

OCD Waste Rule Update

NEW MEXICO OIL CONSERVATION DIVISION (OCD) OF THE ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

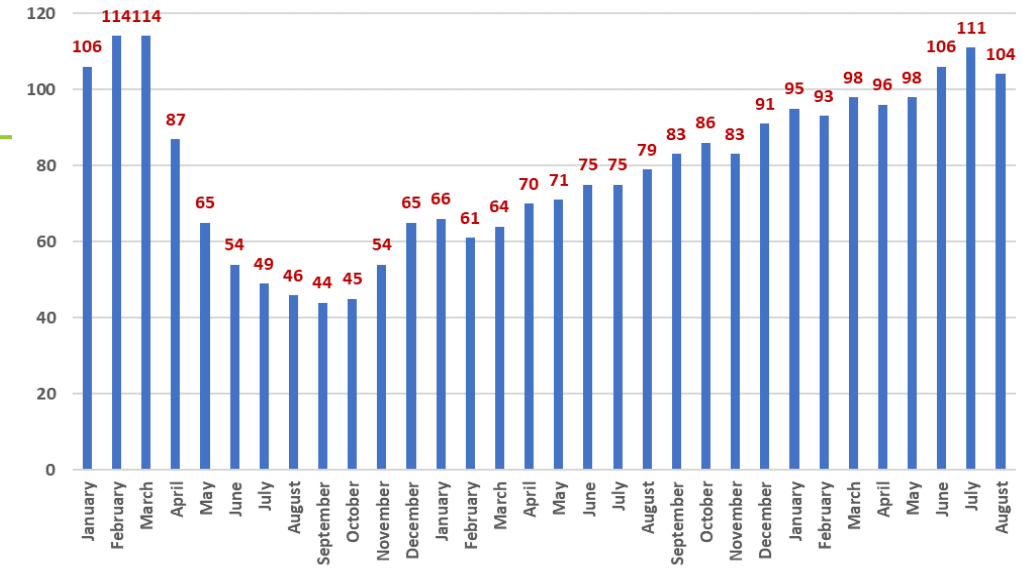
SARAH COTTRELL PROPST, ENERGY MINERALS AND NATURAL RESOURCES DEPARTMENT SECRETARY



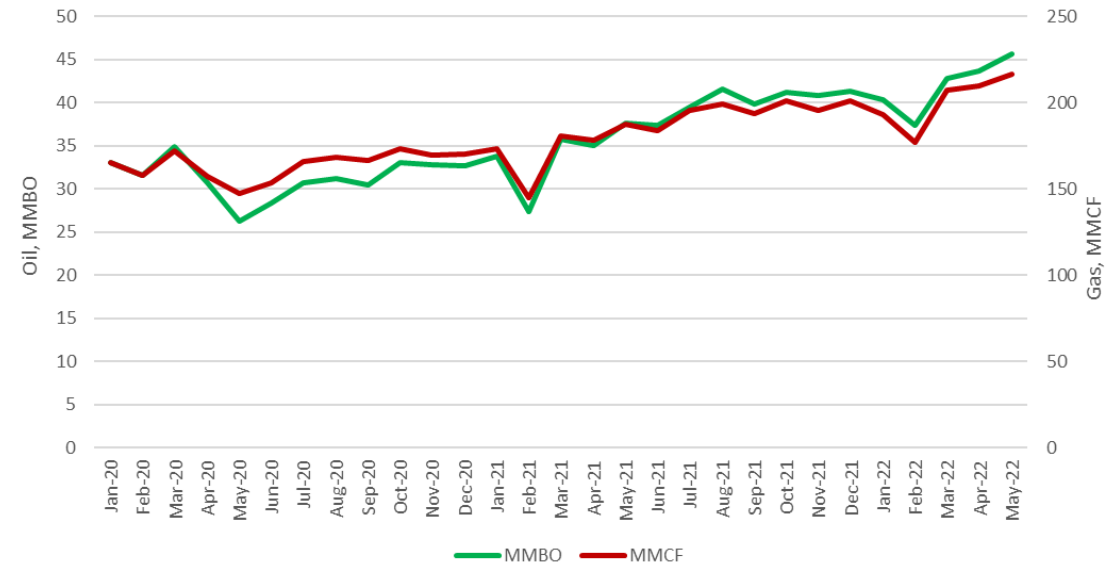
New Mexico at a Glance

- Fifth largest state by area in the country
- Incredible biodiversity – New Mexico has forests, high desert, wetlands, mountains, canyons, and riparian areas
- Home to 23 Pueblos and Tribal Nations
- Oil and Gas Stats:
 - #2 onshore oil producer
 - Record production month for the State in May
 - Approximately 60,000 wells
 - Approximately 10,000+ associated facilities
 - Around 600 operators

2020-2022 New Mexico Monthly Drilling Rig Count



New Mexico Oil and Gas Production

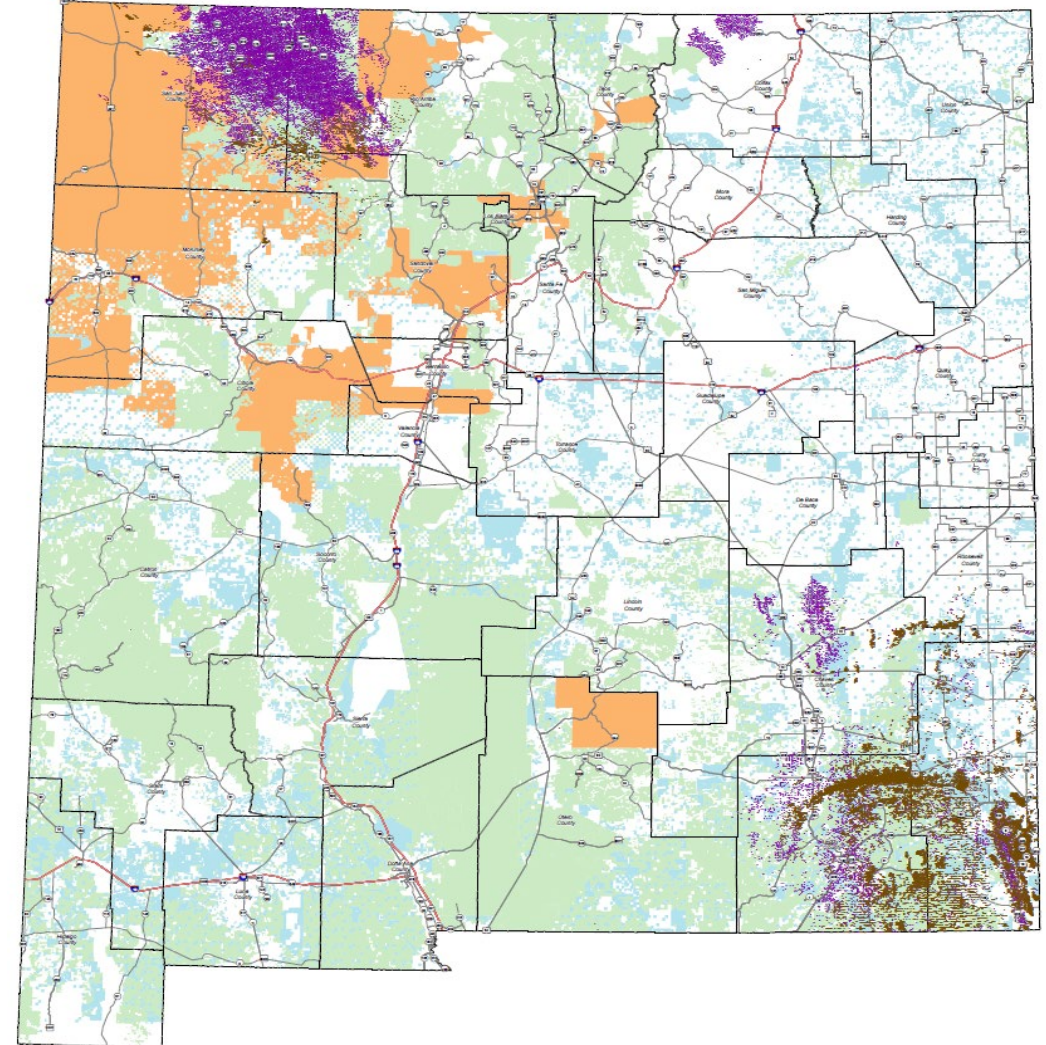
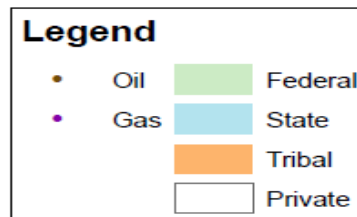


New Mexico Land Types and Jurisdiction

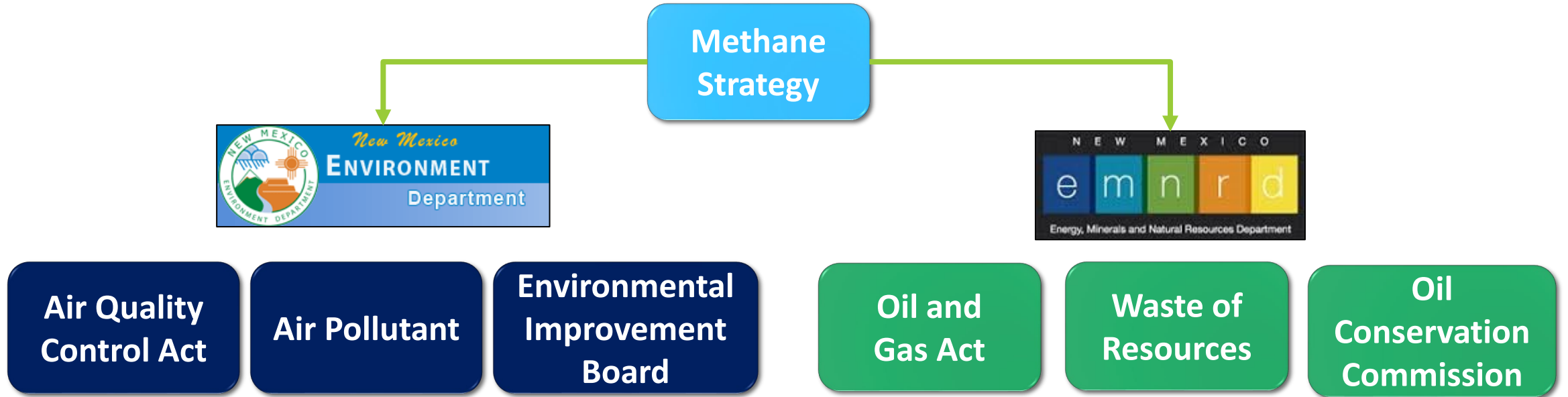
Active Oil and Gas Wells Shown on Land by Jurisdiction Type

Mineral Ownership				
	State	Private	Federal	Tribal
Oil	32.4%	16.1%	49.0%	2.4%
Gas	13.1%	15.4%	63.9%	7.6%

Surface Ownership				
	State	Private	Federal	Tribal
Oil	27.87%	31.19%	37.80%	3.13%
Gas	11.51%	24.69%	53.68%	3.13%



NMED & EMNRD Methane Strategy



New Mexico's Methane Strategy

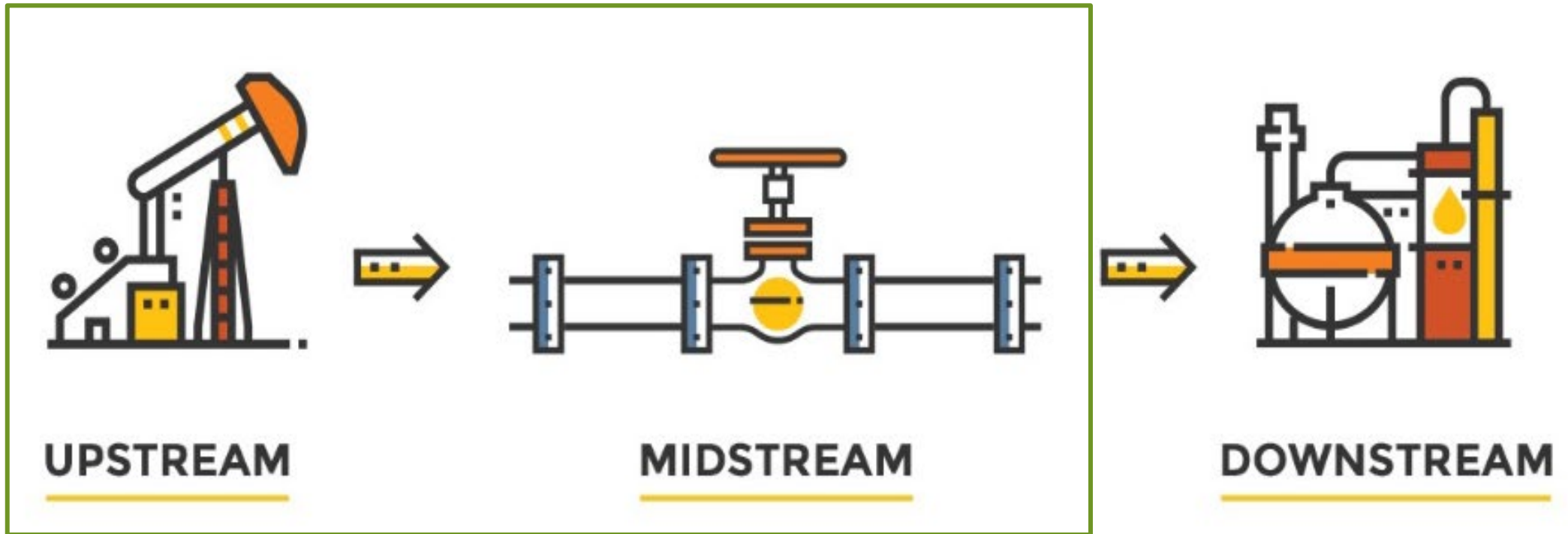


Goals of Oil and Natural Gas Methane Rules:

- Achieve measurable, durable reductions
- Create regulatory certainty
- Promote technology innovation
- Ensure compliance mechanisms



Developing New Mexico's Methane Strategy



Source: Energy HQ

EMNRD Statutory Objectives

- The New Mexico Energy, Minerals and Natural Resources Department will regulate to prevent the waste of methane from oil and natural operations.
- The Oil and Gas Act provides the legal authority.
- Proposed rules are reviewed and adopted through the Oil Conservation Commission.

Methane

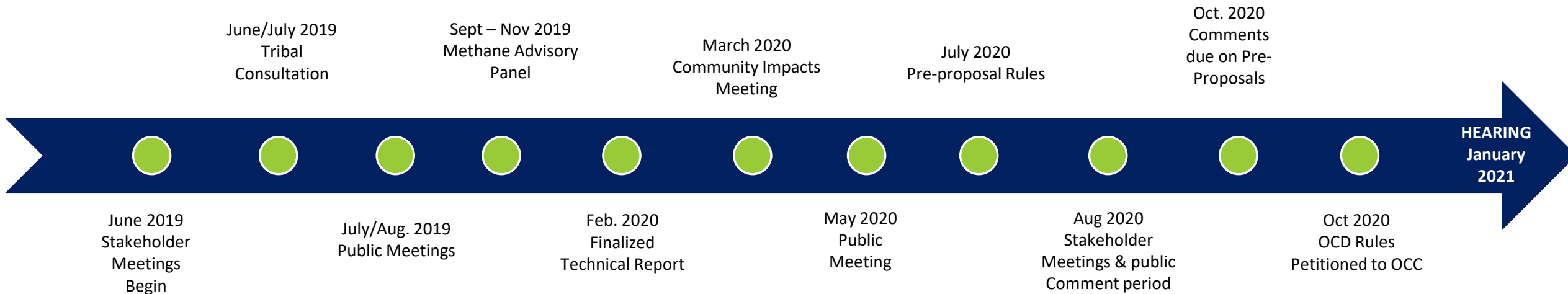


**Oil and
Gas Act**

**Waste of
Resources**

**Oil
Conservation
Commission**

Pre-Hearing Stakeholder Engagement Timeline



Highlights:

- Robust stakeholder engagement through 2 years including:
 - Methane Advisory Panel
 - Public and Stakeholder meetings throughout draft process
 - Extended stakeholder comment period
- Highly integrated agency interaction to produce complementary draft rules

Rule Summary

- Phase 1 – initiates a robust natural gas loss reporting program. Collecting accurate data is critical to establishing meaningful baselines to ensure progress towards establishing enforceable goals to reduce natural gas waste.
- Phase 2 – begins in 2022 and establishes enforceable targets for operators to reduce natural gas waste starting from the level of natural gas waste identified in Phase 1. This phase requires operators to reduce their waste by a fixed amount each year to achieve a gas capture rate of 98% by 12/31/2026. The rule also prohibits routine venting and flaring and regulates upstream (production wells and facilities) and midstream (gas gathering pipelines and boosting facilities) sectors – a unique feature in New Mexico’s rule.

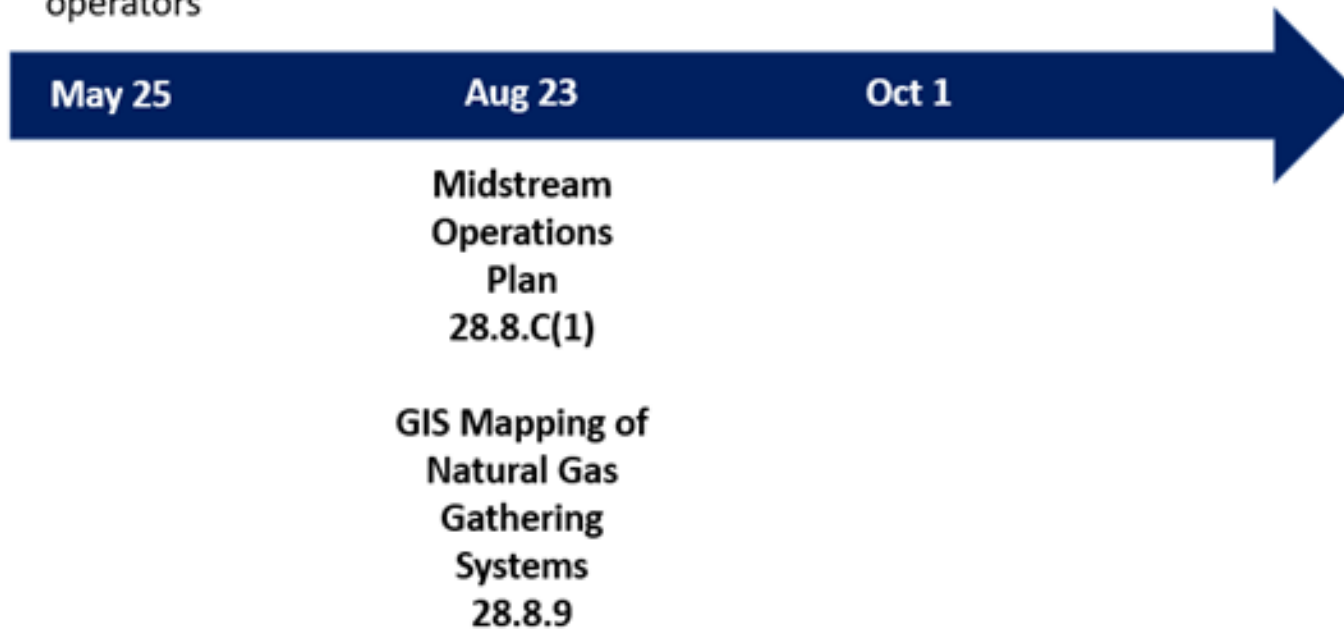
State Regulation Comparison				
Here's how New Mexico's new rules stack up against other similar oil-producing states				
Rule Specification	New Mexico	North Dakota	Colorado	Oklahoma
Gas capture percentage	98%	91%	No capture percentage, requirements tracked differently in these states	
Regulations for gas gathering pipelines and midstream operations	Yes	No	No	No
Curtailing of production for not meeting targets	Yes	No	No	No
Prohibits routine flaring	Yes	No	Yes	No

Rule Implementation Timelines – 2021*

Waste Rule in Effect:

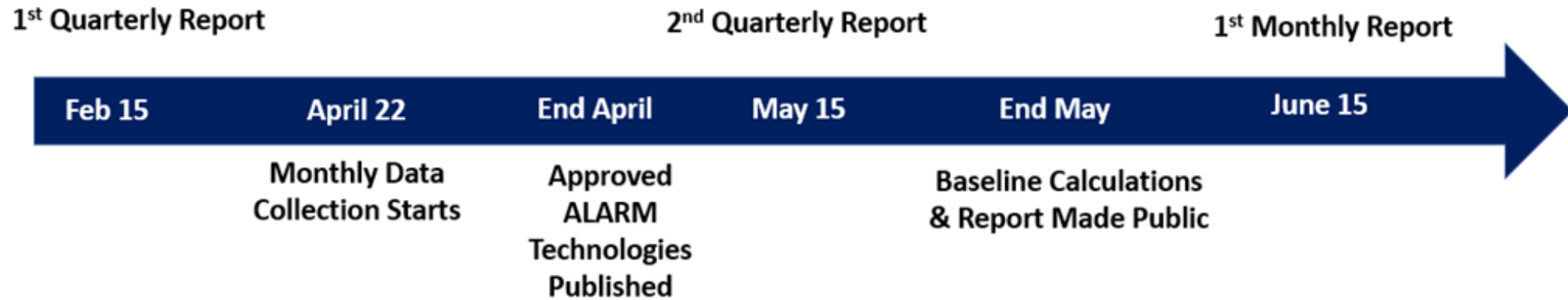
- Natural Gas Management Plans
- C-129
- Midstream reports to affected upstream operators

Quarterly Reporting Data Collection Begins



*Note stakeholder engagement reviews, feedback windows and test environments not noted for simplicity

Rule Implementation Timelines – 2022*



*Note stakeholder engagement reviews, feedback windows and test environments not noted for simplicity

First and Second Quarterly Report Snapshot

- First quarterly report was due on February 15th
 - February 18th :
 - 408 non reporters – these operators were sent a first compliance warning.
 - The operators who had reported accounted for 95.3% of the produced natural gas and 72% of the wells in the state
 - March 10th :
 - 250 non reporters– these operators were sent a second compliance warning and 5 operators were sent Notices of Violation with associated civil penalties.
 - The operators who have reported account for 98.6% of the produced natural gas and 88% of the wells in the state
- As of 5/31
 - Part 27 : 158 non reporters
 - Part 28 : Fully reported
- Second Quarterly Report was due on May 16th:
 - 260 non reporters – these operators were sent a first compliance warning.
 - The operators who had reported accounted for 98% of the produced natural gas and 85% of the wells in the state

June Press Release

- On June 9th OCD issued a press release to provide an update on waste rule compliance
 - IT dashboard was released on OCD e-permitting under "waste rule reports"
 - 154 non reporters – these operators were sent a second compliance warning
 - 74 Operators with > 100% Gas Capture – these operators were sent a warning letter
 - 5 Operators who did not report in both Q1 and Q2 were sent NOV
 - 4 Operators who did not report in Q2 were sent NOV
 - 10 Operators who have data integrity issues and/or reporting delinquencies were sent request for 3rd party audit
 - **The operators who have reported account for 98.9% of the produced natural gas and 90.9% of the wells in the state**

Current Report Stats

<i>Number of Active Wells</i>	
North NM	23,359
South NM	36,777
All NM	60,136

Venting & Flaring (MCF)							
Reporting Period	Capture Percentage	Gas Produced	Gas Sold	Beneficial Use	Volumetric Loss	Wells	Facilities
01/2022-03/2022	98.8	591,057,155	567,109,113	16,193,494	7,087,838	57,708	5,804
Apr-22	99.09	213,981,440	206,589,097	5,428,239	1,955,697	56,093	5,547
May-22	99.22	220,481,267	212,934,225	5,387,638	1,710,530	55,530	5,577
Jun-22	99.24	200,701,361	194,392,132	4,549,184	1,529,774	53,430	5,582
2022 Total:	99.09	1,226,221,223	1,181,024,567	31,558,555	12,283,839		
10/2021-12/2021	98.7	613,966,461	584,799,184	27,556,402	8,010,040	57,925	5,583
2021 4th Qtr Total:	98.7	613,966,461	584,799,184	27,556,402	8,010,040	57,925	5,583

Next Steps

- OCD continues to work to increase operator reporting and data cleanup of operator IDs and contact information
- OCD continues to analyze reported data for anomalies, reporting errors, etc
- Continue reviewing ALARM technologies
- Continue audit process
 - 1st step: Scope of audit is set (operators can request a hearing)
 - 2nd step: Operators select 3rd party auditor and submit name for OCD approval
 - 3rd step: OCD reviews/approves auditor
 - 4th step: Audit undertaken
 - 5th step: OCD reviews audit report and makes recommendations

Waste Rule Resources

- Rule Link
 - Part 27: Production <https://www.srca.nm.gov/parts/title19/19.015.0027.html>
 - Part 28: Midstream <https://www.srca.nm.gov/parts/title19/19.015.0028.html>
- Key Notices and FAQs can be found on the OCD Waste Rule Page
 - <https://www.emnrd.nm.gov/oed/methane-waste-rule/>
- Email address for additional follow up and questions regarding the rules
 - EMNRD.WasteRule@state.nm.us
- For compliance concerns
 - OCD.Enviro@state.nm.us
- Waste Rule at a Glance
 - <https://www.emnrd.nm.gov/oed/wp-content/uploads/sites/6/WasteRuleAtaGlance-2.pdf>
- OCD GIS Page
 - <https://oed-hub-nm-emnrd.hub.arcgis.com/>