

EXHIBIT B

Estimated Financial Exposure to the New Mexico State Land Office from Underbonded Oil & Gas Leases

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Purpose: To quantify the scale of unfunded plugging, reclamation, and produced-water cleanup liability on State Trust Lands and to evaluate the adequacy of the proposed \$150,000 per-lease minimum bond using conservative assumptions grounded in public data.

I. Baseline Inputs (Publicly Reported Data)

Based on State Land Office disclosures and public records:

- Total SLO oil and gas leases: approximately 5,700
- Leases with any bond on file: approximately 1,200
- Leases with no bond on file: approximately 800
- Leases covered by blanket or bulk bonds: approximately 3,700
- Total financial assurance currently held: approximately \$28,000,000
- Oil and gas revenue generated on state trust lands (past three years): approximately \$48,000,000,000

II. Typical Cost Ranges (Documented Public Data)

The following cost ranges are drawn from public EMNRD, OCD, LFC, and NMED records summarized in Exhibit A:

- Vertical well plugging: approximately \$75,000–\$150,000
- Modern or complex well plugging: approximately \$200,000–\$350,000
- High-complexity plugs (e.g., fishing, casing failure): approximately \$250,000–\$450,000
- Produced-water spill remediation: approximately \$100,000–\$500,000 per incident
- Multi-well plugging and reclamation packages: approximately \$1,000,000–\$3,000,000

Average wells per SLO lease (conservative assumption): 1.5 wells

III. Expected Cost per Lease (Conservative Expected-Value Model)

Using conservative mid-range assumptions supported by Exhibit A:

- Plugging: 1.5 wells × \$200,000 = \$300,000
- Surface reclamation (roads, pads, caliche removal): \$50,000
- Expected produced-water remediation cost:
10% probability × \$200,000 = \$20,000

Total expected liability per lease:

≈ \$370,000

This estimate intentionally excludes high-end plugging outliers, PFAS or NORM remediation, and multi-release contamination scenarios documented in Exhibit A.

IV. Aggregate Exposure Under Current Bonding Levels

Scenario A — Leases with No Bond

- $800 \text{ leases} \times \$370,000 = \$296,000,000$ unfunded exposure

Scenario B — Leases Bonded at Proposed Minimum

- Per-lease coverage gap: $\$370,000 - \$150,000 = \$220,000$
- $1,200 \text{ leases} \times \$220,000 = \$264,000,000$ exposure

Scenario C — Leases Covered by Blanket or Bulk Bonds

- Estimated average coverage gap: \$200,000 per lease
- $3,700 \text{ leases} \times \$200,000 = \$740,000,000$ exposure

V. Total Estimated Unfunded Exposure

- Unbonded leases: **\$296,000,000**
- Minimally bonded leases: **\$264,000,000**
- Bulk/blanket-bonded leases: **\$740,000,000**

≈ \$1,300,000,000 total unfunded liability

This figure is conservative and excludes cost drivers documented in Exhibit A, including PFAS and radioactive contamination, high-end plugging outliers, and multi-well contamination sites.

VI. Risk Concentration and High-Risk Operator Exposure (Conservative Modeling)

Public OCD spill data and EMNRD legislative briefings establish that cleanup risk is concentrated among a subset of leases and operators, particularly those with inactive wells, produced-water handling infrastructure, or prior enforcement history.

To conservatively illustrate the fiscal impact of this concentration:

- Assuming 15% of leases present elevated risk requiring heightened bonding, and
- Applying a blended 40% risk multiplier to the documented average coverage gap (\$220,000),

Incremental exposure from high-risk leases:

$$5,700 \times \$220,000 \times 0.15 \times 0.40 \approx \$75,000,000$$

Produced-Water Infrastructure Exposure

- Assuming 5% of leases host produced-water storage, recycling, or treatment infrastructure, and
- Applying a 75% risk multiplier due to high contamination and closure costs,

$$5,700 \times \$220,000 \times 0.05 \times 0.75 \approx \$47,000,000$$

VII. Revised Total Exposure Including Risk Concentration

- Base exposure: **\$1,300,000,000**
- High-risk lease concentration: **+ \$75,000,000**
- Produced-water infrastructure risk: **+ \$47,000,000**

$\approx \$1,420,000,000$ total potential exposure

VIII. Implications for the SLO Bonding Rule

- The proposed \$150,000 per-lease minimum bond covers less than half of expected per-lease cleanup costs documented in Exhibit A.
- Without cost-based bonding and mandatory heightened requirements for high-risk operations, trust beneficiaries face over \$1,400,000,000 in potential unfunded liability.
- Because the SLO cannot access the OCD Reclamation Fund, bonding and supplemental financial assurance are the only fiscal safeguards available to protect State Trust Lands from contamination costs.