

**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 AN ORDER ADOPTING RULES TO
IMPLEMENT THE NATURAL GAS AND
CRUDE OIL PRODUCTION INCENTIVE ACT.**

**CASE NO. 11273
Order No. R-10505**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on September 28, 1995, at Santa Fe, New Mexico, before the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 9th day of November, 1995, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The Legislature of the State of New Mexico approved the "Natural Gas and Crude Oil Production Incentive Act" (Laws 1995, Chapter 15, Sections 1 through 8).

(3) The Legislature directed the Oil Conservation Division to adopt rules and regulations pursuant to the Natural Gas and Crude Oil Production Incentive Act for approval of production restoration projects.

(4) "Production restoration projects" means the use by an operator of any process for returning to production a natural gas or oil well that had thirty days or less of production between January 1, 1993 and December 31, 1994 as approved and certified by the Oil Conservation Division.

(5) Within twelve (12) months of the date production has been restored on a production restoration project, and upon application filed with the Division by the operator of the well, production restoration projects shall be approved pursuant to the provisions of the Natural Gas and Crude Oil Production Incentive Act, NMSA 1978, Section 7-29B-1 et seq., and the rules and regulations of the Division.

(6) It is necessary to adopt rules, as set out in Exhibit A attached hereto, to meet the requirements of the Natural Gas and Crude Oil Production Incentive Act for approval and certification by the Division of production restoration projects.

(7) The Legislature directed the Oil Conservation Division to adopt rules and regulations pursuant to the Natural Gas and Crude Oil Production Incentive Act for approval of well workover projects.

(8) "Well workover projects" means any procedure undertaken by the operator of a natural gas or oil well that is intended to increase the production from the well and that has been approved and certified by the Division.

(9) Well workover projects shall be approved if the Division determines that the procedure proposed to be undertaken by the operator of this well is a procedure intended to increase the production from the well, and not routine maintenance that would be performed by a prudent operator to maintain the well in operation.

(10) The following workover procedures, as identified in the Natural Gas and Crude Oil Production Incentive Act, are not routine maintenance performed to maintain the well in operation and are procedures which, when undertaken by the operator of a well to increase production from the well, make the well eligible for approval as a well workover project. The Division should determine that these procedures are pre-approved when undertaken by the operator:

- (a) re-entry into the well to drill deeper, to side track to a different location or to recomplete for production;
- (b) recompletion by reperforation of a zone from which natural gas or oil has been produced or by perforation of a different zone;
- (c) repair or replacement of faulty or damaged casing or related downhole equipment;
- (d) fracturing, acidizing or installing compression equipment; and

- (e) squeezing, cementing or installing equipment necessary for removal of excessive water, brine, or condensate from the wellbore in order to establish, continue or increase production from the well;

(11) When the operator of a well proposes to undertake a procedure which is not routine maintenance performed to maintain the well in operation but which is intended to increase the production from the well and which is not pre-approved by the Division, the operator should request a determination from the Division that the proposed procedure qualifies as a well workover project under the Natural Gas and Crude Oil Production Incentive Act. Requests for determination should be in writing to the Division at the appropriate District office. The proposed workover procedure should not be undertaken until a written determination is made by the Division that the proposed workover procedure qualified under the Natural Gas and Crude Oil Production Incentive Act. If proposed workover procedure is disallowed by the Division, the operator may appeal that decision at an examiner hearing.

(12) At the hearing, El Paso Natural Gas Company recommended that the following definition of "Compression" be included in the rules and procedures for qualification of well workover projects:

"Compression" means natural gas compressors that an operator causes to be installed on its lease near the wellhead, or causes to be installed, either acting alone or in conjunction with other operators, on gathering lines connected to wells on the operator's lease.

(13) Well workover projects may be approved under the Natural Gas and Crude Oil Production Incentive Act only when there is an approved procedure undertaken by the operator of a natural gas or oil well, that is intended to increase the production from the well.

(14) El Paso's recommended definition of "Compression" is too general as it relates to Natural Gas and Crude Oil Production Incentive Act and its request to include this definition in the rules and procedures for qualification of well workover projects should be denied.

(15) Within twelve (12) months of the date that the well workover project has been completed, and upon application filed with the Division by the operator of the well, well workover projects shall be approved pursuant to the provisions of the Natural Gas and Crude Oil Production Incentive Act, NMSA 1978, Section 7-29B-1 et seq., and the rules and regulations of the Division.

(16) It is necessary to adopt rules, as set forth in Exhibit B attached hereto, to meet the requirements of the Natural Gas and Crude Oil Production Incentive Act for approval and certification by the Division of well workover projects.

IT IS THEREFORE ORDERED THAT:

(1) The "Rules and Procedures for Qualification of Production Restoration Projects and Certification for the Production Restoration Incentive Tax Exemption" contained in Exhibit A attached hereto and the "Rules and Procedures for Qualification of Well Workover Projects and Certification for the Well Workover Incentive Tax Rate" contained in Exhibit B attached hereto are hereby adopted and made a part of this order.

(2) The following workover procedures, when undertaken by the operator to increase production from the well, are approved workover procedures:

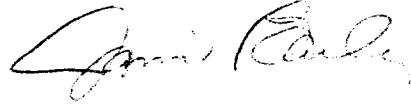
- (a) re-entry into the well to drill deeper, to side track to a different location or to recomplete for production;
- (b) recompletion by reperforation of a zone from which natural gas or oil has been produced or by perforation of a different zone;
- (c) repair or replacement of faulty or damaged casing or related downhole equipment;
- (d) fracturing, acidizing or installing compression equipment; and
- (e) squeezing, cementing or installing equipment necessary for removal of excessive water, brine, or condensate from the wellbore in order to establish, continue or increase production from the well;

(3) The request of El Paso Natural Gas Company for the inclusion of an additional definition of "Compression" is denied.

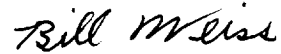
(4) Jurisdiction is hereby retained for the entry of such further orders as the Commission may deem necessary.

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

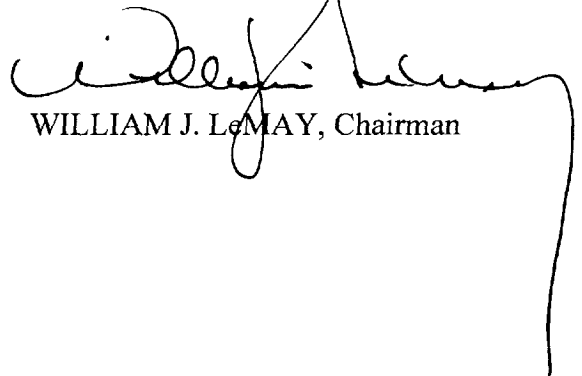
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



JAMI BAILEY, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman

S E A L

Exhibit "A" - Rule 712
Case No. 11273
Order No. R-10505

RULES AND PROCEDURES FOR
QUALIFICATION OF PRODUCTION RESTORATION PROJECTS
AND CERTIFICATION FOR THE PRODUCTION RESTORATION
INCENTIVE TAX EXEMPTION

A. GENERAL

Application for qualification of production restoration projects for the production restoration incentive tax exemption pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Laws 1995, Chapter 15, Sections 1 through 8) shall be accepted by the Oil Conservation Division after November 9, 1995.

B. APPLICABILITY

These rules apply to any natural gas well or oil well that the Oil Conservation Division records show had thirty (30) days or less production between January 1, 1993 and December 31, 1994 upon which the operator commenced operations to restore production after June 16, 1995.

C. DEFINITIONS

1. "Department" means the Taxation and Revenue Department;
2. "Division" means the Oil Conservation Division of the Energy, Minerals and Natural Resources Department;
3. "Natural Gas" means any combustible vapor composed chiefly of hydrocarbons occurring naturally, including casinghead gas;
4. "Oil" means any petroleum hydrocarbon produced from a well in the liquid phase and which existed in the liquid phase in the reservoir and liquid recovered at the surface that results from condensation due to reduced pressure or temperature of petroleum hydrocarbons existing in a gaseous phase in the reservoir;
5. "Operator" means the person responsible for the actual physical operation of a natural gas or oil well;

6. "Production Restoration Incentive Tax Exemption" means the tax exemption for natural gas and/or oil produced from an approved production restoration project. This production receives an exemption from the oil and gas severance tax of three and three fourths percent (3 3/4%) of the taxable value of the product as imposed by Section 7-29-4.1 NMSA 1978. This exemption shall apply to natural gas severed and sold, or the crude oil, and other liquid hydrocarbons removed from the natural gas at or near the wellhead from a production restoration project during the first ten years of production following the restoration of production, provided the annual average price of West Texas Intermediate Crude Oil, determined by the Taxation and Revenue Department is less than twenty four dollars (\$24.00) per barrel;
7. "Production Restoration Project" means returning to production any natural gas or oil well, including but not limited to any injection well which has previously produced, which had no more than thirty (30) days of consecutive or non-consecutive days of production between January 1, 1993 and December 31, 1994 as approved and certified by the Division;
8. "Well" means a wellbore with single or multiple completions, including all horizons and producing formations from the surface to total depth.

D. PROCEDURE

1. The Division's general rules of procedure shall apply to applications for qualification of production restoration projects unless altered or amended by these rules.
2. To be eligible for the production restoration incentive tax exemption, the operator must apply for and be granted Division approval of a production restoration project pursuant to the applicable rules and regulations of the Division. No production restoration project commenced prior to June 16, 1995 shall qualify for the production restoration incentive tax exemption.
3. An application must be filed with the Division within twelve (12) months of the production restoration.
4. All applications for approval of production restoration projects shall be filed by the operator on behalf of all interest owners in the project.
5. All applications shall be filed in triplicate with the Division at its appropriate District office on Division Form C-139 and shall contain:
 - A. Operator's name and address.
 - B. Description of the production restoration project including:
 1. name and footage location of the well;

2. name of the pool from which the well previously produced;
3. a description of the process used, or to be used by the operator of the well for returning the well to production;
4. identification of the Division records which show that the Well had thirty (30) days or less production between January 1, 1993 and December 31, 1994;
5. date the project was commenced and date the well was returned to production;
6. a statement under oath by the operator or its authorized representative having knowledge of the facts contained in the application for qualification of production restoration project that:
 - a. the data in the application is complete and correct;
 - b. that production from the well has been reported to the Division and that the Division records establish that the Well had thirty (30) days or less production between January 1, 1993 and December 31, 1994.

E. APPROVAL - CERTIFICATION

1. PROJECT APPROVAL CERTIFICATION

A production restoration project shall be approved and a certification of approval issued to the operator designating the natural gas well or oil well as a production restoration project when the operator proves that:

- a. after June 16, 1995, the operator has commenced any process to return the well to production;
- b. Division records show the well had thirty (30) days or less of production between January 1, 1993 and December 31, 1994.

The production restoration incentive tax exemption shall apply beginning the first day of the month following the date the well was returned to production, as certified by the Division.

2. NOTIFICATION TO THE SECRETARY OF TAXATION AND REVENUE

The Division shall immediately notify the Secretary of Taxation and Revenue of the approval of a production restoration project. This notice shall identify the natural gas well or oil well as a production restoration project and certify the date that production was restored.

3. HEARINGS

The Division shall consider applications for approval of production restoration projects without holding a hearing thereon. If the Division District office denies an application, the Division, upon request of the applicant, shall set the application for hearing before a Division hearing Examiner in accordance with the rules of the Division. Any application which has not been acted upon by the Division District office within thirty (30) days from the date it is filed with the appropriate Division District office shall be deemed to have been denied for the purpose of this rule.

Exhibit "B" - Rule 713
Case No. 11273
Order No. R-10505

RULES AND PROCEDURES FOR
QUALIFICATION OF WELL WORKOVER PROJECTS
AND CERTIFICATION FOR THE WELL
WORKOVER INCENTIVE TAX RATE

A. GENERAL

Application for qualification of well workover projects for the well workover incentive tax rate pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Laws 1995, Chapter 15, Sections 1 through 8) shall be accepted by the Oil Conservation Division after November 9, 1995.

B. APPLICABILITY

These rules apply to any natural gas well or oil well upon which the operator has commenced a workover after June 16, 1995 that is intended to increase the production from the well.

C. DEFINITIONS - For the purposes of these rules:

1. "Department" means the Taxation and Revenue Department;
2. "Division" means the Oil Conservation Division of the Energy, Minerals and Natural Resources Department;
3. "Natural Gas" means any combustible vapor composed chiefly of hydrocarbons occurring naturally, including casinghead gas;
4. "Oil" means any petroleum hydrocarbon produced from a well in the liquid phase and which existed in the liquid phase in the reservoir and liquid recovered at the surface that results from condensation due to reduced pressure or temperature of petroleum hydrocarbons existing in a gaseous phase in the reservoir;
5. "Operator" means the person responsible for the actual physical operation of a natural gas or oil well;
6. "Production Projection" means the estimate of the productive capacity (both oil and/or gas) of a natural gas or oil well that is certified by the Division pursuant to the provisions of the Natural Gas and Crude Oil Production Incentive Act as the future rate of production from the well based on well performance prior to performing a workover;

7. "Routine Maintenance" means repair or like-for-like replacement of downhole equipment or any other procedure performed by an operator to maintain the well's current production;
8. "Well" means a wellbore with single or multiple completions, including all horizons and producing formations from the surface to total depth.
9. "Well Workover Incentive Tax Rate" means the tax rate set on the Natural Gas and/or Oil produced in excess of the Production Projection from a well workover project. An Oil and Gas Severance Tax of one and seven-eighths (1 7/8%) of the taxable value of the product as imposed by Section 7-29-4.1 NMSA 1978 shall apply to the natural gas, crude oil and liquid hydrocarbons removed from natural gas at or near the wellhead from an approved well workover project that is in excess of the production projection certified by the Division to the Taxation and Revenue Department, provided the annual average price of West Texas Intermediate Crude Oil, determined by the Taxation and Revenue Department is less than twenty four dollars (\$24.00) per barrel;
10. "Well Workover Project" means any procedure undertaken by the operator of a natural gas or oil well that is intended to increase the production from the Well and that has been approved and certified by the Division;
11. "Workover" means any procedure undertaken by the operator of the well which is intended to increase the production from the well but is not routine maintenance. "Workover" includes, but is not limited to:
 - A. Re-entry into the well to drill deeper, to sidetrack to a different location, to recomplete for production or to restore production from a zone which has been temporarily abandoned;
 - B. Recompletion by re-perforation of a zone from which Natural Gas or Oil has been produced or by perforation of a different zone;
 - C. Repair or replacement of faulty or damaged casing or related downhole equipment;
 - D. Fracturing, acidizing or installing compression equipment;
 - E. Squeezing, cementing or installing equipment necessary for removal of excessive water, brine or condensate from the well bore in order to establish, continue or increase production from the well;

D. PROCEDURE

1. The Division's general rules of procedure shall apply to applications for qualification of well workover projects unless altered or amended by these rules.
2. To be eligible for the well workover incentive tax rate the operator must apply for and be granted Division approval of a well workover project pursuant to the applicable rules and regulations of the Division. No well workover project commenced by the operator prior to June 16, 1995 shall qualify for the well workover incentive tax rate.
3. An application must be filed with the Division within twelve (12) months of completion of the workover.
4. All applications for approval of well workover projects shall be filed by the operator on behalf of all interest owners in the project.
5. The data utilized to make the production projection for the well shall be retained by the operator in its files during the period of time the well qualifies for and receives the well workover incentive tax rate authorized by the "Natural Gas and Crude Oil Production Incentive Act" and for such time thereafter as required by the Taxation and Revenue Department.
6. All applications shall be filed in the triplicate with the Division at its appropriate District office on Division Form C-140 and shall contain:
 - A. Operator's name and address.
 - B. Description of the well workover project including:
 1. name and footage location of the well;
 2. name of the pool and formation on which the production projection is based;
 3. the date workover procedures commenced and were completed;
 4. a description of the procedures undertaken by the operator of the well that are intended to increase the production from the well;

5. a decline curve, or other acceptable method, specifying producing interval(s), and monthly tabulated estimate of the production rate of natural gas and oil from the well, based on at least twelve (12) months of established production, which shows the future rate of production based on well performance prior to performing the workover;
6. a description of the method used to project the future production rate of the well;
7. any other documentation which the applicant determined may be applicable to this filing, such as Division forms or Division orders;
8. a statement under oath by the operator or its authorized representative having knowledge of the facts contained in the Application for qualification of well workover projects that:
 - a. he/she has made or caused to be made a diligent search of all production records which are reasonably available and contain information relevant to the production history of the well;
 - b. to the best of its knowledge, the data in the application is complete and correct and that the data used to predict the future productive rate of the well is complete and accurate;
 - c. the production projection for the well was prepared using sound petroleum engineering principles;

E. APPROVAL - CERTIFICATION

1. PROJECT APPROVAL CERTIFICATION

A workover shall be approved and a certification of approval shall be issued to the operator designating the natural gas well or oil well as a well workover project when the operator proves that:

- a. approved workover procedures have been undertaken on the well which are intended to increase the production from the well; and
- b. the future rate of production from the well prior to the performance of the well workover procedures has been established in accordance with sound engineering principles.

The well workover incentive tax rate shall apply beginning the first day of the month following the date the workover was completed, as certified by the Division.

2. NOTIFICATION TO THE SECRETARY OF TAXATION AND REVENUE

The Division shall immediately notify the Secretary of Taxation and Revenue of the approval of a well workover project. This notice shall identify the natural gas well or oil well as a well workover project, certify the production projection for the Well as verified by the Division and certify the date that the well workover project was completed.

3. HEARINGS - REQUESTS FOR ADDITIONAL INFORMATION

The Division shall consider applications for approval of well workover projects without holding a hearing thereon. If the Division District office denies an application, the Division, upon request of the applicant, shall set the application for hearing before a Division hearing Examiner in accordance with the rules of the Division. Any application which has not been acted upon by the Division within thirty (30) days of the date it is filed with the appropriate Division District office shall be deemed to have been denied for the purpose of this rule.

The Division may request additional information from the operator in support of an application. Where additional information is requested, the 30-day approval period shall begin to run on the date the requested data has been provided by the operator.