

LFC Requester:	Ismael Torres
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**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

AgencyAnalysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:
Original **Amendment**
Correction **Substitute** X

Date _____
Bill No: HB 133s

Sponsor: Reps. Kristina Ortez & Matthew McQueen
Short Title: OIL & GAS ACT CHANGES

Agency Name and Code 539 – State Land Office
Number: _____
Person Writing Sunalei Stewart
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
None	None		

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	No Fiscal Impact	No Fiscal Impact	No Fiscal Impact			

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Energy, Environment and Natural Resources Committee Substitute

The HEENRC substitute would make various changes to the Oil and Gas Act.

OCD Regulation of Transfer of Wells Under Certain Circumstances

The bill would authorize the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Division to make rules and orders regarding the transfer of oil and gas wells under certain circumstances, including where:

- the transferee has a significant history of noncompliance with the Oil and Gas Act;
- the transferee has not provided the required financial assurance;
- the transferee lacks sufficient financial capacity “based on known or projected production to manage liabilities associated with the oil and gas wells”;
- the OCD issues a written finding that the limitations on transfer are necessary for the purposes of mitigating risk to the state from potential inactive or abandoned oil and gas wells;
- the OCD is authorizing conversion of an oil and gas well to a facility that supports energy storage or geothermal development, including establishing fees and financial assurance requirements specific to an energy storage or geothermal use.

Increase in the Maximum for Blanket Bonds Ensuring Proper Plugging and Abandonment of Wells

Where the operator of multiple oil and gas or service wells seeks to provide financial assurance for proper plugging and abandonment on a blanket basis covering all of the wells instead of on a one-well basis, the maximum amount that the OCD has authority to require would be increased from \$250,000 to \$10 million, the amounts to be tiered to reflect operator size and relative risk.

The substitute would also add language allowing financial assurance in the form of a well plugging risk pool fee. The OCD would be authorized to assess a non-refundable monthly well plugging risk pool fee on a per well basis on a subset of an operator's wells not to exceed five

hundred dollars (\$500) per well to offset bonding obligations. OCD would deposit the well plugging risk pool fee in the oil and gas reclamation fund.

Increase in Penalties

The maximum penalty that a court, the OCD or the Oil Conservation Commission (OCC or Commission) may impose on a person for violating the Oil and Gas Act would be increased from \$2,500/day to \$10,000/day for each day of noncompliance for each violation and, where the violation presents a risk either to the health or safety of the public or of causing significant environmental harm, or the noncompliance continues beyond a time specified in a notice of violation or order, the maximum would be increased from \$10,000/day to \$25,000/day for each day of noncompliance for each violation. An existing \$200,000 maximum for such penalties would be repealed.

OCD Application Fee Increases

OCD application fees would be increased, and the OCD would have authority to further increase the fees to account for inflation, in accordance with the consumer price index, effective January 1, 2027.

Gas Capture Requirements

Beginning January 1, 2027, the operator of an oil or gas well or associated facilities or a natural gas gathering system would be required to ensure that at least 98% of the natural gas produced or gathered by the operator's facilities is captured in a calendar year; provided that natural gas released during an emergency or that is beneficially used by the operator or is essential for drilling, completion, recompletion, gas gathering or production operations does not count as gas released for the purpose of determining an operator's overall capture percentage. The OCD would be authorized to promulgate rules to implement the requirement, and all applications for a permit to drill would be subject to the rules.

FISCAL IMPLICATIONS

To the extent that the HEENRC substitute would result in more responsible oil and gas operations in the state, including on state trust lands, the legislation would have a positive impact on State Land Office operational costs related to addressing spills, plugging sites and other compliance issues.

SIGNIFICANT ISSUES

A large portion of State Land Office revenue comes from oil and gas leases and royalties paid as a percentage of oil and gas produced or proceeds from the sale of oil and gas under those leases. At the same time, oil and gas exploration and production on or near state trust lands, when not performed responsibly and in accordance with best practices, has the potential to contaminate state trust lands, water, and other resources, and harm individuals, wildlife, and nearby communities.

The State Land Office supports efforts to strengthen penalties for non-compliant oil and gas operations, to bring bonding requirements closer to actual plugging costs, and to empower the Oil Conservation Division with the authority to better protect public health, safety and the

environment. The bill's efforts are largely consistent with the State Land Office's own recent initiatives focusing on the environmental and health impacts related to oil and gas operations, such as prohibiting new oil and gas leases within one mile of schools, the creation of a new Environmental Compliance Office and the Oil and Gas Accountability and Enforcement Program, which has resulted in the plugging of over 400 inactive oil and gas wells at the expense of responsible private parties rather than taxpayers, and the cleanup of legacy spills on state land that had been ignored for many years.

For that reason, the State Land Office supports many of the bill's provisions that will improve industry accountability, such as the additional authority to regulate transfers of wells to non-compliant companies, higher financial assurance thresholds (especially for blanket bonds which can cover hundreds or even thousands of wells), and higher civil penalty ceilings.

The bill would promote public and environmental health by codifying the 98% methane capture requirement that has been established through Oil Conservation Commission rulemaking, ensuring that New Mexico's progress in reducing oil and gas-related emissions is anchored for the foreseeable future.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS