



State Land Office Oil and Gas Lease Sale Procedures

Water and Natural Resources
Committee

September 5, 2019

**OPEN
FOR
BUSINESS**

**Agriculture
Land Stewardship
Renewable Energy
Outdoor Recreation
Oil, Gas and Minerals
Business Development**





Agenda

- State Land Office Updates
 - Agency overview
 - Recent initiatives
- Oil and gas leasing procedures
 - Lease process overview
 - Royalty rates
 - Minimum bids
- Questions?



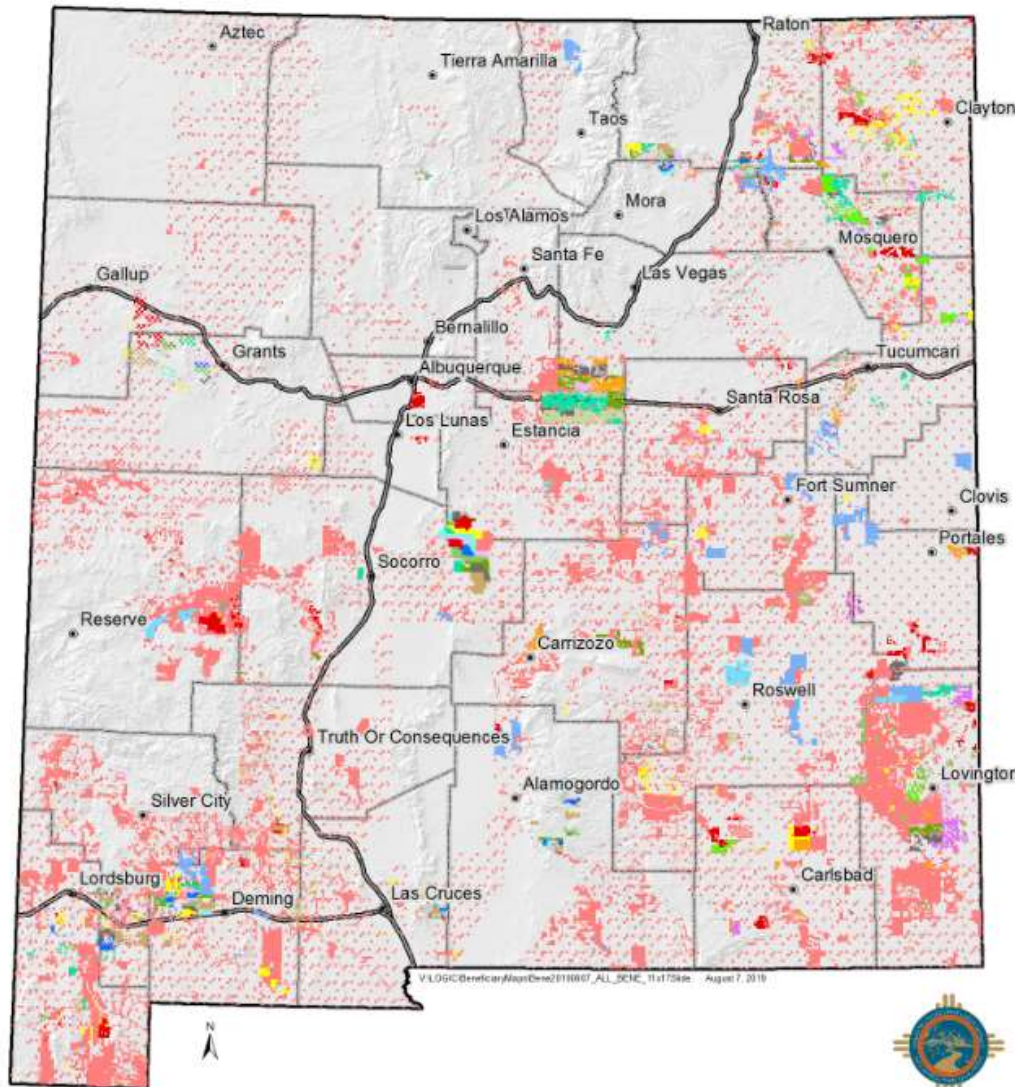
What We Do

- Energy development (oil, gas, wind, solar, geothermal, etc.)
- Agriculture (8.8 million acres)
- Mining (sand and gravel, etc.)
- Science and tech and parks (Sandia, West Mesa)
- Affordable housing (Tierra Madre)
- Recreational uses (golf course, trails, state parks, Bern.co. amphitheater)
- Mixed use planned communities (Mesa del Sol, Rio Rancho, Las Cruces)
- Economic development leases (Spaceport, City of Santa Fe, Sandoval County, Lea County)
- Broad array of commercial activities (Walmart, hotel, telecom, etc.)
- Film (Preacher, Midnight Texas, Better Call Saul, Roswell, Army of the Dead, Only the Brave, etc.)





Who We Work For

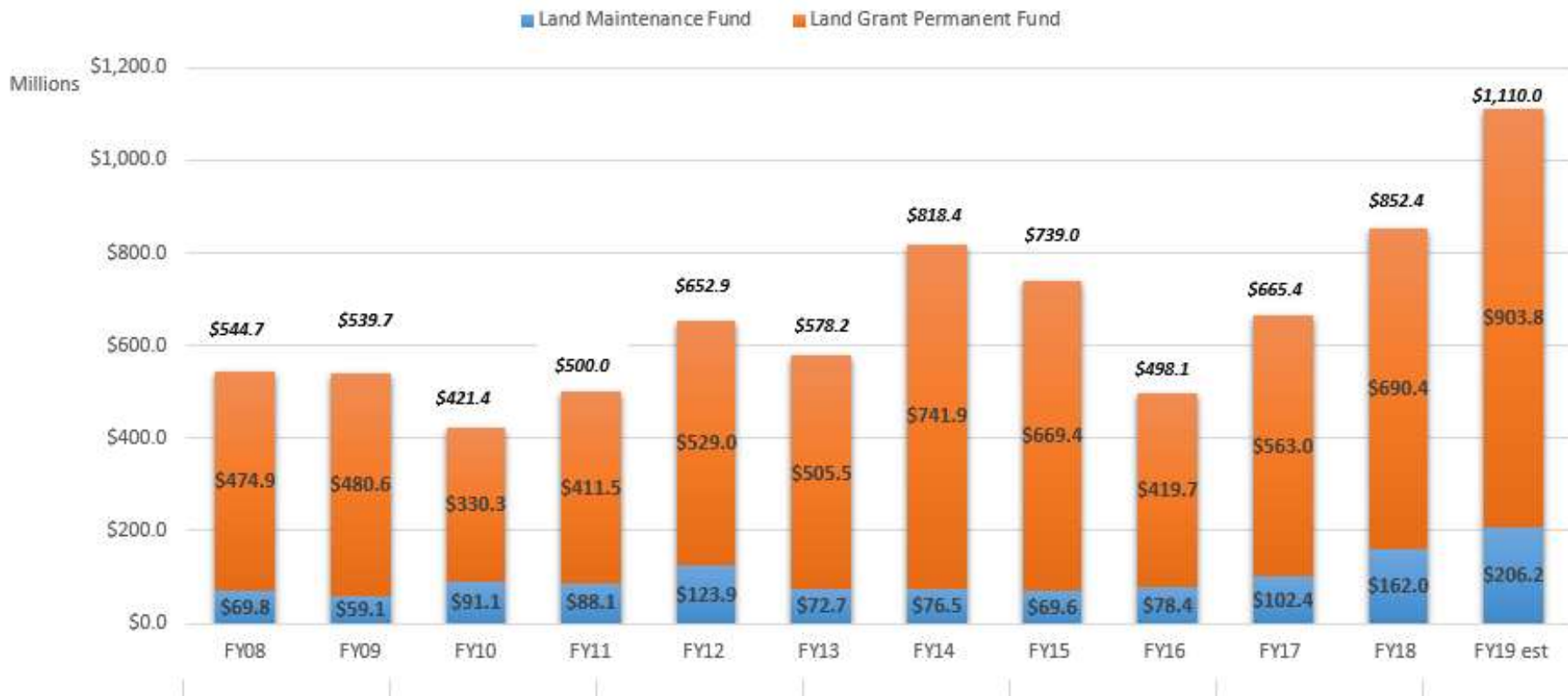


New Mexico Beneficiaries

- 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

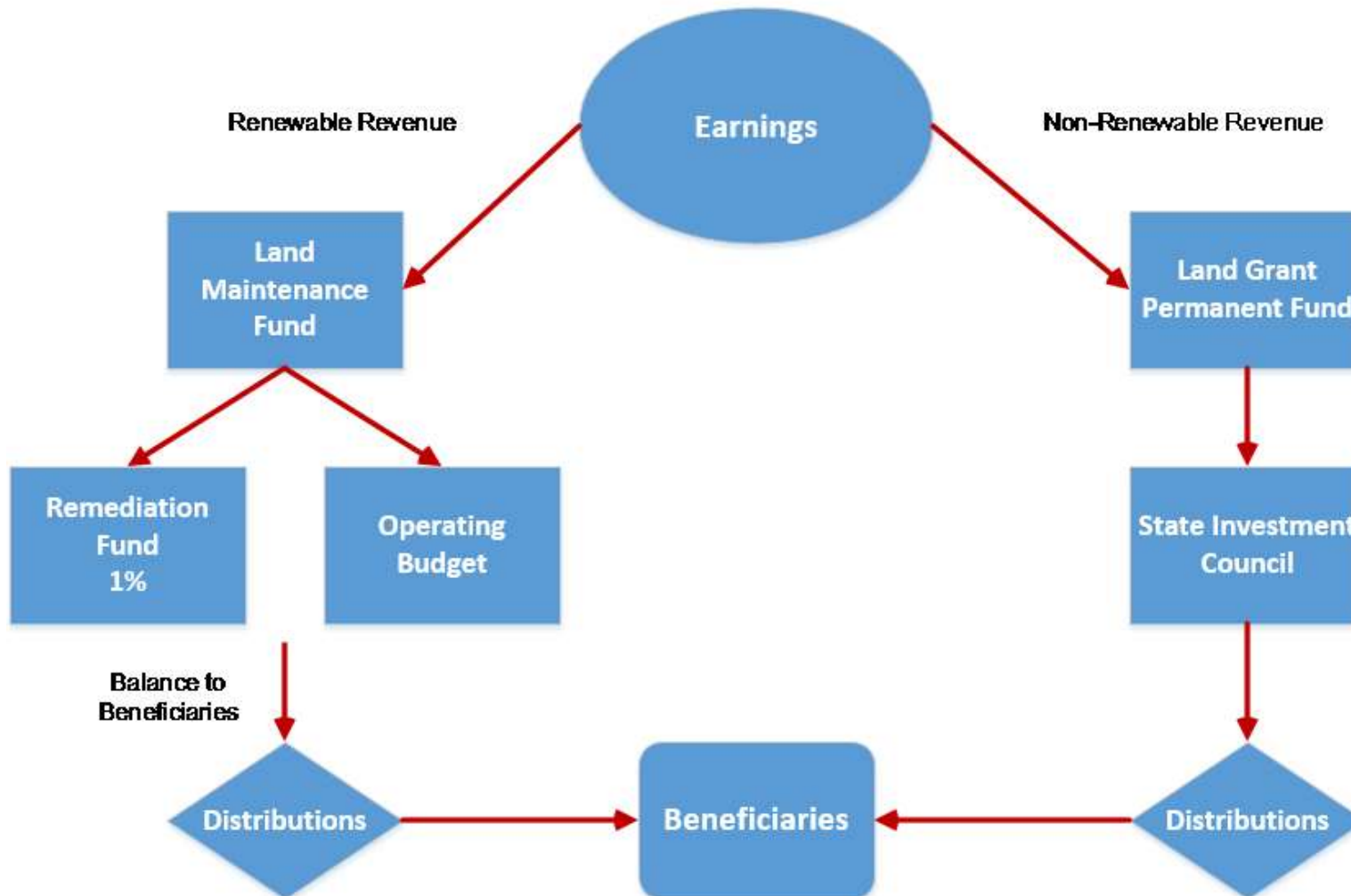


State Land Office Earnings By Year



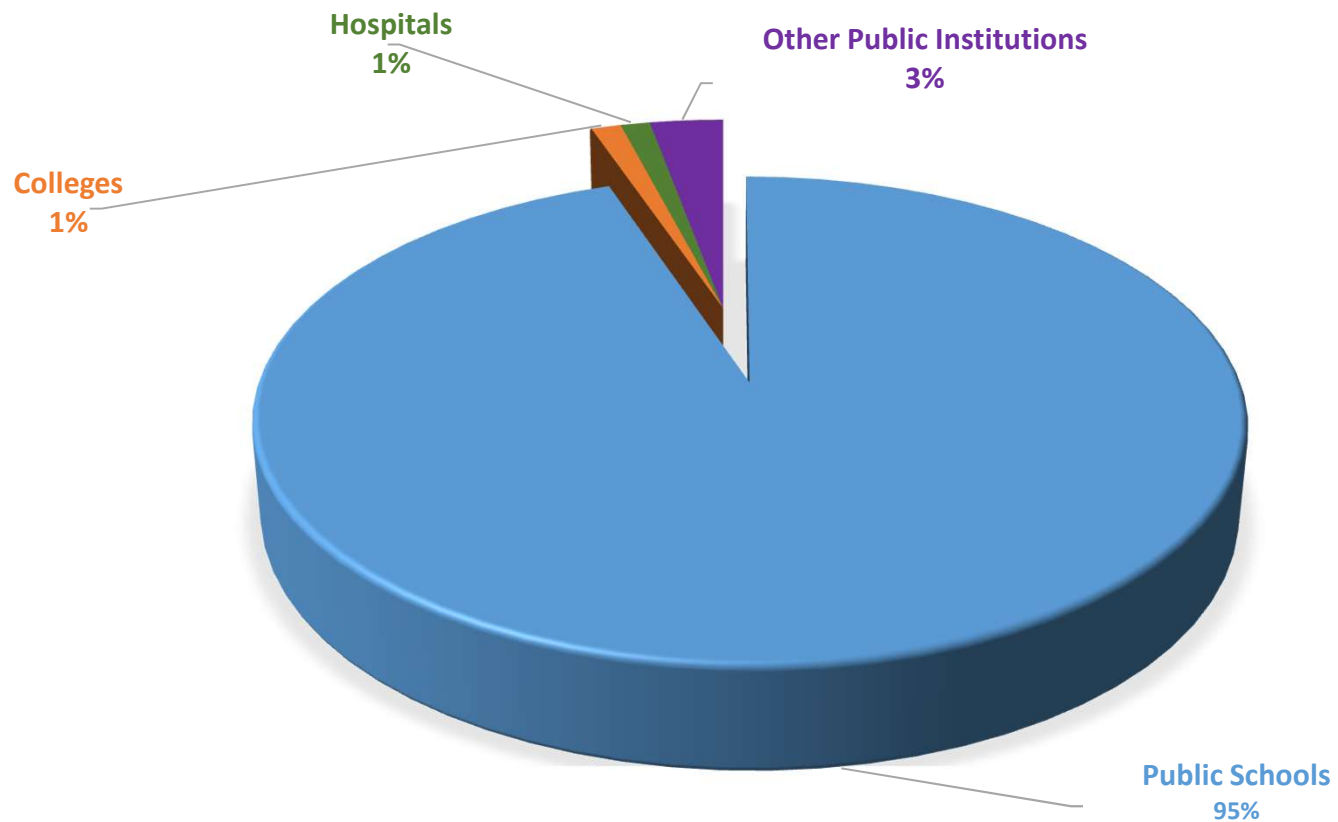


Revenue Distribution





Distributions by Beneficiary Type





Commissioner Priorities

- Fill key vacancies tied to revenue generation (e.g., royalty auditors)
- Increase capacity to handle southeast NM workload
- Advance renewable energy projects
- Create outdoor recreational opportunities
- Enhance environmental and cultural protections
- Streamline business operations
- Revise outdated royalty rates to get a fair share on premium oil and gas tracts
- Engage communities; build partnerships
- Diversify revenue generation





Recent Efforts

- Record \$1.1 billion year (both renewable and non-renewable up)
- Decreased vacancy rate from 22% to 10%
- Established an Office of Renewable Energy
- Created a Water Bureau
- Issued directive expediting infrastructure necessary to prevent natural gas waste
- Required public hearings for large-scale projects (SB 458)
- Signed joint planning agreement with City of Gallup and McKinley County
- Executive Order prohibiting coyote killing contests
- Chaco moratorium Executive Order
- Signed Fort Bliss agreement
- Created advisory committees (ag, oil & gas, sportspeople, conservation, Chaco working group)
- Revised ag leasing rule to cut red tape; re-established in-person workshops
- Implemented new fair value minimum bids for monthly oil and gas lease sale
- Treated over 57,000 acres; 20 projects in 18 counties
- Removed antiquated gender specific rules
- Revamping recreational access process
- Promulgating cultural properties rule



Oil and Gas Leasing Process

- Identify tracts available for leasing (expired, canceled, unleased tracts; industry nominations)
- Review for any environmental or other concerns
- Set royalty rate for each tract
- Set minimum bid amounts for each parcel
- Hold lease sale
 - Monthly
 - Competitive online auction (EnergyNet)





Statutory Requirements for Setting Lease Rates

- Royalty rates are by statute and range from 1/8 for exploratory leases to 1/5 for the more productive areas (rental rates set by statute range from .25 cents to \$1 per acre)
- Once set, the rate remains in place for the life of the lease (held by production for decades; some active leases date back to 1920s)
- State law and rules set forth five factors that must be considered when setting the lease royalty rate for any tract:
 - Oil and gas trends (depositional/structural conditions)
 - Oil and gas traps (likelihood of accumulation of oil and gas in an area)
 - Reservoir volume and recovery rating
 - Lease bonus rating
 - Exploration and activity

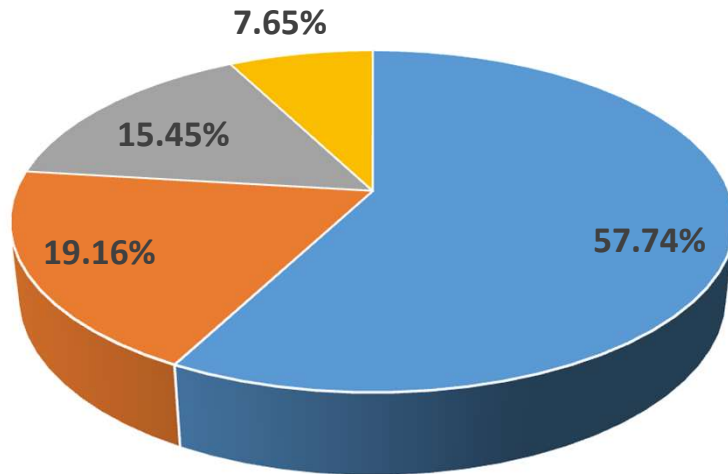


Statutory Requirements for Setting Lease Royalty Rates, cont.

- Lease bonus rating:
 - Based upon all available recent leasing data which may be reasonably assumed to be applicable
 - In the absence of sufficient recent leasing data, drilling patterns, geological trends, available seismic data and known or reasonably assumed structural features
- Exploration and drilling activity
 - Shall be determined considering all available information, which may include drilling patterns, approved drilling permits, progress reports of drilling wells, workover notices, and other applicable information



Active Leases by Royalty Rates



■ 1/8th ■ 1/6th ■ 3/16th ■ 1/5th

Royalty Rate	# of Active Lease	% of Total
1/8 th (12.5%)	4,146	57.74%
1/6 th (16.667%)	1,376	19.16%
3/16 th (18.75%)	1,109	15.45%
1/5 th (20%)	549	7.65%

The average royalty rate on active leases is about 14%



History of Minimum Bids

- A minimum bid is the lowest amount the Land Office will accept at its monthly lease sale for the right to lease a parcel (“Bonus”)
- Set by Commissioner Baca in 1980s
 - Ranged from \$25 per acre for 40 acre tract to \$15.63 for a 640 acre tract
- Minimum bids were doubled under Commissioner Dunn in 2017 to:
 - \$50 per acre for 40 acre tract to \$31.25 per acre for a 640 acre tract
- Tracts frequently sold for the amount of the minimum bid
- Very little correlation to the actual value of the tract being put out to bid



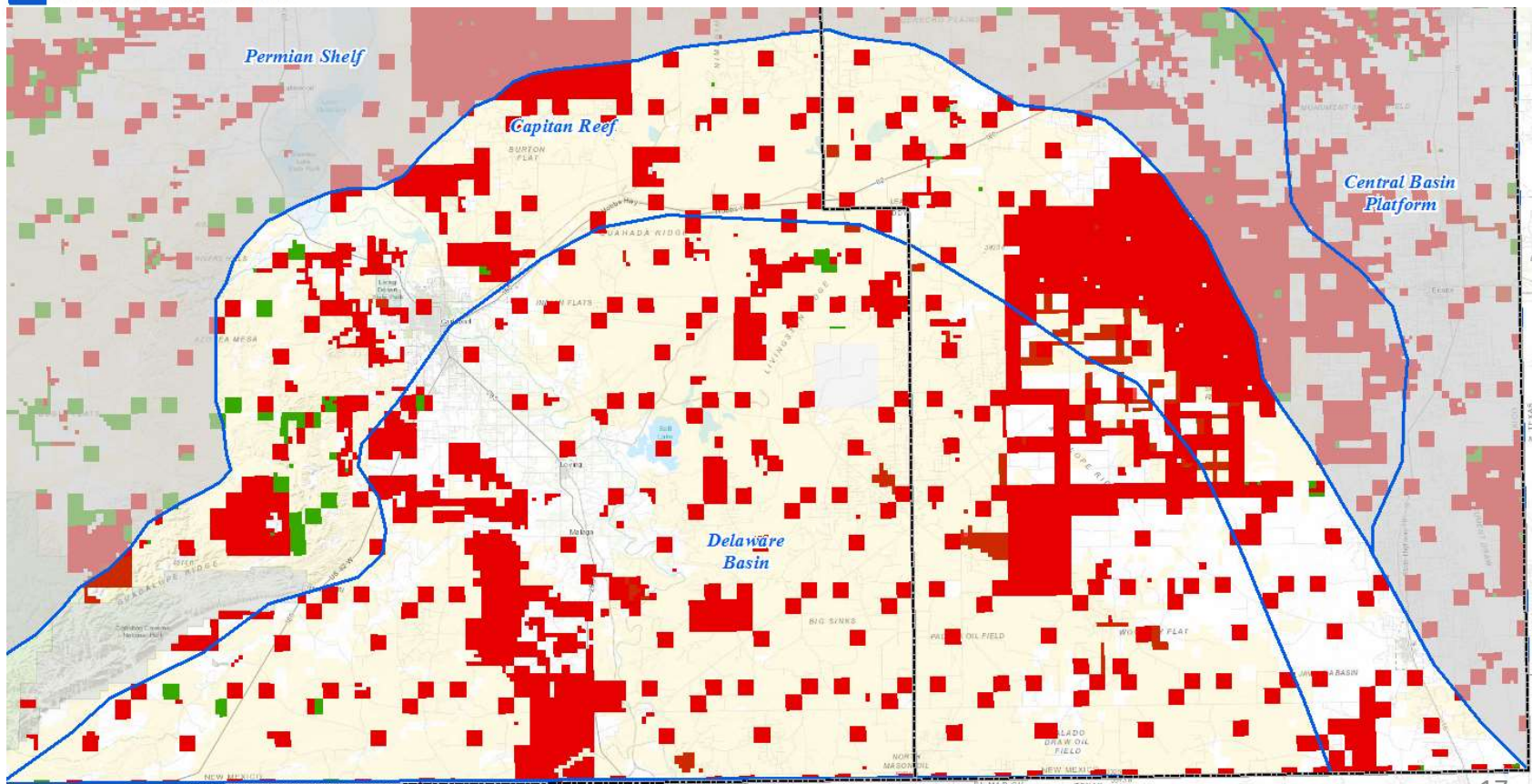
New Approach to Minimum Bids

- Constitutional mandate to get the best return possible for beneficiaries
- Set minimum bids for each tract at an amount that ensures fair value for the Trust while incentivizing competitive bidding
- Limited tracts left to be put up for bid
- Provide certainty for operators so that tracts are not withdrawn after lease sale for insufficient bids (min means min)
- Continuing to incorporate suggestions and refine process (oil & gas advisory committee input incorporated into process)
- Collaboration with EnergyNet



Trust Lands Available for Oil and Gas Leasing – Permian Basin

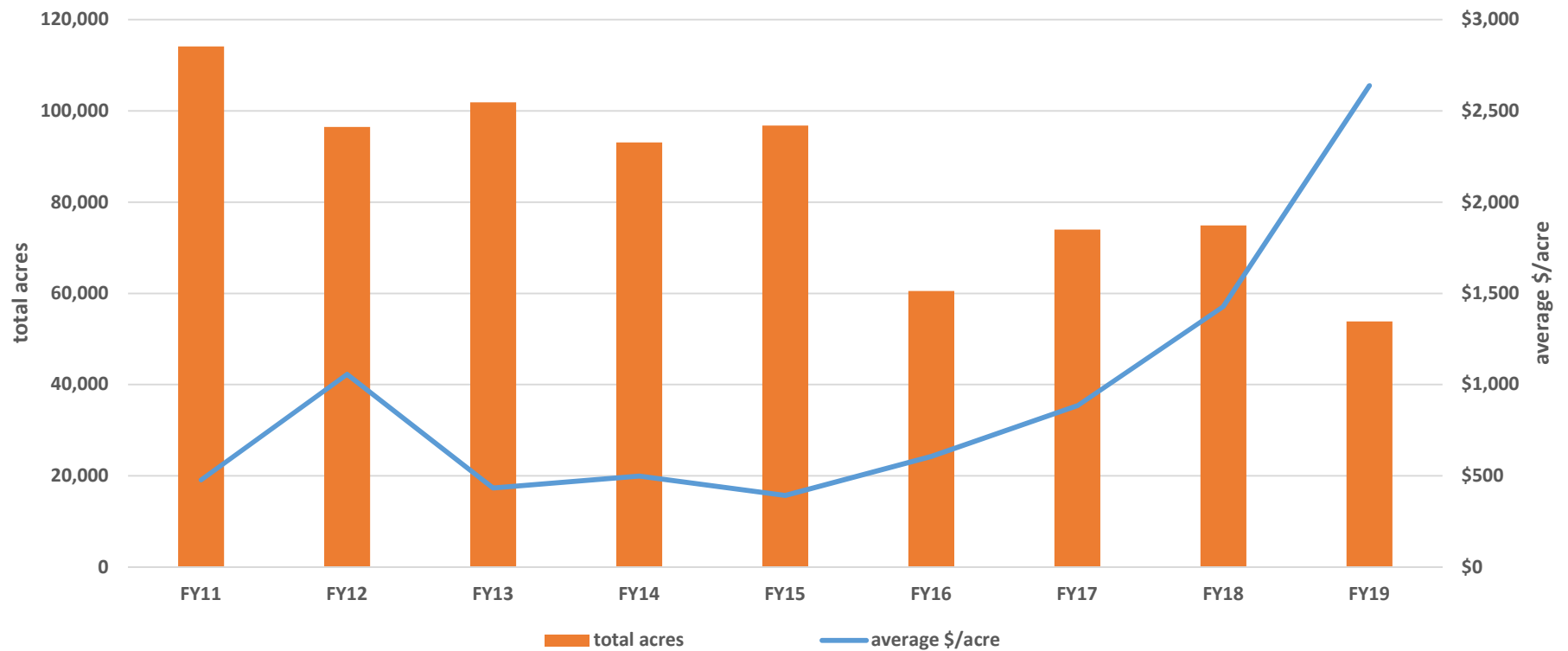
- Trust Lands Available for Leasing
- Trust Land Unavailable for Leasing
- Oil and Gas Geologic Regions





Increasing Value Per Acre

Acres Offered at Oil and Gas Lease Sale & Average Price Received per Acre





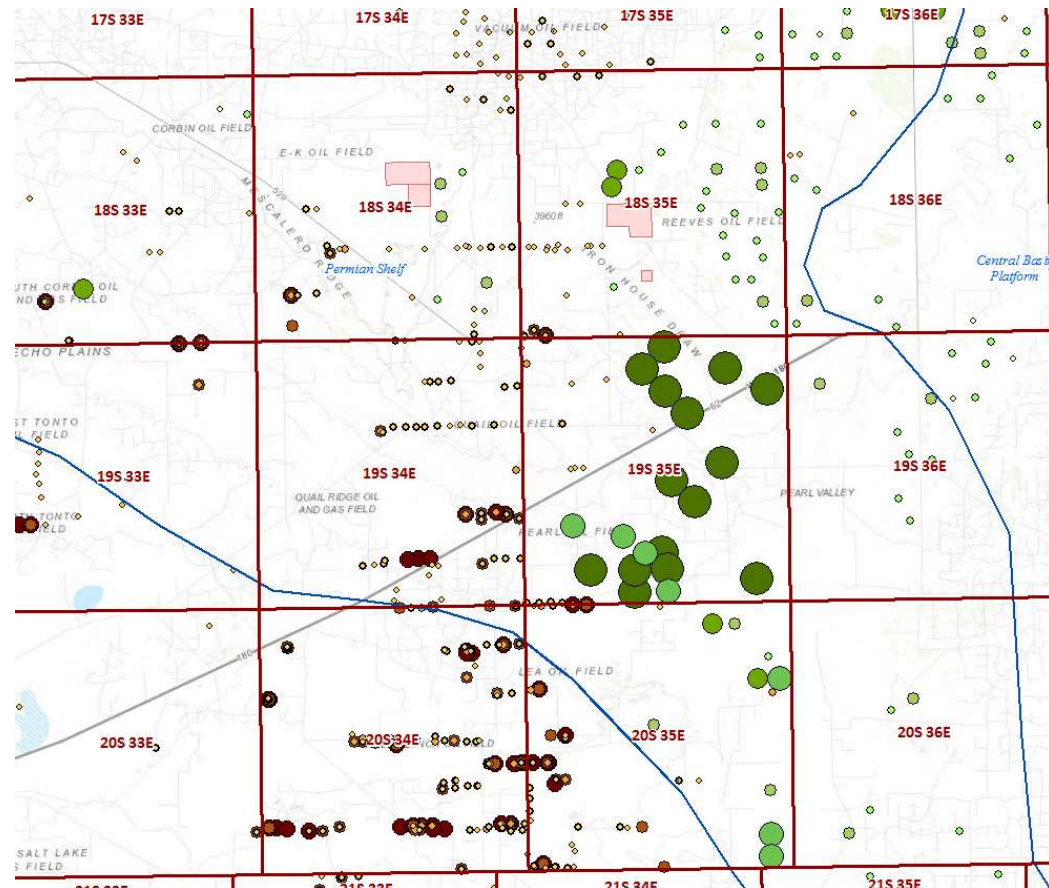
Factors Considered for Lease Bonus Minimums

- Location and existing production
- Prior lease sales (comps)
- Areas with industry-nominated tracts
- Areas with recent activity (drilling, production, filing APDs)
- Size of tract
- Proximity to existing infrastructure
- Surface issues, including environmental and siting considerations



Proposed Tract Value Comparison

- Potential Sale Tract
- 2015 - 2019 OG Sales - Bid per acre - CPI
 - ◇ 0.000000
 - 6.35 - 500.00
 - 500.01 - 1500.00
 - 1,500.01 - 2,750.00
 - 2750.000001 - 5000.000000
 - 5000.000001 - 9395.799000
- 2018 Oil Production GT 450 BBLs PROD
 - ◇ 0.000000 - 450.000000
 - ◇ 450.000001 - 1750.000000
 - ◇ 1750.000001 - 4500.000000
 - ◇ 4500.000001 - 12500.000000
 - ◇ 12500.000001 - 208134.000000





Example of Additional Value Achieved With Minimum Bids

- In the February 2019 lease sale, a 80 acre tract was nominated and the minimum bid was listed at \$37.50/acre
- A sealed bid was submitted offering \$78.13/acre. The tract was withdrawn because the bid did not represent adequate value
- In the May 2019 lease sale, the tract was re-listed at \$625/acre minimum bid. The tract sold for \$4,450 per acre, or 57 times the amount of the original offer
- Prior framework would have left money on the table (\$356,000 bonus received under new system compared to \$6,350 under old one)





Questions?

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NEW MEXICO COMMISSIONER OF PUBLIC LANDS

In 2019, the State Land Office raised over

\$1,000,000,000

for New Mexico public schools, universities, and hospitals!

STEPHANIE GARCIA RICHARD