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Testimony of Rory McMinn

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Roswell, New Mexico

Before the House Small Business Committee

Hearing re: Impact on Small Business from Allowing Crude Oil Exports

June 17, 2015

Mr. Chairman and Members of the Committee, my name is Rory McMinn and I am President and Managing Director of Read & Stevens, Inc., a small, privately held oil and gas production company headquartered in Roswell, New Mexico. I have served as a member of the New Mexico Public Service Commission and as a County Commissioner of Chaves County, New Mexico, and my wife currently serves as a County Commissioner in Lincoln County, New Mexico. I am pleased to have been invited to testify to the adverse impact that the current depressed oil price market has had on small companies such as Read & Stevens, and to convey to you the enormous value to small operators such as ourselves, our employees and our communities attainable from lifting the antiquated and destructive 1970s-era ban on the export of domestic crude oil.

My trip to our Nation's Capital to speak to you today would be considered unnecessary spending if not for the fact that my shareholders so urgently want you to be aware of our situation. If not for their encouragement, I would not have spent what amounts to one half of a pumper's monthly salary to be here. The issue of eliminating the ban on crude oil exports is important to the livelihoods of thousands of people in New Mexico and the other producing states, as well as those many hundreds of thousands of people all over America who do not live in "oil patch states" but whose work and family welfare depends on making the goods and providing the services used by the oil production industry. Therefore, having the chance to have a seat at this table was incentive enough for my shareholders to want to be heard.

Read & Stevens, Inc. was founded in 1972 and has drilled for and produced oil and natural gas within New Mexico and West Texas as a family owned small business ever since. Due to our firm's longevity, we have mineral leases in some of the prime target rich areas of the Delaware formation of the Permian Basin. We provide the livelihoods for 25 much valued full-time employees, of which two have 32 years and one has 21 years of employment with us. Our patriarch is Charles B. Read, who at age 93 continues to be active in our operations.

<u>Small Producers Are Being Severely Impacted:</u>

Read & Stevens operates 150 wells and has an equal number of wells where we own an interest, but are operated by other companies. Many of the wells in our inventory meet the threshold of being considered "stripper" production with output of fifteen or fewer barrels per day. While we have up to 70 other cost-sharing working interest owners in many of our wells, as is very common for small producers in the oil business, the Read family finances its portion of the operations with cash flow and bank debt.

Like many other small producers, there is no public funding of our stock and we have no access to private equity capital which finances operations by larger companies in the oil business. Therefore, anything that causes a constriction in our cash flow or devalues the oil and gas reserves that stand behind our bank debt causes great problems for us. Consequently, I want to make it very clear that the current depressed oil price market, and the associated cut back in drilling new wells which would create new revenue for us, has had a very strong adverse impact on our financial situation, a most unfortunate problem shared by other small oil and gas operators all across the nation.

Our 26-well drilling program that was started in 2014, with 24 wells remaining to be drilled, has been cancelled. In fact, if we had not already signed contracts for drilling those first two wells, we would not have done so. The 2014 estimated well costs were $6.75 million each and are now projected to cost $4.5 million each. The approximately one-third reduction in costs is made possible by our vendors who, facing a steep decline in demand for their goods and services from the reduction in new drilling, are eliminating jobs, mothballing equipment, deferring maintenance, eliminating advertising, closing offices, and cutting back their support for a wide range of civic and community organizations in a desperate effort to maintain their businesses rather than have their contracts simply cancelled—and I would emphasize that a lot of those vendor contracts have simply been cancelled already. Despite the one-third drop in well costs, the simultaneous 50% drop in the crude oil price, with its continuing inherent uncertainties, causes the economics to be negative.

Just like our own vendors and suppliers, we operators are adjusting in a similar manner, only spending capital to maintain our existing production levels and eliminating all unnecessary spending. I can tell you in Roswell there are at least six other companies of approximately equal size to Read & Stevens that have had similar experiences. All have cancelled drilling new wells and are only spending money as necessary to keep their current production pumping. My discussions with other small operators in Farmington, in the Four Corners area of Northeastern New Mexico, echo what we have been experiencing in Roswell.

With small operators and their vendors and suppliers all cutting back on their activity, the Committee can see that the collective adverse impact on those small businesses, their employees, and their communities is widespread and immense.

Read & Stevens is fortunate in that our mineral leases are long lived and are not in jeopardy of expiring because they are "held by production," therefore we do not have to drill new wells to save leases as many operators are forced to do. If not for the need to drill to save their leases, most of the operators would be deferring drilling as we are. Oil and gas reserves are similar to a savings account, as you take oil out and thereby reduce the reserves you must constantly look to replace that amount either by new drilling, by finding additional heretofore untapped reserves in existing wells, or by acquiring reserves from others. We constantly have to balance our efforts based upon the production of a diminishing resource. Our preferred and best opportunity to replace our reserves is to drill new wells. But due to the current marketplace, our only practical alternative is to find additional reserves behind existing pipe, hence the cancellation of our 26-well drilling program after only two wells and foregoing all the economic activity and jobs that would have been generated by drilling the other 24 wells.

While Roswell, the community where our headquarters is based, has felt the drilling downturn by the loss of retail sales, the other larger Southeastern New Mexico communities where services are based such as Hobbs, Carlsbad and Lovington have endured a drastic decline in every level of wholesale and retail business, from drops in rental property values to steep declines in the volumes of sales of produce to the restaurants. The Red Wing boot shop in Hobbs now has enough steel-toed boot inventory to last several years because of the lack of demand. Our office is flooded with applications from people--from very unskilled workers to the most highly skilled and experienced field personnel. We have had other operators, especially those in the Midland/Odessa, Texas area, tell of receiving resumes of newly graduated petroleum engineers desiring a position at the lowest level. We have been in these boom and bust cycles before, but never have I previously experienced a bust during a period, as now, when due to American technological leadership that allows us to produce at world class levels, US oil producers are capable of competing with OPEC directly. But our ability to compete on the world market is frustrated by the export ban that prevents us from accessing that market with our oil.

Broader Adverse Impacts on our State and Communities:

Revenues from the oil and gas industry are the economic backbone of the state of New Mexico. New Mexico has been at the bottom of the list for recovering from the recent severe recession. The only bright light was the oil and gas industry, which is the largest private employer in the state and one of the few that was growing jobs until the last six months. Now our industry is laying people off. One New Mexico state agency says more than 2,000 jobs were lost in the first quarter of 2015 in this industry.

The adverse impact of the downturn in crude oil prices is not limited to the private sector alone. The State of New Mexico's revenues are down by $220 million dollars due to the crude oil price drop which affects public school funding projects. Lease bonus payments at monthly state land auctions have gone from record highs of more than $60 million to amounts less than $5 million. Revenues from the oil and gas industry accounted for 31.5% of the state of Mew Mexico's general fund in 2013 and nearly 35% in 2014. In the most recent budget preparation cycle, New Mexico's budgeting officials decreased their revenue estimates for the FY 16 fiscal year at least twice as the price of oil declined. This meant far less money was available for all state programs and operations. Preliminary figures for January 2015 revenues showed an average price of $42.70 per barrel which was down from an average price the year before of nearly $90 per barrel. The state economists are forecasting an average price for FY 15 of $56 per barrel, still well below the $90 figure from the previous year.

In addition to their contribution to New Mexico's general fund, revenues from oil and gas support the fund used for the state's capital construction projects, including roads, college and school buildings, museums, senior citizen facilities, and much more. The severance tax collections supporting these projects decrease as the oil prices drop because they are based on a percentage of the sale of oil and gas. Oil and gas support nearly 86% of this capital outlay fund.

Further, oil and gas revenues support over 95% of the permanent fund that serves as an endowment fund for New Mexico's public schools. The interest from the fund and a small percentage of the corpus fund school operations every year.

Finally, oil and gas royalties from state lands are collected for other direct beneficiaries of development of New Mexico's state lands. These beneficiaries include hospitals and colleges.

These severe reductions in state and local government revenues materially impact every small business and every person in New Mexico. Reductions in jobs and in funding for state and local social programs, hospitals, roads, and education all mean bad news for everyone—and it is all attributable to the reduction in the price of oil and the consequent reduction in new drilling for oil. It is not a winning situation for small business in New Mexico, and I would conclude it is not a winning situation for small business—whether they are directly in the oil production business or in the supply chain that provides goods and services to the oil production business-- anywhere in the country.

<u>We Need to Change America's Oil Export Policy:</u>

Based on my 43 years of experience in the oil and gas business, I am convinced that the prohibition on the exportation of US oil is having a serious adverse impact on small production companies such as us. All the research I have seen convinces me that allowing US oil producers to compete for additional customers on the world market—just as we encourage producers of almost every other kind of product and service in this country to sell to foreign customers—will enable US producers to secure a more fair price for our oil set by the market rather than artificially constrained by an outdated oil export ban policy whose time has long passed. Read and Stevens, and other small producers such as us, will never contract with international buyers for our oil. But we don't have to do so in order to benefit from lifting the crude oil ban. As other elements of the US oil industry with the capability to conduct those international transactions do so, the domestic price of crude oil will be favorably impacted for all US producers, including small producers like us. Moreover, that better price will provide the economic incentive for us to increase our drilling in the same manner as larger producers—we all will benefit and so will our communities.

It makes no sense to me that as the world's greatest international trading nation, we allow the export of refined petroleum products but not the export of crude oil. Our market for customers ends at the coast, trapping our oil here in record surplus volumes, and creating a heavily discounted price for our domestic crude oil compared to the world price enjoyed by producers outside the United States. It is time to rationalize our crude oil market so that American producers can compete for foreign customers on a level playing field. We will get a higher price than the artificially discounted price we get today, but in accord with the laws of supply and demand the increased supply of crude oil from the US will lower the world oil price and in so doing put downward pressure on the prices of refined petroleum products which are set by the international price of oil—in my view a win-win situation for US oil producers and US gasoline consumers.

<u>Conclusion:</u>

In closing, I would say that the small producers in this country are critical elements of the social and economic fabric of the communities in which we operate and employ people. It is very difficult for small producers to stay abreast of regulatory developments adversely impacting the cost of doing business in our industry. I cannot understate how difficult it is for small producers like us to understand and comply with the numerous regulatory changes being imposed on us, such as the BLM's hydro-fracking rule, the increasing of federal royalty rates, and the endangered species costs, just to mention a few. All these regulatory burdens can overwhelm a company of our size and their debilitating impact increases exponentially when we are faced with the depressed prices and limitation on our ability to find customers caused by the oil export ban. I would urge you to consider that the least Congress could do is allow us to secure the best price for our product, and lifting the crude oil export ban would be a very significant and welcome signal that Congress cares about the small oil producer in this country. I urge you to do all you can to allow US oil producers to find customers abroad by eliminating this impediment to free trade that is now very clearly hurting small producers and the communities they serve.

Thank you for allowing me to present my views.