

The Economic Impact of ExxonMobil's Planned Oil and Gas Activities in New Mexico Beginning in 2018 and Over the Next 40 Years

Executive Summary

Introduction

ExxonMobil's opportunity set and planned activities in the Greater Permian Basin comprise a world-class mega project. Anticipating the need to be able to give dimension to ExxonMobil's Permian assets and the related forward-looking plan, Public & Government Affairs commissioned and led the development of the attached documents (hereinafter referred to collectively as "the study").

Over the course of the next 40 years, ExxonMobil – through its subsidiary XTO Energy Inc. – plans to drill about 6,500 wells on over 400,000 net acres in Eddy and Lea Counties, New Mexico. This provides the beginnings of the story, as these ambitious plans will require capital expenditures in excess of \$55 billionⁱ – setting the scene for a ripple effect through the state economies.

Methodology and Assumptions

The study takes in the information given above along with current cost data for ExxonMobil projects in the Permian. Then, the study estimates the total economic impact of executing ExxonMobil's plan in the Greater Permian, assuming an oil price of \$40 per barrel. The economic impact is separated into three distinct activities:

1. Drilling & Completion,
2. Facilities Construction, and
3. Oil and Gas Extraction/Operations.

The study's economic impact estimates are based on the Regional Input-Output Modeling System (RIMS II), a widely used regional input-output model developed by the U. S. Department of Commerce, Bureau of Economic Analysis.

Economic impact is measured in discrete types of impact, including employment, household earnings, economic output and value added.

Results and Commodity Price Sensitivity

As a result of ExxonMobil's planned activity over the next 40 years, the state of New Mexico is estimated to receive \$64 billion in additional net economic benefits for the state and local communities. Of that, local jurisdictions are estimated to receive \$1.8 billion in net benefits. The majority of payments to the state are those paid directly by ExxonMobil and include a

staggering \$44 billion in lease-related payments (e.g., lease bonuses, royalties, etc.) while another \$8.5 billion is estimated in oil and gas severance taxes paid to the state.

These estimates are sensitive to commodity price fluctuations and, in view of the range of commodity prices that might be prevalent during the period that the study contemplates, we have asked for the analysis to be run on price decks of \$56 per barrel and \$40 per barrel in order to capture the relative differences within the range. In analyzing benefits, costs and net benefits to the state of New Mexico, the state will receive an estimated \$62 billion in net benefits over the 40-year period if the price of oil remained at \$40 per barrel and, with commodity price improvement to \$56 per barrel, the net benefits to the state grow to \$83 billion. Any additional improvement in commodity price presents additional upside to the state of New Mexico.

Drilling and Completing Wells – To understand the economic impact from drilling and completing wells over the above-mentioned 40-year time period, the study begins with ExxonMobil’s estimated direct expenditure of \$48.2 billion, which supports spin-off activity estimated to have an additional impact of \$26.7 billion in the state of New Mexico. In terms of employment, ExxonMobil’s drilling and completion activity will support approximately 2,408 direct jobs per year and about 3,319 indirect and induced jobsⁱⁱ per year – totaling more than 5,700 jobs per year in the state of New Mexico. At the peak of ExxonMobil’s activity in the state, drilling and completion activity will support 14,111 direct, indirect and induced jobs with household earnings estimated to be \$1.2 billion.

In order to bring the above into sharper focus, it is estimated that, for every \$1 spent by ExxonMobil on drilling and completing wells in New Mexico, \$1.55 is spent throughout the entire economy – this includes the \$1 direct dollar as well as \$0.55 in the form of indirect and induced spending.

Facilities Construction – Large-scale oil and gas production facilities are typically built on the front end of development and, as such, for the purposes of the study, facilities construction activity is expected to extend over 19 years, as opposed to the entire 40-year time period previously discussed. During this time, ExxonMobil is estimated to make direct expenditures of \$7.1 billion, which will support spin-off activity totaling an additional \$5.3 billion. As ExxonMobil’s facilities are built out, the study estimates that the company will directly employ roughly 986 people per year in facilities construction and, in addition, will indirectly create or induce the retention of an additional 626 jobs in New Mexico per year. At the peak of ExxonMobil’s activity, facilities construction will support 5,363 direct, indirect and induced jobs and is expected to support \$454.4 million in household earnings in the state of New Mexico.

In an effort to capture the multiplicative effect of ExxonMobil’s spending in facilities construction, The Study estimates that, for every \$1 spent building facilities in New Mexico,

\$1.74 is spent in the economy. As explained above, this includes the direct expenditure of \$1 as well as 74¢ in the form of indirect and induced activity.

Oil and Gas Extraction/Operations – Impacts from the activities of producing and operating the wells and the supporting facilities take root in ExxonMobil’s estimated direct expenditures of about \$27 billion. As in the above examples, the direct expenditures support spin-off activity totaling an additional \$12.1 billion. The study estimates that ExxonMobil will directly employ 724 people per year over the period while spurring on the indirect or induced employment of another 962 people per year. At the peak of ExxonMobil’s activity, the activity will support about 1,985 direct, indirect and induced jobs and these jobs will account for about \$183 million in household earnings.

Similar to the above examples, the multiplicative effect of ExxonMobil’s hiring in the state is expected to have an effect on the state’s economy in terms of indirect and induced employment. For example, for every direct job created during the Oil and Gas Extraction/Operations phase, 2.3 total jobs are created throughout the entire economy – this includes the 1 direct job as well as 1.3 indirect and induced jobs.

Conclusion

By 2025, ExxonMobil’s oil production could reach 550,000 barrels per day and the company’s natural gas production could reach 2.4 billion cubic feet per day, which is comparable to the cumulative production of some US states. With that comes great benefit for the State of New Mexico. Over 65 percent of the more than \$62 billion in net fiscal benefits will flow to the general fund – making sizable impacts on higher education (~\$6.1 billion), health and human services (~\$10.2 billion) and public school funding (~\$18.3 billion). In addition, approximately \$1.8 billion will flow directly to local economies throughout the state.

ⁱ All dollar amounts in The Study are presented in real 2018 dollars and have not been adjusted for inflation.

ⁱⁱ “Indirect” and “induced” impacts represent the spin-off economic activity resulting from the business-to-business expenditures initiated by the company and the consumer-to-business expenditures initiated by workers spending a portion of their earnings on goods and services in the economy.