Western Values Project

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Cutting natural gas waste is good for New Mexico's state budget

Every year, oil and gas companies vent and flare several hundred million dollars of natural gas from federal public lands, including $100 million in New Mexico alone. While "venting" refers to releasing gas directly into the atmosphere, "flaring" refers to burning gas off at the production site. Although most gas produced from federal lands is subject to a 12.5% royalty rate—about half of which is passed on to state governments—vented and flared gas is exempt from this charge. Neither the federal government, nor the states, receive compensation for this wasted resource.

Earlier this year, however, the Bureau of Land Management (BLM) proposed a rule to address waste from public lands drilling. Among other measures, the rule would require that operators on federal public lands modernize their equipment and adopt other best practices to reduce gas leaks, increase gas capture, and reduce venting and flaring. The rule would also require that companies pay royalties on vented and flared gas where venting and flaring are avoidable.

By imposing royalties on vented and flared gas, the rule would increase revenue to the federal government, but state governments would directly benefit too. As mentioned above, roughly half of oil and gas royalties collected on federal leases are passed on to state governments according to where the leases are located. Thus, states with large amounts of federal mineral estate, and large amounts of federal oil and gas production, stand to gain the most from the new rule.

New Mexico is certainly among these states. Nearly half of its mineral estate is federally-owned, and oil and gas revenue provides an indispensable share of its total annual income. In FY 2013, for example, oil and gas revenues contributed $1.8 billion to the state, comprising one-third of all revenue in its General Fund. And, of this amount, federal mineral royalties specifically contributed more than $400 million, almost one-quarter of total oil and gas revenues.

By the same token, because of low oil and gas prices, New Mexico is in desperate need of additional revenue. Experts contend that every dollar decrease in oil prices results in an annual loss of $10 to $15 million in funding for the state. By this metric, the drop in oil prices over fiscal year 2015—from $84/BBL to $46/BBL—cost the state between $380 and $570 million. Anticipating this shortfall, legislators just cut $200 million from the next state budget.

Every year between FY 2010 and FY 2014, companies vented and flared an average of 29 to 35 million MCF of natural gas on federal public lands in New Mexico. If this gas had been captured or subject to royalty payments, the state would have received an additional $6.7 to $8.1 million in annual revenue.

If adopted, the proposed BLM rule would help make up for this shortfall. Using estimates from the EPA and the Western Regional Air Partnership, we found that, every year between FY 2010 and FY 2014, companies vented and flared an average of 29 to 35 million MCF of natural gas on federal public lands in New Mexico. If this gas had been captured or subject to royalty payments, the state would have received an additional $6.7 to $8.1 million in annual revenue.

It's also possible to see where this additional revenue would have gone, since federal mineral royalties are earmarked for state education programs in New Mexico. By state law, federal mineral revenues are first used for the "Free Textbook Appropriation," which provides free textbooks, software, and other materials to students attending public schools. Then, most of the remaining revenue, and the bulk of federal mineral royalties, are distributed to the Public School Fund, which is used to fund the eighty-nine school districts in the state.

Lost State Revenue from Venting and Flaring on Federal Lands in New Mexico			
Fiscal Year	**Volume of Gas Vented, Flared from Federal Lands in NM (Million MCF)**	**Total Value of Vented, Flared Gas (Millions of Dollars)**	**Lost NM State-Share of Federal Mineral Royalty Revenue (Millions of Dollars)**
2010	31.3 - 37.3	$141.77 - $168.78	$8.51 - $10.13
2011	30.1 - 35.8	$123.38 - $147.36	$7.43 - 8.84
2012	30.0 - 34.5	$79.26 - $94.35	$4.76 - $5.66
2013	27.7 - 33.0	$100.19 - $119.28	$6.01 - $7.16
2014	27.2 - 32.3	$119.72 - $142.53	$7.18 - $8.55
2015	28.9 - 34.4	$88.01 - $104.78	$5.28 - $6.29
2016 (predicted)	29.4 - 35.0	$78.08 - $92.96	$4.69 - $5.58
Total	**203.55 - 242.32**	**$730.82 - $870.03**	**$43.85 to $52.20**