

## NEW MEXICO OIL CONSERVATION COMMISSION

## COMMISSION HEARING

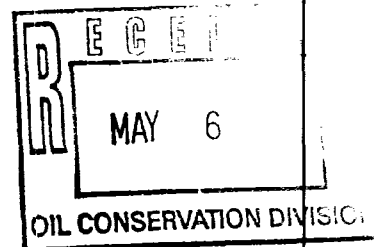
SANTA FE, NEW MEXICO

Hearing Date APRIL 27, 1995 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Dick Pollard	Marathon Oil Co.	Midland, Tx
Bill Hawkins	Amoco	Denver
Pam Staley	Amoco	DENVER
Dow Campbell	Marathon	Midland, TX
Larry Sanders	PBPA + Phillips	Odessa, TX
W. J. Johnson	Johnson + Johnson	Santa Fe
Rand Carroll	OCD	SFe
Maurice Trimmer	Pyram Co	SF
Mark P. [unclear]	NMCCA	Santa Fe
Keith Andrews	NMOGA	Santa Fe
Nile Wagoner	ITANK	Santa Fe
Robert Orr	PEPA	Midland, TX
Ned Kendrick	Montgomery + Anderson	Santa Fe
FRANK GRAY	TEXACO E&P INC	Midland, TX



STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION



IN THE MATTER OF THE HEARING )  
CALLED BY THE OIL CONSERVATION )  
COMMISSION FOR THE PURPOSE OF )  
CONSIDERING: )

CASE NO. 11,273

APPLICATION OF THE OIL )  
CONSERVATION DIVISION ON ITS OWN )  
MOTION )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

**ORIGINAL**

BEFORE: WILLIAM J. LEMAY, CHAIRMAN  
WILLIAM WEISS, COMMISSIONER  
GARY CARLSON, COMMISSIONER

April 27th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, April 27th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

STEVEN T. BRENNER, CCR  
(505) 989-9317

## I N D E X

April 27th, 1995  
Commission Hearing  
CASE NO. 11,273

PAGE

REPORTER'S CERTIFICATE

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\* \* \*

## A P P E A R A N C E S

FOR THE COMMISSION:

CAROL LEACH  
General Counsel  
Energy, Minerals and Natural Resources Department  
2040 South Pacheco  
Santa Fe, New Mexico 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:05 a.m.:

3           CHAIRMAN LEMAY: Good morning. This is the Oil  
4   Conservation Division [sic]. If you're here for Workman's  
5   Comp or something else, you're in the wrong room.

6           My name is Bill LeMay. I'm Chairman of the  
7   Commission.

8           To my left is Commissioner Bill Weiss.

9           To my right, Commissioner Gary Carlson  
10   representing the Commissioner of Public Lands.

11          We have with us Carol Leach, General Counsel for  
12   the Department.

13          And welcome to our Commission hearing.

14          (Off the record)

15          We'll now call Case 11,273, which is the  
16   Application of the Oil Conservation Division on its own  
17   motion to implement rules and regulations -- to enact rules  
18   and regulations which will implement the Production  
19   Restoration Incentive and Workover -- the severance tax  
20   exemption for workovers and well restora- -- wells that are  
21   brought back on production. House Bill 65, in other words.

22          And with the announcement that went out, we will  
23   not be taking testimony on that case today, but I will be  
24   giving you a little bit of guidance as to what the  
25   procedure will be and what the Commission will be doing in

1 the way of handling implementation of that Act.

2 In the back there will be a sign-up sheet. Those  
3 of you that would like to be on the Committee to make a --  
4 propose some draft rules and regulations for the Commission  
5 to consider can sign up.

6 We plan to make a selection after about a week.  
7 Those that cannot make this hearing, that called in, that  
8 wrote letters, I told them they will not be excluded from  
9 consideration, that we'll consider their names also.

10 And we'll try and get a balance on the committee,  
11 balance in terms of both geographic balance, in terms of  
12 size of companies -- majors, independents -- in terms of  
13 professional contribution. We don't want this to be all  
14 lawyers, nor do we want it to be all engineers, nor all  
15 geologists. So we'll try and put together a balanced  
16 committee.

17 And that committee will be charged with returning  
18 to me a draft order, but mainly draft rules and regulations  
19 for submission to industry and for the -- 30 days prior to  
20 a Commission hearing in September.

21 So we're looking somewhere around August 1st, the  
22 early part of August, for that committee to come back with  
23 their draft on some rules and regulations. And the  
24 Commission will hear that case at their September -- on  
25 their September docket and will enter an order.

1           Now, that draft that the Committee comes up with  
2 will be submitted to industry, and the docket, so everyone  
3 will have a chance to look at it and see if they agree or  
4 disagree and can come and submit testimony, of course, at  
5 our Commission hearing.

6           That's been our standard practice.

7           I just wanted you all to kind of get an idea of  
8 the schedule of that, because I've gotten a lot of  
9 telephone calls.

10           There's been a lot of concern that maybe some  
11 operators would lose some tax credit because we wouldn't  
12 have the rules and regulations in place.

13           It's my understanding that this law will become  
14 effective -- Is it June 18th? I think something like --

15           MS. LEACH: I believe that's --

16           CHAIRMAN LEMAY: I think -- Yeah. And from that  
17 date on, the tax credit will be effective, because we can  
18 give you retroactive tax credit.

19           If you look at the Bill -- You're not going to  
20 get a check in the mail if you have a successful workover.  
21 What happens is, there's going to be a tax credit against  
22 future production.

23           If you plan to work over your wells -- And I know  
24 a lot of you are waiting to see, you know, what kind of  
25 rules and regulations will be enacted so that you'll know

1 if you have a qualifying, maybe, workover project.

2 If you plan to do that, the only risk you'll be  
3 encountering -- I've talked to at least one Commissioner  
4 and -- I haven't checked with Gary. But there will be a  
5 double risk involved.

6 One will be that the workover procedure that you  
7 implement will be a qualifying project. In other words, if  
8 you do a frac job or recompleate in another zone, you feel  
9 pretty comfortable that will be an acceptable workover  
10 project.

11 If you change out some tubing, if you put a  
12 compressor on your gas well, you're going to have to make  
13 that assessment, whether you think the rules and regs are  
14 going to cover something like that.

15 So if you do it before you have rules and  
16 regulations in place, that's a risk you'll encounter.

17 Another risk you'll encounter is the length of  
18 primary production decline that we're going to have to have  
19 in order to establish the declines.

20 So if you complete a well and decide to work it  
21 over three months later, you know, I would say you're  
22 encountering significant risk because any rule and  
23 regulation that we adopt is going to have to have some kind  
24 of a time period for decline, to establish a decline so  
25 that any incremental oil over that decline will be able to



1 be defined.

2 So just for some guidance for those of you that  
3 are considering some workovers between now and the time  
4 that the Commission will adopt rules and regulations.

5 But it will be retroactive.

6 If you're lucky and your procedure qualifies and  
7 you have enough decline on that well -- And I say "enough  
8 decline". We're talking in terms of a year to 18 months, I  
9 think, somewhere in that realm. I'm not saying that -- The  
10 committee's going to have to come up with what's an  
11 acceptable period of production decline to qualify.

12 But those are two elements of risk you're going  
13 to be encountering. But if you qualify there, you'll get  
14 some retroactive tax benefit.

15 Any questions on that procedure that we plan to  
16 implement?

17 We're going to get something up and running as  
18 quick as we can.

19 The only other thing I'd like to point out is,  
20 there was no appropriation for the Division to handle this,  
21 so rules and regulations that would be put in place will  
22 definitely put the burden on industry to supply the  
23 information that's needed.

24 I'm talking about decline curves, mainly.  
25 Bringing wells back on production is relatively

1 straightforward if it's been shut in for a couple years,  
2 hasn't produced except one month out of the last two years,  
3 to bring the well back on. That's a pretty cut-and-dried  
4 proposition.

5 But when we're talking about the workover part of  
6 that bill, there could be a lot of work involved, and we  
7 have to put that work on the applicants. It's got to be a  
8 quick and easy, hopefully ONGARD-compatible process, so  
9 that we'll be able to implement it and you won't be waiting  
10 around a year and a half to find out if you've got a tax  
11 credit or not. Okay?

12 We don't have a date, I think, on the calendar  
13 yet for the September hearing, but I'll get together with  
14 the Commissioners.

15 And we'll definitely have, of course, a September  
16 hearing, and we plan to bring this Bill back for Commission  
17 consideration at the Commission hearing in September.

18 Did you have anything, Gary, you'd like to add to  
19 that?

20 COMMISSIONER CARLSON: No. Will there be  
21 Division personnel on the Committee?

22 CHAIRMAN LEMAY: Yes.

23 Commissioner Weiss?

24 COMMISSIONER WEISS: No, I have nothing.

25 CHAIRMAN LEMAY: Anything from the audience?

1                   We'll postpone and continue Case Number 11,273 to  
2 the Commission hearing in September, 1995.

3                   (Thereupon, these proceedings were concluded at  
4 9:15 a.m.)

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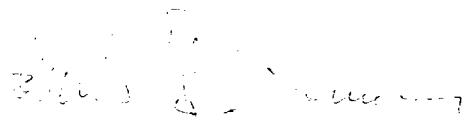
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO    )  
                                   )   ss.  
 COUNTY OF SANTA FE    )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 8th, 1995.

  
 STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998