

PRODUCTION RESTORATION AND WORKOVER INCENTIVE COMMITTEE

6-27-95

The first meeting of the Production Restoration and Workover Incentive Committee was held in the NMOCD office Conference Room at 9:00am 6/27/95. The attached attendance list reflects those who were at this meeting.

COMMITTEE ASSIGNMENT: Develop draft rules and regulations to promulgate HB 65 to provide for severance tax credit for production restoration and workover projects.

It was determined that several constraints drove the work of the committee. The constraints were as follows:

1. NMOCD has no budget to research or study an application.
2. The oil and gas incentive is too small to justify a large package required for justification and explanation of a project.
3. Project must receive quick approval by NMOCD.
4. Tax credit (refund) must be easy to document and obtain. Accounting procedures must be simple.
5. Record keeping in the NMOCD offices must be kept to a minimum.

The committee determined that the rules must address production restoration and workovers as two separate activities with separate requirements.

Production Restoration:

ONGARD records currently contain production history through 1994, however only through 1993 is accessible.

Well Qualification:

1. Operator to furnish 1-93 to 12-94 record of no production in form of C-115 or Electronic History from ONGARD based on API well numbers.
2. Furnish legal location
3. Incentive is wellhead dependent rather than reservoir dependent. In other words, well couldn't produce from any reservoir for this period.
4. 100% of restored production qualifies for tax reduction.
5. Committee must research what other states have incentive programs and what is being done on their programs.
 - a. *Eileen Cambell - Marathon will do search and furnish data to Bill Carr for dispersal to committee members.*

Potential Certification:

NMOCD to produce a list by operator of idle wells for the qualifying period. This list would certify a well as qualifying by the nature of the list. Operator could add to the list. Operator then initiates program with an application. NMOCD to have a one page application (necessary to get OCD approval for Tax & Revenue documentation). Also, this application contains operator signature on Affidavit that well has not produces.

Bill Carr to write letter to Mr. Lemay to see if this list is possible (cc: Martin and Chaves)

Committee recommendation that that NMOCD approval to be at District Office level.

Assuming NMOCD list is not available for 3 years, then C-115s will have to be history. However, copy of C-115s will not be submitted to show "0" production. The one page application will have an affidavit type statement that operator signs stating that no production existed. Burden of proof is on operator at time of audit. Operator may submit C-115 and explanation is some anomaly existed on the well such as 15 days production in January, 1994 for test purposes or some other reason.

Workover:

Committee reviewed chart that showed production history, forecast of future production without workover and forecast of workover results. This properly depicted the plan of the BILL.

Two questions immediately came forward:

1. What is method for prediction of decline?
2. What is a workover?

What is method for prediction of decline?

1. Utilize a production curve reflecting at least 12 months of actual production history. Operator to use sound engineering principles to forecast anticipated production and must sign an affidavit stating such.
2. Rules to provide a curve fit formula for operators to use to predict the slope of the decline line. (ARPS equation for example)
Travis Stice and Frank Gray to bring examples of decline curve tools to next meeting.

3. What method do NMOCD District office recommend?

Randy Patterson to visit with Artesia OCD office

Travis Stice to visit with Farmington OCD office.

Frank Gray to visit with Hobbs OCD office.

Visit to determine what is OCD 1). recommendation for prediction of decline forecast and 2) do they want to have the approval authority at the District office level.

Once the project is approved. The major thing that the NMOCD is approving is the forecast of continued production without workover. This forecast provides the base monthly production figures that will be used to determine incremental production eligible for reduce tax. The forecast of production has little or no bearing on the NMOCD determination of certification.

For accounting purposes the credit is to be determined on a monthly basis with an annual settlement with credit against future production. If production in a given month falls below the baseline production for that month, then both base and incremental go to "zero" for that month. No negative is allowed. Annual production eligible for reduced tax is the sum of all positive (+) monthly incremental.

What is a workover?

The bill contains the basis for determination of what is a workover. **Workover is any action that results in production increase. Maintenance is activity that maintains production.** The committee feels that the definition must be left a loose as possible to avoid the need for determination by the OCD on a technical basis. The proof is in the pudding! Did the work result in increased production?

Production from multiple workovers on the same well will qualify without additional application once the base decline curve and base production has been determined and certified.

Next meeting to be held at NMOCD office at 9:00am 7/19/95.

A handwritten signature in cursive script, reading "Frank Gray". The signature is written in dark ink on a white background.