

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF CONSIDERING:**

**CASE NO. 14139
ORDER NO. R-4442-D**

**APPLICATION OF CHEVRON U.S.A., INC. FOR QUALIFICATION OF THE
VACUUM GRAYBURG-SAN ANDRES UNIT TERTIARY RECOVERY
PROJECT FOR THE RECOVERED OIL TAX RATE PURSUANT TO THE
ENHANCED OIL RECOVERY ACT, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 12, 2008 at Santa Fe, New Mexico, before Examiners Carol Leach, Esq., and William V. Jones.

NOW, on this 17th day of June, 2008, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.
- (2) Chevron U.S.A., Inc. ("Chevron") seeks an order allowing qualification of its Vacuum Grayburg-San Andres Unit Tertiary Recovery Project for the Enhanced Oil Recovery Tax Rate.
- (3) Chevron has provided notice of this application to 24 interested parties in accordance with Division rules and has published notice in the newspaper.
- (4) No other parties appeared in this case or otherwise opposed this application.
- (5) Division Order No. R-4442-B dated December 11, 2007, in Case No 13961, authorized Chevron to inject carbon dioxide along with water into the Vacuum Grayburg-San Andres Unit Tertiary Recovery Project.

(6) In Case No. 13961 on August 23, 2007, Chevron presented Exhibit No. 15 and testimony toward qualifying this project for the Recovered Oil Tax Rate; however the request for qualification was not included in that case as advertised, and Chevron asked it be considered at a future time.

(7) In Case No. 13961 and more recently in Case No. 14114 (R-4442-C), Chevron offered evidence that showed that the project area had been depleted and that proposed enhanced recovery technique should result in an increase in the amount of crude oil that may be ultimately recovered. Chevron also showed that the application for tertiary recovery was economical and technically reasonable and was not prematurely filed.

(8) The methods that Chevron has proposed to utilize in its tertiary recovery operations will prevent waste of oil and gas and with a reasonable probability substantially increase the amount of hydrocarbons produced from the reservoir.

(9) Chevron presented exhibits by affidavit at the hearing, including written testimony from the manager of the project summarizing the project history and this application. Attachment "A" of Exhibit No. 1 contains all the information required by Division rules to qualify this project under the Enhanced Oil Recovery Act.

(10) The evidence establishes that the tertiary recovery project meets all the criteria for certification by the Division as a qualified "Enhanced Oil Recovery (EOR) Project" pursuant to the "Enhanced Oil Recovery Act" (NMSA 1978 Sections 7-29A-1 through 7-29A-5).

(11) To become eligible for the EOR credit, the operator should advise the Division of the date at which CO2 injection commences into the project and should ask the Division to certify this project and the first injection date to the New Mexico Taxation and Revenue Department.

(12) Within five years of the first injection date and after the operator identifies a positive production response, the operator should apply to the Division, asking the Division to certify this positive production response to the New Mexico Taxation and Revenue Department. The EOR project area and/or the producing wells within this area eligible for the recovered oil tax rate may be contracted or expanded depending upon the evidence presented by the applicant in its demonstration of the occurrence of a positive production response.

(13) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Chevron, U.S.A., Inc. is approved and the Vacuum Grayburg San Andres Tertiary Recovery Project as defined in Division Order No. R-4442, as amended, is hereby approved as an "Enhanced Oil Recovery Project" pursuant to the "Enhanced Oil Recovery Act" (NMSA 1978 Sections 7-29A-1 through 7-29A-5).

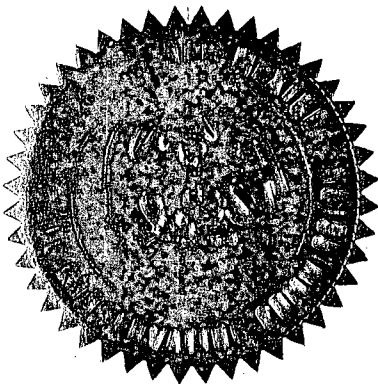
(2) To be eligible for the EOR tax rate, the unit operator shall advise the Division of the date on which CO2 injection commences into the project area and shall request the Division certify the project and the date of first injection to the New Mexico Taxation and Revenue Department.

(3) At such time as a positive production response occurs, and within five years from the date the project was certified to the New Mexico Taxation and Revenue Department, the unit operator must apply to the Division for certification of a "positive production response." The Division may review the application administratively or set it for hearing. Based upon the evidence presented, the Division will certify to the New Mexico Taxation and Revenue Department those wells that are eligible for the EOR tax rate.

(4) This application for "positive production response" shall identify the area benefiting from enhanced oil recovery operations and the specific wells eligible for the EOR tax rate. The area and/or the producing wells eligible for the enhanced oil recovery (EOR) tax rate may be contracted or expanded based upon the evidence presented by the unit operator in its demonstration of a positive production response.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "M. E. Fesmire".

MARK E. FESMIRE, P.E.
Director