



**Aubrey Dunn, State Land Commissioner
State of New Mexico**

For Immediate Release

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Commissioner Dunn to Hold Gas Capture and Midstream Summit

Santa Fe, NM (September 21, 2016) – New Mexico State Land Commissioner Aubrey Dunn announced today that a Gas Capture and Midstream Summit will be held at the New Mexico State Land Office in the coming months. The summit’s purpose is to address issues negatively affecting revenue streams to the State Land Trust beneficiaries. Recently, the Land Office was informed that natural gas producers operating on State Trust Lands have been forced by certain midstream companies to accept contractual terms for gas transportation and processing that effectively eliminate royalties due on natural gas produced and sold from State Trust Lands.

Traditionally, Permian Basin gas has been processed under straight Percentage-of-Proceeds (POP) contracts. These contracts were originally created to ensure that midstream companies would retain a percentage of the liquid product volume or value and/or the residue volume or value for their gathering and processing services. Such contracts historically resulted in positive proceeds to the producer and royalties to the trust. However, as a result of the decline in the oil and gas market since late 2014, some Permian Basin midstream companies have begun modifying the contracts under which natural gas is sold. In some situations, the midstream companies have replaced their POP contracts with rate-based contracts. Rather than charging a percent-of-proceeds fee, they have implemented a flat rate per wellhead MCF of gas and have increased fees for transportation and removing impurities from the gas stream. All such instances can result in the charges from the midstream companies to exceed the market value of the gas, which has the practical effect of eliminating the royalty due to the New Mexico State Land Office since royalty is defined as a percentage of proceeds.

Commissioner Dunn is committed to obtaining fair market value for any commodity severed from State Trust Lands, and has repeatedly worked on behalf of the trust’s beneficiaries to ensure such a fair market return. “It would seem that in a time of depressed hydrocarbon prices, there are those that would seek to maximize and maintain their profits at the expense of our beneficiary institutions. I refuse to stand idly by while New Mexico’s schoolchildren are deprived of critical funding at a time when they can ill afford to lose more dollars for education,” said Dunn. The New Mexico State Land Office has begun an internal audit of instances in which such sales have occurred, and initial estimates of the impact of this practice on state trust gas royalty revenues are over \$200,000. Dunn further stated that “giving gas away to midstream companies does not constitute a fair market return for the

state trust, and I will not tolerate the practice any longer. I intend to use all means at my disposal to ensure positive returns on state trust assets of any kind.”

The Land Office is currently facilitating pilot projects with companies to develop alternatives to traditional midstream. For example, a startup company called Greyrock has developed location-based small scale refining capabilities as an alternative to traditional midstream. “New and innovative solutions are needed, which is why I will hold the Gas Capture and Midstream Summit to bring all parties to the table to address this very important issue. I will continue to help facilitate pilot projects for midstream alternatives in order to reach the solution of receiving fair market value from the gas being extracted from State Trust Lands for the benefit of New Mexico’s schoolchildren,” said Commissioner Dunn.

The State Land Office is responsible for administering 9 million acres of surface and 13 million acres of subsurface estate for the beneficiaries of the State Land Trust, which includes schools, universities, hospitals and other important public institutions.

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