

May 18, 1999

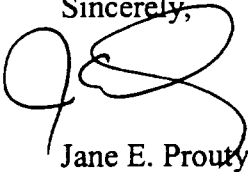
Attached is a report of your well completions that may qualify, based on 1998 production and injection, for the new stripper well tax incentive. I am sending this to a small group of industry representatives so that they may validate the list against their records to help us ensure that our process of identification is accurate.

Also attached is a sample report and corresponding calculations to document the steps by which the Production Units qualified.

The law requires OCD to certify all qualifying Production Units by June 30, 1999. We plan to send a preliminary list to all operators by June 1, 1999 to allow us to work together on corrections before the June 30 deadline. Therefore, I would appreciate it very much if you could ***review the attached information and respond to me by May 27, 1999 with any questions or recommendations for improvement.***

I can be reached at 505/827-1109. My e-mail address is [jprouty@state.nm.us](mailto:jprouty@state.nm.us), and my fax number is 505/827-8177. Thank you very much for helping me make this process as accurate as possible.

Sincerely,

A handwritten signature in black ink, appearing to be 'J. Prouty', written over the printed name.

Jane E. Prouty

Attachments

## ***STEPS TO CERTIFY PRODUCTION UNITS FOR STRIPPER TAX INCENTIVE***

Following is a sample report annotated with A, B, C, etc. which correspond to items described on this page. The sample report is intended to clarify the steps taken so you can use the same logic to review the complete report for your organization.

The PUNs listed on the reports are those that qualify for the incentive this year based on 1998 production and injection. All well completions in these PUNs are eligible for the incentive. Only those that produced or injected are listed on the report so that you may compare the production volumes and days produced to your internal reports.

**The Taxation and Revenue Department has advised that the price of natural gas exceeded the maximum dollar amount defined in the incentive, so Production Units that produced only natural gas in 1998 are not certified for the incentive.**

The volumes of oil produced and gas produced, and the days produced are summed at the Production Unit Number (PUN) level. This number is assigned by TRD. **Note:** Multiple completions of the same well are in different PUNs.

1. In the item labeled **A**, there is one well completion (30-025-20817, pool 70440) in PUN 1018352. This well completion produced 30 barrels of oil in a total of 151 days in 1998. This well completion produced no gas, and there was no injection. This PUN is certified for the incentive because 30 barrels divided by 151 days produced results in an average of .2 barrels of oil per day. PUNs qualify for the incentive if they produce an average of less than 10 barrels of oil per day per eligible well.
2. In item **B** on the second page of the sample report, there are three well completions in PUN 1068769. This PUN produced both oil and gas, so the gas must be converted to oil. The gas volume (3042) is divided by 6, which equals 507. The 507 is added to the oil production ( $507+2375=2882$ ). The adjusted oil volume of 2882 is divided by the days produced (907), which results in 3.18 barrels per day per eligible well. Therefore, this PUN is certified for the incentive.
3. In item **C** on the first page, PUN 1055488 does not qualify for the incentive based on oil and gas production alone. Gas production (4674) divided by 6 and added to oil production (63612), then divided by days produced (4982) results in an adjusted average oil volume of 12.9 barrels per day. However, volumes were injected into well completions in this PUN, so the "Estimated Injection Days" of 1620 was added to the days produced ( $1620+4982=6602$ ), then the adjusted oil volume ( $4674/6+63612=64391$ ) was divided by 6602. This changes the result to an average of 9.75 barrels per day per eligible well.

4. The number of injection days was estimated at 30 days per month injection volumes were reported because there is no place to report the number of injection days on the C-115. If the PUN would not have qualified for the incentive without including the injection days, as in example C above, the report displays \* \_\_\_\_\_ in the column "Actual Injection Days". This information must be filled in and returned to OCD for this PUN to qualify. No action is required if your report does not display the \* \_\_\_\_\_ in this column.

**Note:** There are instances where TRD does not have a PUN recorded for valid well completions. Injection well completions generally have PUNs if they previously produced, but not if they were drilled as injection wells. Well completions without PUNs could not be included in this evaluation but may be presented for review under the appeal process. Please contact Jane Prouty at 505/827-1109 to report any discrepancies.

\*\* TEST DRAFT FOR SELECTED OPERATORS \*\*  
QUALIFYING STRIPPER PRODUCTION UNITS

REPORT DATE: MAY 17 1999

OPERATOR:

SAMPLE

PUN	PROP	WELL	WELL NAME	NBR	WELL	POOL	ULSTR	OIL	PROD	1998	GAS	PROD	DAYS	ESTIMATED	ACTUAL
1018352	24399	FEDERAL 9 COM		001	30-025-20817	70440	24S-34E-09-B		30			151			
					TOTAL FOR PUN 1018352										
									30			151			
1055488	19341	BENSON SHUGART	WATERFLOOD	UNIT 001	30-015-20589	56439	18S-30E-26-B		749			273			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 002	30-015-20572	56439	18S-30E-26-G		2553			273			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 003	30-015-20560	56439	18S-30E-26-J		10027			273			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 004	30-015-20567	56439	18S-30E-26-O		1502			273			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 005	30-015-23697	56439	18S-30E-26-A							360 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 006	30-015-27644	56439	18S-30E-26-H							360 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 007	30-015-27546	56439	18S-30E-26-I							360 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 009	30-015-20526	56439	18S-30E-26-A		749			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 010	30-015-20513	56439	18S-30E-26-H		8227			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 011	30-015-20528	56439	18S-30E-26-I		25840			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 012	30-015-20529	56439	18S-30E-26-P		2896			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 013	30-015-20542	56439	18S-30E-25-L		2998			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 014	30-015-20543	56439	18S-30E-25-M		1451			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 015	30-015-27712	56439	18S-30E-25-L							360 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 016	30-015-20774	56439	18S-30E-25-K		408			59			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 017	30-015-04545	56439	18S-30E-25-N		372			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 018	30-015-04546	56439	18S-30E-25-N		372			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 019	30-015-26041	56439	18S-30E-25-K							90 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 020	30-015-25025	56439	18S-30E-25-O		941			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 021	30-015-20213	56439	18S-30E-25-B		1316			243			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 022	30-015-20233	56439	18S-30E-25-G		941			212			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 023	30-015-04544	56439	18S-30E-25-G								
	19341	BENSON SHUGART	WATERFLOOD	UNIT 024	30-015-04541	56439	18S-30E-25-O		749			212			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 025	30-015-04542	56439	18S-30E-25-I		82			156			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 026	30-015-21426	56439	18S-30E-25-I		85			64			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 027	30-015-21911	56439	18S-30E-25-P		31			64			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 028	30-015-04547	56439	18S-30E-25-P		55			64			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 029	30-015-05649	56439	18S-31E-30-3		94			139			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 030	30-015-25966	56439	18S-31E-30-4							90 *	
	19341	BENSON SHUGART	WATERFLOOD	UNIT 031	30-015-05648	56439	18S-31E-30-4		107			139			
	19341	BENSON SHUGART	WATERFLOOD	UNIT 032	30-015-23105	56439	18S-31E-30-4		126			139			
					TOTAL FOR PUN 1055488										
									63612			4674	4982	1620	
*This Production Unit would not qualify for the incentive without including injection days, which for purposes of calculation we have estimated to be 30 days for every month injection volumes were reported. Please fill in the 1998 Actual Injection Days for the asterisked item(s) and return this report to OCD, Santa Fe immediately to validate the eligibility of this PUN.															
1059652	17809	HONEYUCKLE		001	30-025-26921	62010	18S-35E-21-B		54			27			
					TOTAL FOR PUN 1059652										
									54			27			

SAMPLE

OPERATOR:

PUN	PROP ERTY	WELL NAME	WELL NBR	API	POOL	ULSTR	1998 OIL PROD	1998 GAS PROD	DAYS PROD	ESTIMATED INJ DAYS	ACTUAL INJ DAYS
1068715	6275	ALLIED COMM	001	30-015-20923	82780	20S-27E-27-B	115	16461	312		
			TOTAL FOR PUN 1068715				115	16461	312		
1068727	6277	AMOCO STATE	001	30-025-29068	22800	20S-35E-13-G	1154		240		
			TOTAL FOR PUN 1068727				1154		240		
1068769	6281	BOBBI	002	30-025-26796	2503	18S-36E-20-O	322		357		
	6281	BOBBI	003	30-025-26954	2503	18S-36E-20-N	1468	2451	357		
	6281	BOBBI	005	30-025-27641	2503	18S-36E-20-E	585	591	193		
			TOTAL FOR PUN 1068769				2375	3042	907		
1068783	6283	CANDY COM	001	30-025-22350	3820	11S-33E-05-N	2251		315		
			TOTAL FOR PUN 1068783				2251		315		
1068951	6301	MCKAMEY FEDERAL	001Y	30-025-27740	41442	19S-32E-25-L	1345	854	314		
			TOTAL FOR PUN 1068951				1345	854	314		
1068964	6302	MESA STATE	001	30-025-28506	56295	16S-35E-14-J	1000	2464	307		
			TOTAL FOR PUN 1068964				1000	2464	307		
1069016	6309	STATE 32	001	30-025-26065	43270	16S-33E-32-K	1564	1952	364		
			TOTAL FOR PUN 1069016				1564	1952	364		
1069021	6311	SUN PEARL FEDERAL	001	30-025-30409	49780	19S-34E-28-J	3963	778	362		
	6311	SUN PEARL FEDERAL	002	30-025-30663	49780	19S-34E-28-I	2814	552	362		
	6311	SUN PEARL FEDERAL	003	30-025-30892	49780	19S-34E-28-G	1663	326	362		
	6311	SUN PEARL FEDERAL	004	30-025-31047	49780	19S-34E-28-H	4345	853	362		
			TOTAL FOR PUN 1069021				12785	2509	1448		
1069104	6319	YATES STATE	001	30-025-30984	14980	10S-32E-35-H	2047	4271	299		
			TOTAL FOR PUN 1069104				2047	4271	299		
1176619	18734	APPLESEED FEDERAL COM	001	30-025-20377	80880	20S-35E-17-H	4		27		
			TOTAL FOR PUN 1176619				4		27		