

New Mexico Pit Hearing May, 2012

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Exhibit 2

National Onshore Rig Count

- 2007 - 1,695
 - 2008 - 1,814 +7%
 - 2009 - 1,046 -42%
 - 2010 - 1,514 +45%
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- Energy Information Administration-Annual Energy Review 2010

New Mexico and Colorado Rig Count As of July of Each Year

- 2007: NM - 83 □□ CO - 106
 - 2008: NM - 82 -1% CO - 109 +3%
 - 2009: NM - 41 -50% CO - 43 -61%
 - 2010: NM - 69 +68% CO - 63 +47%
 - 2011: NM - 81 +17% CO - 69 +10%
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- From NM Tech

National Natural Gas Wellhead Prices As of July of Each Year

- 2007 \$6.21
 - 2008 \$10.79 +74%
 - 2009 \$3.45 -68%
 - 2010 \$4.44 +29%
 - 2011 \$4.27 -4%
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- Energy Information Administration-Monthly U.S. Natural Gas Wellhead Price

New Mexico Citygate Natural Gas Price As of July of Each Year

- 2007 \$6.48
 - 2008 \$10.45 +61%
 - 2009 \$3.04 -71%
 - 2010 \$4.34 +1%
 - 2011 \$4.79 +10%
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- Energy Information Administration-Monthly
Natural Gas Citygate Price in New Mexico

New Mexico Natural Gas Production As of July Each Year

- 2007 - 131,237,869
- 2008 - 128,533,164 -2%
- 2009 - 117,405,692 -9%
- 2010 - 113,136,756 -4%
- 2011 - 107,632,600 -5%

New Mexico Oil Conservation Division-Natural
Gas and Oil Production(December 31, 2011)

New Mexico Oil Prices As of July Each Year

- 2007 - \$70.57
- 2008 - \$130.64 +85%
- 2009 - \$60.58 -54%
- 2010 - \$72.06 +19%
- 2011 - \$93.17 +29%
- Energy Information Administration New Mexico Crude Oil First Purchase Price

New Mexico Oil Production As of July Each Year

- 2007 - 4,893,164
 - 2008 - 5,073,209 +4%
 - 2009 - 4,970,283 -2%
 - 2010 - 5,542,287 +12%
 - 2011 - 5,944,239 +7%
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- New Mexico Oil Conservation Division-
Natural Gas and Oil Production(December
31, 2011)

New Mexico Wells Spudded

- 2007 - 1,728
- 2008 - 1,646 -8%
- 2009 - 967 -41%
- 2010 - 1,173 +21%
- 2011 - 990 -16%
- (as of 11/28/2011)
- New Mexico Oil Conservation Division
Statistics

New Mexico Permits

- 2007 - 2,338
- 2008 - 2,355 +1.0%
- 2009 - 1,413 -40%
- 2010 - 1,729 +22%
- 2011 - 1,483 -14%
- (as of 11/28/2011)
- New Mexico Oil Conservation Division
Statistics

Historic Stats

ITEM	2007	2008	%	2009	%	2010	%	2011	%
NATIONAL RIG COUNT	1,695	1,814	7.02%	1,046	-42.34%	1,514	44.74%		
NEW MEXICO RIG COUNT	83	82	-1.20%	41	-50.00%	69	68.29%	81	17.39%
COLORADO RIG COUNTY	106	109	2.83%	43	-60.55%	63	46.51%	69	9.52%
NATIONAL WELLHEAD PRICES	\$6.21	\$10.79	73.75%	\$3.45	-68.03%	\$4.44	28.70%	\$4.27	-3.83%
NEW MEXICO GAS PRICES	\$6.48	\$10.45	61.27%	\$3.04	-70.91%	\$4.34	42.76%	\$4.79	10.37%
NEW MEXICO GAS VOLUMES	131,237,869	128,533,164	-2.06%	117,406,692	-8.66%	113,136,756	-3.64%	107,632,600	-4.87%
NEW MEXICO OIL PRICES	\$70.57	\$130.64	85.12%	\$60.58	-53.63%	\$72.06	18.95%	\$93.17	29.30%
NEW MEXICO OIL VOLUMES	4,893,164	5,073,209	3.68%	4,970,283	-2.03%	5,542,287	11.51%	5,944,239	7.25%
NEW MEXICO SPUDS	1,728	1,646	-4.75%	967	-41.25%	1,173	21.3%	990	-15.60%
NEW MEXICO PERMITS	2,338	2,355	.73%	1,413	-40.00%	1,729	22.36%	1,483	-14.23%

Lifetime Production Per Well (lifetime is 25-30 years)	Price	Total Income over Lifetime	Total Cost of Well (\$1,700,000 to drill plus \$1,500 per month lease operating expenses)	Net Expected Per Well	Total Deductions for Taxes, Transportation Gathering, Marketing (at 25% rate)	Net Income Expected Per Well
1,000,000 mcf (an mcf is 1,000 cubic feet)	\$3.00	\$3,000,000.00				
55,230 Barrels of Oil (based on % of oil production in 2011 to gas production)	\$90.00	\$4,970,700.00				
Totals		\$7,970,700.00	\$2,240,000.00	\$5,730,700.00	\$1,432,675.00	\$4,298,025.00
				results in	\$143,267.50	net income per year
Total Producing Wells in New Mexico	49,530	average net	income for	all producers in	New Mexico	\$7,096,039,275.00

Average Well Income and Costs
7,200' TD

The Texas Railroad Commission Findings on Closed Loop Systems

- “The turn-key contract was incrementally more expensive. However, because of reduced drillsite construction and closure costs; reduced waste management costs; and reduced surface damage payments, the operator realized a savings of about \$10,000 per well. Also, the operator reduced the potential for environmental impact and associated potential liability concerns.”

<http://www.rrc.state.tx.us/environmental/environsupport/wastemin/wasteminchdrillingops.php>

Oklahoma Department of Environmental Quality Findings

- “The hole-size reduction, use of air drilling and closed loop system reduced wastes by close to 1.5 million pounds. A material and disposal cost savings of \$12,700 was achieved.”

<http://www.deq.state.ok.us/csdnew/P2/Casestudy/oxyusa~1.htm>

Cost Comparison

METHOD	ROAD AND PITS	DRILLING WATER	COMPLETION WATER	TRUCKING	SAVINGS ON MUD REUSE	RENTAL OF CLOSED-LOOP (\$5,000/DAY X 16 DAYS)	TOTAL
EARTHEN PITS	\$46,500	\$15,710	\$30,000	\$6,500			\$98,710
CENTRAL PITS	\$46,500	\$15,710	\$30,000	\$48,500			\$140,710
CLOSED LOOP	\$20,500	\$ 3,142	\$6,000	\$1,300	-\$17,212	\$80,000	\$93,730

Lost Economics to the State of New Mexico For Earthen Pits

- Personal Property Tax on any Closed Loop Tanks and Equipment
- Property Taxes from Centralized Pits
- Jobs

Earthen Pits Create Waste

- Hydrocarbons removed from the well are buried in the pit when reclaimed
- 1,000 barrels of condensate wasted has a value of \$90,000.

The Cost of Clean-Up of Earthen Pits

- At \$100 per hour for trucking costs for hauling off contaminated soils, the cost of clean-up for pits could exceed \$100,000.
- This cost would be diverted to the citizens and government of New Mexico in the future.