

OCD Exhibits 1 through
Complete set 6

**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 _____ (effective date of rule)

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 on 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;

**BEFORE THE
OIL CONSERVATION COMMISSION**
Santa Fe, New Mexico

6. "Production Restoration Incentive Tax Exemption" means the tax exemption set forth in Subsection B of Section 7-29-4 NMSA 1978 for Natural Gas and/or Oil produced from a Production Restoration Project;
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 triplicate with the Division at its appropriate District Office.
5. All applications shall be filed on Division Form ____ 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 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 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 shall be 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. PROCEDURES:

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.

APPLICATION FOR QUALIFICATION OF PRODUCTION RESTORATION PROJECT
AND CERTIFICATION OF APPROVAL

- I. Operator: _____ OGRID # _____
Address: _____
Contact Party: _____ Phone: _____
- II. Name of Well: _____ API # _____
Location of Well:
Unit Letter _____, _____ Feet from the _____ line and _____ feet from the _____ line,
Section _____, Township _____, Range _____, NMPM, _____ County
- III. Previous Producing Pool Name: _____
- IV. Describe the process used to return the Well to production. (Attach additional information if necessary)

- V. Date the Production Restoration Project was commenced: _____
Date the Well was returned to production: _____
- VI. Identify the Oil Conservation Division records which show the Well had thirty (30) days or less
production between January 1, 1993 and December 31, 1994:
[] Ongard inactive well list; or [] OCD Form C-115 (Operator's Monthly Report)

VII. AFFIDAVIT:

State of _____)
County of _____) ss.

_____, being first duly sworn, upon oath states:

1. I am the Operator or authorized representative of the Operator of the above referenced Well.
2. I have personal knowledge of the facts contained in this Application for Qualification of a Production Restoration Project.
3. The data utilized to prepare this application is complete and correct.

(Name)

(Title)

SUBSCRIBED AND SWORN TO before me this _____ day of _____, 19__.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 11273 Exhibit No. 2

Submitted by: Oil Conservation Division

Hearing Date: September 28 1995

Notary Public

My Commission expires: _____

FOR OIL CONSERVATION DIVISION USE ONLY:

VIII. CERTIFICATION OF APPROVAL:

This Application for Qualification of a Production Restoration Project is hereby approved and the above referenced Well is designated as a Production Restoration Project pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Laws 1995, Chapter 15, Sections 1 through 8). By copy of this Application and Certification of Approval, the Division notifies the Secretary of the Taxation and Revenue Department of this Approval and certifies that production was restored by this Production Restoration Project on:

_____, 19__.

District Supervisor, District ____
Oil Conservation Division

Date: _____

IX. NOTIFICATION TO THE SECRETARY OF THE TAXATION AND REVENUE DEPARTMENT.

DATE: _____

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

**BEFORE THE
OIL CONSERVATION COMMISSION**
Santa Fe, New Mexico

Case No. 11273 Exhibit No. 3

Submitted by: Oil Conservation Division

Hearing Date: September 28, 1995

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 _____.(effective date of rule)

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 forth in Paragraphs (4) and (5) of Subsection A of Section 7-29-4 NMSA 1978 on the Natural Gas and/or Oil produced in excess of the Production Projection from a Well Workover Project; and
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 a 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 recompleat 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;

- F. Replacement of unlike equipment, including downhole equipment, compression, surface pumping equipment, or artificial lift systems; and
- G. Installation of artificial lift equipment to a flowing well or well that is no longer capable of flowing.

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 triplicate with the Division at its appropriate District Office.
- 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".
- 6. All applications shall be filed on Division Form ____ 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 determines 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. 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 petroleum 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. PROCEDURES:

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 District Office 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.

APPLICATION FOR QUALIFICATION OF WELL WORKOVER PROJECT
AND CERTIFICATION OF APPROVAL

I. Operator: _____ OGRID # _____

Address: _____

Contact Party: _____ Phone: _____

II. Name of Well: _____ API # _____

Location of Well:

Unit Letter _____ Feet from the _____ line and _____ feet from the _____ line,
Section _____ Township _____ Range _____, NMPM, _____ County

III. Date Workover Procedures Commenced: _____

Date Workover Procedures were Completed: _____

IV. Attach a description of the Workover Procedures undertaken to increase the production from the Well.

V. Attach an estimate of the oil and gas production rate of the Well (a production decline curve or other acceptable method, and table showing monthly oil and/or gas Production Projection) 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.

VI. Pool(s) on which Production Projection is based: _____

VII. AFFIDAVIT:

State of _____)

) ss.

County of _____)

_____ being first duly sworn, upon oath states:

1. I am the Operator or authorized representative of the Operator of the above referenced Well.
2. I have made, or caused to be made, a diligent search of the production records which are reasonably available and contain information relevant to the production history of this Well.
3. To the best of my knowledge, the data used to prepare the Production Projection for this Well is complete and accurate and this projection was prepared using sound petroleum engineering principles.

(Name)

(Title)

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 11273 Exhibit No. 4

Submitted by: Oil Conservation Division

Hearing Date: September 28, 1995

SUBSCRIBED AND SWORN TO before me this ____ day of _____, 19__.

Notary Public

My Commission expires: _____

FOR OIL CONSERVATION DIVISION USE ONLY:

VIII. CERTIFICATION OF APPROVAL:

This Application for Qualification of Well Workover Project is hereby approved and the above referenced Well is designated as a Well Workover Project pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Laws 1995, Chapter 15, Sections 1 through 8). The Oil Conservation Division hereby verifies the Production Projection for the Well Workover Project attached to this application. By copy of this Application and Certification of Approval, the Division notifies the Secretary of the Taxation and Revenue Department of this Approval and certifies that this Well Workover Project has been completed as of _____, 19__.

District Supervisor, District ____
Oil Conservation Division

Date: _____

IX. NOTIFICATION TO THE SECRETARY OF THE TAXATION AND REVENUE DEPARTMENT.

DATE: _____



ARCO Permian
 600 North Marienfeld
 Midland TX 79701-4373
 PO Box 1610
 Midland TX 79702-1610
 Telephone 915 688 5338

Elizabeth S. Bush
 Coordinator, Public Issues

**BEFORE THE
 OIL CONSERVATION COMMISSION
 Santa Fe, New Mexico**

Case No. 11273 Exhibit No. 5

September 13, 1995

Submitted by: Oil Conservation Division

Hearing Date: September 28, 1995

Mr. William J. LeMay, Director
 New Mexico Oil Conservation Division
 2040 South Pacheco
 Santa Fe, NM 87505

RE: Proposed Rules and Procedures
 Natural Gas and Crude Oil Production Incentive Act

Dear Mr. LeMay,

ARCO Permian a unit of Atlantic Richfield Company appreciates the opportunity to comment on the proposed rules implementing the Natural Gas and Crude Oil Production Incentive Act (HB 65). We support the Commission's efforts to keep the rules short, concise and easy to administer.

ARCO Permian offers the following comments and suggestions for your consideration in preparing the final rules.

Production Restoration

Definitions

We suggest that a definition of owner be added. Owner for purposes of these rules and the Act should be limited to working interest owners.

Form: The space size needs to be increased for the person's name who is attesting to the accuracy of the information provided.

Well Workover Projects

C. Definitions

We suggest that a definition of owner be added. Owner for purposes of these rules and the Act should be limited to working interest owners.

10. Well workover project - this definition implies that workover projects must be approved prior to the work being done in order to be considered for qualification. This needs clarification as requiring prior approval could lead to an unnecessary administrative burden for both the

ARCO Permian
Proposed Rules and Regulations
Natural Gas and Crude Oil Production Incentive Act

Commission and the operators. Operators could be expected to submit every proposed workover for approval in order to protect their opportunity for qualifying for the incentive. A possible solution could be pre-approval by rule of all work normally not requiring advance Commission approval.

D. Procedure

4. We suggest this be clarified to state that applications are filed on “behalf of all **working** interest owners.”

If you have any question about our comments, please contact me at the above address and number.

Sincerely,



Elizabeth S. Bush
Coordinator, Public Issues

ESB

cc: Mr. W. F. Carr
NMOGA

SEP-15-95 FRI 11:41 AM TAXATION&REVENUE DIST A FAX NO. 5058270056

P. 02



STATE OF NEW MEXICO
Taxation and Revenue Department

An Equal Opportunity Employer

Office of the Secretary
 (505) 827-0341
 Administrative Services
 (505) 827-0369
 Audit and Compliance
 (505) 827-0900
 Motor Transportation
 (505) 827-0320
 Motor Vehicle
 (505) 827-2294
 Property Tax
 (505) 827-0870
 Revenue Processing
 (505) 827-0800

Gary E. Johnson
 Governor

John J. Chavez
 Secretary

MEMORANDUM

TO: Deborah Seligman, NMOGA

FROM: Valdean Severson, Manager, Oil and Gas Audit and Compliance and
 Janet Sobien, Supervisor, Oil and Gas Audit and Compliance

DATE: September 14, 1995

SUBJECT: Comments on Draft Rules and Procedures

These comments were prepared by Audit and Compliance personnel, and have not yet been reviewed by Jim O'Neill. This document will be provided to him on Monday. If you have any questions, or would like to meet with the Department, please do not hesitate to call either Jim or Valdean.

PROPOSED REGULATIONS TO WELL WORKOVER INCENTIVE TAX RATE

1. In the definition of well on page two, the term "formation" is identified. OCD administers oil and gas production in this State at a pool level. Are we correct to assume that the word "formation" in these regulations represents a pool as far as OCD is concerned? If this is not the case, proper administration will not be possible because at the present time, a link between a formation and a pool has not been identified in ONGARD. Note that on your form, you are recognizing the term "pool" when requesting the basis of the production projection.
2. Again, based on your definition of well on page two, it is our understanding that a "well", for purposes of this regulation, may include multiple pools. Therefore, the incentive tax rate may apply to production from more than one pool. On the tax side, a separate PUN will be assigned for each pool. To properly administer this situation, from the perspective of both Taxation and Revenue Department and industry, we recommend that the regulations require that separate production projection charts must be provided for each well and pool. This is necessary to ensure that the company and the Department will know the volumes and the correct PUNs which qualify for the reduced tax rate.

We appreciate your faxing an example of a production projection chart for our review. We highly recommend that this format be used as a standard when submitting this information to the Oil Conservation Division.

SEP-15-95 FRI 11:42 AM TAXATION&REVENUE DIST A FAX NO. 5058270056

P.03

Page Two
September 14, 1995
Deborah Seligman, NMOGA

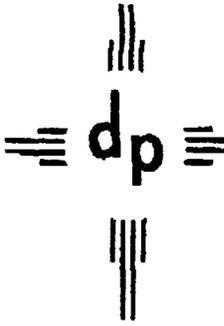
3. Under paragraph D.3., it states that an application must be filed with the Division within twelve (12) months of the workover. It is a goal of this Department to reduce the number of amendments that the State causes a company to submit. By allowing a twelve month window of opportunity of time to apply, this only increases the number of amendments that the Department will receive. It also impacts the ability of TRD and DFA to perform a reasonably accurate revenue forecast when there is a 12 month window of opportunity for a company to file an application. We would like the committee to consider a shorter window of time for filing the application.
4. Under paragraph E.2., please insert language that requires OCD to provide a copy of the application/approval form to TRD.

PROPOSED REGULATIONS TO PRODUCTION RESTORATION TAX RATE

We have the same concerns expressed above pertaining to the term "formation", the twelve month application window and OCD providing a copy of the application/certification form to TRD.

We also feel that the application for qualification of a production restoration project should include a roman numeral requesting that the date of last production be identified. This date can then be related to the request to identify the previous producing pool name.

cc: Jim O'Neill, Director of Tax Policy
Marilyn Hill, Audit and Compliance Division Director
Jody Larson, Revenue Processing Division Director



dugan production corp

OIL CONSERVATION DIVISION
RECEIVED
SEP 18 1995
AIR 8 52

Via Mail & Fax No. 505-827-8177

September 13, 1995

Case 11273

Mr. Bill LeMay
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

**Re: Proposed Rules & Procedures Implementing the
Natural Gas & Crude Oil Production Incentive Act**

Dear Mr. LeMay:

We are writing to provide comments regarding the captioned proposed rules and procedures and ask that you make our comments a part of the record in the commission hearing scheduled for September 28, 1995 in this matter. We do not plan to present testimony at the hearing. In view of the fairly short comment period, and to insure our timely response, we are sending our comments by fax and mail.

Production Restoration Projects (PRP) - Rules & Procedures

1. Section B. - The position of the date 6-16-95 needs to be clarified. Section B. addresses operations "after" 6-16-95 and Section D.2 addresses operations commenced "prior to" 6-16-95. If work is initiated on 6-16-95, is it qualifying?
2. Section C.5. - Either person should be defined or this definition should be modified as follows: "Operator" means the person or company responsible...
3. Section C.6. - It would be more meaningful if the actual tax rates and term of applicability were set out in this document. As written, the NMSA 1978 must be reviewed to know what the tax incentive and term is.
4. Section C.7. - It is not clear as to what the phrase "but not limited to" in the second sentence means. If this means that projects other than the returning of oil, gas and injection wells to production could be considered, we suggest "...means returning to producing status any well including, but not limited to, oil, natural gas and previously productive injection wells which had..."

5. Section D.2. - Same comments as for Section B (Comment No. 1).
6. Section D.5.B.4 - It is indicated that only the source of information should be identified. If it is intended that copies of these documents be provided or summarized, this should be specified.
7. Section D.5.B.6 - We would prefer to change the words to "a signed and sworn statement by the operator..." and delete the phrase "under oath".
8. Section D.5.B.6.a. - The words "to the best of applicant's knowledge" should be added to this section.
9. Section E.1.a. - Same comments as for Section B (Comment No. 1).
10. Section E.1. - To the last paragraph, it would be more meaningful if it was expanded to make clear that the exemption is for oil and gas production and will apply for a 10 year term.
11. Section E.3. - We do not like the provision that applications not acted upon within 30 days will be deemed to have been denied. The NMOC D should issue a formal denial if that is their intention, but to have this occur automatically as a result of non-activity leaves a lot of room for potential problems.
12. Production Restoration Project Form C- . Section VII - Same comments as for Section D.5.B.6 (Comment No. 7).
13. Production Restoration Project Form C- . Section VII.3. The phrase "To the best of my knowledge," should be added to precede this statement.

Well Workover Projects (WWP) - Rules & Procedures

14. Section B. - Same comment as for Section B for PRP (Comment No. 1).
15. Section C.5. - Same comment as for Section C.5 for PRP (Comment No. 2).
16. Section C.9. - Same comment as for Section C.6 for PRP (Comment No. 3).
17. Section D.2. - Same comment as for Section B for PRP (Comment No. 1.).
18. Section D.5. - It is not clear what is intended by requiring the operator to retain data used to make the production

projection during the period of applicability of the tax incentive. This data should be included in the application (Section D.6.B.5.). If the NMOCD intends for other data to be retained, this should be clarified.

19. Section D.6.B.8. - Same comment as for Section D.6 for PRP (Comment No. 7).
20. Section D.6.B.8.b. - The phrase "to the best of applicant's knowledge" should be added.
21. Section E.1.a. - The date of 6-16-95 should be added as in Section E.1.a of the PRP.
22. Section E.1. - To the last paragraph, it would be more meaningful if it included that the incentive tax rate applies to oil and gas and until production ceases or returns to the trend established prior to the workover.
23. Section E.3. - Same comment as for Section E.3. for PRP (Comment No. 11).
24. Well Workover Project Form C- . Section V. - A cosmetic change is needed for the words "Twelve (12)" and "well performance".
25. Well Workover Project Form C- . Section VII. - The words upon oath should be removed, or it should be made clear as to who will administer the oath.

Please accept these comments as constructive, and if you need additional information or clarification, please let me know.

Sincerely,



John D. Roe
Manager of Engineering

JDR/cg



PHILLIPS PETROLEUM COMPANY

HOUSTON, TEXAS 77251-1967
BOX 1997

NORTH AMERICA
PRODUCTION DIVISION

BELLAIRE, TEXAS
6330 WEST LOOP SOUTH
PHILLIPS BUILDING

September 14, 1995

Case 11273

Mr. William J. Lemay
Director, Oil Conservation Division
New Mexico Energy, Minerals and Natural Resources Department
P. O. Box 6429
Santa Fe, NM 87505-6429

Re: Proposed Rules and Procedures Implementing the Natural Gas and Crude Oil
Production Incentive Act

Dear Mr. Lemay:

Phillips Petroleum Company (Phillips) appreciates this opportunity to provide comments on the Oil Conservation Division's (OCD) proposed rules and procedures implementing the Natural Gas and Crude Oil Production Incentive Act. Phillips offers the following comments for your consideration.

Section 4.E. of the Natural Gas and Crude Oil Production Incentive Act reads as follows:

"The division shall consider and approve applications for approval of a production restoration project or well workover project without holding hearings on the applications. If the division denies approval of an application pursuant to such a process, the division, upon the request of the applicant, shall set a hearing of the application before an examiner appointed by the division to conduct the hearing. The hearing shall be conducted in accordance with the provisions of the Oil and Gas Act for such hearings."

Since a requirement for a decision and notification was not provided for in the legislation, we believe that it should be the division's responsibility to approve or disapprove of the application within the 30-day time period and provide the appropriate approval or denial notice to the applicant.

Phillips believes that if an operator makes an effort to file an application with the Division District Office, that office should be required to notify each and every applicant when and why they are being denied so as to be able to remedy the issues causing the denial prior to requesting a hearing.

The proposed rules also provide that "An 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

Mr. William J. Lemay
September 14, 1995
Page 2

Office shall be deemed to have been denied for the purpose of this rule." The act states that "The Division shall consider and approve applications. . . ." The proposed language implies that if the Division is too busy to consider the application within the 30-day period, it is deemed to be denied. Phillips believes that the Division District Office should review each and every application filed and should provide the appropriate notification to the applicant. The applicant should not be left in the dark as to the decision of the Division. Additionally, the proposed "denial after 30 days" would almost guarantee a denial of an application during periods of high division workloads or backlogged paperwork in their offices.

Phillips would like to thank you for this opportunity to offer our comments and suggestions on the Oil Conservation Division's proposal. If you have any questions, please call me at (713) 669-3590.

Very truly yours,



Timothy J. Turner
State Legislative and
Regulatory Affairs Coordinator

TJT/nn

Rand Carroll

From: Carol Leach
To: Rand Carroll
Subject: Incentive rules
Date: Tuesday, August 22, 1995 8:13AM
Priority: High

I read the draft of the rules sent by Bill Carr. I thought the best thing to do would be to give comments to you. OK?

First, I think you want to meet the NMAC form with these. I assume they will sort of have their own number so you may as well. It will mean meeting with records and getting your whole numbering scheme approved. You also need to meet their format regarding coverage, issuing agency, scope, authority, duration, effective date, etc. OCC has a long way to go to comply with the NMAC so we may as well get them started.

In B. and elsewhere we talk about "intended" to increase production. It is the intent or the actual increase that triggers the tax benefit? See workover and well workover project.

Department is defined, but I am not sure it is used. Perhaps you can scan for this.

The use of capitals is sort of strange. Sometimes caps are used for natural gas and oil and sometimes not. I also don't think well needs caps. Please review it for that clean up.

In the definition of workover in E. the words "in order to establish" is used. Do we mean re-establish—since this is not for new wells.

Under procedure why do we want to continue the retroactive process. I can understand allowing that for projects going forward before the rules but why do we want to lock that in forever?

If the operator maintains the data used for the projections do we need to say they will make it available to us on request?

The affidavit on the form has a "to the best of my knowledge" qualifier that is not contained in the rules.

So that is the extent of my comments on my first reading. Mostly just little things.

If I cause confusion with this let me know.

PRODUCTION RESTORATION AND WORKOVER INCENTIVE COMMITTEE

6-27-95

The first meeting of the Production Restoration and Workover Incentive Committee was held in the NMOCD office Conference Room at 9:00am 6/27/95. The attached attendance list reflects those who were at this meeting.

COMMITTEE ASSIGNMENT: Develop draft rules and regulations to promulgate HB 65 to provide for severance tax credit for production restoration and workover projects.

It was determined that several constraints drove the work of the committee. The constraints were as follows:

1. NMOCD has no budget to research or study an application.
2. The oil and gas incentive is too small to justify a large package required for justification and explanation of a project.
3. Project must receive quick approval by NMOCD.
4. Tax credit (refund) must be easy to document and obtain. Accounting procedures must be simple.
5. Record keeping in the NMOCD offices must be kept to a minimum.

The committee determined that the rules must address production restoration and workovers as two separate activities with separate requirements.

Production Restoration:

ONGARD records currently contain production history through 1994, however only through 1993 is accessible.

Well Qualification:

1. Operator to furnish 1-93 to 12-94 record of no production in form of C-115 or Electronic History from ONGARD based on API well numbers.
2. Furnish legal location
3. Incentive is wellhead dependent rather than reservoir dependent. In other words, well couldn't produce from any reservoir for this period.
4. 100% of restored production qualifies for tax reduction.
5. Committee must research what other states have incentive programs and what is being done on their programs.
 - a. *Eileen Cambell - Marathon will do search and furnish data to Bill Carr for dispersal to committee members.*

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 11273 Exhibit No. 6

Submitted by: Oil Conservation Division

Potential Certification:

NMOCD to produce a list by operator of idle wells for the qualifying period. This list would certify a well as qualifying by the nature of the list. Operator could add to the list. Operator then initiates program with an application. NMOCD to have a one page application (necessary to get OCD approval for Tax & Revenue documentation). Also, this application contains operator signature on Affidavit that well has not produces.

Bill Carr to write letter to Mr. Lemay to see if this list is possible (cc: Martin and Chaves)

Committee recommendation that that NMOCD approval to be at District Office level.

Assuming NMOCD list is not available for 3 years, then C-115s will have to be history. However, copy of C-115s will not be submitted to show "0" production. The one page application will have an affidavit type statement that operator signs stating that no production existed. Burden of proof is on operator at time of audit. Operator may submit C-115 and explanation is some anomaly existed on the well such as 15 days production in January, 1994 for test purposes or some other reason.

Workover:

Committee reviewed chart that showed production history, forecast of future production without workover and forecast of workover results. This properly depicted the plan of the BILL.

Two questions immediately came forward:

1. What is method for prediction of decline?
2. What is a workover?

What is method for prediction of decline?

1. Utilize a production curve reflecting at least 12 months of actual production history. Operator to use sound engineering principles to forecast anticipated production and must sign an affidavit stating such.
2. Rules to provide a curve fit formula for operators to use to predict the slope of the decline line. (ARPS equation for example)
Travis Stice and Frank Gray to bring examples of decline curve tools to next meeting.

3. What method do NMOCD District office recommend?

Randy Patterson to visit with Artesia OCD office

Travis Stice to visit with Farmington OCD office.

Frank Gray to visit with Hobbs OCD office.

Visit to determine what is OCD 1). recommendation for prediction of decline forecast and 2) do they want to have the approval authority at the District office level.

Once the project is approved. The major thing that the NMOCD is approving is the forecast of continued production without workover. This forecast provides the base monthly production figures that will be used to determine incremental production eligible for reduce tax. The forecast of production has little or no bearing on the NMOCD determination of certification.

For accounting purposes the credit is to be determined on a monthly basis with an annual settlement with credit against future production. If production in a given month falls below the baseline production for that month, then both base and incremental go to "zero" for that month. No negative is allowed. Annual production eligible for reduced tax is the sum of all positive (+) monthly incremental.

What is a workover?

The bill contains the basis for determination of what is a workover. **Workover is any action that results in production increase. Maintenance is activity that maintains production.** The committee feels that the definition must be left a loose as possible to avoid the need for determination by the OCD on a technical basis. The proof is in the pudding! Did the work result in increased production?

Production from multiple workovers on the same well will qualify without additional application once the base decline curve and base production has been determined and certified.

Next meeting to be held at NMOCD office at 9:00am 7/19/95.



Minutes of 2nd meeting of Committee to prepare Rules of HB-65

Workover & Production Restoration Incentive

7-19-95

I. Approval of Minutes of last meeting.

Addition to minutes of the June 27 meeting to reflect that Bill Carr, Mickey Kline and Perry Pierce were to work on definitions of well and workover for next meeting.

II. Reports from committee members:

1. Eileen Cambell on other states incentives programs.

Eileen was not able to make this meeting and will report next meeting.

2. Bill Carr on meetings with OCD and Tax & Rev. concerning certification:

Tax and Rev. needs a tabulation of the production base as well as the decline curve. They need simplicity but thorough certification. Bill Lemay indicates that he wants uniformity between Districts if approval is at district level. It is hoped that committee will develop a form that will facilitate uniformity rather than a set of rules that can be interpreted differently. Ed Martin advises that the Shut-in list is possible for those wells that have no production for two years. Roy Johnson of Northeast OCD office advises that he has no objection to district approval, but where will approved paperwork be kept?

3. Travis Stice & Frank Gray on decline curves:

We presented a "classic" decline curve and discussed the handling of the decline evaluation. It was both of our opinion that we need to keep this very simple and stay away from a rigorous technical evaluation. The use of sound engineering principles for a period of not less than 12 months on the decline curve whether by hand or by computer will yield the simplest and best analysis. It was recommended to stay away from specifying a specific program and specifying the throwing out of data points and so forth.

A fairly lengthy discussion took place on a lot of examples of events that could take place, but it came back to a simple production curve analysis of the plot of production on semilog paper to determine the future production.

It is the committees understanding that the tax incentive applies to both oil and gas from a well. The decline analysis will be made on the primary

product with a unit rate (GOR or BBL/MCF) for the 12 month period would be applied to the primary product forecast to arrive at the secondary product forecast. Severance tax relief would then be received on both products' production over the base.

4. Travis Stice, Randy Patterson, & Frank Gray on conversations with OCD District Managers about District approval:

Travis - Frank Chavez (Farm.) - No strong preference to where approval is given. Need to avoid duplicity of having to send to District and then on to Division. Sound Engineering principles applied w/ operator affidavit and some verbiage as to decline analysis method should be sufficient.

Randy - Tim Gum (Artesia) - No problem with approval at District level. Need tabulation of production as well as curve. Need pool code on form and curve to be on 2-3 cycle semilog paper w/ 2-5 years prior production. Tim felt that maintenance was pump changes, hot oiling etc. even if production increase occurred. Did not agree with incentive for repair & replace casing as enhanced production.

Frank - Jerry Sexton (Hobbs) - Jerry felt that District approval was ok as long as the process was kept simple. He had concerns with anomalies on the decline curve and how they would be handled. He liked our definitions of workover vs maintenance where production increase was enhancement workover and no production increase was maintenance.

5. Eileen Cambell meeting with Tax and Rev.:

Since Eileen unable to attend, Bill Carr, Perry Pearce, Will Waggoner and Deborah Seligman will go to tax and rev. to get clarification on several issues and report to next meeting.

Perry Pearce had opportunity to report to Rev. Stabilization Committee of House and walked them through our schedule and what we were doing. They requested he come back at October meeting with update. They were pleased with our progress.

III. Review drafts of Rules and forms:

Dick Pollard, Marathon brought a draft of rules.

Bill Carr brought a draft of rules and an application form for both workover and restoration.

Dick's draft was discussed first and had merit. Concern was voiced over the time deadline for OCD action where approval was implied if not acted on in 10 days. It

was recommended that the only possible way of handling that would be to say that if approval were not received in certain time, then assume denied and have opportunity to take to hearing. Also, this draft contained very detailed method of handling the decline curve analysis. Committee felt that a more simple method would be more acceptable. Several items in this draft will be very useful in final draft.

Several problems have been identified that need additional clarification.

1. **Definition of well:** Does it mean all completions in the wellbore, or will each completion be a potential project. There was a lot of discussion both ways as to what would be the best or what the act meant, but no conclusion could be reached. It was finally determined that the handling of taxes in Tax & Rev. Department might dictate how the definition would have to be written.

Bill Carr, Perry Pearce, Will Waggoner, Larry Van Ryan, & Deborah Seligman will go to Tax and Rev. Department to see how taxes are paid and if the definition of "well" will be clarified or dictated by their handling.

2. **Definition of workover:** This item continues to be discussed and will be handled further in the comments to the drafts.

Bill presented his drafts and Forms. Since we had not seen them in advance it was not discussed in detail. The drafts contain many of the important items we have determined to be required (Producers affidavit, production tabulation, opportunity to explain anomalies, etc).

Everyone is requested to review the several drafts and forms and use Bill's draft as starting point. Submit recommended changes to Bill (Yolanda Sandoval) by July 27, 1995. A disk with Bill's draft is being overnighted to all committee members. Comments can be submitted on disk or faxed.

Conclusions:

1. Committee all support District OCD office approval with option to forward to Division by District or hearing request by operator.
2. Tax credit applies only to Severance Tax of 3 3/4% and is handled on annual basis.
3. Tax credit goes against next years' taxes.

Concerns:

1. This tax credit must be passed on to royalty and working interest owners.
How will the rules address this issue? General discussion was that this was an issue between operator and his royalty owners and interest owners and the rules should not need to address. Further consideration will be given to this concern.
2. In those cases where the purchaser of product pays severance taxes for operator, it will be a problem to be resolved by the operator to ensure that purchaser gets the credit and properly applies it.
3. The base production is a true forecast of production while the tax credit will be against sales. Is this a problem?

IV. Next meeting:

Next meeting will be held at OCD conference room at 8:00am, August 1, 1995.
All members of committee need to plan to spend all day at this meeting.

A handwritten signature in cursive script that reads "Frank Gray". The signature is written in black ink and is positioned in the lower-left quadrant of the page.