

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.