CASE NO. 14015
OCD EXHIBIT 8

STATE OF NEW MEXICO

OIL CONSERVATION DIVISION

Recent proposed rulemaking related to the regulation of oil field pits has led to claims from the oil and gas industry that the additional up front costs associated with compliance with the proposed rules are prohibitive. The Oil Conservation Division acknowledges that proper waste management will cost industry more than it has been subjected to historically, but believes that the up front costs associated with the proper management of pit contents will be offset by a reduction in the costs associated with the required investigation and remediation of soil and ground water due to releases from improperly designed, installed, operated, and closed oil field pits in the future. The Division believes that the prevention of releases from oil field pits, to protect the scarce and valuable ground water resources of New Mexico, more than justifies the imposition of up front costs associated with compliance with more rigorous technical standards for oil field pits. The proposed rules will likely provide an incentive for greater use of 'closed loop systems' instead of pits. Closed loop systems generally generate less oil field waste during drilling and workover operations, and therefore will result in lower disposal costs than encountered when other systems are used. The Division has been working with the Environment Department to ensure that operators have access to disposal facilities in both the Northwest and Southeast parts of New Mexico. Currently, there are five waste disposal facilities available to operators in the Northwest part of New Mexico. This includes two in nearby Colorado and three facilities that are Environment Department regulated solid waste disposal facilities. In the Southeast part of New Mexico, there are four waste disposal facilities - three of which are specifically permitted by the Division for the disposal of oil field waste and one that is an Environment Department regulated solid waste disposal facility.

Statewide, the oil and gas industry produced 60.9 million barrels of oil and 1,591 billion cubic feet (BCF) of gas during 2006. The up front costs associated with compliance with the proposed pit rule are estimated at $30 million dollars statewide by the Division and $150 million dollars by industry. Using the same production numbers from 2006 for 2007, this is projected to represent between 0.19% and 0.95% of industry's gross revenues for 2007, depending on which estimate is used. If protection of New Mexico's ground water resources is a worthwhile endeavor, then it would seem that the assessment of the additional costs associated with the compliance with the Division's proposed pit rule at a time when oil is commanding record prices and industry is enjoying record profits is justified. If wastes from drilling and workover operations are not properly managed, they may leave legacies of soil and water pollution that could involve even greater costs for the industry (and possibly for the State) in the future.