State of Louisiana

KATHLEEN BABINEAUX BLANCO
GOVERNOR

SCOTT A. ANGELLE
SECRETARY

JAMES H. WELSH
COMMISSIONER OF CONSERVATION

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF CONSERVATION

MEMORANDUM

May 18, 2004

TO: **ALL CONCERNED**

FROM: **James H. Welsh**
Commissioner of Conservation

SUBJECT: **Clarification of July 26, 2002 Memorandum**

On July 26, 2002, the Commissioner of Conservation issued a memorandum outlining guidelines to qualify an Inactive Well pursuant to ACT No. 74 of the 2002 Regular Session. The purpose of this memorandum is to further clarify previously approved Inactive Well Determination applications.

According to the July 26, 2002 memorandum, wells previously approved under Act 2 requirements could re-qualify under Act 74 requirements **if** the previous incentive period had expired, **and** the well met current guidelines. A clarification regarding this point is in order based on numerous inquiries.

Any well **previously** approved under Act 2 or Act 74 guidelines that has **never** produced and sold oil or gas, since said filing, can re-qualify even if the previous exemption period has not lapsed. The applicant **must** file a new application for well status determination to obtain the new approval.

JHW:RTK:dnp

P. O. BOX 94275 • BATON ROUGE, LOUISIANA 70804-9275 • 617 NORTH THIRD STREET • 9TH FLOOR • BATON ROUGE, LA 70802
PHONE: (225) 342-5540 • FAX (225) 342-3705 • WEB http://www.dnr.state.la.us/conservation
AN EQUAL OPPORTUNITY EMPLOYER

State of Louisiana

M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

JAMES H. WELSH
COMMISSIONER OF CONSERVATIO

DEPARTMENT OF NATURAL RESOURCES
OFFICE OF CONSERVATION

MEMORANDUM

July 26, 2002

To: ALL CONCERNED

From: James H. Welsh, Commissioner of Conservation

Subject: **INACTIVE WELL DETERMINATION PURSUANT TO ACT No. 74 OF THE 2002 REGULAR SESSION (R. S. 47:633 et seq.)**

Act 74 of the 2002 Regular Session of the Legislature has revived the severance tax incentive program for inactive wells, similar to the incentive authorized by Act 2 of 1994. Act 74 allows for the suspension of severance taxes on all well production for a period of two years for qualifying wells. The purpose of this memorandum is to provide guidelines for filing and processing applications for the Inactive Well Determination. Some guidelines have been established by previous office memorandums, but new guidelines are necessary to clarify questions that have arisen and to incorporate changes brought about by the new legislation.

1) **Qualified Well** - Any well that has been off production or has produced 30 days or less in a two-year period ending between July 1, 2002 and June 30, 2006 may qualify, unless it had prior approval, which is addressed below. Please note that the entire wellbore is considered in the application evaluation. Any production from dual, triple, etc., completions would count against the two-year qualifying period.

2) **Previously Approved Well** - A well previously approved under Act 2 guidelines may re-qualify **if** the previous incentive period has expired, **and** the well meets the current guidelines.

3) **Beginning Date** - The exemption period will begin on the date of first production or 90 days after the application is received in our office, whichever comes first, **but not before July 1, 2002.**

4) **Filing Requirements** - Applicant must file FORM STRP-IW. The form can be obtained at our web site or by calling the Office of Conservation. There is no fee required for this application. The web site address is: www.dnr.state.la.us/CONS/CONSEREN/Permits/severancetax.ssi

5) **Miscellaneous** - Failure to apply for certification prior to commencement of production or within 30 days of commencement of production following a two-year period of inactivity that falls within the time frame mandated will not disqualify the well. However, applicants are cautioned that the exemption in such cases, if approved, begins ninety days after the application is received or the date of first production, whichever comes first, **but not before July 1, 2002**. Also, any well that meets the criteria relating to the inactivity as mandated on which drilling operations, i.e., re-entering, deepening, sidetracking, etc., are conducted to restore such well to production will be certified under this category upon proper application. This includes both wells which have been shut-in/temporarily abandoned and wells which have been plugged and abandoned (for two years) but or reentered to restore production through the same wellbore at the surface.

M.J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana

JACK C. CALDWELL
SECRETARY

GEORGE L. CARMOUCHE
COMMISSIONER AND
ASSISTANT SECRETARY

DEPARTMENT OF NATURAL RESOURCES

MEMORANDUM

September 18, 1996

TO: **ALL CONCERNED**

FROM: **George L. Carmouche - Commissioner**

SUBJECT: **CHANGES IN THE SEVERANCE TAX RELIEF PROGRAM (ACT 2)**

During the 1996 Regular Legislative Session two changes were made in the Severance Tax Relief Program (ACT 2) concerning Inactive and New Discovery Well Applications. The filing deadline for Inactive well applications was extended from June 30, 1996 to June 30, 1998. The qualification period for completing New Discovery Wells was also extended from September 30, 1996 to September 30, 1998. These changes were effective June 27, 1996.

Another change in ACT 2 concerns 3-D Seismic Cost. The Office of Conservation has determined that the cost of 3-D Seismic used to identify development well locations in existing fields may be an actual cost of drilling, completing and equipping such wells pursuant to Act 2 of 1994. An applicant wishing to include such costs will be required to file **Form STRP-3-D** along with eligibility determination application.

General guidelines for allocation of such costs will require that the expenditures be first distributed to the producing areas (fields) covered by the 3-D project, then, within each such area, the cost would be further distributed to the locations to be drilled on a prorata basis. Once the operator files an application for the first well in an area the method of distribution of such costs will be fixed upon approval of that application and thereafter cannot be revised due to a change in the number of locations, unsuccessful wells, etc. In order to qualify the well must be drilled to a target identified by a full scale 3-D Seismic evaluation. 3-D simulation and/or reevaluation utilizing old seismic data will not be considered.

In addition to the above, this Office will now consider applications for deep well determination for any well sidetracked below 15,000 feet true vertical depth from which production commenced after July 31, 1994 in such sidetrack hole. However, the cost associated with this type request will be limited to those expenditures relating to drilling the sidetrack portion of the well from which production is obtained.

GLC:pb

State of Louisiana

M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

GEORGE L. CARMOUCHE
COMMISSIONER AND
ASSISTANT SECRETARY

DEPARTMENT OF NATURAL RESOURCES

January 5, 1995

M E M O R A N D U M

TO: ALL CONCERNED

FROM: Ernest A. Burguières, III, Commissioner

SUBJECT: ACT 2, 1994 REGULAR SESSION

The Department of Natural Resources - Office of Conservation has been processing applications for certification pursuant to the subject Act under Commissioner H.W. Thompson's Memo of July 18, 1994. Since that time certain qualification issues have arisen and must be addressed. These qualification questions relate to the of Deep Well and Inactive Well, and the following discussions outline the procedures which will be used by this Office in answer to those issues. Application forms for these two categories have been revised to accommodate these procedures and are attached for future use.

DEEP WELL

Act 2 of the 1994 Regular Session of the Louisiana Legislature reads as follows: "Production of natural gas, gas condensate, and oil from any well drilled to a true vertical depth of more than fifteen thousand feet, where production commences after July 31, 1994, shall be exempt from severance tax, from the date production begins, for twenty-four months or until payout of the well cost, whichever comes first."

The Act is silent as to whether or not the exemption applies only to that production below 15,000 feet. The only depth requirement deals with drilling depth. If a well is drilled to a true vertical depth of more than 15,000 feet, a severance tax exemption for production from above 15,000 feet is not prohibited. If the Legislature had intended for the tax exemption

to apply only to production from below 15,000 feet, it would have so indicated in the Statute. Therefore, any well drilled below 15,000 feet true vertical depth from which production commences after July 31, 1994, would qualify for the severance tax exemption provided for in Act 2 for production from any depth in the wellbore.

INACTIVE WELL

A well may be certified by the DNR-Office of Conservation as an Inactive Well pursuant to Act 2 of the 1994 Regular Session if such well has been off production or has produced 30 days or less in a two-year period ending between July 31, 1994 and June 30, 1996. Failure to apply for certification prior to commencement of production or within 30 days of commencement of production following a two-year period of inactivity that falls within the timeframe mandated will not disqualify the well. However, applicants are cautioned that the exemption in such cases, if approved, begins on the date the application is received by this Office.

A further point of clarification regarding the category of inactive well is in order based on numerous questions received. Any well that meets the criteria relating to the inactivity as mandated on which drilling operations, i.e., re-entering, deepening, sidetracking, etc., are conducted to restore such well to production will be certified under this category upon proper application. This includes both wells which have been shut-in/temporarily abandoned and wells which have been plugged and abandoned but or re-entered to restore production through the same wellbore at the surface.

FLS:kcm

Attachments

M.J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana

JACK C. CALDWELL
SECRETARY

GEORGE L. CARMOUCHE
COMMISSIONER AND
ASSISTANT SECRETARY

DEPARTMENT OF NATURAL RESOURCES

M E M O R A N D U M

July 18, 1994

TO: **ALL CONCERNED**

FROM: **H. W. THOMPSON**
COMMISSIONER OF CONSERVATION

SUBJECT: **REQUIREMENTS FOR IMPLEMENTATION OF ACT 2 OF THE 1994 REGULAR SESSION (R.S. 47:633 et seq)**

The DNR-Office of Conservation will be required to make certifications pursuant to Act 2 of the 1994 Regular Session (R.S. 47:633 et seq). Specifically, this Office will make eligibility determinations relative to Horizontally Drilled Wells, Inactive Wells, Deep Wells and New Discovery Wells. The Department of Revenue and Taxation will continue to make determinations for incapable oil wells and stripper oil wells as has been done in the past. Applications for well determination of the **four (4) categories** to be administered shall be filed in duplicate on the forms **attached** hereto and mailed to the Office of Conservation, P. O. Box 94275, Baton Rouge, Louisiana 70804-9275, ATTN: Engineering Division.

The following is a listing of the guidelines and requirements by category:

HORIZONTALLY DRILLED WELL

Requirements: -
1) Form STRP-HW
2) Form WH-1
3) Directional survey
4) Stratigraphic lateral wellbore projection
5) Detailed itemized statement of cost

INACTIVE WELL

Requirements: -
1) Form STRP-IW
2) List of the day(s) produced (if applicable)

DEEP WELL

Requirements: -

1) Form STRP-DW
2) Form WH-1
3) Form COMP
4) Directional survey (if applicable)
5) Detailed itemized statement of cost

DISCOVERY WELL

Requirements: -

1) Form STRP-ND
2) Form WH-1
3) Detailed itemized statement of cost
4) Order recognizing new reservoir or lette designating new field discovery

With respect to this particular category, the following definition shall be utilized for the term **"Wildcat Well"** as used in the legislation:

> A Wildcat Well is a well which is spudded after September 30, 1994 and completed between September 30, 1994 and September 30, 1996 in a new reservoir. A new reservoir is a reservoir which was not produced before September 30, 1994 and not penetrated by a well capable of producing hydrocarbons in commercial quantities from such reservoir before said date. A developmental well in a new reservoir is **not** considered a Wildcat Well. A wildcat well shall be recognized as a "Discovery Well" by issuance of a letter designating the well as a new field discovery or issuance of a Conservation Order specifying the well is completed in a new reservoir.

HWT:RTK:dpe

Attachments