



Testimony of Scott M. Kidwell,
Director of Government and Public Affairs
COG Operating LLC
On behalf of Concho Resources, Inc.

Hearing before the Senate Energy Committee
Re: "Breaking the Logjam at BLM: Examining Ways to More Efficiently Process Permits
for Energy Production on Federal Lands"

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My name is Scott M. Kidwell. I am the Director of Government and Public Affairs for COG Operating LLC, the operating arm of Concho Resources, Inc., ("Concho"). I am here today in strong support of S. 2440, "The BLM Permit Processing Improvement Act of 2014", introduced initially by Senator Tom Udall and Senator John Barrasso, and co-sponsored by a dozen of their bi-partisan colleagues, five of whom serve on this Committee. I urge the Committee to do all it can to move Congress to enact S. 2440 prior to the end of 2014 to avoid the scheduled expiration of the current authorization of the BLM's pilot program for expediting the processing of applications for drilling permits (APD).

Concho is a publicly traded independent oil and gas producer headquartered in Midland, Texas. Concho is engaged in the acquisition, development and exploration of oil and natural gas properties. Concho's core operating areas are located in the Permian Basin region of Southeastern New Mexico and West Texas, the largest onshore oil and gas basin in the United States. Currently, Concho is one of the largest Permian oil and gas operators, producing over 100,000 Boepd in the first quarter of 2014 and running 33 drilling rigs. Concho is the largest oil producer in New Mexico by a factor of two compared to the next largest producer in that state. Concho has substantial operations on Bureau of Land Management (BLM) land in New Mexico, where we have over 257,000 gross acres of BLM land under lease. Illustrating the importance of our New Mexico presence, Concho operates over 1,000 federal wells in New Mexico and has a non-operating interest in hundreds of other federal wells. Additionally, Concho has identified many promising undrilled locations on its BLM acreage and plans to spend between \$8 and \$10 billion over the next five years in Eddy and Lea Counties alone, which is where much of the most productive federal energy lands are located. Because of the prolific potential Concho sees in the Permian Basin, in November 2013 Concho announced a three year acceleration plan to double our production there. As a result, Concho is vitally concerned with the federal government's policy for energy development on federal lands.

In Concho's view, the bi-partisan effort to reauthorize the BLM's program to improve the review process for APDs presents a welcome alignment of the interests held by the private sector, the federal government, and state government with regard to developing our national energy resources. All those entities have a common interest in the expanded supply of the nation's energy resources, the desire to create private sector jobs in energy development, and the need to generate royalty revenue to defray governmental expenditures during this challenging budgetary era. Recent technological advances in US oil and natural gas development have proved to be a "game changer" for America's energy security and the Nation's economic recovery, and have provided hundreds of thousands of jobs and billions of dollars in much-needed federal and state government royalty revenues. As a Nation, we need to keep expanding that good fortune and not let the opportunity slip away.

At the heart of this favorable development is the ability for domestic oil and gas producers to secure permits to develop energy properties on private and public lands. Recent oil and gas development on private lands has far exceeded development on federal lands. As far back as 2005, Congress recognized this critical reality and took action in Section 365 of the Energy Policy Act to improve oil and gas permitting in seven of the key BLM offices responsible for nearly 70% of the APDs BLM was handling. Congress's intent in Section 365 was to put more personnel and financial resources to work in these key offices to accelerate the APD review process in order to expedite issuance of federal permits to drill.

In Concho's individual experience, that APD pilot program has been enormously successful and has been responsible for facilitating the issuance of many more APDs in New Mexico than would have

otherwise been the case in the absence of the pilot program. But all of the benefits for the federal government, the state governments and the private sector derived from increased oil and gas production attributable to the pilot program are at risk should the authorization for the pilot program expire. We understand that should the pilot program expire, the Carlsbad office alone--which already has 18 vacant positions--stands to lose 41 positions currently authorized for APD review. This would have a catastrophic impact on the pace and volume of the processing of APDs and would dramatically reduce the production of the federal energy resources and its associated revenue that otherwise could be and would be developed were APDs to be issued. It is also important to recall that among the many demands placed on their time the BLM field offices will soon be required to implement new rules related to hydraulic fracturing, and possibly new requirements on venting and flaring. These additional responsibilities will place additional layers of work and strain on an already shorthanded workforce.

Thus far in 2014, Concho has submitted 86 APDs to the Carlsbad field office and anticipates filing 120 more during the remainder of the year. Currently, it takes a Concho permit an average of 133 days to be approved. By way of comparison, Concho submitted 274 APDs in 2011 with an average approval time of 80 days. The number of filed APDs and the BLM processing time is increasing on a daily basis as additional companies besides Concho sharpen their focus on drilling in the Permian Basin. The Carlsbad office's internal numbers evidence this increase in activity as they report having received 740 APDs through May of FY-14 as compared to 581 APDs for the same time period in FY-13. It is also instructive to note that, except for geologists and engineers, the same BLM staff members who handle APDs are required to review right of way applications for energy development projects and it is estimated that right of way applications in the Carlsbad office have increased by a multiple of ten in calendar year 2014.

Viewed through the perspective of our federal land operations in New Mexico, the stakes at risk are enormous because the oil and gas industry is such a powerful economic engine and job creator in New Mexico. It is estimated that the oil and gas industry creates 30,000 direct jobs in New Mexico, a number which does not reflect the thousands of additional indirect jobs that are generated by the industry. Moreover, 31.5% of New Mexico's general fund revenues are attributable to oil and gas production in the state. As importantly, 96.6% of the Land Grant Permanent Fund—which funds New Mexico's educational system—is derived from oil and gas development and 86% of the state's severance tax revenues come from oil and gas production. In FY-13, \$835 million in royalties were paid to the Office of Natural Resource Revenue for oil and gas production on federal land in New Mexico, 48% of which was returned to New Mexico. Concho anticipates paying federal royalties approximating \$105 million in 2014, of which 48% will be forwarded to New Mexico. In addition, the local governments in New Mexico rely on oil and gas property tax assessments (ad valorem production taxes and production equipment taxes) which in FY-12 totaled \$154 million. The simple fact is that federal, state and local government benefit mightily from increased oil and gas development in New Mexico and the pilot program has been critically important in facilitating oil and gas production and its attendant revenues that accrue to each level of government. The investment of a federal dollar in the permitting program produces many multiples of that investment in return. When these revenue streams are added to the value of the jobs and economic activity created by the oil and gas industry, the public policy case for continuation of the permitting program is compelling.

With regard to the provisions of S. 2440 itself, we observe that it is a balanced piece of legislation that brings appropriate modifications to the management of the APD pilot program at a cost which industry can accept. We are not alone in that assessment given that the bill has drawn the support of a broad spectrum of our industry.

In particular, I would like the Committee to recognize that Concho strongly supports the long term extension of the BLM's Processing Improvement Fund which pays for the permitting program. We find that the provision of the bill setting a statutory APD processing fee of \$9,500 indexed annually for inflation, with the guarantee that 75% of the revenues generated would go to the BLM state office where the fee was collected, to be a fair compromise. That trade-off assures producers that they will see a direct benefit from paying the increased fee through having more BLM staff reviewers and a more responsive review process in the local BLM office for their projects. In bringing more timeliness and predictability to getting their permit applications reviewed, the compromise also will provide greater incentive to invest in developments on federal lands.

Concho also supports the provision of the bill that requires the Secretary, in allocating funds raised by the bill among BLM offices, to consider the number of APDs received in an office, the backlog of APDs in an office, the publicly available industry forecast of development of oil and gas under the jurisdiction of an office, and opportunities for partnering with local industry to coordinate and process APDs. All those factors are relevant and appropriate and would, in our opinion, insure that priority federal lands such as the Permian Basin would get proper staffing for permit review commensurate with their production potential.

We believe that with this increased funding from the new statutory APD fee, BLM will be able to compress review times for individual APDs by hiring and retaining sufficient competent personnel to conduct the reviews. It is not in Concho's interest as a key economic engine and employer in the state, nor is it in the interest of the federal government, state or local governments to create backlogs and slow processing times for permits. Failing to take steps to improve permit approval times will absolutely insure a decline in drilling starts on federal lands. Viewed in its local context, this failure would be particularly bad news for New Mexico. New Mexico's economy continues to struggle with a 6.5 percent unemployment rate. Employment figures from June 2014 indicate that for the first time in nine months the state just slightly increased the number of new jobs created compared to the number it lost. But the employment situation remains fragile. It is imperative that federal policy not make things worse.

Ultimately it is the American people who benefit in so many ways from the increased development of the oil and gas resources they already own. Increased domestic production, particularly new production from federal lands which has not kept pace with the recent explosion of production on private land, improves the Nation's energy security, economic welfare, international competitiveness and strategic leverage in world commerce and politics. In S. 2440, we have the opportunity to increase drilling on federal lands and increase all the jobs and economic opportunity that comes with it. From that perspective, S. 2440 is a common sense jobs and economic opportunity bill and Congress ought to do all it can to facilitate its enactment this year.

In conclusion, I strongly urge the Energy Committee to do all it can to move S. 2440 to enactment this year. It is a well-balanced, important and bi-partisan piece of legislation that deserves your attention and effort.

On behalf of Concho, I want to thank the Committee for inviting me today to express our views on S. 2440. I am happy to answer any questions or to provide any further information which might be helpful to the Committee.