

Exhibit 1, New Mexico Oil & Gas Association
Oil Conservation Commission Case 10492
"Adoption of Rules to Implement the Enhanced Oil Recovery Act"
Hearing Date: June 18, 1992

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
POST OFFICE BOX 2088
SANTA FE, NEW MEXICO 87504

**PROPOSED RULES AND PROCEDURES
FOR QUALIFICATIONS OF
ENHANCED OIL RECOVERY
PROJECTS AND CERTIFICATION FOR
THE RECOVERED OIL TAX RATE**

A. General

Applications for qualification of enhanced oil recovery projects or expansions of existing enhanced oil recovery projects for the recovered oil tax rate pursuant to the New Mexico "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5) shall be accepted by the Oil Conservation Division after March 6, 1992.

B. Applicability

These rules apply to:

1. enhanced oil recovery (EOR) projects;
2. expansions of existing EOR projects;
3. the expanded use of enhanced oil recovery technology in existing EOR projects;
and
4. the change from a secondary recovery project to a tertiary recovery project.

C. Definitions

1. "Crude oil" means oil and other liquid hydrocarbons removed from natural gas at or near the wellhead.

2. "Division" means the Oil Conservation Division of the Energy, Minerals and Natural Resources Department.
3. "Enhanced Oil Recovery (EOR) Project" means the use or the expanded use of any process for the displacement of crude oil from an oil well or pool classified by the Division other than a primary recovery process, including but not limited to the use of a pressure maintenance process, a waterflooding process, an immiscible, miscible, chemical, thermal or biological process, or any other related process.
4. "Expansion or Expanded Use" means a significant change or modification as determined by the Oil Conservation Division in (a) the technology or process used for the displacement of crude oil from an oil well or pool classified by the Division; or (b) the expansion, extension or increase in size of the geologic area or adjacent geologic area that could reasonably be determined to represent a new or unique area of activity.
5. "Operator" means the person responsible for the actual physical operation of an enhanced recovery project.
6. "Positive Production Response" means the displacement of crude oil from an oil wells or pools affected by an enhanced recovery project is greater than the rate that would have occurred without the project.
7. "Primary Recovery" means the displacement of crude oil from an oil well or pool classified by the Division into the well bore by means of the natural pressure of the oil well or pool, including but not limited to artificial lift.
8. "Recovery Oil Tax Rate" means the tax rate, as set forth in Paragraph (3) of Subsection A of Section 7-29-4 NMSA 1978, on all crude oil produced from an approved enhanced recovery project following certification ;of a positive production response.
9. "Secondary Recovery Project" means an enhanced recovery project that (a) occurs subsequent to the completion of a primary recovery and is not a tertiary recovery project; (b) involves the application, in accordance with sound engineering principles of carbon dioxide miscible fluid displacement, pressure maintenance, waterflooding or any other secondary recovery method accepted and approved by the Division that can reasonably be expected to result in an increase, determined in light of all facts and circumstances, in the amount of crude oil that may ultimately be recovered; and (c) encompasses a pool or portion of a pool the

primary boundaries of which can be adequately defined and controlled. Completion of a ~~secondary~~ recovery project means the date on which existing enhanced recovery operations are supplemented or replaced by additional recovery enhancement operations as described in subpart (b) of this definition.

10. "Termination" means the discontinuance of an enhanced recovery project by the operator.
11. "Tertiary Recovery Project" means an enhanced recovery project that (a) occurs subsequent to the completion of a secondary recovery project; (b) involves the application, in accordance with sound engineering principles, of carbon dioxide miscible fluid displacement, pressure maintenance water flooding or any other tertiary recovery method accepted and approved by the Division that can reasonably be expected to result in an increase, determined in light of all facts and circumstances, in the amount of crude oil that may ultimately be recovered; and (c) encompasses a pool of portion of a pool the boundaries of which can be adequately defined and controlled. Completion of a ~~tertiary~~ recovery project means the date on which existing enhanced recovery operations are supplemented or replaced by additional recovery enhancement operations as described in subpart (b) of this definition. *Secondary*

D. Procedures

1. The Division's general rules of procedure shall apply to applications for qualifications of EOR projects unless altered or amended by these rules.
2. To be eligible for the recovered oil tax rate, the operator must apply for and be granted Division approval of a new EOR project or the expansion of an existing EOR project prior to the commencement of actual injection of fluids into the reservoir, provided, however, no project or expansion approved by the Division prior to March 6, 1992, shall qualify for the recovered tax rate.
3. All applications for approval of EOR projects or the expansion of EOR projects shall be filed in triplicate with the Division at its Santa Fe office. One copy of the application and all attachments shall also be filed with the appropriate Division's district office.
4. All applications shall be executed and certified by the operator or its authorized representative having knowledge of the facts therein and shall contain:
 - a. Operator's name and address;
 - b. Description of the project area including:

- (1) a plat outlining the project area;
 - (2) description of the project area by section, township and range;
 - (3) total acres; and
 - (4) name of the subject pool and formation.
- c. Status of operations in the project area:
- (1) if unitized, the name of the unit and the date and number of the Division Order approving the unit plan of operation.
 - (2) if an application for approval of a unit plan has been made, the date the application was filed with the Division; and
 - (3) if not unitized, identify each lease in the project area by lessor, lessee and legal description.
- d. Method of recovery to be used:
- (1) identify the fluids to be injected;
 - (2) if the Division has approved the project, provide the date and number of the Division Order; and
 - (3) if the project has not been approved by the Division, provide the date the application for approval was filed with the Division on Form C-108.
- e. Description of the projection:
- (1) number of producing wells;
 - (2) number of injection wells;
 - ~~(3) capital cost of additional facilities;~~
 - ~~(4) total project costs;~~
 - ~~(5)~~(3) the estimated total value of the additional production that will be recovered as a result of this project;
 - ~~(6)~~(4) anticipated date for commencement of injection;

~~(7)(5)~~ if application is made for an expansion of an existing project, explain what changes in technology or operation will be used or what additional geographic area will be added to the project area.

f. Production history: Provide graphs, charts and other supporting data to show the production history of oil, gas, casinghead gas, and water from the project area.

5. ~~Upon receipt of the required information, the application will be set for hearing. The Division Director shall have authority to administratively approve an application or, at his discretion or at the request of the applicant, may set the application for hearing.~~

E. Approval - Certification

1. Project Approval and Certification: An EOR project will be approved, a certification for approval issued and the project area designated for the recovered oil tax rate when the operator proves that:

a. the application of the proposed enhanced recovery techniques to the reservoir should result in an increase in the amount of crude oil that may be ultimately recovered therefrom;

b. the project area has been so depleted that it is prudent to apply enhanced recovery techniques to maximize the ultimate recovery of crude oil; ~~and~~

c. the application is economically and technically reasonable and has not been prematurely filed; and

d. if the application is for a pilot project to test the feasibility of the process in a particular reservoir, the applicant must demonstrate that upon completion of a successful pilot project an economically reasonable expansion of the project can be expected to be implemented.

2. Positive Production Response Approval and Certification:

a. For the recovered oil tax rate to apply to all oil produced for an ~~qualified~~ approved EOR project, the operator must demonstrate a positive production response to the Division. Applications for certification of a positive production response shall be filed with the Division at its Santa Fe office and shall include:

- (1) a copy of the Division's certification of approval of the enhanced recovery project or expansion;
 - (2) a plat of the affected area showing all injection and producing wells with completion dates;
 - (3) production graphs and supporting data demonstrating a positive production response and showing the volumes of water or other substances that have been injected on the lease or unit since initiation of the enhanced recovery project.
- b. The Division Director shall have authority to administratively approve an application and certify a positive production response, or at his discretion or at the request of the applicant, may set the application for hearing.
 - c. The Division shall certify that a positive production response has occurred and notify the Secretary of Taxation and Revenue Department. This certification and notice shall set forth ~~the date the certification was made~~ and the date the positive production response occurred provided however:
 - (1) for secondary recovery project, the positive production response must occur not later than five (5) years from the date the Division issued the certification of approval of the enhanced oil recovery project or expansion; and
 - (2) for a tertiary recovery project, the positive production response must occur not later than seven (7) years from the date the Division issues the certification of approval for the enhanced recovery project or expansion.

F, Reporting Requirements

1. The operator of a certified EOR project shall report annually on the status of the project. The report will be for the year ending May 31 and shall be filed with the Division at its Santa Fe office. The report shall contain:
 - a. The date and number of the Division's certification order for the project.
 - b. Production graphs showing oil, gas and water production.
 - c. A graph showing the volumes of fluid injected and the average injection pressures.

- d. ~~Certification~~ Confirmation that the project is still a viable EOR project as approved.
- e. ~~Any additional data the Director deems necessary for continued approval; further the director may set any such application for hearing would it appear necessary.~~

G. Termination

1. When active operation of an approved enhanced recovery project or expansion is terminated, the operator shall notify the Division and the Secretary of Taxation and Revenue in writing not later than the thirtieth (30th) day after the termination of the enhanced recovery project or expansion.
2. Qualification for the recovered oil tax rate ends on the first day of the first calendar month that begins on or after the ninety-first day following the termination of the enhanced recovery project or expansion.