

David Catanach

From: Frank Chavez
To: David Catanach
Subject: RE: PROPOSED METHOD OF DETERMINING FUTURE PROD.
Date: Thursday, July 18, 1996 3:46PM

I don't have any problem with approving Amoco's application.

From: David Catanach
Sent: Thursday, July 18, 1996 3:24 PM
To: Tim Gum; Jerry Sexton; Frank Chavez
Subject: PROPOSED METHOD OF DETERMINING FUTURE PROD.

Gentlemen:

On the June 27th docket, Amoco Production Company came in for hearing requesting the qualification of several well workover projects in the San Juan Basin. What is unique about these applications is that they want to use a straight line projection of future production in lieu of utilizing a production forecast based upon decline curve analysis. As I understand the process, the well's average producing rate during the 12-month period immediately preceding the well workover will be utilized as the constant projected future rate of production. Amoco testified that the benefits to utilizing this method are as follows:

- Reasonable estimate of the productive capability of the well;
- Less subjective than estimated decline;
- Simple for the operator to determine;
- Easy for NMOCD to verify and certify;
- Easy to manage in dual tax rate accounting;
- Limits the amount of production which will qualify for the Incentive Tax Rate;

Amoco further testified that this method considerably reduces the initial burden of calculating production tables, entering these numbers into an accounting system, and continually tracking to determine what production qualifies for the reduced tax rate.

Upon initial examination of this process, it appears that in the majority of cases, the proposed straight line forecast will be higher than that obtained by a decline curve forecast, so that the operator, in exchange for reduced administrative burden, is giving up the tax break on some amount of its production. I suppose that there could be some cases where the opposite is true, however, in cases such as that, the Division could require the use of decline curve forecast.

I can't see many drawbacks to utilizing the straight line method, however, I suspect that if we approve these applications, this method will be employed by all operators almost exclusively. In this regard, I wanted to solicit your opinions on the proposed method. I've talked to Bill LeMay and he appears to support this method inasmuch as he thinks this might stimulate further workovers due to the reduced administrative burden.

The other issue Amoco brought up at the hearing was the case where a well, because of well loading or other problems, has some months prior to the workover where there is no production. Amoco testified that at least in the case of wells loading up, the well usually experiences flush production the following month, therefore, utilizing the straight line method will be accurate, even if there are some months of no production. What do you guys think of this concept, and how do you handle this situation now?

I would appreciate any comments or insight you can give me on these issues. Thanks for your help.

David C.