US Congressional Energy Forum – Thursday, July 29, 2021

Testimony – Eddy County, NM – Commissioner Jon Henry

Outline: The importance of the energy industry to Eddy County and the challenges it faces

- Importance and impacts of the energy industry in Eddy County, New Mexico
- Importance and impacts of the energy industry in the State of New Mexico
- Importance and impacts of the energy industry in southeast New Mexico on the US
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Importance and impacts of the energy industry in Eddy County, New Mexico

Eddy County is situated in southeast corner New Mexico, and the northwest portion of one of the most prolific oil and gas basins in the world, the Permian Basin. Specifically, the Delaware portion of the Permian basin is situated beneath the southern portion of the County, and extends across the state line into Texas. Over the past several years, the Delaware basin has been the focal point of a significant development effort for the tight shale assets located beneath the surface. The pace of that activity in 2018 and 2019 was unprecedented in Eddy County. The effects of the pandemic on oil demand and available supplies resulted in a downturn in that activity. However, the assets remain and the companies developing those assets continue their focus and attention on developing these world class assets.

During 2018, with oil prices near $70 per barrel for WTI, Permian Basin rig counts, a barometer for development activity, hovered around 480 rigs, while the rig count in New Mexico ranged from 110 - 115 rigs, predominantly in Eddy and Lea County. Today, with WTI prices again near $70 per barrel, the rig count in New Mexico has been steady at 75 rigs for the past six weeks, with the rig count across the Permian Basin increasing week over week to the current count of 242 rigs running. While the rig count remains moderate compared to prior years, completion activity of drilled, uncompleted wells (DUC's) has continued. This activity has resulted in a return in oil and gas production levels to near pre-pandemic levels in southeast New Mexico.

The energy industry activity associated with the development has helped diversify and benefit the economy in Eddy County by providing quality jobs for workers across a spectrum of skill sets. The County has a workforce base of approximately 34,000 workers. Pre-pandemic, there were an additional 15,000 – 20,000 temporary workers in the County working in the industry. Whether working directly for oil and gas operating companies or being employed by one of the many tier one and tier two support industries associated with the energy industry, there was a robust job market across the County and its communities. Prior to the pandemic, Eddy County boasted one of the lowest unemployment rates in the State at 2.9% (May 2019).

The direct tangible benefit to the County comes through gross receipt taxes (GRT) and property taxes associated with the industry and their employees. Prior to the pandemic quarterly GRT receipts had grown from $8 million to $15 million per quarter. In addition, the County receives oil and gas severance production taxes (disbursed by the State to the County) derived from the products produced in the County. The majority portion of those severance production taxes go directly to the schools here in our County.

Importance and impacts of the energy industry in the State of New Mexico

The State of New Mexico has been the benefactor of billions of dollars in State revenue from the oil and gas industry, predominantly extracted from southeast New Mexico in Eddy and Lea Counties. Year on year, the energy industry supports 35 – 40% of the State's annual budget. That's between $3 and $4 billion on a $7 billion budget. For schools alone, the industry provided $1.2 billion last fiscal year that went directly to schools in the State from production severance tax receipts.

A study, commissioned by Eddy County from New Mexico State University's Arrowhead Center, using data from the State's Tax and Revenue Division figures determined, on a per capita basis for the period 2015 – 2019, that state revenue sources from Eddy County contributes five times more net dollars (revenue contributions less estimated state expenditures per capita) than any other County in the State and Lea County was number two.

Challenges for the energy industry in Eddy County and potential consequences

The State laments the cyclical nature of a commodity driven business on their revenue streams, but the business engine of the energy industry has been and continues to be robust. Yet actions promoted and supported by many State legislators toward the energy industry suggest a lack of understanding, or a disregard for the importance and vitality of this business not just to Eddy County's economy and well being but to the State's GDP.

Those legislative actions are associated with more stringent regulation of operations, regulations that could dictate what operations may or may not be permissible (fracture stimulation), increased reporting, and permitting limitations. These actions have created uncertainty within the industry in southeast New Mexico which has resulted in reduced investments (compared to prior years) for the energy assets in Eddy County. The consequence of that reduced investment has been a reduction in drilling, completion and construction activities. The drop in investment and subsequent activity has resulted in temporary workforce noted earlier leaving. The GRT receipts received in the County have dropped by 45% to pre – 2018 levels. The current unemployment rate is 7.4% and the average weekly wages tracked by the State Economic Development Department as decreased approximately 27% from pre-pandemic rates.

Challenges for the energy industry in State of New Mexico and potential consequences

The State of New Mexico, through comments and actions demonstrated by State leaders and legislators have given the energy industry a reason to pause in their investment and development strategies. As previously mentioned, the Permian Basin, and the important Delaware portion of that basin exist in Eddy (and Lea) County New Mexico and then extend south across the State line into Texas. In Eddy County, 60% of the land is Federally owned and controlled and 20% is State owned and controlled. Across the State line, nearly all of the land in the basin is privately owned property.

As viewed by Eddy County leaders, promoted and supported actions by State leaders and legislators have sent a message that New Mexico isn't an oil and gas energy friendly business environment. While on the other hand, promoted and supported actions by Texas State leaders and legislators have been quite the opposite. Texas is open for oil and gas energy business, their actions are pro-business, and the rate of increase in rig counts, a barometer of activity and investment, across the state line in Texas is substantially higher than that in New Mexico. As previously noted, the rig count in New Mexico has been constant for the past six weeks.

The consequence of these actions will surely result in fewer quality jobs in southeast New Mexico, diminished oil and gas revenues from production severance, a reduction in GRT's and more business being conducted a few miles south, across the state line. That's fewer dollars for schools, public health and safety programs and potentially higher taxes for most to make up the revenue deficit that currently has no alternatives, despite the lament of State legislators.

Challenges for the energy industry in southeast NM and national level consequences

Oil and gas industry efforts related to the shale play in the Permian Basin, in particular, the Delaware Basin in the last several years have been one of the catalysts responsible for the United States of America becoming energy independent. An accomplishment that had been sought after for decades which many outside of industry never thought achievable. In 2019, the US became a net exporter of oil which was previously unthinkable. The innovation and investment of the oil and gas industry made that milestone possible. And development and production efforts in southeast New Mexico was one of the key drivers in that journey.

Now, with recent Executive Orders, national policy changes, shifting of directions by national agencies, threatened or perceived moratoriums and State driven constraints, combined with the introduction of risks and uncertainties by these multiple factors put that energy independence at risk. The campaigning for green and only renewable energy could easily be branded as false advertising. Those emotional and media campaigns lack specificity on how this miraculous change will occur. Those messages suggest only a binary outcome – hydrocarbon is out and renewables are in.

The programs contain no plans of how to develop required infrastructure, retail outlets or manufacturing facilities. Something that the oil and gas industry has developed over decades of investment, innovation and ingenuity. Those new programs require subsidies from somewhere (i.e. taxpayers) and the proponents have no desire to pay the same royalties and production taxes that the oil and gas industry currently pay. The science and physics are still very immature in the green and renewable arena and the investment requirements necessary to make the change are sorely lacking.

So, the emotional and media campaign has essentially demonized the hydrocarbon industry and essentially precluded them from any of the discussions about how to achieve their desired end state. The hydrocarbon industry has some of the most innovative minds specifically related to expressed concerns. The hydrocarbon industry has some of the most effective investment mechanisms available. The hydrocarbon industry has experience levels with the development and execution of major infrastructure systems that is nearly unparalleled.

So why would the Federal government impose the equivalent of trade restrictions on an industry that could contribute to realization of the end goal? Why wouldn't the Federal government invite such a well-equipped industry to the table for discussions to develop the strategy to resolve issues and implement the solutions? Why would the Federal government undermine the achieved energy independence? Why would the Federal government claim success in attaining climate objectives by shutting the domestic hydrocarbon industry down, relinquish the energy independence to become reliant on international supplies for energy while simultaneously exceeding their climate objectives by shifting the energy demand to countries that have far less rigor and compliance with their climate expectations? The net effect being less reliable, more expensive energy for the US consumer and tax payer, an increase in overall global emissions and climate related challenges, the loss of hundreds of thousands of quality jobs and billions of dollars in lost national and state tax revenues all by driving a mainstream industry into premature obsolescence because of an emotional media campaign. Give the oil and gas industry it's due. Get them at the table to drive the solutions forward while sustaining a key business engine the country and ill afford to lose at this or any point in the future.