

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	SF
Maurice Trimmer	Pyram Co	SF
M. P. Stone	NMCC	Santa Fe
Keith Andrews	NMOGA	Santa Fe
Neil Wagoner	ITANK	Santa Fe
Robert Orr	PEPA	Midland, TX
Ned Kendrick	Montgomery + Andrews	Santa Fe
FRANK GRAY	TEXACO E&P INC	Midland, TX

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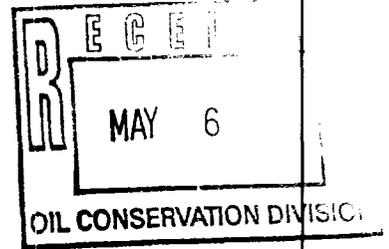
Hearing Date APRIL 27, 1995 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION

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

CASE NO. 11,273

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.

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I N D E X

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

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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 recomplete 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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