Price decline hits oil patch

Kevin Robinson-Avila / Journal Staff Writer

At least 2,000 jobs will likely be lost in New Mexico's oil and gas industry in the coming months because of sharp declines in the price of crude oil, according to estimates by the New Mexico Energy, Minerals and Natural Resources Department.

The number of drilling rigs operating in the state has dropped from 85 last spring to 60, department Secretary David Martin told participants at the annual San Juan Basin Energy Conference in Farmington on Tuesday. The rig count dropped in both the Permian Basin in southeastern New Mexico and the San Juan Basin in the Four Corners area as producers slashed planned production to compensate for plummeting oil prices, which fell from more than $100 per barrel last summer to less than $45 in early January.

With 50 employees working directly on each drilling rig, and another 50 to 70 people employed in support jobs, Martin said his estimate of 2,000 layoffs is conservative.

“So far we haven’t seen a decrease in oil production in New Mexico, but we expect it to begin leveling off, and that means lost revenue and jobs in the coming months,” Martin said.

Jason Sandel, executive vice president at Aztec Well Servicing in Farmington, said it usually takes about six months for the full impact of drilling rig shutdowns to kick in. Direct employees are affected first, followed by layoffs in support positions.

“We had about 10 rigs running in the San Juan Basin on average last year, but that’s now down to just three rigs,” Sandel told the **Journal** . “Drilling activity is the forbearer of good and bad news, with a six-month lag in between changes in rig counts and impact on communities. Prices collapsed in the fall, and rigs started coming back to the yards in December, so we’ll see the full impact in the San Juan area by about May or June.”

Before the plunge in prices, the oil and gas industry had been one of the few bright spots in the state’s economy.

In addition to the lost jobs, lower oil prices also have taken their toll on state spending, which is heavily dependent on taxes and royalties from oil and gas activity. Those revenues account for about 19 percent of the state’s annual general fund budget of around $6.2 billion.

Last summer, state officials expected they’d have $285 million in new tax revenue for the coming fiscal year. By the time the recently concluded legislative session rolled around, that was down to $83 million, meaning virtually no raises for state workers and very tight budgeting elsewhere.

Nationally, an estimated 100,000 people in the oil and gas industry are expected to lose their jobs, said Rick Muncrief, president and CEO of WPX Energy Inc.

“The rig count has dropped by nearly half nationwide since Thanksgiving, falling from almost 2,000 before to about 1,000 now,” Muncrief told conference participants. “With 100 to 120 direct and indirect jobs associated with every rig, that means about 100,000 jobs have been lost since November.”

And the pain is expected to last well into 2016, if not beyond, because of an estimated 2 million barrels per day of over-supply in worldwide oil production.

“We expect prices for oil and natural gas to stay low for a significant amount of time,” said Dave Lawler, CEO of BP America’s Lower 48 States onshore business. “There’s nothing to move the needle in the short term. I don’t believe there will be a significant rise in prices anytime soon.”

A price war by the Organization of Petroleum Exporting Countries, led by Saudi Arabia, will prolong the industry’s troubles as production declines significantly in the U.S., said Daniel Fine, associate director at the New Mexico Institute for Mining and Technology’s Center for Energy Policy.

OPEC and the Saudis refuse to cut back on their production to boost prices as they’ve done in the past to instead force U.S. producers to curtail the shale oil-and-gas boom that has driven production to record levels over the past seven years.

That represents an “historic” change in Saudi and OPEC policy aimed at shoring up their market share, said Fine, who was recently appointed project leader for state energy policy.

“This is a war we’re in,” Fine told conference participants. “People are saying that next year things will be better. Nonsense! Saudi Arabia has made a historic decision to no longer support oil prices. It’s now survival of the fittest.”