



NMOGA
NEW MEXICO OIL & GAS ASSOCIATION

Economic and Rural Development Interim Committee
July 9, 2013

San Juan College
Farmington, New Mexico

Major Employer; Major Generator of Revenues for Government



Increasing access to domestic sources of oil and natural gas would create new high paying jobs, bring billions of dollars to federal and state treasuries, reduce our balance of payments and enhance America's energy security.

Production of oil and natural gas on federal lands has brought billions of dollars of revenue into federal and state treasuries. These royalties are one of the largest sources of income to the federal government.

According to the Department of the Interior, in fiscal year 2011, the agency distributed \$11.2 billion to the federal government, states and American Indian tribes from onshore and offshore energy production. Nearly \$9.3 billion of that amount came from oil and natural gas production.

- A part of this revenue included \$36.8 million in bonus bids paid by companies to lease tracts for offshore energy exploration on the Outer Continental Shelf in the Gulf of Mexico and Alaska.
- A total of 37 states received nearly \$2 billion from bonus bids, royalties and rents.¹⁸

According to an ICF International study commissioned by API, developing America's vast domestic oil and natural gas resources that were kept off-limits by Congress for decades could generate \$1.8 trillion in government revenue,

including \$1.3 trillion in revenues from offshore development alone. These revenues would be earned over the life of the resource.¹⁹

Increased federal leasing could bring additional high paying jobs to Americans. More than 9 million people depend on the oil and natural gas industry for their jobs.

- Oil and natural gas industry exploration and production wages are more than double the national average.
- New manufacturing jobs would be created to develop and install the infrastructure to bring new resources to market.
- Local employment also would benefit with the addition of construction jobs as well as service and support positions.
- In 2018, one million jobs could be created.²⁰

18. DOI press release November 7, 2011.

19. ICF International Study, "Strengthening Our Economy: The Untapped U.S. Oil and Gas Resources," December 2008.

20. Wood Mackenzie, "U.S. Supply Forecast and Potential Jobs and Economic Impacts (2012-2030)," September 7, 2011.

The Economic Impacts of the Oil and Natural Gas Industry

The Economic Impact of the Oil and Natural Gas Industry in New Mexico, 2009

Employment*					
Sector Description	Direct	Indirect	Induced	Total	As a % of State Total
Direct Operational Impact of the Oil and Natural Gas Industry	32,408			32,408	3.1%
Indirect and Induced Operational Impacts on Other Industries					
<i>Services</i>		9,658	14,828	24,486	
<i>Wholesale and retail trade</i>		2,347	5,327	7,673	
<i>Finance, insurance, real estate, rental and leasing</i>		2,907	3,461	6,367	
<i>Transportation and warehousing</i>		1,219	582	1,800	
<i>Manufacturing</i>		604	536	1,140	
<i>Construction</i>		805	202	1,007	
<i>Information</i>		483	475	958	
<i>Agriculture</i>		133	523	656	
<i>Utilities</i>		167	107	274	
<i>Mining</i>		141	46	187	
<i>Other</i>		<u>1,304</u>	<u>1,128</u>	<u>2,431</u>	
Total Operational Impact on Employment	32,408	19,767	27,214	79,389	7.5%
Labor Income** (\$ Millions)					
Sector Description	Direct	Indirect	Induced	Total	As a % of State Total
Direct Operational Impact of the Oil and Natural Gas Industry	\$1,924.0			\$1,924.0	4.1%
Indirect and Induced Operational Impacts on Other Industries					
<i>Services</i>		\$461.0	\$540.8	\$1,001.8	
<i>Wholesale and retail trade</i>		\$113.0	\$175.3	\$288.2	
<i>Finance, insurance, real estate, rental and leasing</i>		\$81.9	\$100.3	\$182.1	
<i>Transportation and warehousing</i>		\$56.9	\$27.2	\$84.1	
<i>Manufacturing</i>		\$31.0	\$27.1	\$58.1	
<i>Information</i>		\$24.7	\$24.3	\$49.0	
<i>Construction</i>		\$34.4	\$8.6	\$43.0	
<i>Utilities</i>		\$17.3	\$10.4	\$27.7	
<i>Agriculture</i>		\$5.8	\$21.7	\$27.5	
<i>Mining</i>		\$11.8	\$3.7	\$15.5	
<i>Other</i>		<u>\$83.0</u>	<u>\$71.8</u>	<u>\$154.7</u>	
Total Operational Impact on Labor Income	\$1,924.0	\$920.6	\$1,011.0	\$3,855.7	8.2%
Value Added (\$ Millions)					
Sector Description	Direct	Indirect	Induced	Total	As a % of State Total
Direct Operational Impact of the Oil and Natural Gas Industry	\$4,189.0			\$4,189.0	5.9%
Indirect and Induced Operational Impacts on Other Industries					
<i>Services</i>		\$546.6	\$636.2	\$1,182.8	
<i>Finance, insurance, real estate, rental and leasing</i>		\$409.7	\$482.0	\$891.7	
<i>Wholesale and retail trade</i>		\$192.3	\$287.2	\$479.4	
<i>Transportation and warehousing</i>		\$78.7	\$37.7	\$116.4	
<i>Information</i>		\$57.6	\$56.5	\$114.1	
<i>Manufacturing</i>		\$51.1	\$45.6	\$96.7	
<i>Utilities</i>		\$58.9	\$34.4	\$93.3	
<i>Construction</i>		\$41.1	\$10.3	\$51.3	
<i>Mining</i>		\$32.6	\$10.2	\$42.9	
<i>Agriculture</i>		\$5.7	\$21.4	\$27.1	
<i>Other</i>		<u>\$94.7</u>	<u>\$82.0</u>	<u>\$176.7</u>	
Total Operational Impact on Value Added	\$4,189.0	\$1,568.9	\$1,703.5	\$7,461.4	10.6%

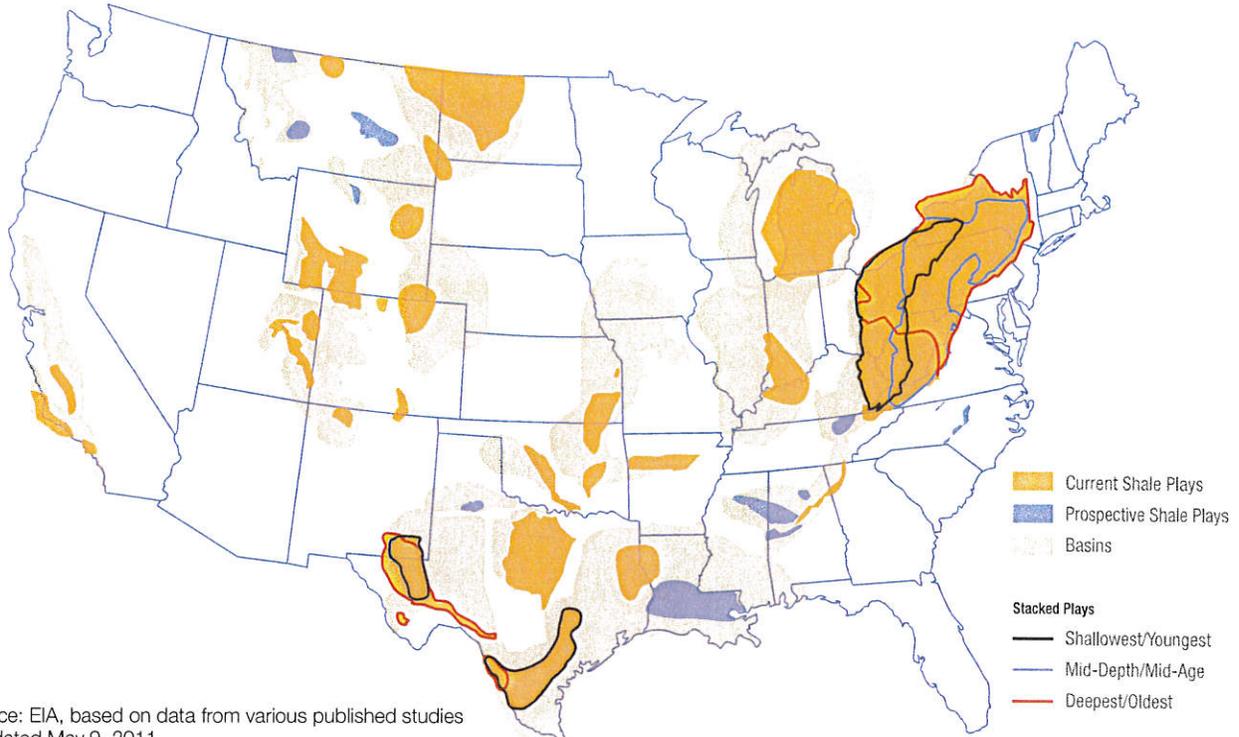
Source: PwC calculations using the IMPLAN modeling system (2009 database).

Details may not add to totals due to rounding.

* Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

** Labor income is defined as wages and salaries and benefits as well as proprietors' income.

Shale Plays, Lower 48 States



Shale plays are widely dispersed across the U.S.

The U.S. is the world's leader in the technological innovations allowing for the rapid expansion of production of natural gas from shale deposits. Advancements in hydraulic fracturing and horizontal drilling technology make it commercially viable to recover natural gas and oil from shale rock formations deep below the earth's surface.

Without these advanced technologies, we would lose 45 percent of domestic natural gas production within 5 years.¹² But with them, the U.S. is expected to have plentiful supplies of affordable, low carbon emitting fuel for decades to come.¹³

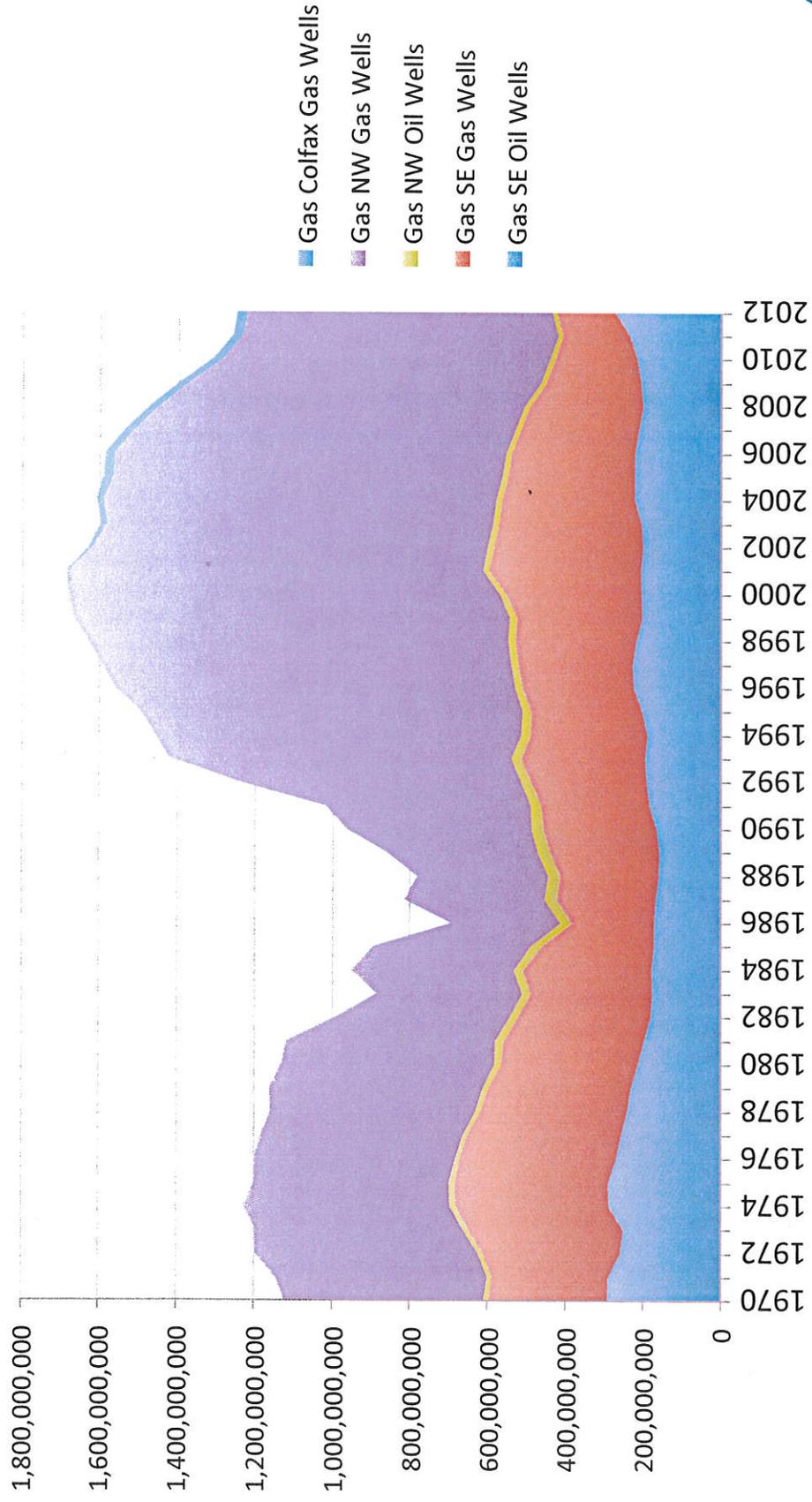
A report sponsored by America's Natural Gas Alliance (ANGA) estimates that increased shale development will add an additional \$926 of disposable household income annually between 2012 and 2015, and that the amount could increase to \$2,000 by 2035.¹⁴

12. IHS Global Insight, Measuring the Economic and Energy Impacts of Proposals to Regulate Hydraulic Fracturing, 2009.

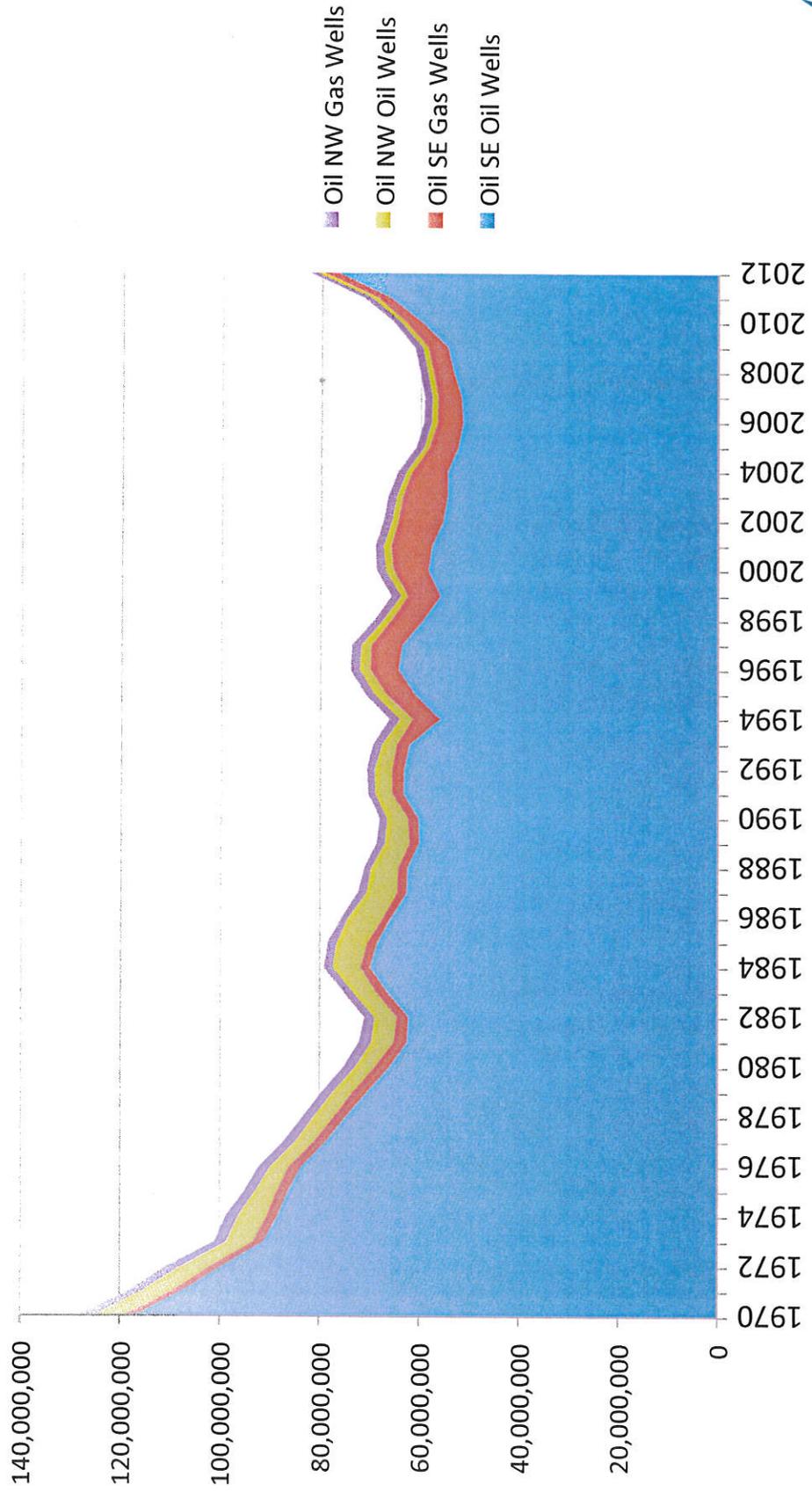
13. EIA, Annual Energy Outlook 2012 Early Release.

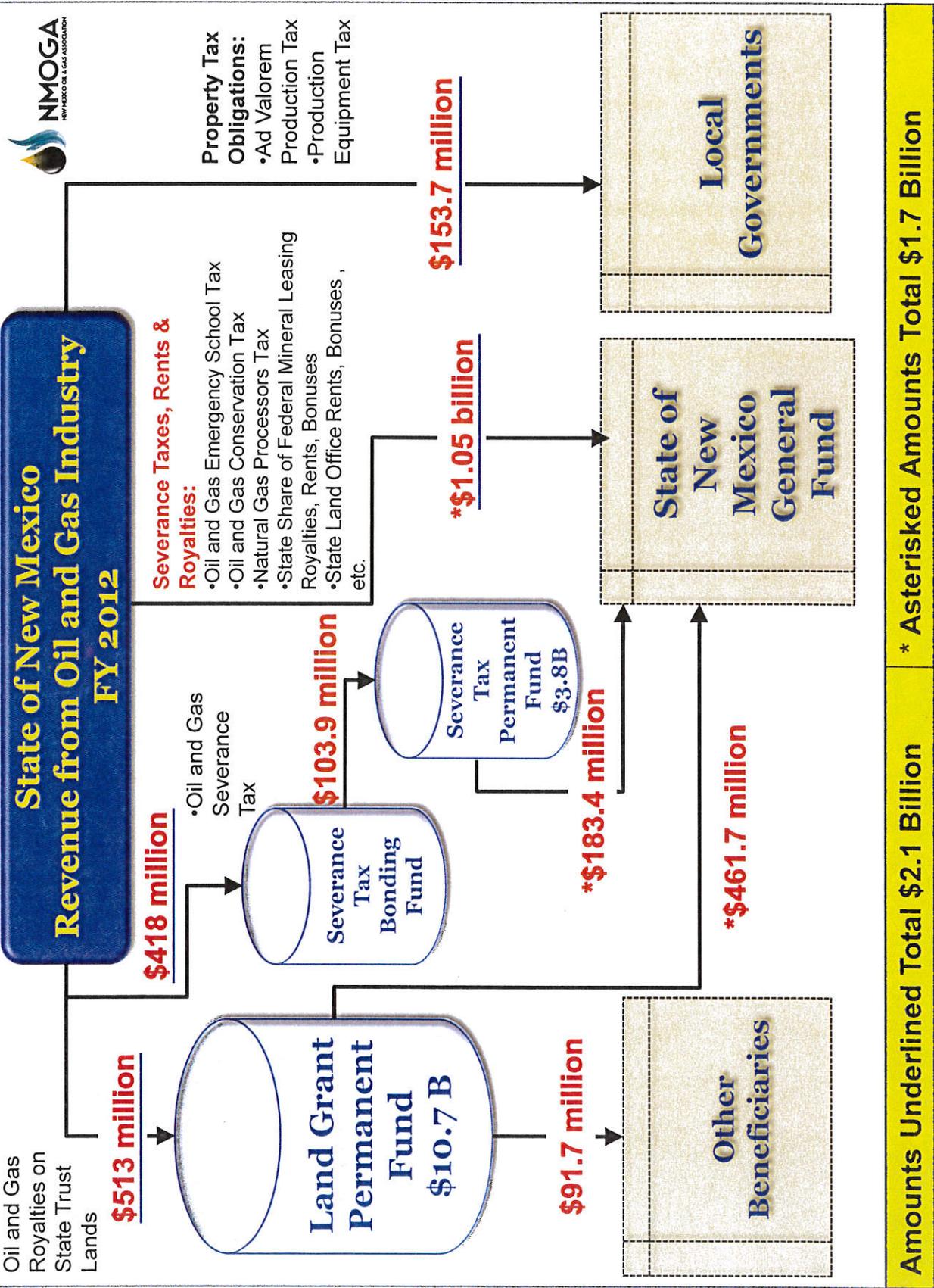
14. IHS Global Insight, "The Economic and Employment Contributions of Natural Gas in the United States," December 2011.

New Mexico Natural Gas Production (MCF)



New Mexico Oil Production (Barrels)

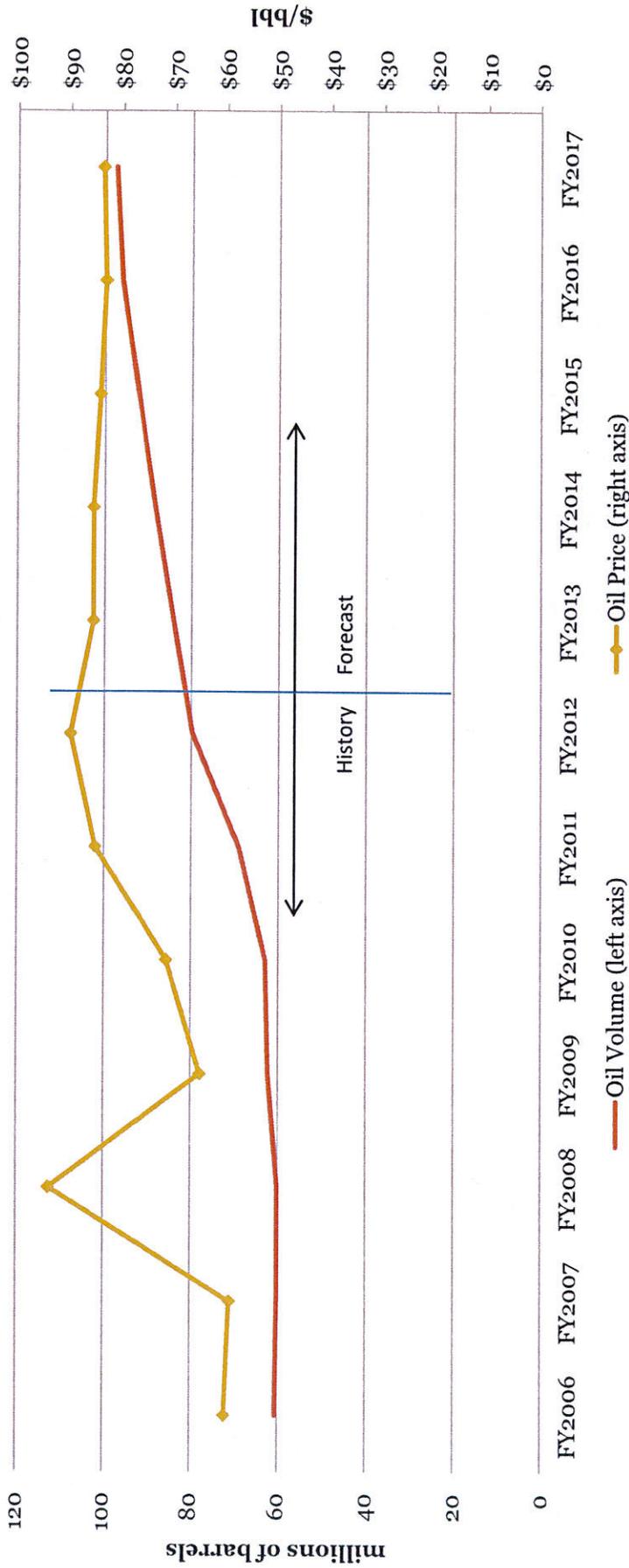




Energy Forecast

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NM Oil Volumes & Price



Source: ONGARD database / Consensus revenue estimating group

December 2012 Consensus forecast:

- Oil Price (bbl): \$84.75 FY14
- \$1/bbl: \$4.5 million for General Fund



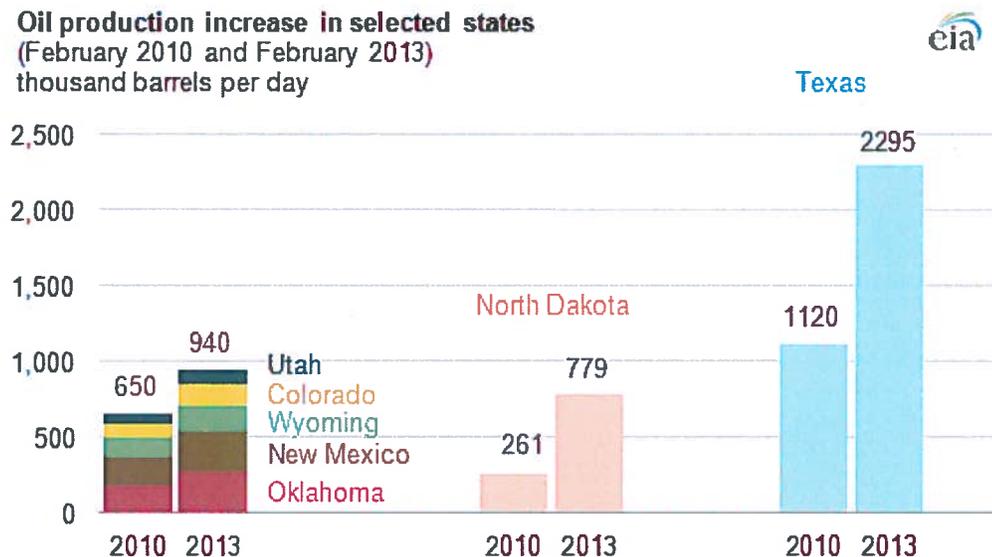
U.S. Energy Information
Administration

Today in Energy

May 21, 2013

A number of western states increased oil production since 2010

Oil production increase in selected states
(February 2010 and February 2013)
thousand barrels per day



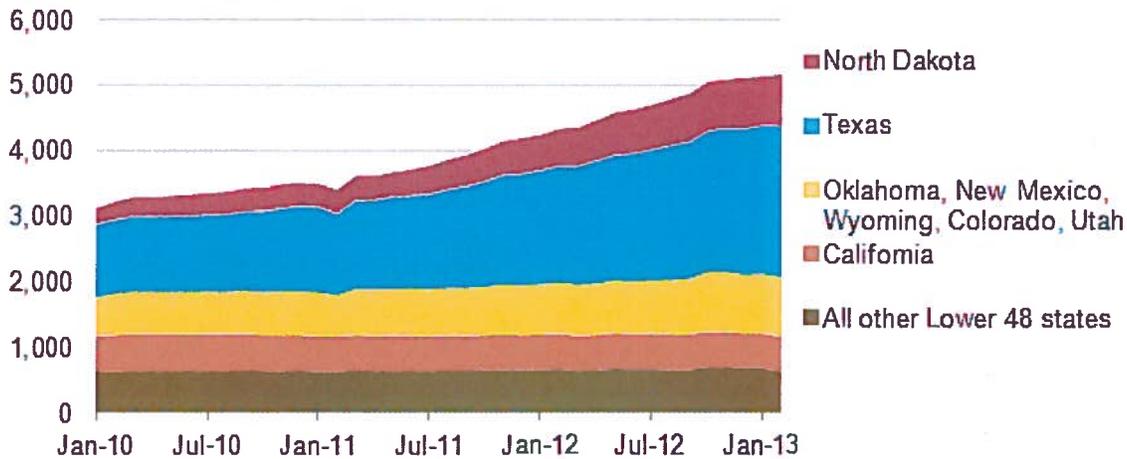
Source: U.S. Energy Information Administration, [Petroleum Supply Monthly](#).

Onshore oil production, including crude oil and lease condensate, rose more than 2 million barrels per day (bbl/d), or 64%, in the Lower 48 states from February 2010 to February 2013, according to recent estimates in EIA's [Petroleum Supply Monthly](#).

The production growth that began in 2010 has continued, and while Texas and [North Dakota](#) have received a lot of attention for their production increases (Texas more than doubled its production, while North Dakota's output nearly tripled), there are other states where increases are noteworthy. Five western states in particular—Oklahoma, New Mexico, Wyoming, Colorado, and Utah—account for 15% of the increase. Production in each of these states increased between 23% and 64% over the same three years.

Lower 48 onshore production (total U.S. Lower 48 production minus production from the federal Gulf of Mexico and federal Pacific) increased between February 2010 and February 2013, primarily because of a rise in productivity from [oil-bearing, low-permeability rocks](#). Although production increases in North Dakota's [Williston Basin](#) and Texas's [Eagle Ford](#) formation and [Permian Basin](#) outpaced other regions, gains in the other Lower 48 states add up to roughly 320,000 bbl/d of production over the past three years (290,000 bbl/d in the five states featured here).

Onshore crude production in Lower 48 states
 (January 2009 - February 2013)
 thousand barrels per day

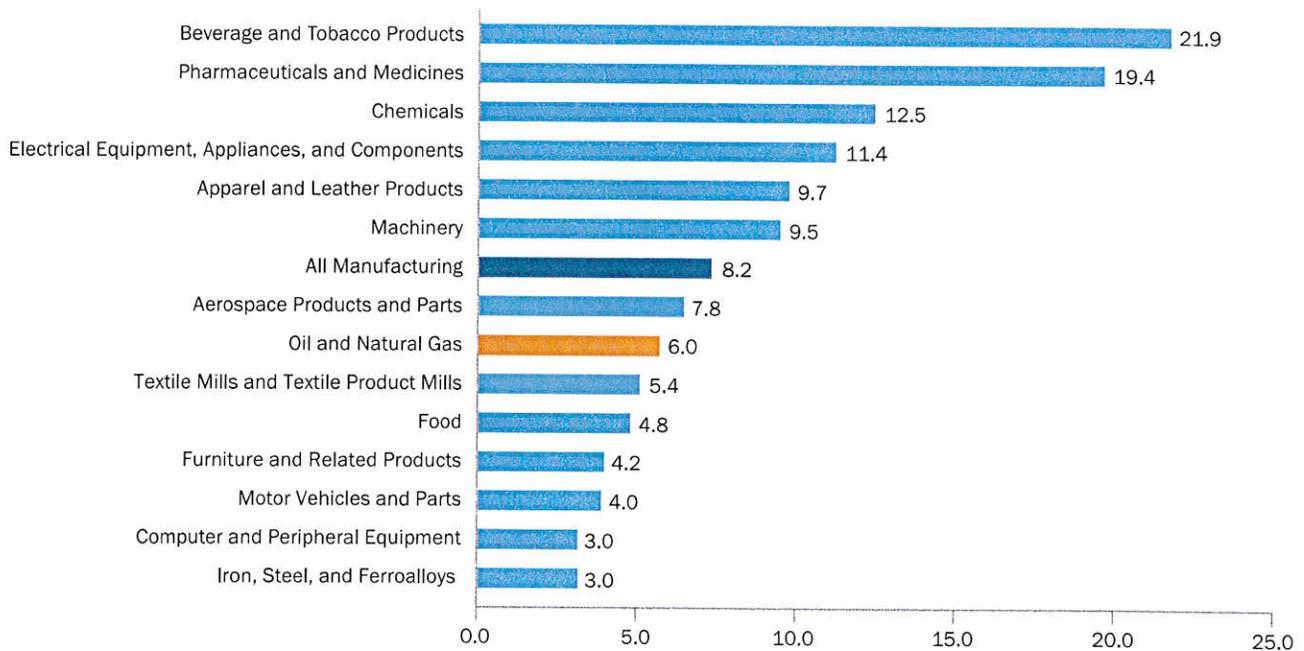


Source: U.S. Energy Information Administration, [Petroleum Supply Monthly](#).

Combined crude oil production in [Oklahoma](#) and [New Mexico](#) averaged more than 530,000 bbl/d in February 2013, about the same as California's February production. California is the fourth largest producing state after Texas, North Dakota, and Alaska. Oklahoma and New Mexico's gains in production, up 51% and 46%, respectively, compared with February 2010, are primarily from the [Anadarko](#) and [Permian](#) Basins. [Wyoming](#) and [Colorado's](#) production increased 23% and 64%, respectively; their top producing regions include the Powder River, Greater Green River, and Denver basins. [Utah's](#) production increased 45%, in part because of production from the recently discovered Covenant Field within the central Utah thrust belt, and ongoing production from the Uinta and Paradox basins.

In all of these states, increasing production was achieved by [applying horizontal drilling and hydraulic fracturing](#) to low-permeability rocks. In many fields (in basins such as the Permian, Uinta, and Powder River) enhanced oil recovery techniques such as CO₂ injection are also boosting production from conventional reservoirs.

Third Quarter 2012 Earnings by Industry (cents of net income per dollar of sales)



Sources: Based on company filings with the federal government as reported by U.S. Census Bureau and Standard & Poor's Research Insight.

It may seem surprising that oil and natural gas earnings are typically in line with the average of other major U.S. manufacturing industries.

This fact is not well understood, however, in part because reports usually focus on only half the story – the profits that are earned. Profits reflect the size of an industry, but they're not necessarily a good reflection of financial performance.

Profit margins, or earnings per dollar of sales (measured as net income divided by sales), provide one useful way to compare financial performance among industries of all sizes.

The latest published data for the third quarter of 2012 shows the oil and natural gas industry earned 6 cents for every dollar of sales in comparison with all manufacturing, which earned 8.2 cents for every dollar of sales.

Barriers to Development

- **Regulatory – Carol Leach, Concho Resources**
A Need for a Stable Regulatory Environment
- **Legislative – Kent Cravens, NMOGA**
Send out the Right Signals
- **Access to Resources – Kent Cravens, NMOGA**
Continued Industry Growth in Frontier Areas