Testimony of Mr. Mark Murphy
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Before the House Subcommittee on Energy and Mineral Resources
March 9, 2021

Thank you, Chairman Lowenthal and Ranking Member Stauber, for the invitation to appear today before the Subcommittee. I am Mark Murphy, President of Strata Production Company. Strata is headquartered here in Roswell, New Mexico. We are a small, independent, family-owned oil and gas producer with 16 employees. Strata operates in New Mexico counties that are predominately owned by the federal government. We lease some of these federal lands which are managed by the Bureau of Land Management (BLM). Strata currently holds nearly 40 federal leases comprising roughly 20,000 acres.

Upon reading the legislative bills you are considering today, I hope that if I am able to leave any impression in this limited time with you, it is that these bills will be devastating to New Mexico and our communities. Just like the recent actions taken by the Biden Administration banning oil and gas leases and permits in New Mexico, these bills are misguided and will create bigger problems than they could ever hope to resolve. Like the Biden ban, they too will be more effective at killing New Mexico jobs than they could ever offer to help our environment or climate.

I believe that the authors of these bills have good intentions, but they should not be uninformed of the very real consequences their proposals will have on the tens of thousands of workers in New Mexico. I hope through today's discussions that the Subcommittee will better understand the impacts these approaches will have, not just on New Mexicans, but on all Americans. Just with the Biden ban alone, it is estimated that more than a hundred thousand workers will lose their jobs in other natural gas and oil producing states such as Wyoming, Montana, North Dakota, South Dakota, Oklahoma, Mississippi, Colorado, Louisiana, Alaska and others. But the economic devastation resulting from the ban will not be limited to only the federal oil patches. Also negatively impacted are those American workers in the petroleum industry supply chain who provide critical raw materials, good and services, such as steel, sensors, downhole motors, electrical cable and computer processing, much of which come from businesses located in California Michigan, Minnesota, Wisconsin and Illinois.

It is also my intention to offer you the perspective of a small business owner, like thousands of other independent petroleum companies, Strata represents a strategic portion of our industry that is critical to our domestic energy supply. We are commonly known as independent oil and gas exploration and production companies. We don't trade our stock on Wall Street, we don't hire legions of lawyers and lobbyists to try to get an edge. We don't "stockpile" leases for speculation, nor do we "bank" drilling permits. Why? We can't afford to. We have limited capital and it is best utilized in making the next discovery that will ultimately be developed by the small, mid and large majors. We are sometimes called "wildcatters" because we have historically made the discoveries that the big guys didn't see, so they didn't try. Our segment of the industry is important, because we are the ones that make the new discoveries, and we are also the ones that maintain our domestic energy infrastructure when times get bad. We don't move our focus, capital and employees to some foreign country. No. We stay in our communities and raise our families, educate our children and every day we breathe the air we work and live in and drink the water from our streams, rivers and aquifers.

I am aware that my perspective is unique in comparison to the other witnesses on this panel. It appears that I am the only small business owner. I would even go so far as to say that I am the only one with employees having such a diverse educational and training backgrounds, from in-house accounting and regulatory compliance to highly technical geologists, geophysicists and engineers. About one-third of Strata's employees are highly skilled blue-collar workers who earn a mid to high six-figure annual income with employer provided health care, retirement and profit-sharing plans. At Strata, we rely on the many trade union workers who provide so many of the goods and services that we must have in order to continue to produce the revenues that go directly back into educating our children and keeping our health systems running. While I am the face of Strata, there are hundreds more New Mexicans that are the faces of their oil and gas production companies. While we look different and come from different backgrounds, we all are proud of our contributions to our state as oil and gas businesses.

Established in 1988, our operations on federal lands have been a good partnership with the BLM and we have many close friends who have worked for the BLM over the years. We have had issues from time to time, but overall, the state BLM and the district offices have worked cooperatively, as much as a regulatory agency can with a business. In total, the federal government gets substantial revenue, the BLM implements strict statutory and regulatory requirements, New Mexico gets compensated for not being able to control the land within its border, our citizens get important programs funded, our children get educated, our communities get police and fire services, and our at-risk residents get the services and aid they require. For businesses like Strata, we are proud that we produce a product that directly provides such important public services. All because of oil and gas production, a lot of which comes from federal lands.

I recognize that not all Committee members may be familiar with New Mexico's oil and gas production nor what a company like Strata does. Let me quickly outline those for you now. I apologize in advance to anyone who has this knowledge already, but maybe it will be a quick refresher for you too. Strata is categorized in the oil and gas business as an "upstream" company. In the oil and gas business, there are three sectors, "upstream", "mid-stream" and "down-stream". An easy way to think of the other two sectors are for midstream as the pipelines, trucks and transfers and downstream as the refineries. As an upstream company, Strata does its best to locate oil and gas deposits and explores that area with the goal of extracting those resources. Being the President of an upstream company, naturally, I see our operations as the riskiest of the three from a financial aspect. We front a lot of resources into the "idea" of finding energy. Going from that idea to actually getting a well drilled is a long arduous and expensive process. If we are wrong, then the investment is lost and there is nothing to put into the system for the mid-stream and down-stream businesses to work with. Nothing to be refined or processed into natural gas for household and commercial use or fuel for our cars, trucks and airplanes or plastics for PPE or helium to cool the magnets used in our MRI's or to produce the energy needed to build solar panels and wind turbines.

In New Mexico, with the federal ownership overlay, leasing is the first step in the "up-stream" process to develop oil and gas resources. In New Mexico, the BLM awards oil and gas leases for a term of 10 years and as long thereafter as there is production of oil and gas in paying quantities. If the leases result in producing oil or gas wells, revenue from royalties based on production is also shared with the state. Before development operations can begin, an operator, like Strata, must submit an application for permit to drill (APD) detailing development plans. The BLM reviews APDs, posts them for public review, and coordinates with state partners and stakeholders. Up until the Biden ban, the BLM's policy has historically promoted oil and gas development, so long as it met the guidelines and regulations set forth by the National Environmental Policy Act of 1969 and other laws and policies passed by the U.S. Congress.

Almost a quarter of U.S. oil production came from federal lands and waters in fiscal year 2019. Revenues from onshore oil and gas production on all federal lands directly fund the U.S. Treasury and those respective state budgets. This provides the means for states to support public education, infrastructure improvements, and other priorities. 48% of lease sale revenue goes to the state while the rest goes to the U.S. Treasury. The state also receives half of the revenue from royalties if oil and gas are developed on the lease. For New Mexico, about a third of the $2.8 billion from oil and gas in the state's general fund last year came from drilling operations on federal land. Prior to the pandemic, drillers across our state delivered a windfall to New Mexico in recent years as exploration companies migrated to the Permian Basin. That brought more drilling rigs, workers, restaurants and hotels to parts of New Mexico such as Eddy and Lea counties, and nearly tripled the state's oil output from January 2016 to March 2020, just before the pandemic.

As America has begun its climb out of the pandemic lockdown, the BLM New Mexico raised $4,076,273 in its quarterly oil and gas lease sale held Jan. 14, 2021. Nearly 50% of the revenue from that sale will go to our state - while the rest will go to the U.S. Treasury. For this sale, the BLM offered leases on 37 parcels totaling 6,850.72 acres. The highest bid per acre was $15,101, which sold for 80 acres in Lea County. The same parcel also received the highest bid per parcel with a total of $1,208,080. One of the more historic lease sales in September 2018 brought in almost $1,000,000,000, and we could now be on our way to a recovery that will once again achieve these astonishing sales numbers.

But this is now in jeopardy since the oil and gas ban put in place by the Biden Administration. No state is impacted more than New Mexico. It is only the tip of the iceberg of what is to come as the ban is made permanent or morphs into other policies and regulations like the bills before you today. New Mexico is losing 20% of its state budget. That is $1.5 billion lost that goes to schools, fire houses, police stations, community organizations, main street businesses, tribal businesses. 62,000 jobs lost. Blue collar jobs. Union jobs. Jobs that paid high wages with good benefits, that were held predominately by America's minorities, estimated to be more than 50%.

The impact on all state coffers will lead to spending cuts. In New Mexico, State Sen. George Muñoz, a Democrat who chairs the senate's finance committee, said while he supports Mr. Biden's environmental initiatives generally, he wished New Mexico had been given more time to prepare for the order's potential repercussions in an already tough time for his constituents. His office estimates New Mexico will take a hit of up to $400 million in revenue the next fiscal year, which begins in July, and up to a $500 million loss the following fiscal year. This is the reality we face as a result of unplanned actions.

In a report submitted to President Biden earlier this year, the US Department of Energy analyzed the effects of a hypothetical United States ban on high-volume hydraulic fracturing technology used with any new or existing onshore wells starting in 2021 through 2025. Such a ban, the report predicts, would result in the loss of millions of jobs, price spikes at the gas pump, and higher electricity costs for all Americans, which disproportionately affects lower income families. Notably, it would cause higher emissions since a reduction in natural gas consumption would result in greater use of sources emitting higher levels of greenhouse gases. As the report indicates, "natural gas [has] serve[d] as an important enabler for integrating low-carbon intermittent renewables like wind and solar." Emissions of CO2, NOx, and S02 would rise 16%, 17%, and 62% by 2025, respectively. With limited domestic opportunities, oil and gas companies would likely invest in oil and gas production in foreign countries, thus increasing global energy dependence on Russia and OPEC.

Specific to the five bills before you today, I offer the following general comments:

METHANE

In New Mexico, from 2011 – 2016, methane in the San Juan Basin has fallen by 47% and in the Permian Basin fallen by 6%, according to the EPA. In 2017, New Mexico state regulators reported a drop of more than 50% in methane vented or flared. In 2018, the EPA announced that emissions from oil and gas operations in New Mexico's Permian and San Juan basins dropped by another 6 percent between 2016 and 2017, with Total emissions fell by nearly 830,000 metric tons, according to the EPA's greenhouse gas reporting program. That lowered overall releases in both basins from a combined 13.78 metric tons in 2016 to 12.95 metric tons last year.

I encourage the Subcommittee to oppose any proposed Methane Rule or any attempt by government regulators to set emission standards given the vast technological improvements already developed and deployed by industry in the oil field. The evidence clearly indicates that oil and gas producers have achieved success in capturing more methane than ever before due to technological advances developed by industry. As the statistics above point out, overall methane emissions have fallen over the past 8 years while production has increased substantially during that same time period. Independent producers face disproportionate hardship under any methane regulatory action. The needed well upgrades (specifically for marginal wells) would cost more to retrofit than the production returns on the remaining life of the well. Therefore, a methane rule would effectively force still productive wells to shutdown prematurely, leaving oil and gas resources underground. This constitutes resource waste. It also would force the well into temporary abandonment and a mandatory shut-in within 15-months in New Mexico. Finally, for a government entity to be empowered with regulatory authority over methane represents a double standard. Government delays to approve operator permits already contributes to higher methane emissions. Independent producers face high costs because regulatory agencies (specifically federal) take nearly a year to approve infrastructure permits and/or rights of way permits to install retrofit equipment. Regulatory approval delays leave producers no choice to vent or flare while awaiting approvals. Producers have already pushed regulatory agencies to speed up the process, as industry has an economic incentive to capture and sell methane.

ROYALTY RATES

Rate increases would have a disproportionate impact on smaller producers and independents. I encourage the Subcommittee to look at specific royalty reductions for the depressed natural gas markets, and to stimulate further oil and gas growth for independent producers. Federal royalty rates are 12.5% on oil and gas production. However, given the significant time and monetary investment to procure a permit from the federal government (9+ months average), the overall costs to drill and develop a well on federal land in New Mexico is considerably higher than it is on State or fee leasehold. It will drive any number of the estimated 400 independent oil and gas producers in New Mexico out of business.

BONDING/FINANCIAL ASSURANCE

The federal government already applies a system of taxes, fees and bonds for wells on federal land. It is not clear the problem raising the fees is trying to fix. Concern here is the significant increase in bonding amounts that would disproportionally impact smaller, independent producers. Raising bond amounts does not solve the problem of orphaned wells does nothing to protect the federal interest against “bad actors” who are responsible for most of the delinquency cases where abandoned wells are left behind for BLM to plug, or shut in.

PENALTIES

I caution the Subcommittee on any efforts to grant the Secretary of the Interior any extra regulatory or administrative authority. Granting additional power to levy fines and penalties to producers represents an overreach, especially considering the already lengthy set of operational and environmental permits required operate. The oil and gas producers (the permit holders) must already adhere to a thorough set of regulatory state requirements that protect human health, fresh water sources and environment. Permits include, but aren’t necessarily limited to: the type of well drilled, construction and material used in the well, a surface well pad plan, a casing plan for groundwater protection, a completion plan which discloses all the information regarding the frack, an emergency response plan, transportation of oil or gas from a well pad site, a wastewater disposal or recycling water plan for produced water, air-emission permits, permits for co-mingling of extracted resources, endangered species protections and permits for rights-of-way to access the site, and rights-of-way to provide power to equipment at the well pad site.

The BLM can deny permits throughout the application and during oil production if violations are found, which essentially gives them leverage over whether an operator can produce. That leverage ensures that operators are following the rules, as producers need to operate to stay in business. If major violations occur, the BLM can revoke permits and can refer significant or repeated violations for potential prosecution.

In conclusion, the bills before you today will kill us in New Mexico. Like the rest of the nation, we have been doing our best to build out of the financial hole the global pandemic left for us since April 2020. We are still in the midst of a global pandemic, high unemployment rate, and most recently dealt another blow by the Biden Administration seeking to ban oil and gas production on federal lands. Small business’ like Strata have contributed to the American energy independence we have enjoyed these last years. We need to continue it, and oil and gas production on federal lands is strategically critical in this pursuit.

I am not in the renewable energy sector, but I say go ahead, build it up. But don’t tear down oil and gas production in order to force consumers to change their preferences. Rather, I encourage the Subcommittee and Congress to partner with our industry. Unfortunately, the legislation you have before you does not seek partnerships. It will kill jobs and tear down an industry without any suitable replacement ready to step in. America’s energy workers just want to work and earn money to support their families. America’s energy workers and small businesses do not need Washington declaring war on American energy. I encourage the Committee to not pursue these legislative proposals and rather, encourage you to come meet with us. Come to New Mexico and see our operations, talk with our employees and skilled workers. Visit our main streets and communities. Washington should not jeopardize the future of our country, the health of our children and security of our nation by trading away a known and reliable source for one based in speculation. The risk is too great.

Thank you and I welcome any questions Members of the Subcommittee may have.