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State Auditor

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OFFICE OF THE STATE AUDITOR

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Department of the Interior
Director (630)
Bureau of Land Management
Mail Stop 2134 LM,
1849 C St. NW.
Washington, DC 20240,
Attention: 1004–AE14

To Whom It May Concern:

The New Mexico Office of the State Auditor respectfully submits the following comments in response to the Proposed Rule, published on February 8, 2016, entitled "Waste Prevention, Production Subject to Royalties, and Resource Conservation," and more commonly known as the BLM Methane Rule. The proposed Rule aims to reduce the waste of natural gas that is currently lost during oil and gas production activities through flaring or venting of gas and equipment leaks. The Rule would affect federal and tribal lands, from which the State of New Mexico receives a share of royalties paid to the federal government.

The New Mexico Office of the State Auditor is committed to increasing transparency and accountability and reducing fraud, waste and abuse in government. Specifically, government waste occurs when taxpayers do not receive reasonable financial value in connection with government-funded activities. Financial waste goes beyond fraud and abuse to address mismanagement, inappropriate actions and inadequate oversight. From this perspective, we write to encourage adoption of the proposed Rule as a means of enhancing oversight that directly affects state funds.

The economy of New Mexico, especially New Mexico's governmental budget, is heavily dependent on the oil and gas industries. Revenue to the state from oil and gas exceeds revenue from personal income taxes and is second only to gross receipts (sales) tax. In 2014, New Mexico received $546.5 million in distributions from the federal government as the state's share of oil and gas royalties from production within New Mexico. Thus the proposed rule affects the financial affairs of nearly every state agency and school, as well as many other political subdivisions that our Office audits.

Taxpayers rely on regulations like the Rule to make sure that when private companies lease federal and tribal lands, the public gets its fair share of the revenue. The BLM Methane Rule would result in estimated additional annual revenue of $100 million per year from oil and gas production.[1] This could result in an additional $43 million in annual royalty revenue to New Mexico from the state's share of revenue from production on federal and tribal land. This is why 73% of New Mexicans support the BLM Methane Rule.[2]

The Office is keenly aware of the difficulties that New Mexican oil and gas producers, especially independent producers, are facing at the current time. And although these difficulties are caused primarily by market forces, some will say this is not the right time to burden the industry with more regulation that will require investment. However, the regulatory impact analysis suggests that small operators may see revenue decrease by just one-tenth of one percent, on average. From the state audit perspective, this is small relative to the bigger picture of costs and benefits from severing these valuable natural resources.

Equally important in a state that has struggled to diversify its economy, the need to find cost-effective ways to comply with the Rule will drive innovation. New Mexico will benefit from local jobs and increased spending in the methane mitigation field, similar to what has occurred in Colorado. The Office hopes this is an opportunity for the industry, government and universities to work together to create mutually beneficial solutions that boost New Mexico's economy by capturing the economic benefits of compliance efforts.

The current regulation essentially allows unchecked inefficiencies to decrease revenue to our state, to the detriment of New Mexicans who rely on oil and gas royalty revenue to fund education and many other basic services. For these reasons, the Office supports the proposed Rule. The Office of the State Auditor also supports further state level investigation to determine whether similar regulations would provide further economic benefit.

Thank you for the opportunity to provide comment.

Sincerely,

Timothy Keller

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[1] Report conducted by ICF, a business consulting firm.
[2] Poll conducted by Colorado College State of the Rockies Project.