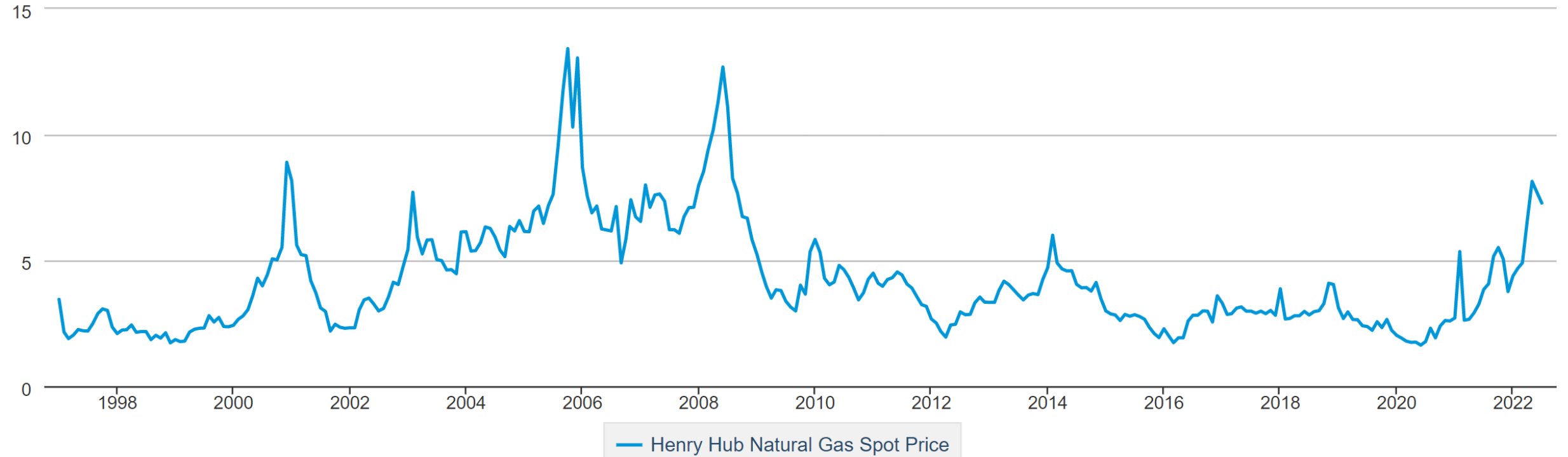
Share

Natural Gas Prices Back to 1998

Henry Hub Natural Gas Spot Price

 [DOWNLOAD](#)

Dollars per Million Btu



Oil Prices Last 12 Months

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Technical

WTI Crude (October Contract)

82.51 +0.73%




1D | 1WK | 1M | 1YR | Max

Copy

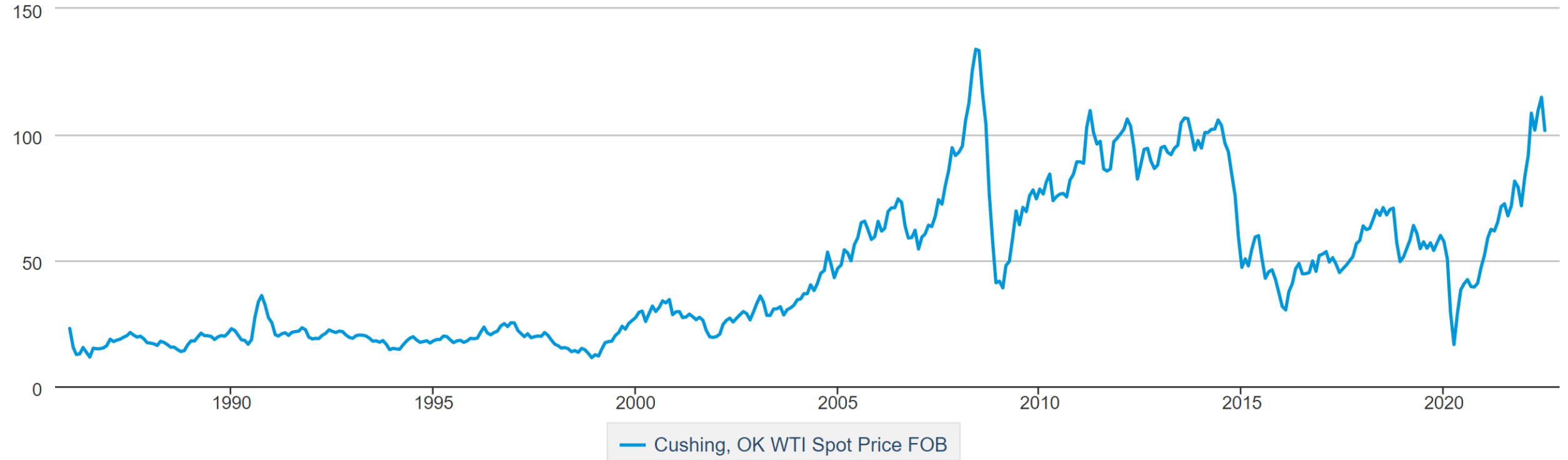
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Oil Prices Back to 1985

 [DOWNLOAD](#)

Cushing, OK WTI Spot Price FOB

Dollars per Barrel

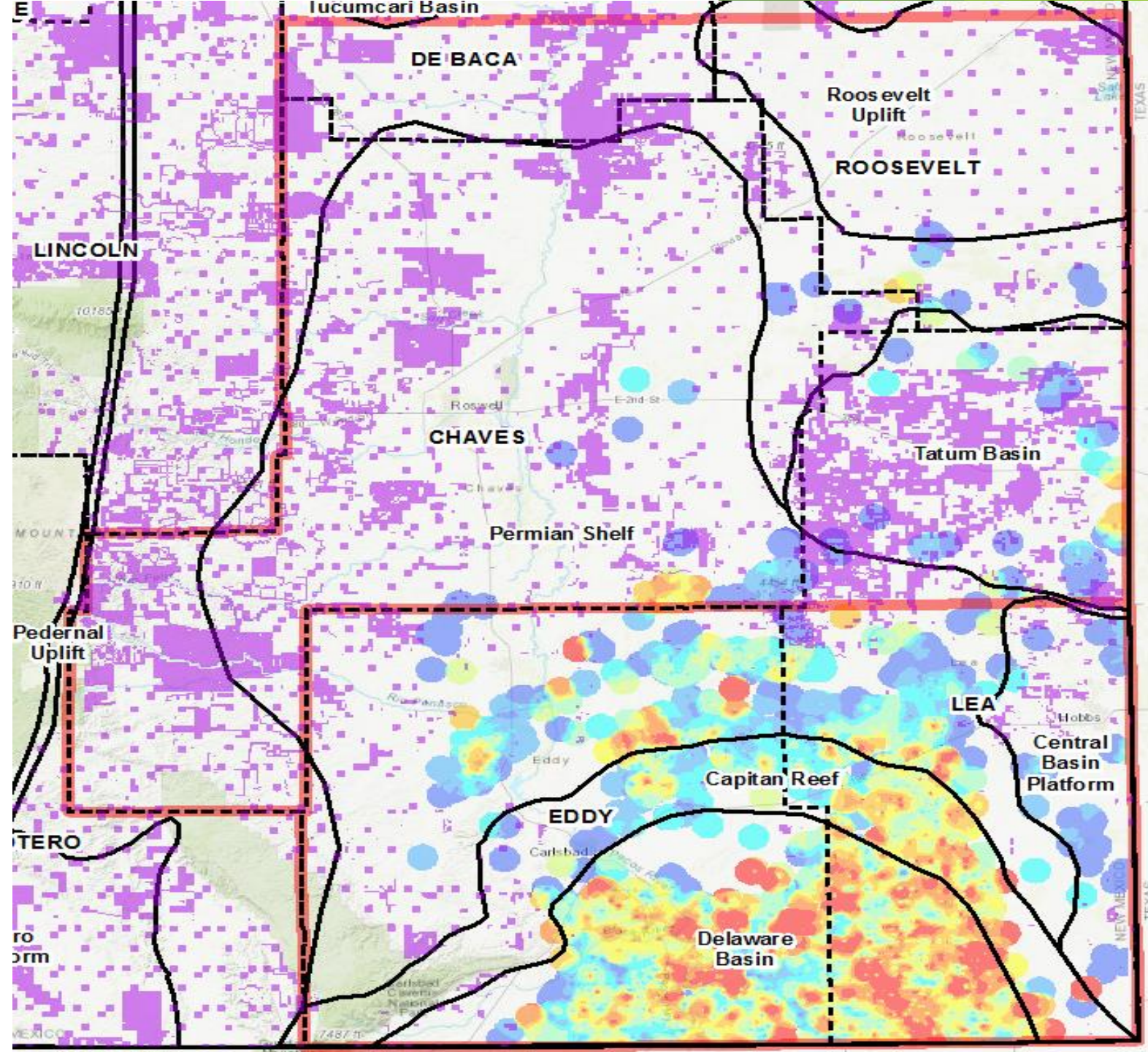


Oil and Gas Lease Sale Nominations

- Lease sales are held on the 3rd Tuesday of every month.
- Industry submits nominations for land to include in the lease sale.
- The Land Office may also pick parcels to include in the sale.
- Any person who nominates a parcel must bid on the parcel or may be prevented from nominating lands in the future.
- Our largest leases are 320 acres.
- If more than 320 acres are nominated we prefer that industry advises us of their east-west or north-south well-orientation preference.

The Leasing Process: Finding Lands

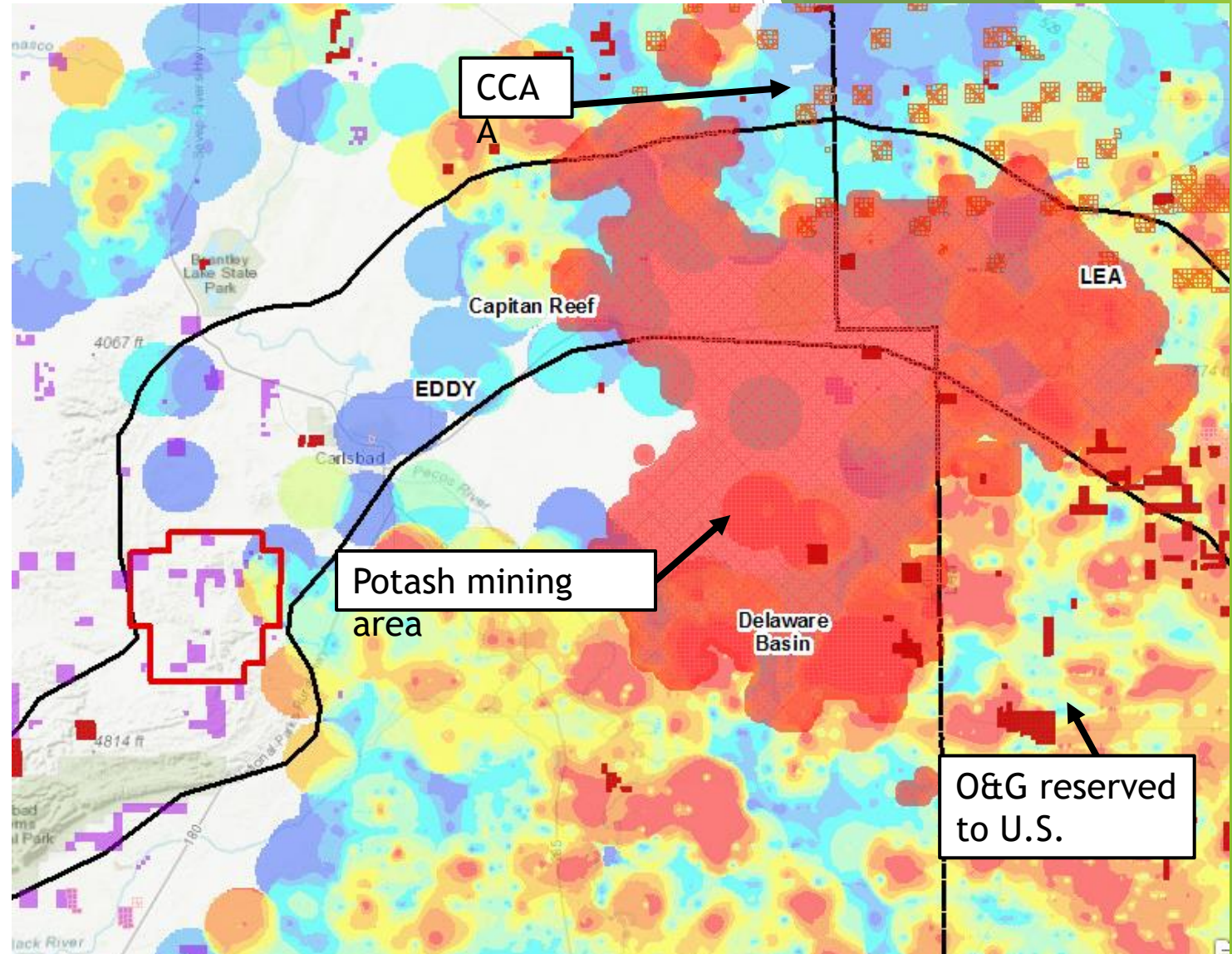
- ▶ Purple = open lands
- ▶ Colored dots show horizontal oil production as of 2019 (red high production, blue low production)



The Leasing Process: Screening Lands

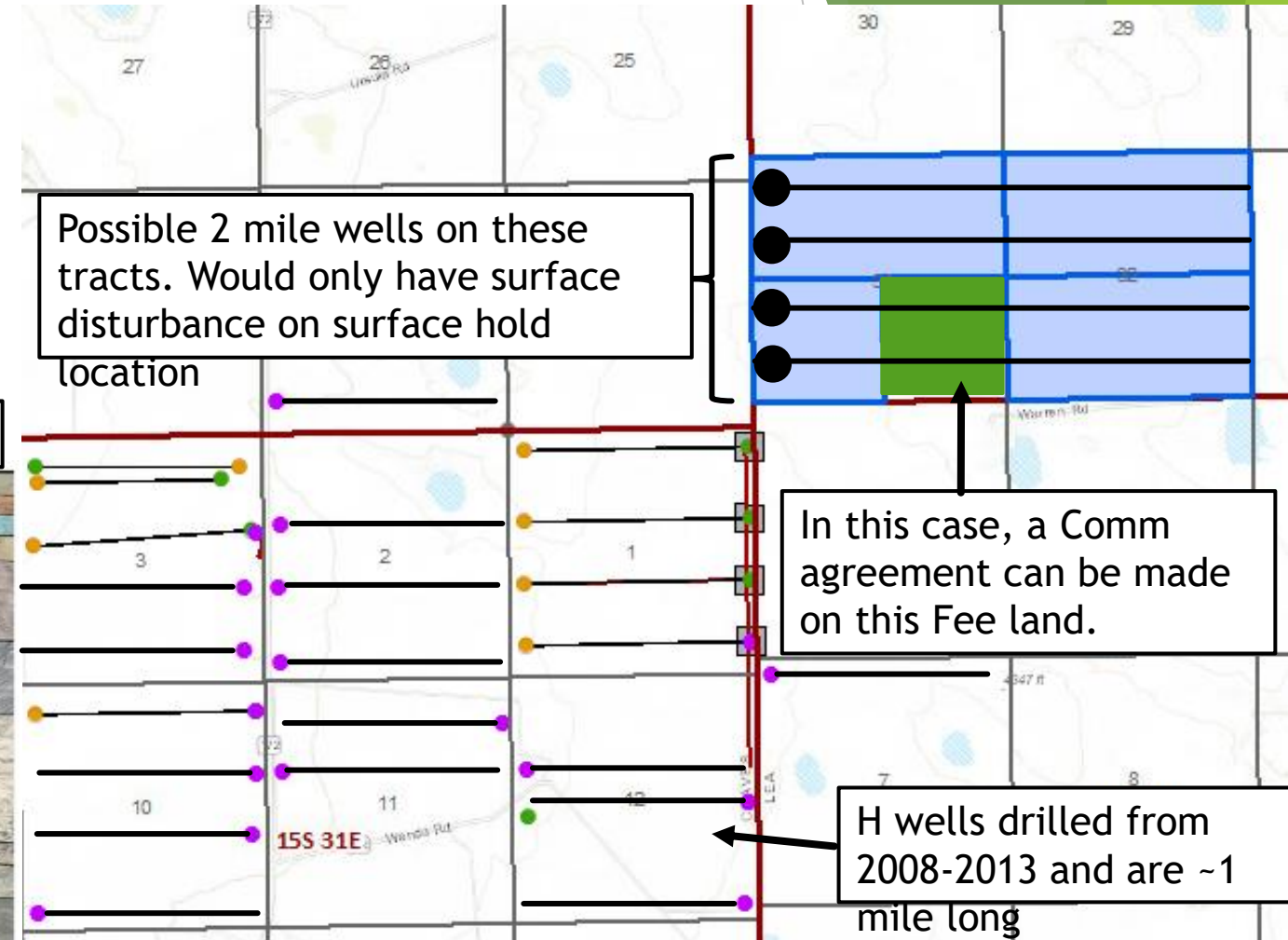
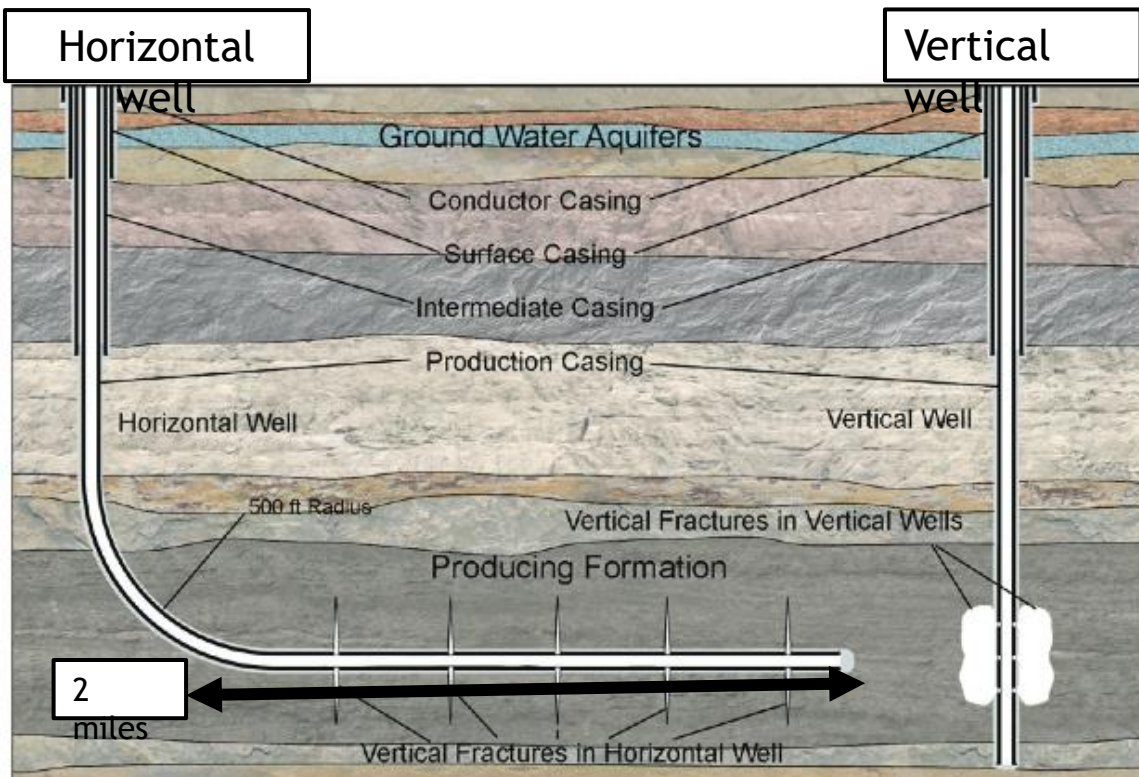
Once a tract is identified, staff reviews:

- ▶ Are there any leasing restrictions?
- ▶ Are there any active wells on the tract?
- ▶ Are there any other remediation issues that need to be addressed?
- ▶ Are there any environmental issues?
 - ▶ Playas, arroyos, sinkholes, near a state park, etc.
- ▶ Are there any other surface issues that need to be addressed?
 - ▶ Infrastructure, roads, buildings, etc.



Selecting Lands & Contiguous Tracts

- ▶ Other horizontal wells in the area will help determine in which direction we will do future leasing of contiguous tracts.
- ▶ Most new horizontal wells are two miles long or more.
- ▶ If there is a contiguous tract, a future lessee does not have to worry about working with BLM or fee owners. If there mixed ownership, communitization agreement (comm) is obtained to develop land.



- Active Horizontal wells
- Fee land
- Lease sale nomination

The Leasing Process: Determining The Royalty Rate

1. **Oil and gas trends:** How favorable are trends for accumulation of oil and gas? This is based off of other wells in the area, well logs, available seismic data, and other subsurface data. Examine data from the USGS, OCD, and SLO data.
2. **Geologic structure and stratigraphy:** What is the likelihood for accumulation of commercial quantities of oil and/or gas? Examine data from the USGS, OCD, the NM Bureau of Geology, the EIA (Energy Information Association) and SLO.
3. **Reservoir volume and recovery:** What are the known porosity, permeability, water saturation, pressures, and recovery factors?
4. **Lease bonus rating:** What does recent leasing data from the area show?
5. **Exploration and drilling activity:** What are drilling patterns, approved drilling permits, workover notices, etc. in the area?
6. Most leases are set at 1/5 royalty (20%).
7. Avg. royalty rate is ~15.6%. Was ~13% ten years ago.

The Leasing Process: Announcing the Lease Sale

- ▶ After final tracts are compiled, lease tracts are published on Land Office website, on EnergyNet with an interactive map, and posted at the Land Office.
- ▶ A lease sale book, with the tracts for the month, contains all instructions for a potential bidder.
- ▶ Statutorily, the Land Office is required to give 10 days' notice of the tracts in an upcoming sale.
- ▶ Commissioner has been giving as much notice as possible, sometimes 30+ days' notice of the lease.
 - ▶ Increase the number of bidders/participants
 - ▶ Increase time to review tracts
 - ▶ Increase time to source funds

The Leasing Process: Bidding on EnergyNet

- ▶ All our sales conducted via EnergyNet—this is an online auction site used by BLM, NM, CA, CO, NV, OK, UT, TX University Lands, private industry and many other states.
- ▶ EnergyNet screens potential bidders prior to the auction beginning and verify funds and give each bidder a “bid allowance”
 - ▶ Bidders can bid no higher than bid allowance
- ▶ Funds are remitted to the SLO by COB day of lease sale.



Bureau of Land Management - Oregon
Online Geothermal Lease Sale
September 15, 2022

RENEWABLE ENERGY

Geothermal Leases Available

- 8 Parcels
- 6,169.490 Acres
- Lease Term: 10 Years
- Royalty: 1.75%
- First Year Rental: \$2.00 per acre

BLM Oregon
8 Parcels covering 6,169.490 acres

New Mexico State Land Office
Online Oil and Gas Lease Sale
September 20, 2022

Delaware Basin

- 18 Tracts
- 3,141.73 Net Mineral Acres
- Lease Term: 5 Years
- Royalty: 3/16th - 1/5th
- First Year Rental: \$1.00 per acre

State of New Mexico
18 Tracts covering 3,141.73 acres

Why sell your properties on EnergyNet?

Here are a few reasons to choose **EnergyNet** to divest your assets:

- National exposure
- Platform efficiency (click to view the comparison chart!)
- Increased competition leads to higher returns

Platform	Description	EnergyNet Features	Traditional Features
Response	EnergyNet is the only combination of an online auction marketplace that operates all the way through the bidding process, from bid to lease sale, with access to 24-hour customer support.	10,000+ unique bidders \$1.5M+ in revenue \$10M+ in revenue per year	100 to 200 bidders per auction
Auction Cycle	Dependent on the number of wells or complexity of the operation, ranging from 10-15 days to 30-45 days.	10-15 days	30-45 days
Revenue Based Fee	EnergyNet is compensated on a revenue based commission, ensuring all parties to the transaction are satisfied with the result.	Revenue based commission only	Commission plus other fees
Competition	EnergyNet is the only platform that provides a wide range of bid and contract information, including bid to bid.	\$1.5M+ in revenue \$10M+ in revenue per year	\$1.5M+ in revenue \$10M+ in revenue per year

Why sell with EN?
Compare the platforms!

Our In-House Technical Team Provides In-Depth Technical Reviews

Our Team Utilizes:

- Economic Evaluation using PHDWin and Aries Software
- Basin Specific Analysis and Type Curve Modeling
- Production Data and Analytics: Spotfire and Enverus
- Geologic Evaluations and Reservoir Characterization using Enverus Transform, DrillingInfo, and Play Assessments
- ARC GIS and Operator Activity Mapping
- Basin Specific Volumetric Analysis
- Operator Intelligence and Completion

EnergyNet's In-House Technical Team
Click to Learn More

Lease Sale Bonuses 2014-2022

Fiscal Year	Bonus Amount (\$)
2014	46,297,892
2015	37,997,396
2016	36,721,026
2017	65,266,469
2018	106,972,234
2019	142,023,222
2020	20,802,647
2021	10,982,773
2022	20,491,013

Maintaining a Lease

- ▶ Must have production
 - ▶ New lease must have production within 5 years
 - ▶ Existing leases, after primary term, must have continued production in paying quantities
- ▶ Pay an annual rental
- ▶ Have a bond
 - ▶ Recent ongoing bond audit has shown nearly 300 historical leases without a bond
 - ▶ Working to get those leases bonded or assigned to viable entity with lease interest

Leases on State Trust Land

- ▶ About 6,400 oil and gas leases
- ▶ 14,598 wells on state trust land, with 12,704 in the southeast
 - ▶ Of these, 1,264 are inactive (~8.6%) per OCD's 19.15.25.8 NMAC (haven't produced for 15 months)
 - ▶ Total well count includes injection wells which don't necessarily, on their own, bring in royalties (e.g. waterfloods)
- ▶ From OCD's last update of oil and gas stripper well data (10/2021), the Land Office had about
 - ▶ 5,000 stripper oil wells (max 10 BBLs/day)
 - ▶ 2,100 stripper gas wells (max 60 MCF/day)

Accountability and Enforcement Effort

Purpose: to ensure responsible stewardship of state trust lands for the long-term benefit of the trust

Focus:

- Inactive wells
- Soil and groundwater contamination
- Debris removal and surface reclamation

Approach:

- Outreach and Education
- Communication
- Settlement
- Litigation

Results: >100 inactive wells plugged; 14 lease sites fully reclaimed

Accountability and Enforcement Effort

██████████ employs experienced field personnel that are present at each well site on a daily basis, and each well site is inspected on a daily basis. These field personnel have confirmed that there are no spills or unresolved environmental compliance issues at any of the above well locations. These findings are consistent with the Oil Conservation Division's records, which also do not reflect any spills or unresolved environmental incidents at these well sites.



Accountability and Enforcement Effort

- Leases grant lessees EXCLUSIVE rights to develop oil and gas on subject acreage

further sum of \$100.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and

- Leases impose responsibility for environmental damage caused by lease operations

11. Lessee shall be liable and agree to pay for all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

- Leases require compliance with applicable laws and rules

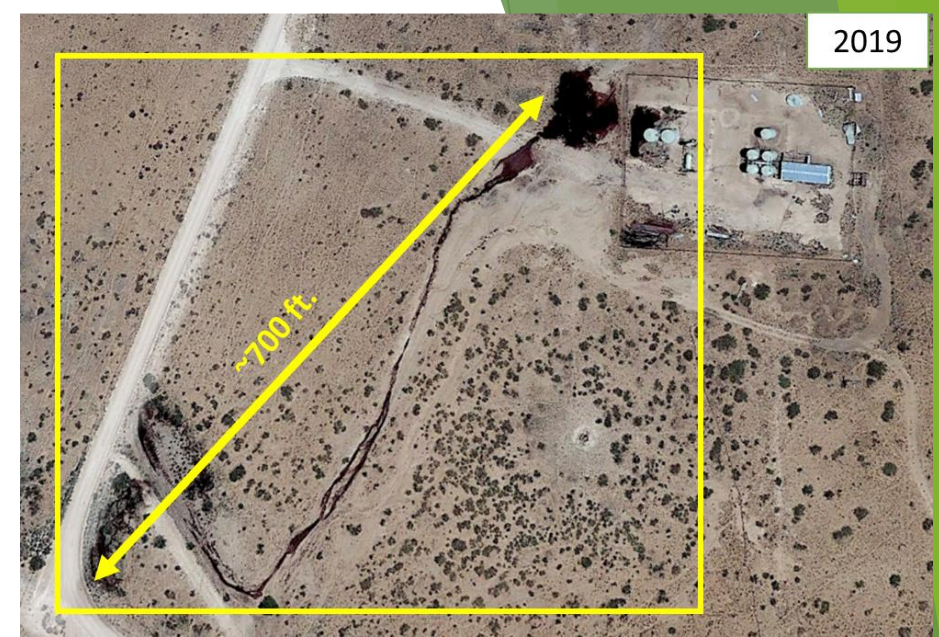
16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder.

Liability Reducing Measures When Reviewing Assignments

- ▶ When a lease is assigned, liability transfers from one lessee to another. With divestitures, the Land Office wants to make sure large liabilities aren't offloaded to undercapitalized companies.
- ▶ Before approving an assignment review:
 - ▶ Spills on land
 - ▶ Inactive wells
 - ▶ Bonding
 - ▶ Unpaid royalty payment
 - ▶ Make sure other infrastructure is reviewed (e.g. pits)
 - ▶ Compliance history with OCD

Sample Assignment Review

- ▶ Very large spill spanning approximately 745 ft. looks like it came from a tank battery.
- ▶ First shows up in 2019 and is still seen in 2020 imagery.
- ▶ Not reported to the OCD.
- ▶ In the 2020 imagery, it looks like there are some large earth moving machines parked there and multiple trucks.



Clean Up of a Saltwater Disposal Well



Commercial Division Revenue

