

Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

MEMORANDUM

TO: ALL OPERATORS AND INTERESTED PARTIES

FROM: WILLIAM J. LEMAY, Director *WJL*
Oil Conservation Division

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

DATE: August 11, 1995

On June 16, 1995 the New Mexico "Natural Gas and Crude Oil Production Incentive Act" became law. To implement this statute I appointed a Production Restoration and Workover Incentive Committee and directed it to prepare by August 15, 1995 proposed Oil Conservation Division rules and procedures to implement the law.

The Committee's proposed rules and procedures and forms are attached. An Oil Conservation Commission hearing to consider these proposed rules and forms has been scheduled for September 28, 1995 in Santa Fe.

If you have comments and/or suggested changes to these documents, the Division requests that they be submitted in writing to the Division's Santa Fe office on or before September 15, 1995.

If you desire to present evidence and testimony at the September 28th hearing, a Pre-Hearing Statement should be filed with the Division on or before September 22, 1995.

**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;

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.

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**

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 recompleate 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 _____)
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 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)

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: _____