



# NM PRODUCTION & ECONOMICS OUTLOOK

**PREPARED FOR: Legislative Finance Committee**

DI Strategy & Analytics | July 2019 | Cloudcroft, NM



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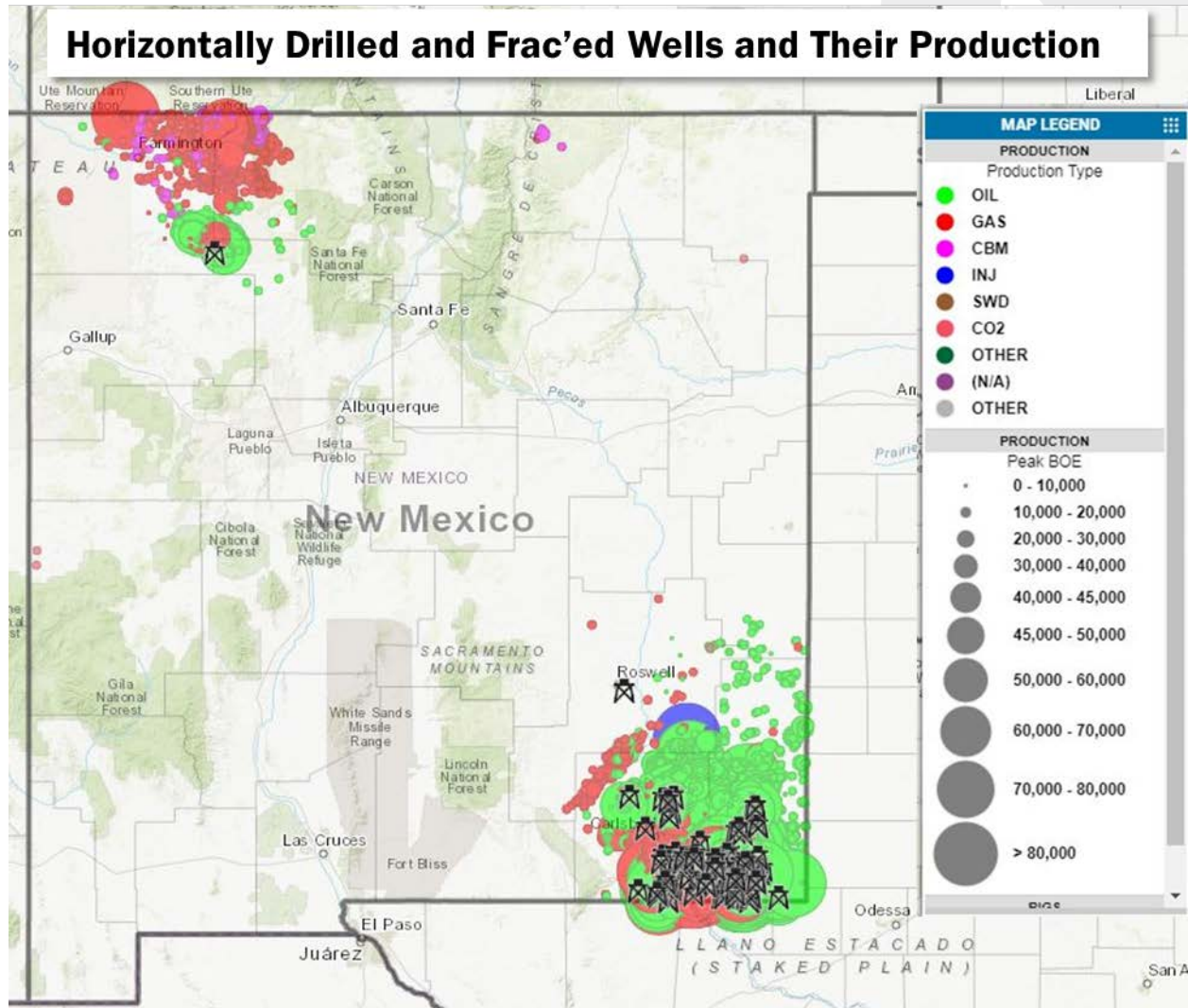
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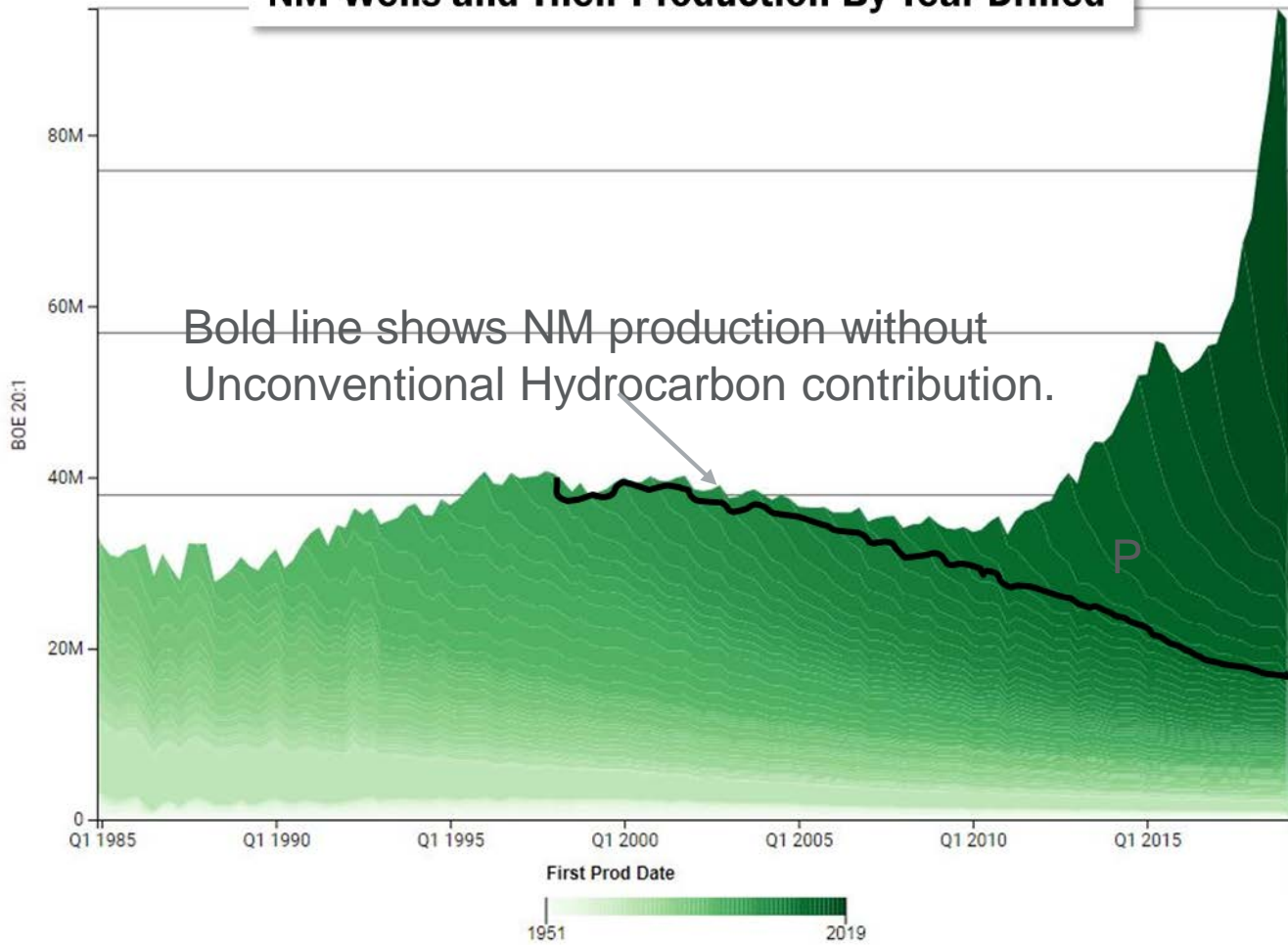
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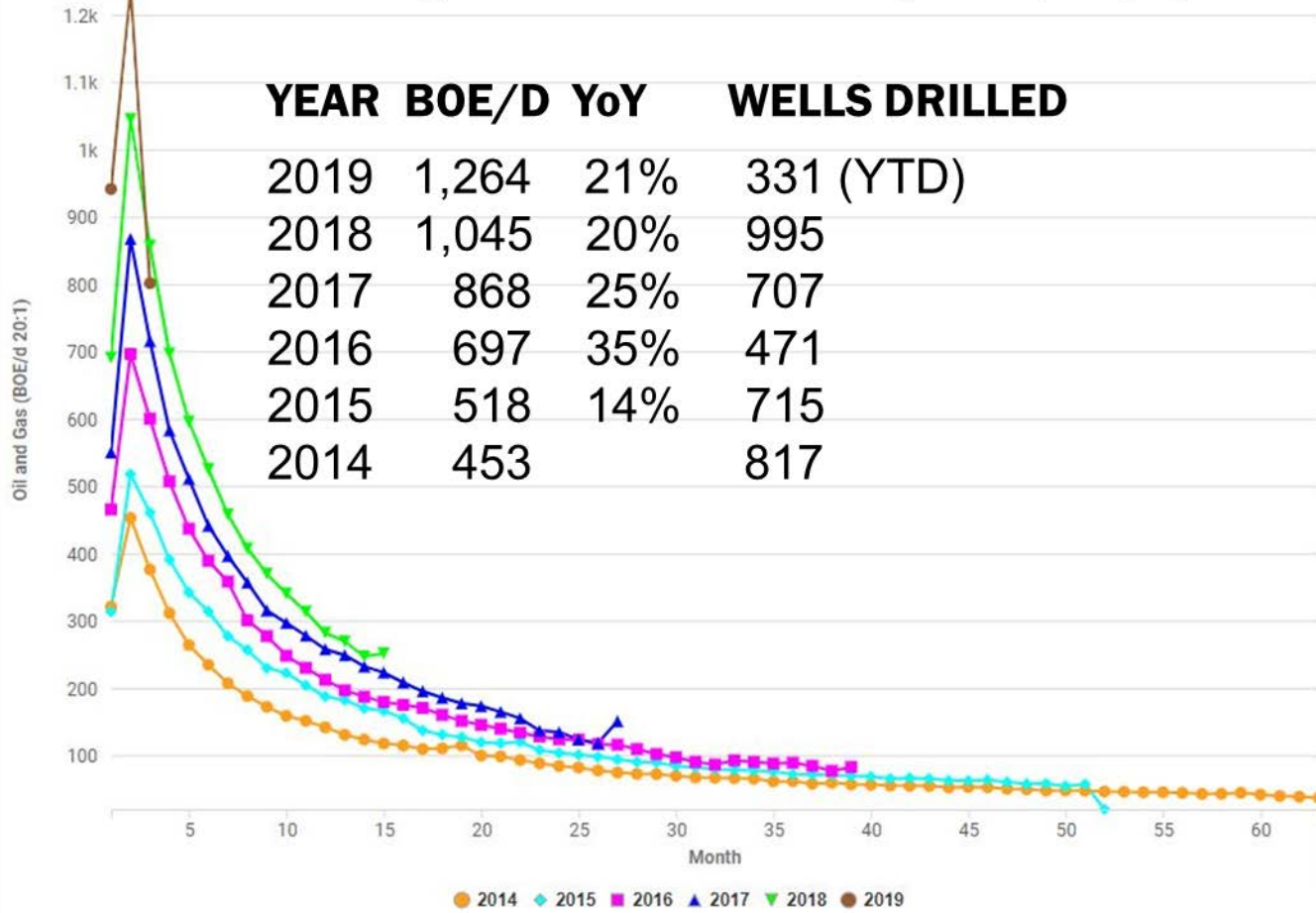


Only 1.5% of known locations drilled overall.  
 Midland and Delaware Basins USGS Resource Base of 70 Billion Barrels of Oil...  
 Possibly to exceed 400 Billion Barrels of Oil.

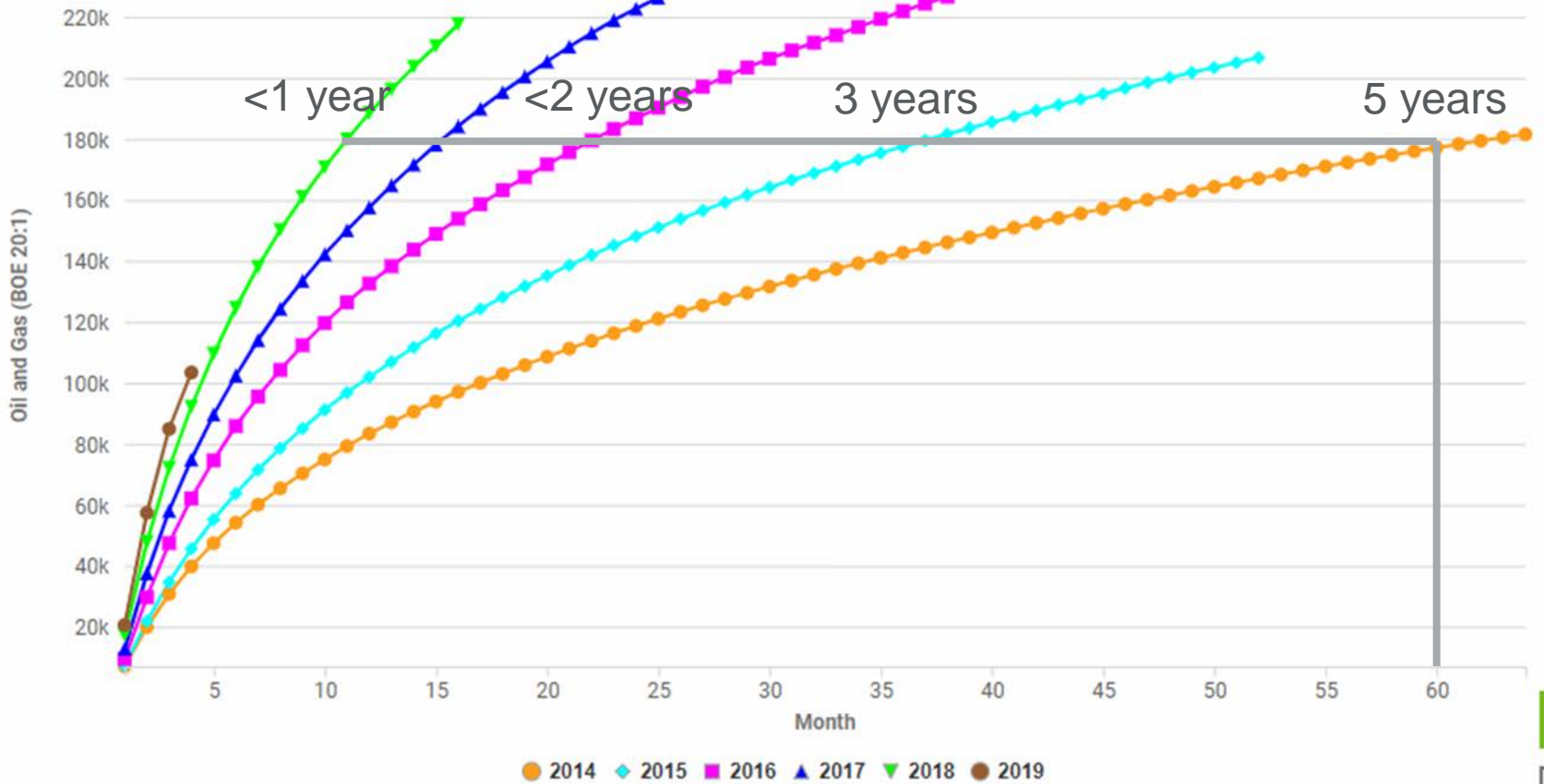
### NM Wells and Their Production By Year Drilled



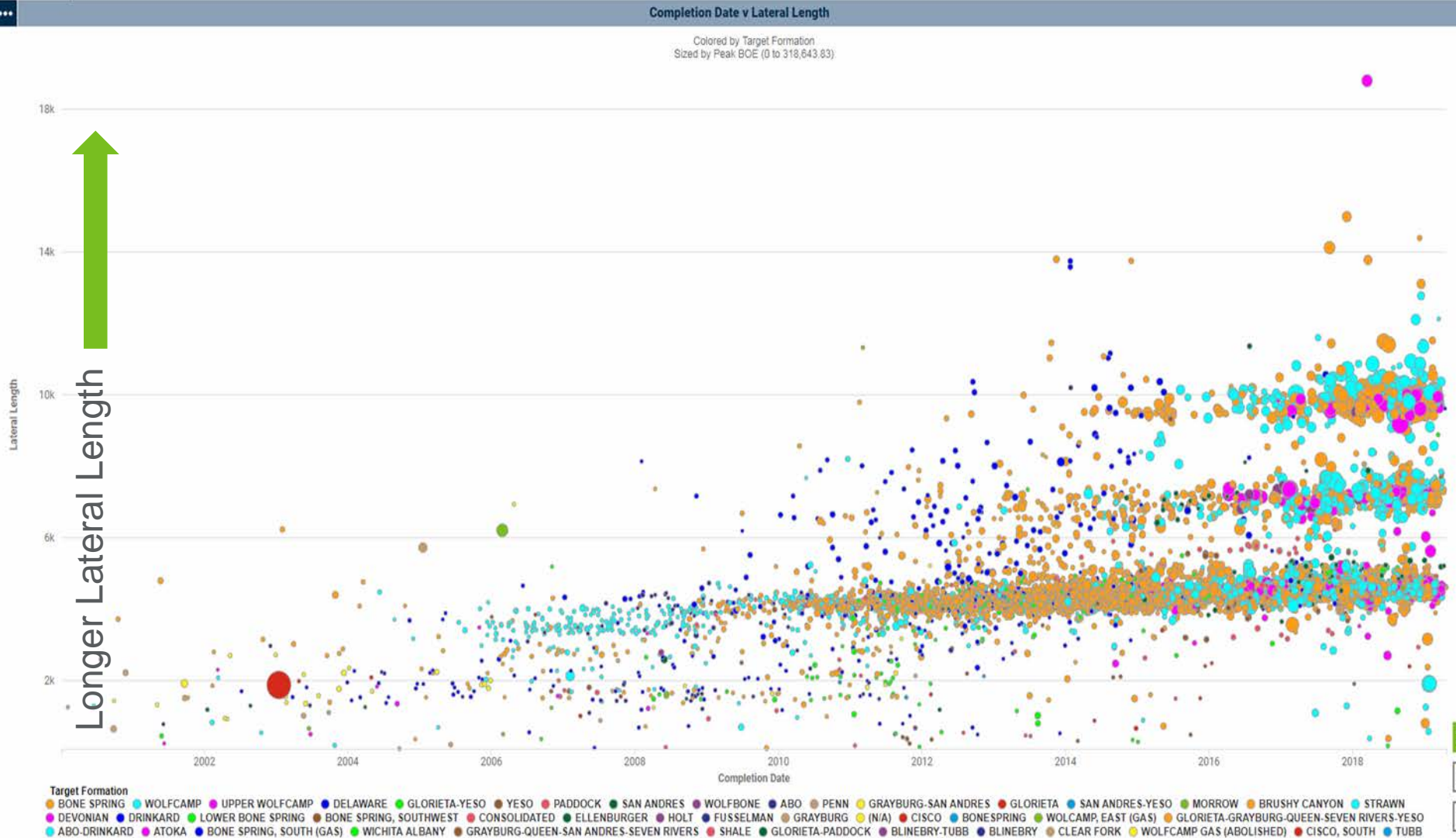
### Average Well Performance By Year (boepd)



### Comparative Type Curve



# Evolution of Wellbore Lateral Length in NM Delaware

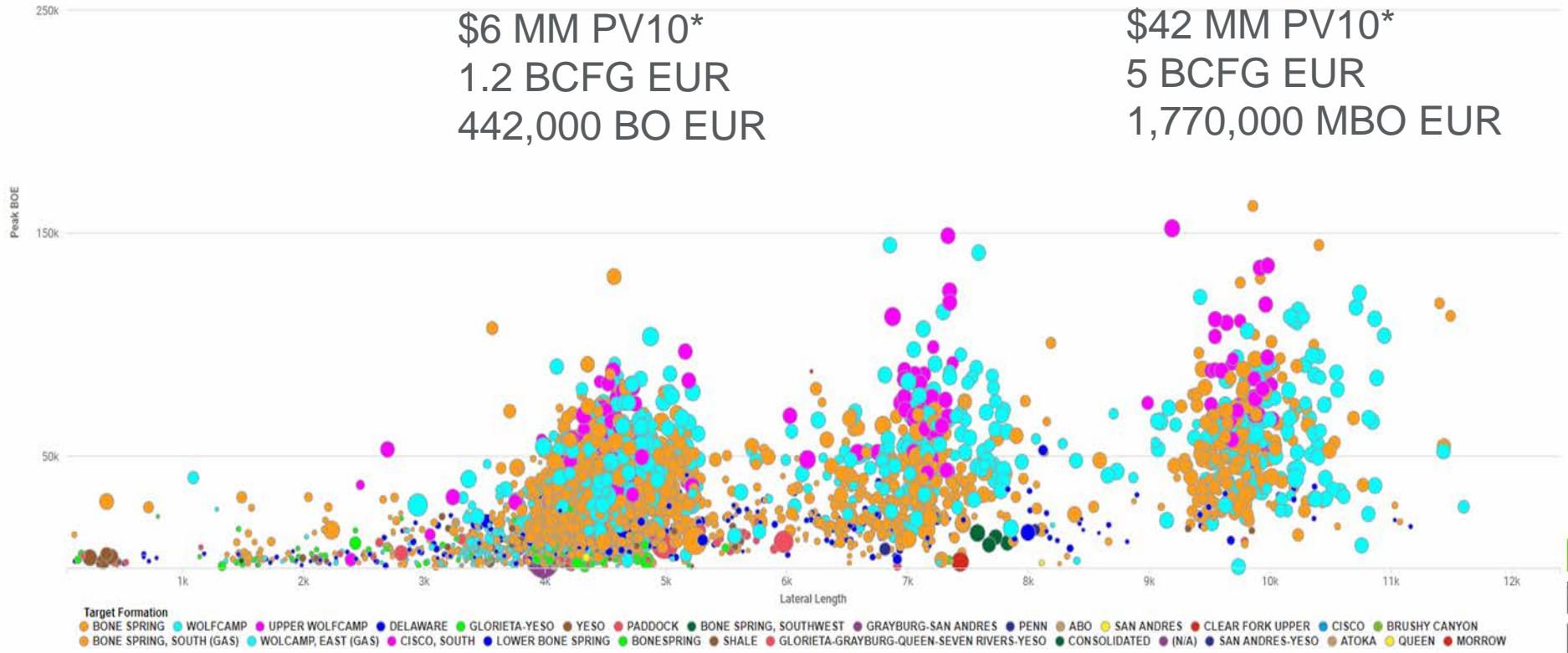


Lateral Length v Peak BOE

Colored by Target Formation  
Sized by Proppant per Perforated Foot (First Treatment Job) (6,891 to 7,332,431)

\$6 MM PV10\*  
1.2 BCFG EUR  
442,000 BO EUR

\$42 MM PV10\*  
5 BCFG EUR  
1,770,000 MBO EUR



Sharma & Burleson: SPE Eastern Regional Meeting, 2019





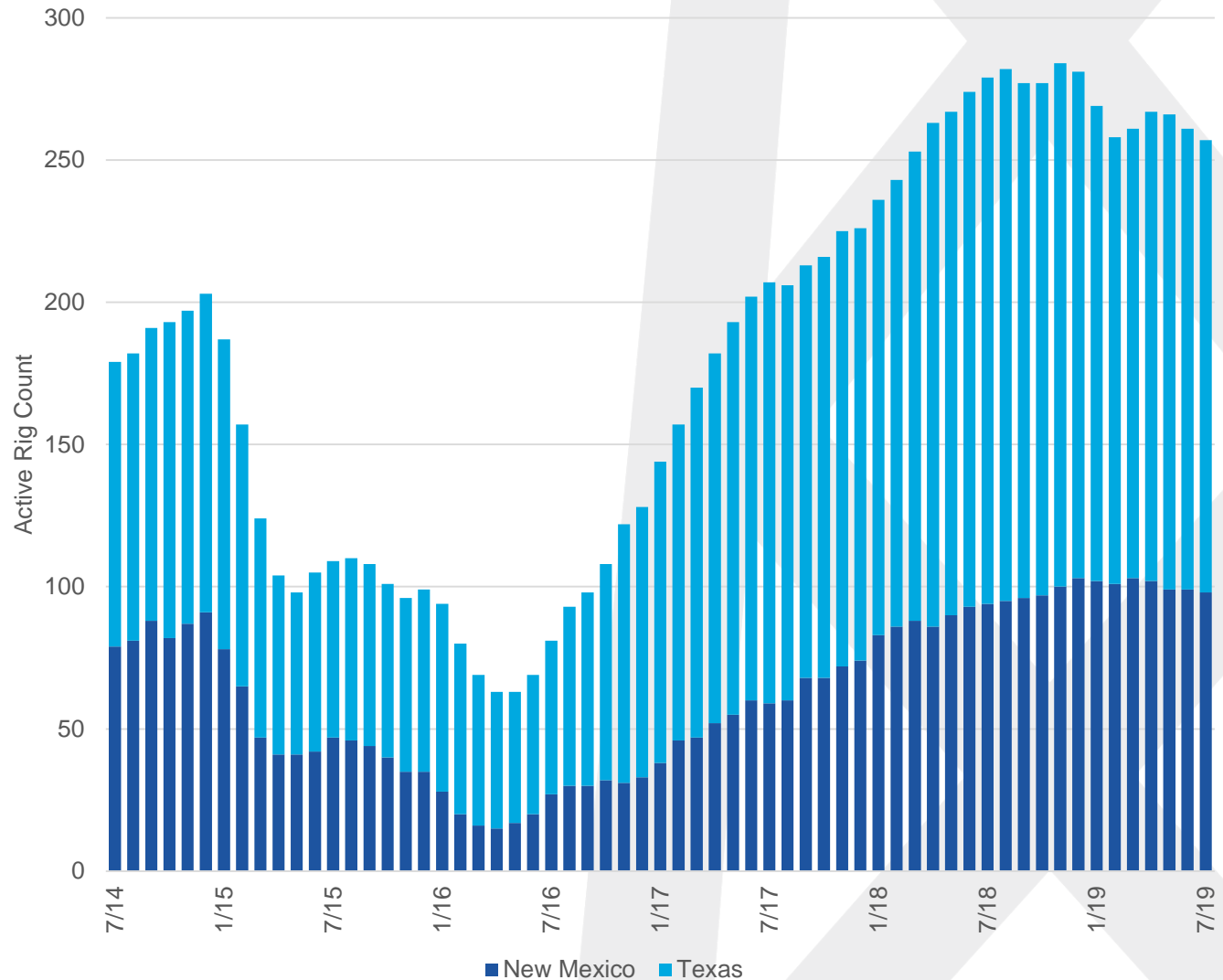
# DELAWARE BASIN RIG COUNT

The chart shows the average monthly active rig count over time in the Delaware Basin broken out by state.

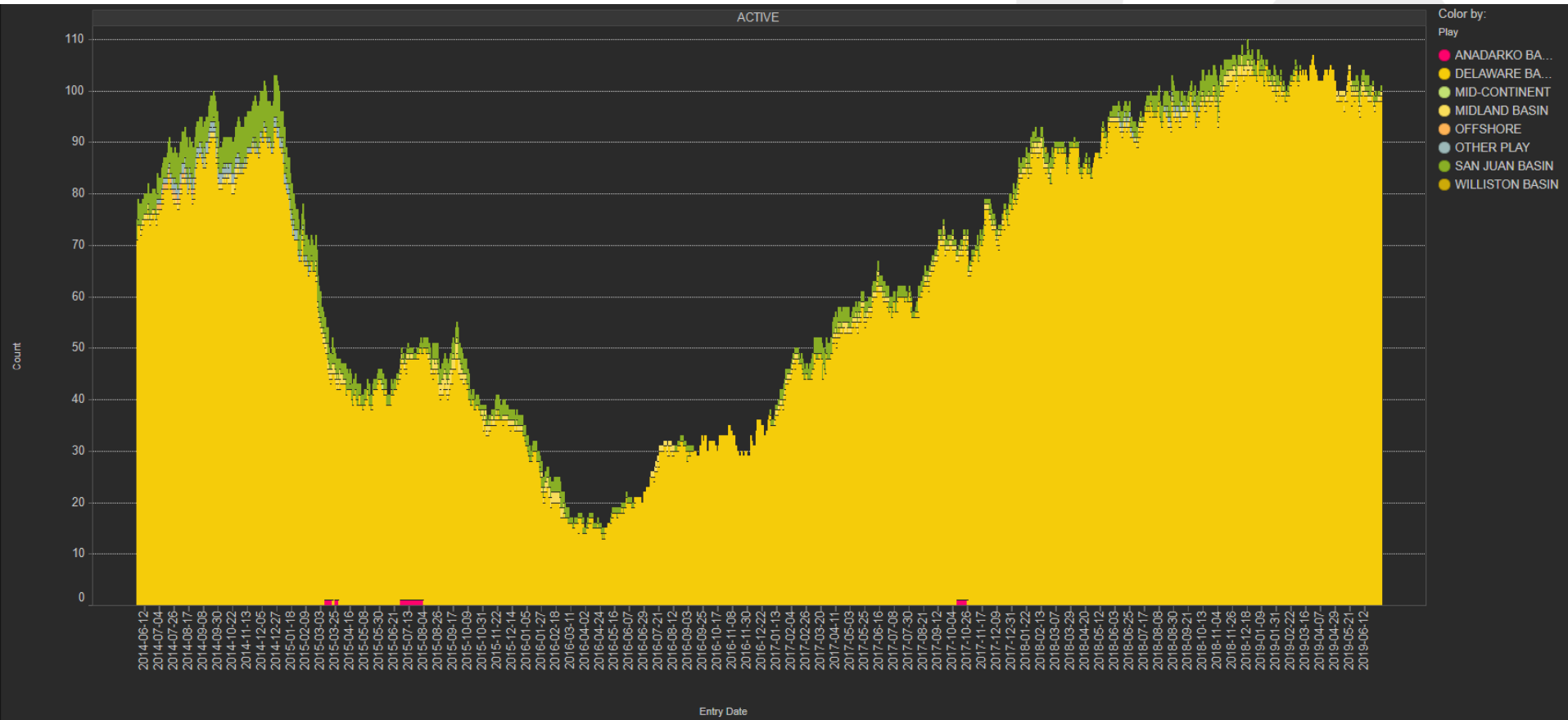
Following the oil price drop in 2014, rig count dropped across the country, but the Delaware Basin started to recover first.

The Delaware Basin has recovered to more rigs running than prior to the price crash, including NM.

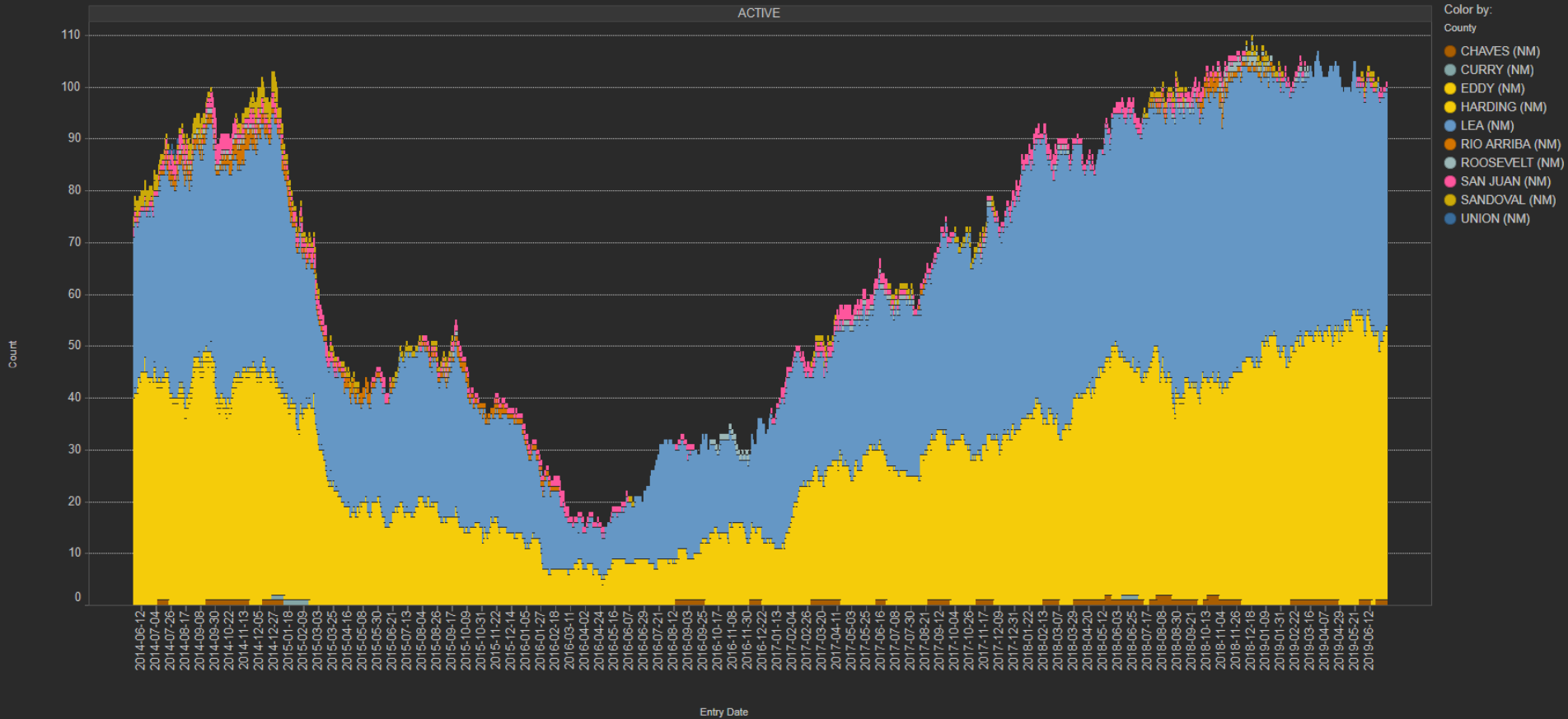
This is a testament to the great economics of the area. There are still ~100 rigs running on the NM side of the Delaware Basin currently.



# New Mexico Rig Count By Basin

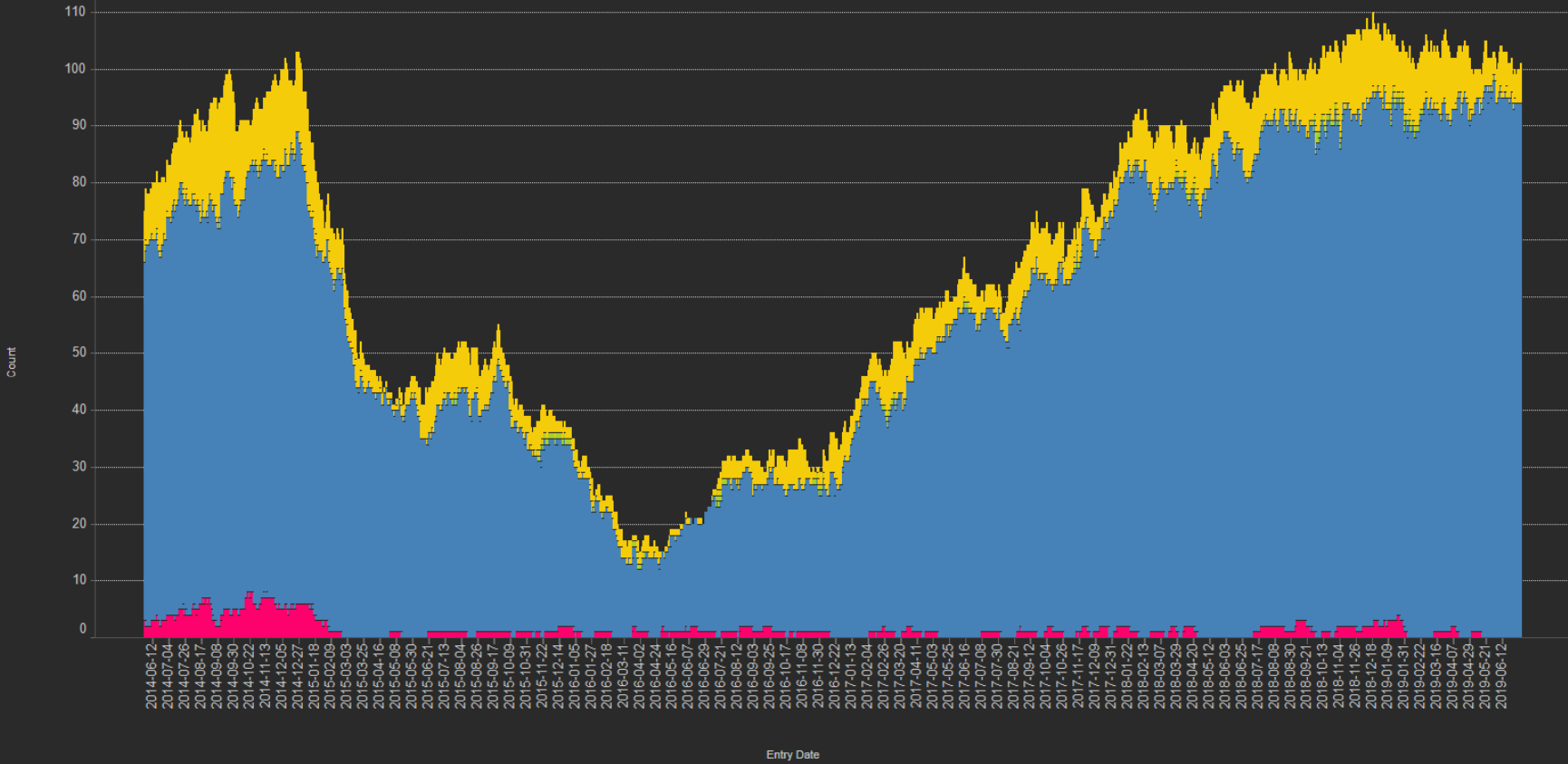


ACTIVE



ACTIVE

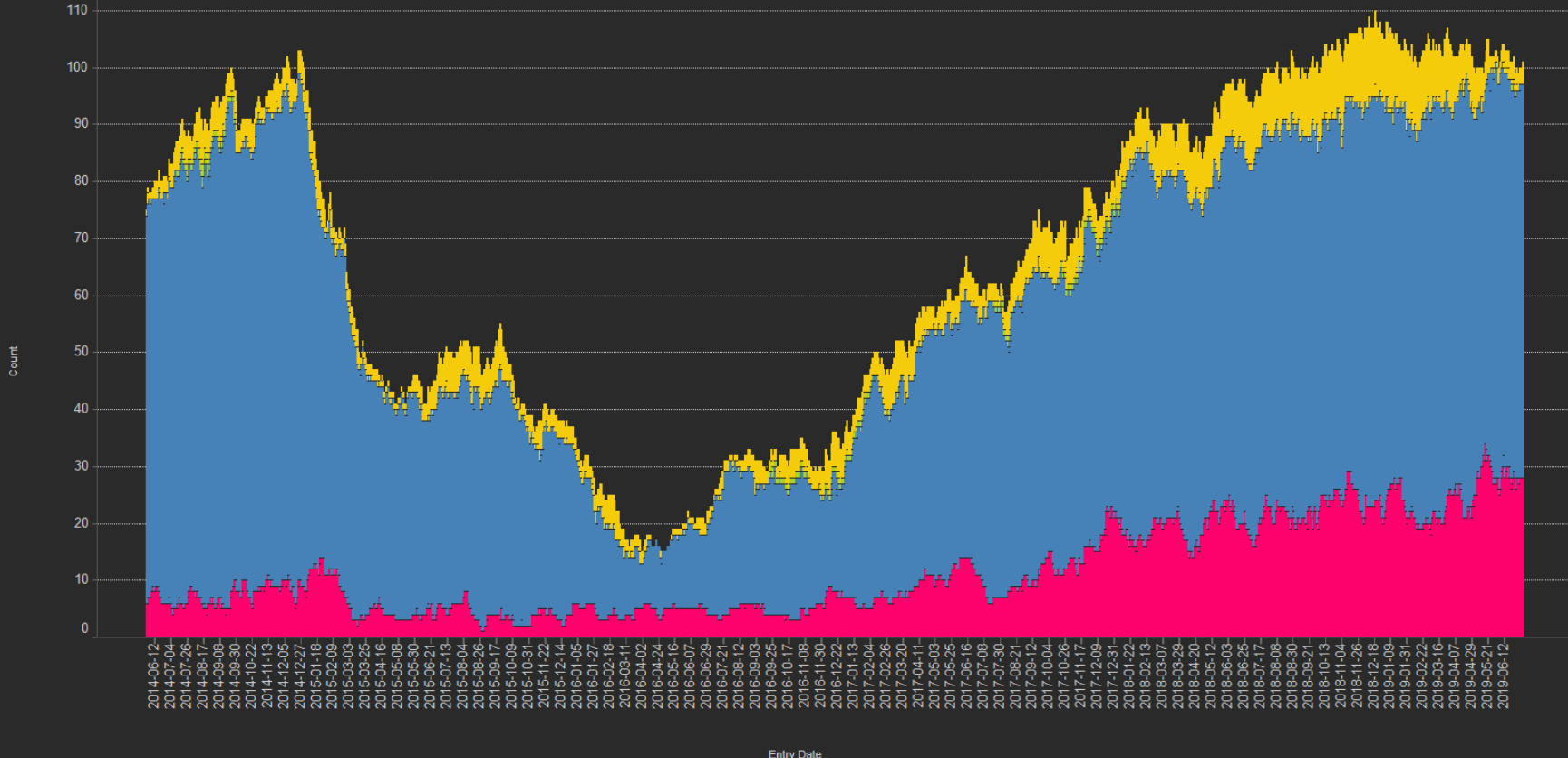
Color by:  
Drilling Trajectory  
● DIRECTIONAL  
● HORIZONTAL  
● UNKNOWN  
● VERTICAL



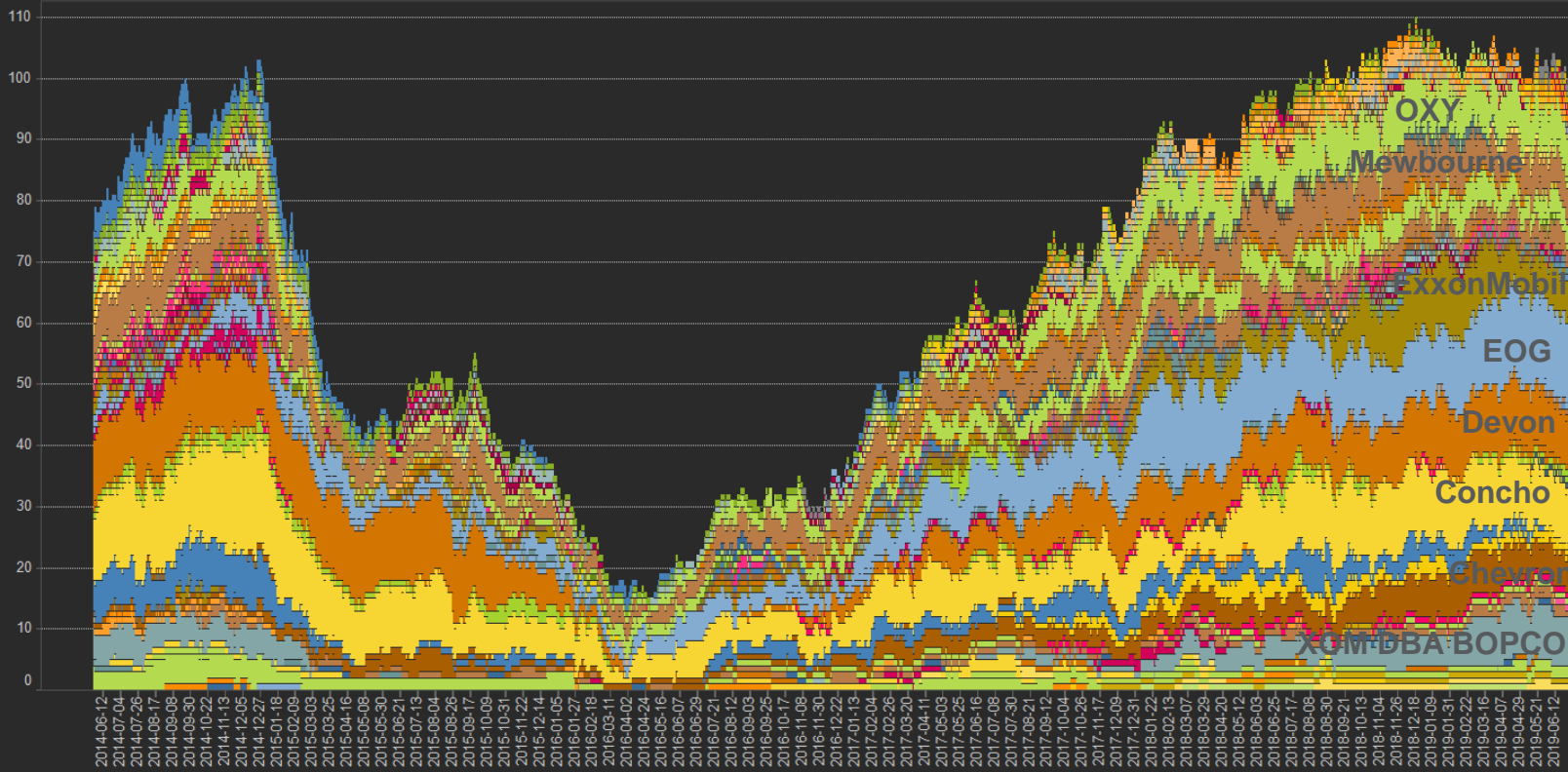
ACTIVE

Color by:  
Product

- GAS
- OIL
- OIL & GAS
- OTHER



ACTIVE

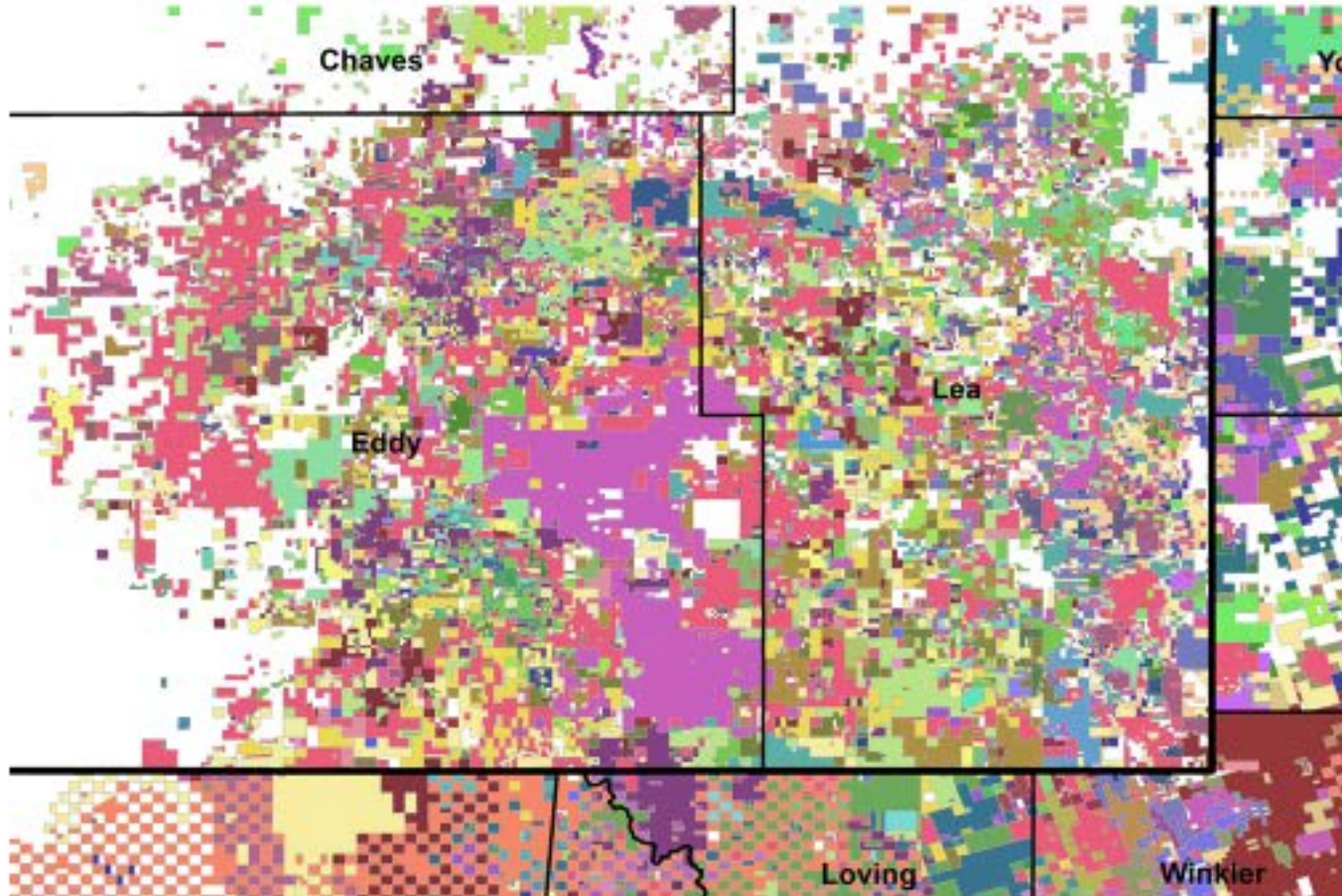


Color by:  
Operator

- 3BEAR FIELD S...
- ADVANCE ENE...
- ADVENTURE E...
- ALPHA SWD OP...
- ALTA MESA
- AMEREDEV OP...
- AMTEX ENERGY
- APACHE
- ARMSTRONG E...
- ASPEN OPERA...
- BC OPERATING
- BLACK MOUNT...
- BLACK RIVER ...
- BLAKE PRODU...
- BLUESTEM EN...
- BOPCO
- BP
- BREITBURN
- BTA OIL PROD...
- BURNETT OIL
- CAMBRIAN MA...
- CASE DRILLING...
- CATENA RESO...
- CAZA OPERATI...
- CELERO ENERGY
- CENTENNIAL R...
- CENTENNIAL R...
- CHESAPEAKE
- CHEVRON

# Delaware Basin : Ownership Map

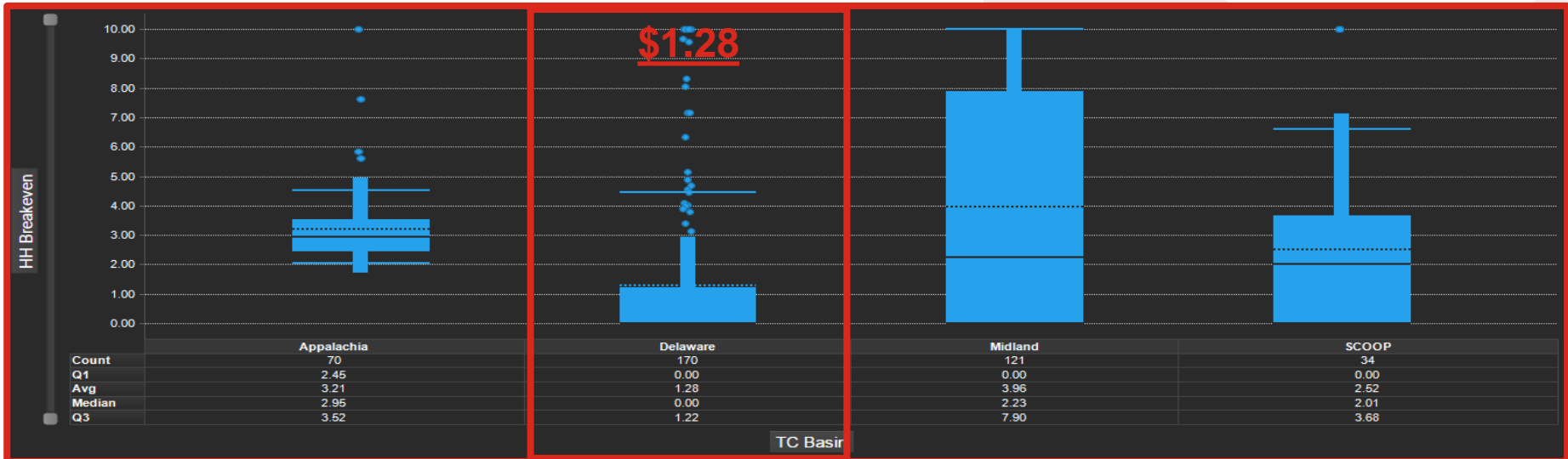
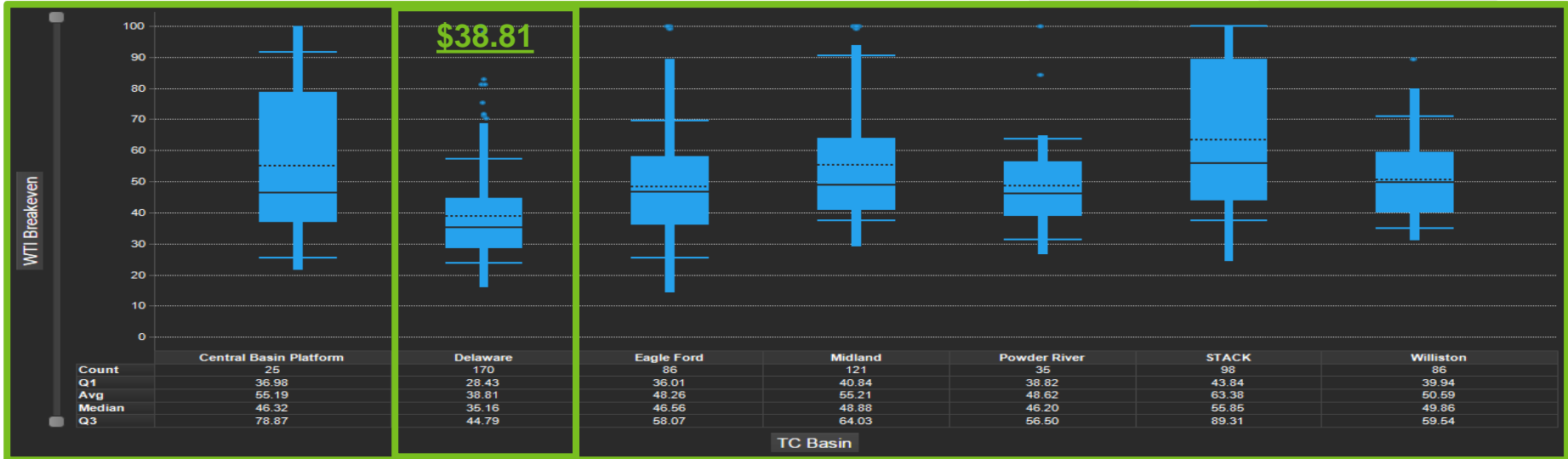
Virtually all acreage controlled – Mostly by Public E&P Co's



Trades and Buys to Consolidate Blocks to build undrilled long-wellbore well inventory



# DELAWARE BASIN: STANDOUT ECONOMICS







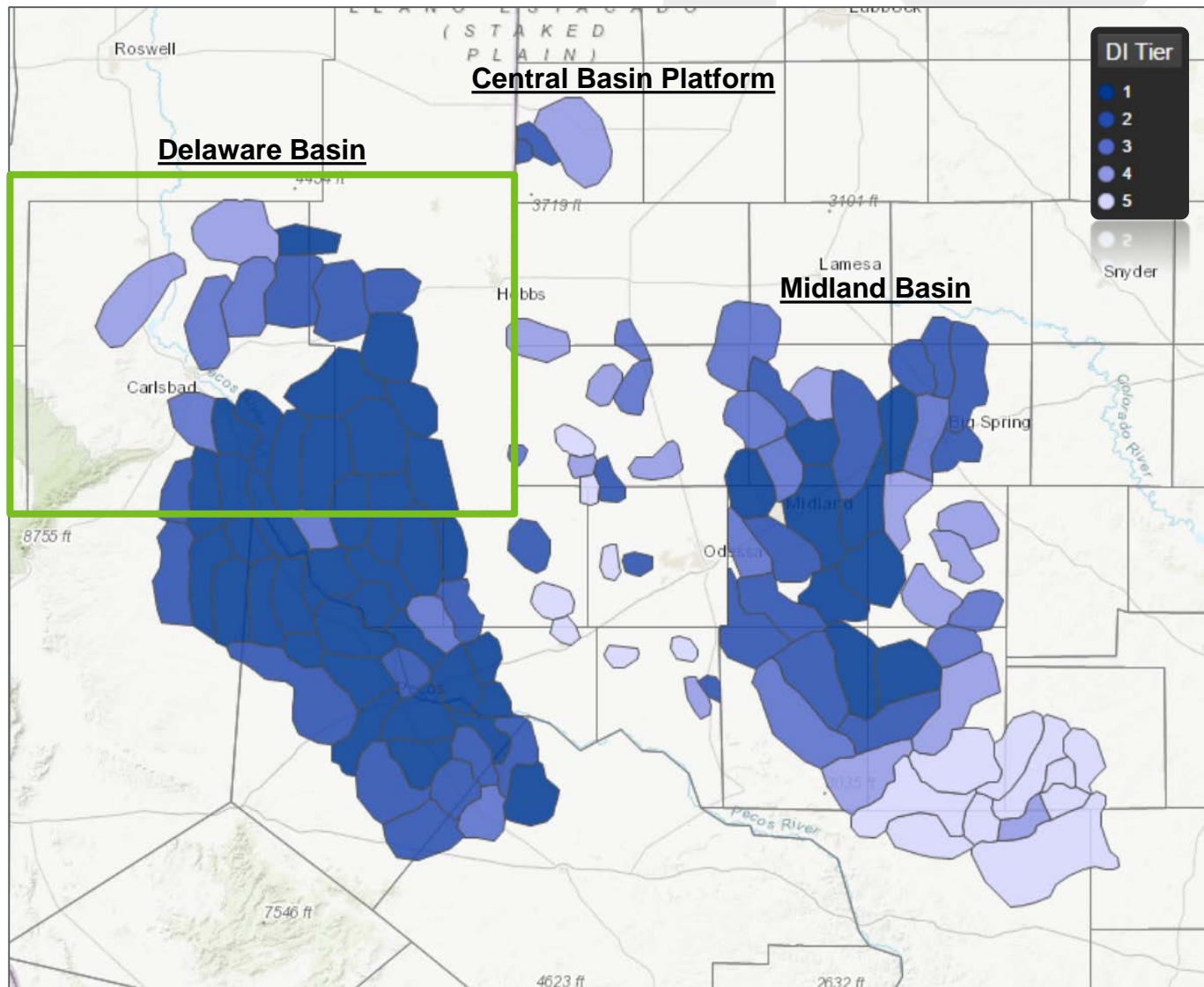
# PERMIAN BASIN & THE ROLE OF NM

The map shows type curve areas defined in the Permian Basin, colored by tier (determined by EUR, IRR, & Proven Formations).

The Delaware Basin has the best economics in the Permian Basin, which translates to the best economics in the L48 & even globally.

The NM side of the Delaware Basin offers the best EURs, economics, & stacked pay potential.

The great economics have propelled the NM side of the Delaware Basin into one of the most actively drilled parts of the country.



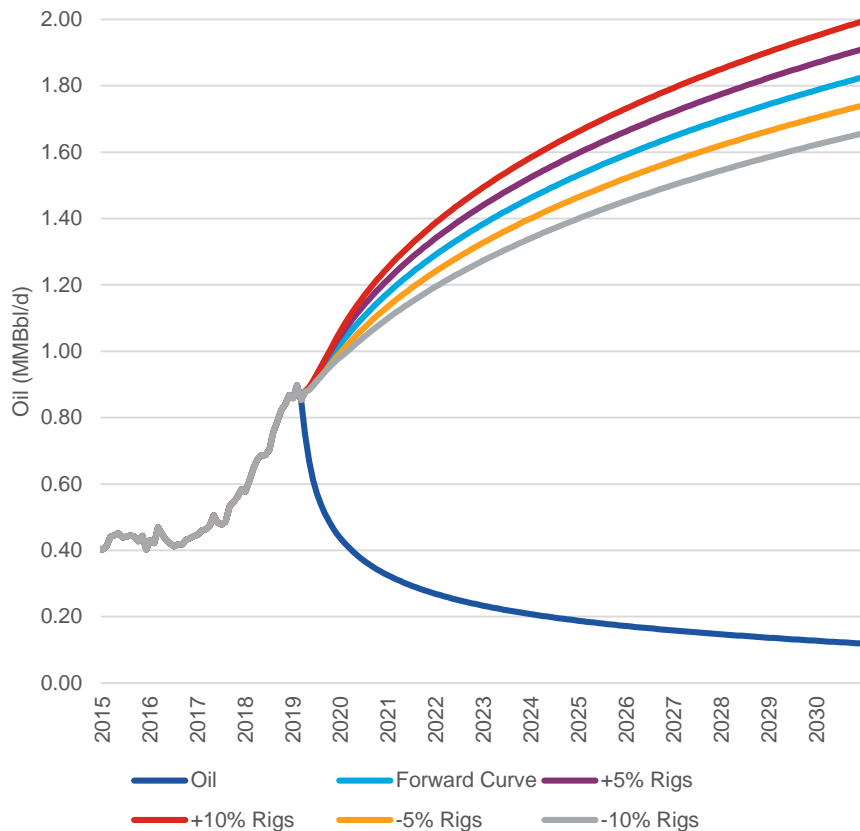


# NM PRODUCTION FORECASTS

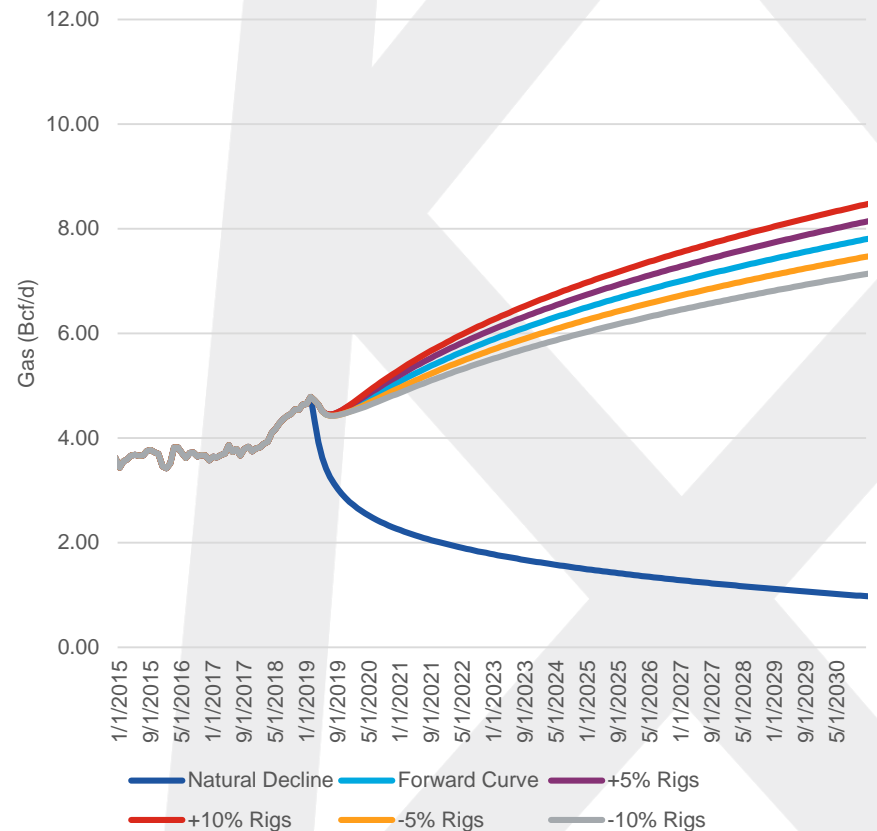
New Mexico production will continue to grow moving forward. The New Mexico part of the Delaware Basin is such a large & economic resource that even with a 10% lower rig count, production would continue to grow.

The economics are so good that a price level below \$40/Bbl WTI would be necessary to make the returns fall below a 15% rate of return on the NM side of the Delaware Basin, which is driving production growth for the Delaware Basin currently.

NM Crude Oil Forecast



NM Gross Gas Forecast



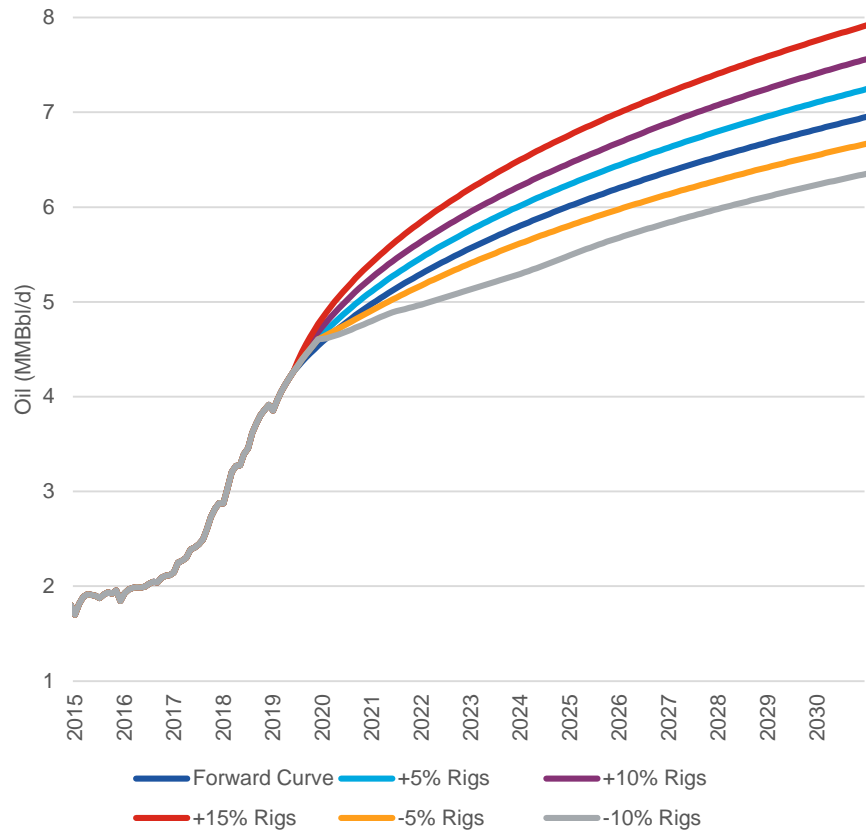


# PERMIAN PRODUCTION FORECASTS

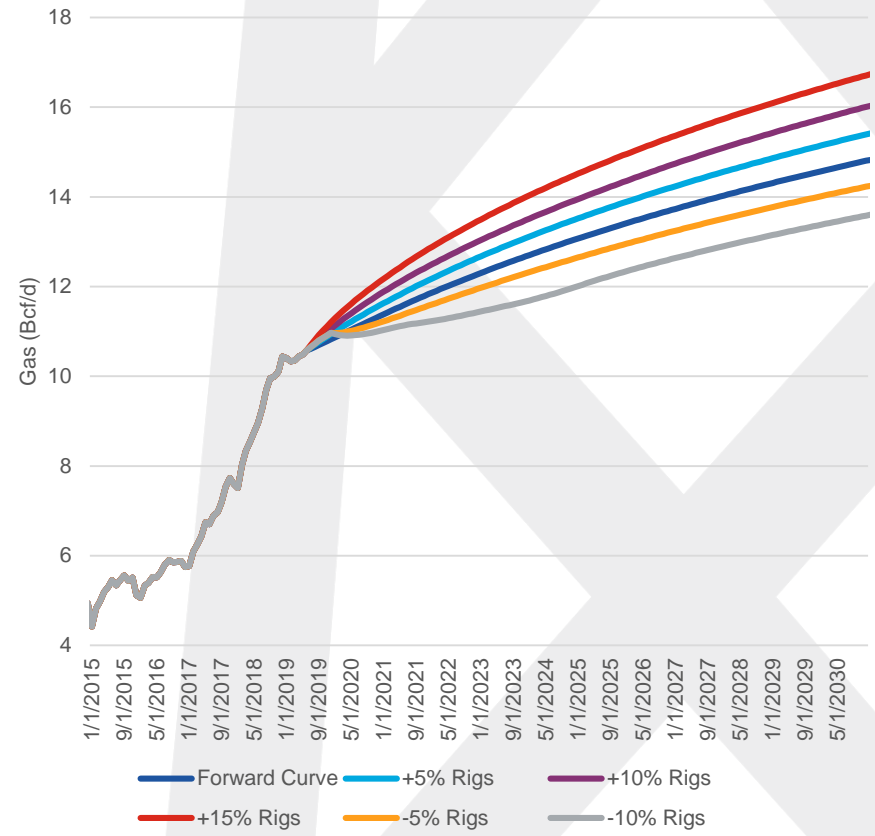
Permian Basin production will continue to grow moving forward. The Permian Basin is such a large & economic resource that has started being developed at an industrial pace. Even with a 10% lower rig count, the Permian would continue to grow.

The economics are so good that a price level below \$40/Bbl WTI would be necessary to make the returns fall below a 10% rate of return in the Delaware Basin, which is the driving force of production growth for the Permian Basin currently.

Permian Crude Oil Forecast



Permian Dry Gas Forecast



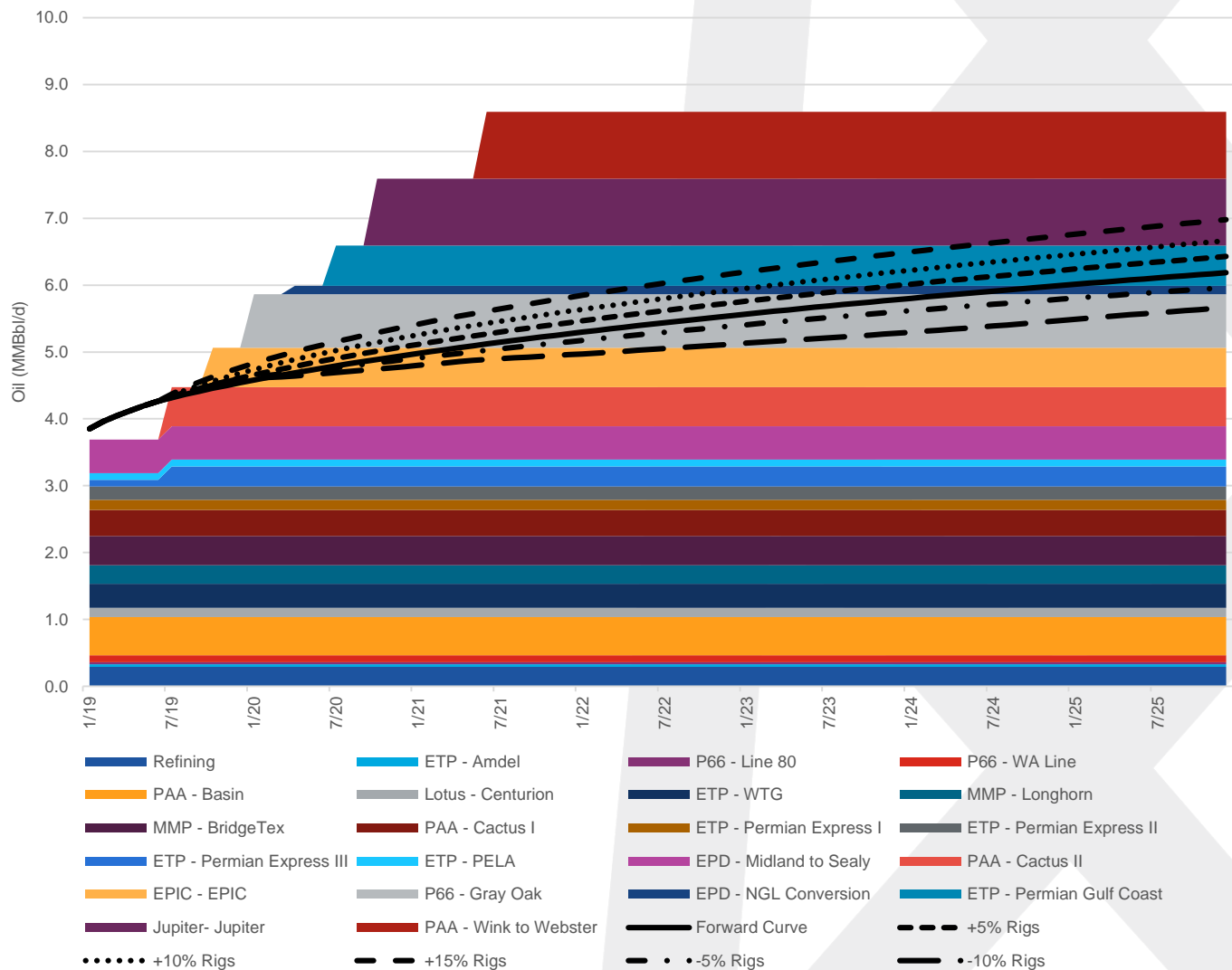


# INFRASTRUCTURE: OIL TAKEAWAY

There has been a shortage of oil takeaway capacity out of the Permian Basin since late 2018, which has driven differentials between WTI Cushing & WTI Midland as high as \$25/Bbl.

There are a lot of proposed pipelines in queue to alleviate the constraints & allow for the crude oil to get to market.

It is prudent to note that the Permian Basin covers a large area, making it more important to make sure that the NM side of the Delaware Basin is tied into the takeaway capacity originating in different parts of the greater basin.



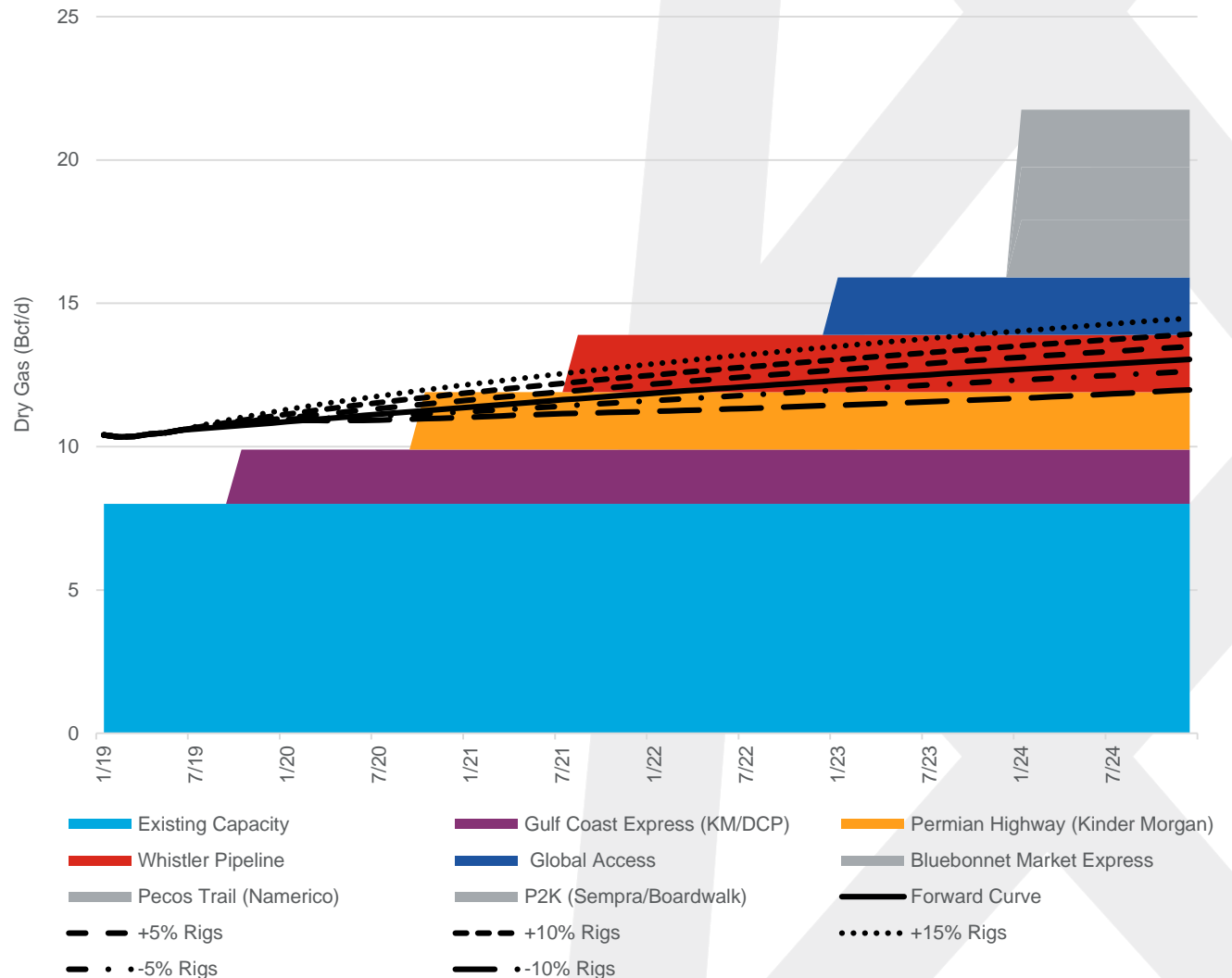


# INFRASTRUCTURE: GAS TAKEAWAY

The dry gas takeaway capacity has been & remains constrained out of the Permian Basin. The Waha basis differential to Henry Hub has been high enough that in some case prices have been negative.

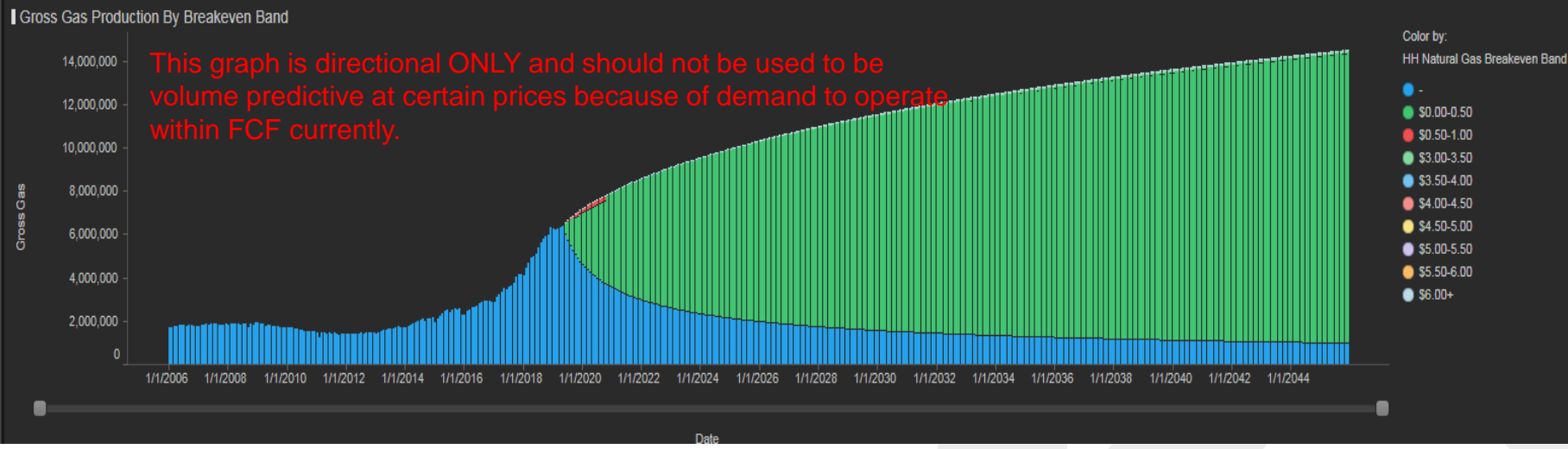
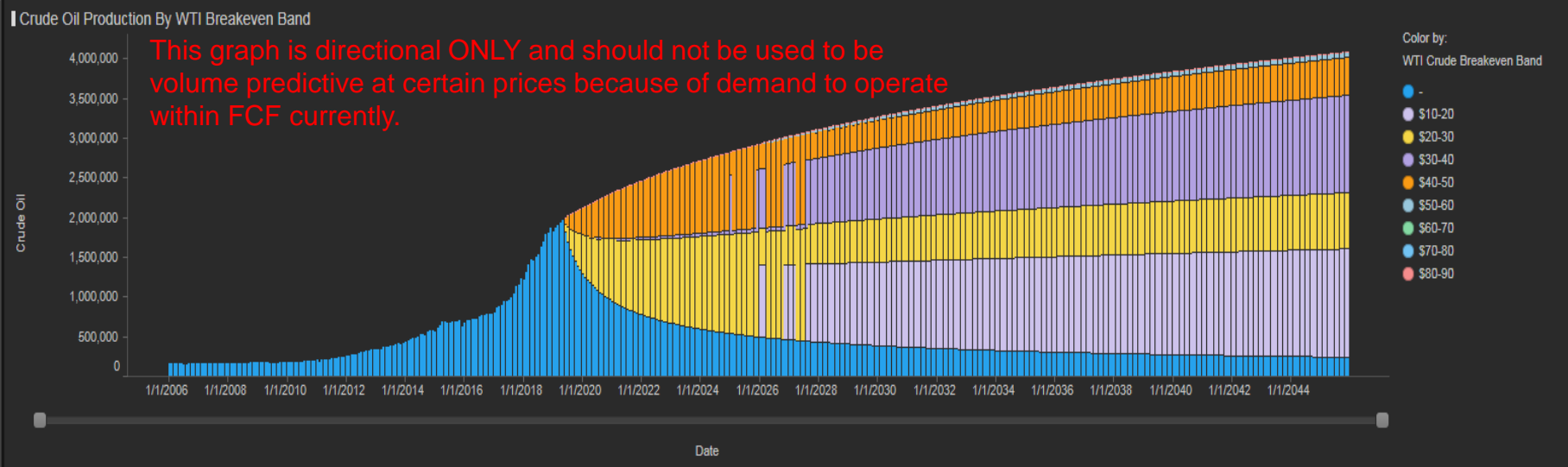
The dry gas takeaway capacity is not going to be relieved until the 2021 & into 2022.

This means that Waha basis will remain wide. The need to make sure that new infrastructure that is built is connected to the NM side of the Delaware Basin is important to make sure the price differential doesn't impact operator margins, royalty payments, & state & local taxes.





The New Mexico Delaware will increase in production at wellhead prices over \$40 for Oil. Natural Gas is a Byproduct and will be increase for wellhead yields above \$0.50.





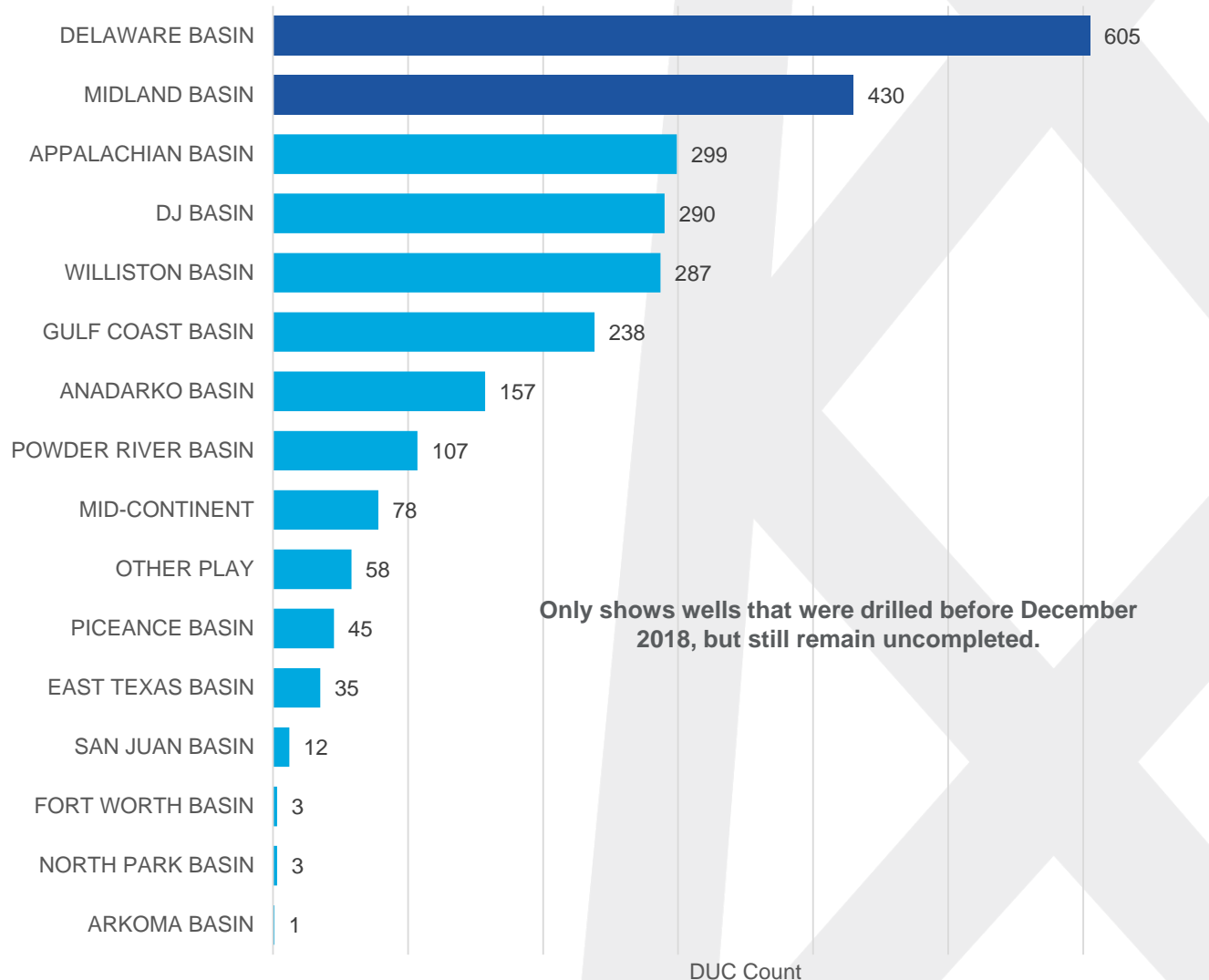
# DUC COUNT

The Permian Basin has been building DUC count due to the lack of takeaway capacity & the depressed in-basin natural gas prices.

The chart shows wells that were drilled & remained uncompleted after more than 6 months, signaling that they are waiting on something: in this case, takeaway infrastructure.

It is troubling that the Delaware Basin has more DUCs than the Midland Basin, which has a lot more of the legacy infrastructure in place & has had more luck in attracting main injection points to takeaway pipelines.

The lack of takeaway capacity also leads to flaring, which demeans the value of the natural resource, but the economics work regardless of the recovery of natural gas.

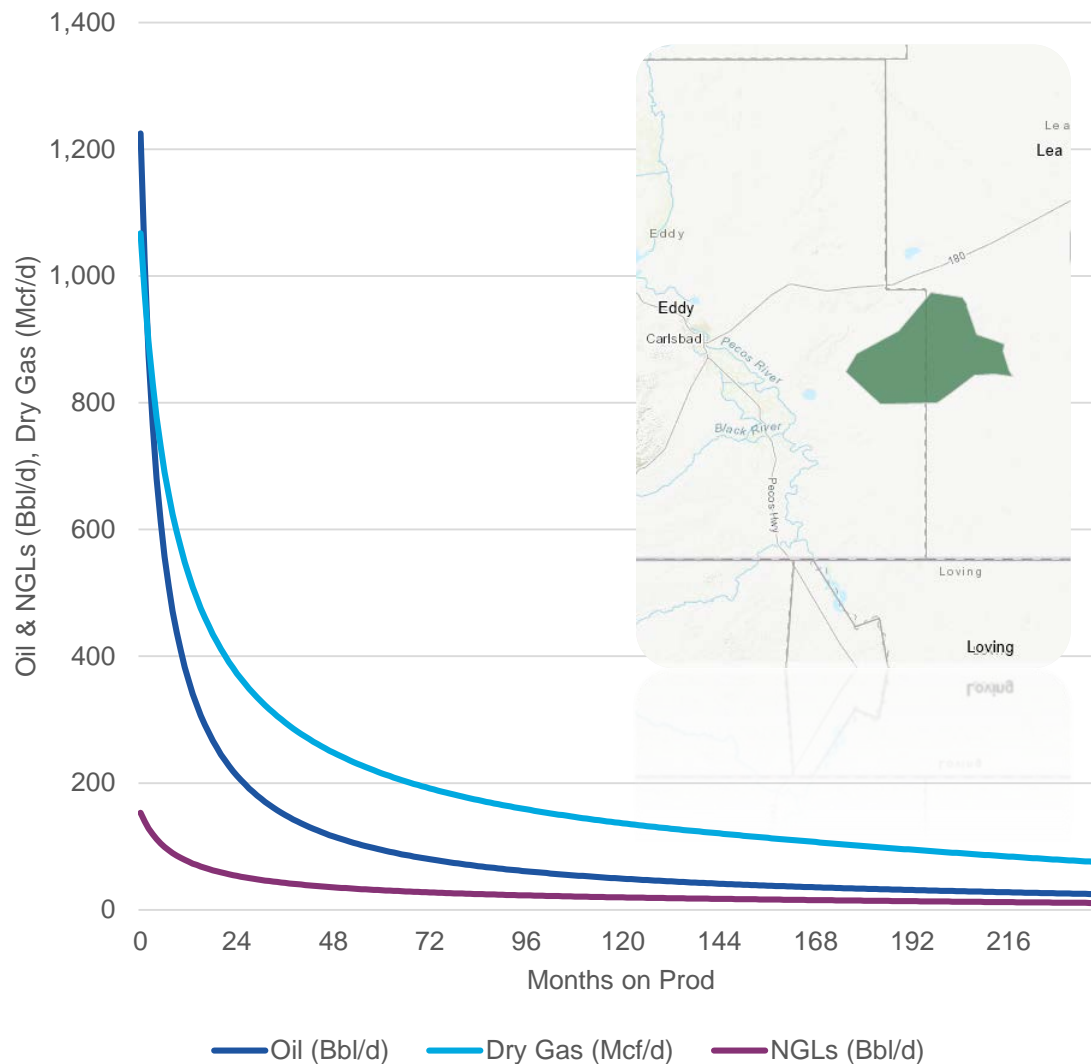


Only shows wells that were drilled before December 2018, but still remain uncompleted.





# NM STATE & LOCAL TAXES EXAMPLE



## Per Well Metrics (Undiscounted)

Metric	Value
Oil EUR	744 MBbl
NGL EUR	204 MBbl
Dry Gas EUR	1.42 Bcf
Boe (6:1) EUR	1.18 MMBbl
Oil Revenue	41.67 MM\$
NGL Revenue	3.06 MM\$
Dry Gas Revenue	2.49 MM\$
Total Revenue	47.22 MM\$
Oil State & Local	3.40 MM\$
NGL State & Local	0.27 MM\$
Dry Gas State & Local	0.22 MM\$
<b>Total State &amp; Local</b>	<b>3.90 MM\$</b>
Royalty (12.5%-25%)	5.90 MM\$ - 11.81 MM\$

Severance: 3.75%  
 Conservation: 0.0019%  
 Emergency School: 3.15% (oil), 4% (gas)  
 Ad Valorem: 1-1.5% (based on formula)  
**Total: 8.15% (oil), 9% (gas)**

# THANK YOU