

CASE 6526: OCD ON ITS OWN MOTION TO
CONSIDER A PROCEDURE FOR ADOPTION OF
FINDINGS PURSUANT TO NATURAL GAS POLICY
ACT

CASE NO.

6526

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6526
Order No. R-6013

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION ON ITS OWN
MOTION TO CONSIDER A PROCEDURE FOR THE ADOPTION
OF FINDINGS, WHEN APPLICABLE AND PURSUANT TO THE
FEDERAL NATURAL GAS POLICY ACT, THAT ANOTHER WELL
IS NECESSARY TO EFFECTIVELY AND EFFICIENTLY DRAIN
THAT PORTION OF ITS PRORATION UNIT WHICH CANNOT BE
SO DRAINED BY ANY EXISTING WELL, AND THAT EXISTING
WELL SPACING REQUIREMENTS ARE WAIVED.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 25, 1979,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 7th day of June, 1979, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.
- (2) That the 95th Congress of the United States passed
the Natural Gas Policy Act of 1978, P.L. 95-621, 92 Stat. 3350.
- (3) That said Act was enacted on November 9, 1978, and
went into effect on December 1, 1978.
- (4) That pursuant to said Act, the Federal Energy Regula-
tory Commission, hereinafter referred to as "FERC", has
promulgated interim regulations establishing gas pricing cate-
gories and filing requirements.

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Case No. 6526
Order No. R-6013

(5) That said regulations also established the Oil Conservation Division as the jurisdictional agency with respect to wells located on state and fee lands within the State of New Mexico.

(6) That an infill well drilled on an existing proration unit would not qualify under the higher "New Onshore Production Well" category (Section 103) of said interim FERC regulations but would command a lower category determination unless such well should qualify under certain exception provisions set out therein.

(7) That said exceptions are contained in Sections 271.304 and 271.305 of the FERC regulations and require that the jurisdictional agency must find, prior to the commencement of drilling of an infill well, that the well is necessary to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit.

(8) That in order to make such findings without the necessity of a public hearing in each case, and yet to be in accordance with the FERC regulations and in accordance with State law, the Oil Conservation Division should adopt special rules for Natural Gas Policy Act infill findings to be followed in the application for and promulgation of such findings administratively.

(9) That said special rules should require the filing of geological and reservoir information sufficient to support a finding as to the necessity for the drilling of the infill well.

(10) That said special rules should be in the form and content prescribed on Exhibit A, attached hereto and made a part hereof.

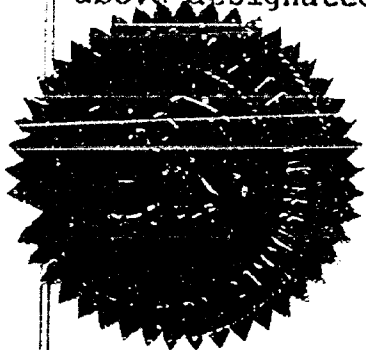
IT IS THEREFORE ORDERED:

(1) That the "Special Rules and Regulations, Natural Gas Policy Act Infill Findings, Administrative Procedure" attached hereto as Exhibit A are hereby adopted effective immediately.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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Case No. 6526
Order No. R-6013

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

fd/

SPECIAL RULES AND REGULATIONS
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional well to be drilled for production on an established proration unit.

B. APPLICABILITY

RULE 2. These Special Rules and Regulations shall only apply to wells for which a drilling permit had not been approved prior to January 1, 1979, and which have not yet been spudded.

C. JUSTIFICATION FOR FINDINGS

RULE 3. The Division Director or a Division Examiner may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 20 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a copy of Form C-101 showing date of approval, if any, and Form C-102 showing the proration unit dedicated.

RULE 6. Applicant shall give the name of the pool in which completion will be attempted and the standard spacing unit size therefor.

RULE 7. If applicable, the applicant shall give the number of the Division Order approving the non-standard proration unit.

EXHIBIT A

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Case No. 6526
Order No. R-6013
Exhibit A

- RULE 8. The applicant shall state whether the well has been spudded, and the spud date, if any.
- RULE 9. The applicant shall submit a description of all wells drilled on the proration unit which are or have been completed in the same pool or reservoir as the proposed infill well showing:
- a. lease name and well location;
 - b. spud date;
 - c. completion date;
 - d. a description of any mechanical problems experienced along with a summary of remedial action(s) taken and the results obtained;
 - e. the current rate of production; and
 - f. date of plug and abandonment, if any.
- RULE 10. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:
- a. formation structure map
 - b. the volume of increased ultimate recovery expected to be obtained and a narrative describing how the increase was determined
 - c. any other supporting data which the applicant deems to be relevant which may include:
 - (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations
- RULE 11. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

EXHIBIT A

0526

Send copy to:

Christy Catanzaro
Lake H. Hamon Corp.
P.O. Box 6063
Dallas 75221

Case 0526

Florence -
Please send me a
copy of the order in
this case.

L

Consolidated Oil & Gas, Inc.
1860 Lincoln St., Suite 1300
Denver, Co. 80202

TO Ramsey Case 0526

DATE 3-18 TIME 9:00

WHILE YOU WERE OUT

MR. Harold Mac Ramsey
OF Odessa Tx Phillips

PHONE 337 8611 AREA CODE 915

TELEPHONED	<input checked="" type="checkbox"/>	PLEASE PHONE	<input type="checkbox"/>
CALLER TO SEE YOU	<input type="checkbox"/>	WILL CALL AGAIN	<input type="checkbox"/>
WANTS TO SEE YOU	<input type="checkbox"/>	RETURNED YOUR CALL	<input type="checkbox"/>

MESSAGE Case 0526

4001 Penbrook St

Rm 401

Odessa, Tex.

79762

MESSAGE TAKEN BY J.



KERR-McGEE CORPORATION

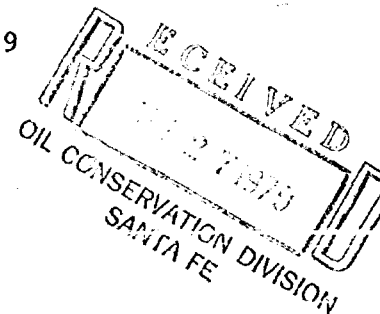
KERR-McGEE CENTER • OKLAHOMA CITY, OKLAHOMA 73125

April 23, 1979

OIL AND GAS DIVISION

New Mexico Energy & Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attn: Mr. Joe D. Ramey,
Secretary-Director



CASE NO. 6526
OIL CONSERVATION DIVISION DOCKET

Dear Mr. Ramey:

Case No. 6526 concerns a hearing on the Division's motion to consider a procedure for the adoption of findings, when applicable, and pursuant to the Federal Natural Gas Policy Act, that another well is necessary to effectively and efficiently drain that portion of its proration unit which cannot be drained by any existing well and that the existing well spacing requirements are waived.

Please send a copy of any final order issued in this case to my attention at the following address:

Kerr-McGee Corporation
P. O. Box 25861
Oklahoma City, Oklahoma 73125

Thank you for your assistance.

Very truly yours,

KERR-McGEE CORPORATION

David Christian

David Christian
Conservation & Unitization Asst.

DC/kb

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
25 April 1979

EXAMINER HEARING

IN THE MATTER OF:

The hearing called by the Oil Conser-) CASE
vation Division on its own motion to) 6526
consider a procedure for the adoption)
of findings, when applicable and pur-)
suant to the Federal Natural Gas Policy)
Act.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

For Hanagan Petroleum Corp.: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

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A P P E A R A N C E S

For Phillips Petroleum Co.:

W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

For El Paso Natural Gas
Company:

John Nance, Esq.
El Paso Natural Gas Co.
El Paso, Texas

For Amoco Production Co.:

Guy Buell, Esq.
Amoco Production Company
Houston, Texas

For Sun Gas Company:

Michael Kovich, Esq.
Sun Gas Company

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I N D E X

LYNN TESCHENDORF

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1 MR. STAMETS: We'll call next case 6526, in
2 the matter of the hearing called by the Oil Conservation
3 Division on its own motion to consider a procedure for the
4 adoption of findings, when applicable, and pursuant to
5 Federal Natural Gas Policy Act, that another well is necessary
6 to effectively and efficiently drain that portion of a pro-
7 ration unit which cannot be so drained by any existing well.

8 Call for appearances in this case.

9 MR. PADILLA: Ernest L. Padilla for the Oil
10 Conservation Division.

11 MR. STAMETS: Any other appearances in this
12 case?

13 MR. KELLAHIN: I'm Tom Kellahin of Santa Fe,
14 New Mexico, appearing on behalf of Hanagan Petroleum Cor-
15 poration, and Phillips Petroleum Company.

16 MR. STAMETS: I'm John Nance with El Paso
17 Natural Gas Company, El Paso, Texas.

18 MR. STAMETS: Any other appearances?

19 MR. BUELL: For Amoco Production Company, my
20 name is Guy Buell.

21 MR. KOVICH: For Sun Gas Company, Michael
22 Kovich.

23 MR. STAMETS: Any other appearances?

24 Will the rest of you attorneys who appeared
25 have any witnesses?

1 MR. BUELL: Amoco has none, Mr. Examiner.

2 MR. STAMETS: Okay, thank you.

3 MR. NANCE: El Paso will have none.

4 MR. STAMETS: Do you have one witness, Mr.

5 Padilla?

6 MR. PADILLA: I have called Lynn Teschendorf.

7 MR. STAMETS: I'd like to have her stand and
8 be sworn.

9 (Witness sworn.)

10
11 LYNN TESCHENDORF

12 being called as a witness and having been duly sworn upon
13 her oath, testified as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. PADILLA:

17 Q Ms. Teschendorf, would you for the record
18 state your name and by whom you are employed and in what
19 capacity you are employed?

20 A Lynn Teschendorf, General Counsel for the
21 Oil Conservation Division in Santa Fe.

22 Q Have you testified previously before the
23 Division? And are your credentials a matter of record be-
24 fore the Division?

25 A Yes, I have, and yes, they are.

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1 MR. PADILLA: Mr. Stamets, in view of her
2 credentials being a matter of record before the Division,
3 I ask that she be qualified as to testify before the Divi-
4 sion.

5 MR. STAMETS: Notwithstanding whatever she
6 may have said before, she is considered qualified.

7 MR. PADILLA: Very well, thank you, sir.

8 Q (Mr. Padilla continuing.) Ms. Teschendorf,
9 are you familiar with the subject matter of this hearing?

10 A Yes, I am.

11 Q What is the purpose of the case?

12 A The purpose of this case is to adopt an ad-
13 ministrative procedure whereby the Division can approve
14 findings that infill wells are necessary to drain their
15 proration units.

16 The 95th Congress last fall passed the
17 Natural Gas Policy Act of 1978; it was enacted on November
18 9th and became effective on December 1st of 1978, and pur-
19 suant to that Act the Federal Energy Regulatory Commission
20 has promulgated interim regulations, which among other
21 things, establish the definition of new onshore production
22 wells and also grant exceptions to that definition to wells
23 which are drilled on existing proration units.

24 These exceptions are contained in Sections
25 271.304 and 271.305 of the interim regulations, and I'd

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1 like to point out part of the Section 271.305 (b), which
2 applies to wells spudded after December 31st, '78, and for
3 which a drilling permit had not been issued prior to January
4 1, 1979.

5 Part of this paragraph states that in order
6 for natural gas from a well to which this paragraph applies
7 to qualify for the maximum lawful price under this sub-part,
8 which is qualification as a new onshore production well, the
9 jurisdictional agency must find prior to the commencement
10 of drilling that the well is necessary to effectively and
11 efficiently drain a portion of the reservoir covered by the
12 proration unit which cannot be effectively and efficiently
13 drained by any existing well within the proration unit.

14 Such finding must be explicit and must in-
15 volve either a redefinition of the boundaries of the pre-
16 viously existing proration unit or an alteration of or
17 exception to otherwise applicable well spacing rules.

18 The FERC regulations also establish the Oil
19 Conservation Division as the jurisdictional agency for wells
20 on State and fee lands in New Mexico.

21 Up to this time the Division has been holding
22 public hearing in order to make these findings but at this
23 point we feel we have heard enough of these cases so that
24 we know what kind of information we need in order to make
25 the findings, and I am therefor proposing an administrative

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1 procedure to make those findings at this time.

2 Q Have you prepared an exhibit for this hearing?

3 A Yes, I have. It's marked Exhibit One and
4 it's entitled Special Rules and Regulations, Natural Gas
5 Policy Act Infill Findings, Administrative Procedure.

6 I've put some by the door for people who are
7 interested in getting them.

8 Q Ms. Teschendorf, would you explain Exhibit
9 Number One?

10 A Exhibit Number One is a proposal for this
11 administrative procedure. There are eleven rules in all.
12 I'm just going to point out a few things.

13 In Rule One I have defined infill well as an
14 additional producible well completed on an established
15 proration unit.

16 The reason I have used the word "producible"
17 rather than producing is that oftentimes the first well on
18 a proration unit is in a temporarily abandoned state or is
19 producing very low amounts, and the operator is probably
20 going to plug it at some time in the near future or is not
21 going to be producing it, but a second well drilled on that
22 unit would be an infill well under the FERC regulations,
23 and that's why I used the word "producible".

24 Rule Two is applicability. Because of the
25 FERC rules they'll have to apply to wells for which a

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1 drilling permit had not been approved prior to January 1,
2 '79, and it also will apply only to wells which have not
3 yet been spudded. So the operator will have to come in and
4 get a finding under this procedure before he spuds the well.

5 This is also necessitated by the current
6 FERC regulations and I'm not sure if the final regs will
7 require this or not, but right now they do.

8 Rule Three (b) states that an Examiner or
9 the Director may find that an infill well is necessary, and
10 part of the requirement is that we receive waivers from off-
11 set operators or it can be approved if no offset operator
12 has entered an objection to the infill finding within thirty
13 days after receipt of the application by the Director.

14 We have had a number of comments from in-
15 dustry people stating that by granting an infill finding
16 the Oil Commission is essentially granting a waiver of
17 spacing requirements in a pool, and they feel that they
18 would like to know about this before we grant the finding
19 so that they might have an opportunity to object if they
20 want to.

21 Rule Eleven at the very end states that when
22 an operator files an application for an infill finding he
23 would have to state in his application that notice has been
24 given to the offset operators.

25 The only other rule I wanted to comment on

1 is Rule Ten.

2 Over the hearing process we have come down
3 to a number of factors which we feel are crucial to making
4 an infill finding, and I've tried to include these on the
5 information that we would require with an infill finding
6 application.

7 One of these is a formation structure map.
8 Another one is the amount of increase in ultimate recovery
9 expected to be obtained, and a narrative describing how the
10 increase was determined.

11 (c) is description of any mechanical prob-
12 lems in any existing well along with a summary of remedial
13 action taken and the results thereof.

14 And (d) is the current rate of production
15 for any existing well on the proration unit.

16 The applicant can also submit any other data
17 that he thinks might support his application, and we've
18 given him the option of supplying porosity and permeability
19 factors, production/pressure decline curves, and the effects
20 of secondary recovery or pressure maintenance operations.

21 He doesn't have to include these but they
22 are suggestions. Sometimes they've been helpful.

23 I think the rest of the rules are self-explan-
24 atory and since they're being introduced as an exhibit, I
25 don't think I'll go over them.

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1 Q Do you have anything further on Exhibit One?

2 A No, I don't.

3 MR. PADILLA: I offer Exhibit Number One into
4 evidence at this time.

5 MR. STAMETS: Exhibit Number One will be ad-
6 mitted.

7 MR. PADILLA: And I have no further questions
8 of the witness.

9 MR. STAMETS: Are there questions of the
10 witness? Mr. Nutter?

11
12 CROSS EXAMINATION

13 BY MR. NUTTER:

14 Q Ms. Teschendorf, your Rule One (a) defines
15 an infill well as an additional producible well completed
16 on an established proration unit.

17 A Uh-huh.

18 Q But isn't it necessary that these findings
19 be obtained before a well is spudded?

20 A Right, yes, it is.

21 Q How can it be a producible well, then?

22 A Well, the additional producible well would
23 refer to the first one on the unit. If you have a better
24 suggestion for defining what this well is going to be --

25 Q Well, I thought that the infill well was the

1 new well, not the old one.

2 A That's right, it is. It will be an additional
3 one on the unit.

4 I might add that I have lifted this definition
5 from your definition in the State NGPA definitions.

6 Q That was Dick's definition.

7 A Oh, oh, pardon me, I apologize.

8 Q It's an additional well on a producible unit,
9 is that what we're after?

10 A No, I don't think so. What I wanted to say
11 was that you've already got a well on there that's producible.

12 Q But that's not the infill well. That's the
13 original well.

14 A No, that's right, but this would be an addi-
15 tional one, an additional producible well.

16 Q Well, this is something we can hassle over
17 during our coffeebreak, as we usually do.

18 A Well, you can change it, if you want. I'm
19 not going to be picky about it.

20 MR. STAMETS: Does that conclude your cross
21 examination?

22 MR. NUTTER: Yeah.

23 MR. STAMETS: Mr. Kellahin?
24
25

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CROSS EXAMINATION

BY MR. KELLAHIN:

Q Ms. Teschendorf, let me ask you some questions to clarify your proposed Rule Number Eleven.

A I don't have a copy of that rule. If the Applicant makes his filing for an infill well under the proposed new rules, will he still be required to come to a hearing before the Division with regards to an unorthodox well location for the second well?

A Yes, he will.

Q The proposal as to notice of offsetting operators, would it not also be appropriate to include notice to the gas purchaser?

A That was something that we discussed. The purchaser is going to get notice of the application when they file it, the application for determination, when they file it with this office. We didn't feel that it was necessary that we require an applicant to notify the purchaser that he's getting this finding. He certainly has to notify the purchaser that he's making the application for determination.

A We didn't feel that it was important at this stage that the purchaser be notified.

Q How do you reconcile Rule Number Eleven with General Rule Number 5 that was entered earlier under Order

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1 Number R-5878 on December 14th, '78?

2 A I'm not sure I see the conflict.

3 Q Well, you indicated in your verbal testimony
4 that you thought a period of something like thirty days, I
5 believe, in which the affected offsetting operator would
6 have an opportunity to file an objection.

7 Rule Number Five speaks in terms of fifteen
8 days.

9 A Well, these are two different procedures.
10 The procedure I've been talking about today is simply for
11 findings that an infill well is necessary. You would have
12 thirty days to object to that.

13 Once you get the findings, you go ahead and
14 drill your well. When it's completed then you file an ap-
15 plication for determination and that is the procedure that
16 you're referring to that was adopted in R-5878.

17 Q I assume that you envision by Rule Number
18 Eleven that the kind of procedure that's used by the Division
19 with regards to topographical unorthodox locations that are
20 found in Rule 104-F?

21 A Right.

22 Q That's what you're talking about?

23 A That's right.

24 MR. KELLAHIN: I have no further questions.

25 MR. STAMETS: Any other questions of the

1 witness? Yes, Mr. Nance.

3 CROSS EXAMINATION

4 BY MR. NANCE:

5 Q Ms. Teschendorf, El Paso has a well, I believe
6 it's in Eddy County, the Shell State No. 1 Well, for which
7 a hearing has been continued. It has already been spudded
8 and I wanted to seek a point of clarification to make sure
9 that a hearing would still be required with respect to that
10 well and that Rule Two, then, requires that only wells not
11 yet spudded are subject to these rules.

12 A That's correct.

13 MR. STAMETS: I might indicate, that in the
14 last week we've gotten some clarification from FERC on that
15 and it sounded as though they are considering changing their
16 rules so that your well might be covered, but at this time
17 there's no way we can approve it.

18 MR. NANCE: As the rules exist now, then?

19 MR. STAMETS: Yes.

20 MR. NANCE: These wells are designed to ap-
21 ply it that way, then.

22 MR. STAMETS: Right.

23 Are there other questions of the witness?
24
25

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CROSS EXAMINATION

BY MR. STAMETS:

Q Ms. Teschendorf, getting back to the requirements of whichever rule it is,

A Three (b)?

Q Yes, Three (b), that the offset operators be notified, this seems inconsistent with our other rules and regulations. I don't recall that we do require notice of offset operators of infill wells anywhere else.

A I don't think there is notice to offset operators anywhere else. I think this was added as a response to concern by members of the industry that they be notified.

I think they are probably interested in finding out who's going to try to get a higher price for another well, in practically speaking.

Q What -- what specifically would we protect by such notice?

A Well, I think that the example that I've used is if someone has a gas well on 320-acre proration unit, and he's going to drill an infill well on that 320-acre proration unit, an offset operator might be concerned that his correlative rights would be violated, since the Commission established a 320-acre unit as the area that could be drained by one well.

If they're drilling a second well there might

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1 be concern that corrolative rights could be affected.

2 Q Do we have any mechanism in our regular rules
3 and regulations to prohibit the second well from being
4 drilled on a proration unit as long as it's being drilled
5 at a standard location?

6 A I have always felt that our rules prohibit
7 the drilling of more than one well on a proration unit; how-
8 ever, as you well know, the rest of the Division staff don't
9 agree with me.

10 Q Is it possible that, Ms. Teschendorf, we
11 should review our general rules and regulations on the matter
12 of infill drilling?

13 A I don't know if that's necessary at this time.
14 This particular administrative procedure is simply to ac-
15 commodate the Federal rules on the pricing.

16 Q For the purposes of the Federal rules, is
17 there really any reason to notify the offset operators?

18 A No, they certainly don't require it. I do,
19 however, feel they probably are interested parties.

20 MR. STAMETS: Any other questions of the
21 witness? Mr. Nutter?

22
23 RECROSS EXAMINATION

24 BY MR. NUTTER:

25 Q Ms. Teschendorf, in effect couldn't an oper-

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1 ator ask for infill drilling on all of his units in a pool
2 and without notification in essence change the spacing that
3 has been designated for that pool?

4 A In practical terms that's what he'd be doing.

5 Q And the other operators in the pool wouldn't
6 even know about it, if he didn't notify them.

7 A Uh-huh. Yes.

8 MR. STAMETS: Any other questions of the
9 witness? She may be excused.

10 Is there anything further in this case?

11 Mr. Kellahin?

12 MR. KELLAHIN: On behalf of Hanagan Petroleum
13 Corporation and Phillips Petroleum Company, those two com-
14 panies support Ms. Teschendorf's recommendations as outlined
15 in Exhibit Number One and would strenuously object to the
16 deletion of any requirement as to waiver.

17 We believe that it's necessary and an integral
18 part of the Oil Conservation Division's rules and regula-
19 tions that offset operators be notified for an infill well
20 and we concur in her statements and comments with regards
21 to her exhibit.

22 MR. STAMETS: Any other comments? Mr. Buell?

23 MR. BUELL: May it please the Examiner, Amoco
24 Production Company is proud to support Ms. Teschendorf's
25 last official act for the Oil Conservation Division. As

1 everything else she's done, it has tremendous merit.

2 MR. STAMETS: Any other comments?

3 The case will be taken under advisement.

4 (Hearing concluded.)

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY
 CERTIFY that the foregoing and attached Transcript of
 Hearing before the Oil Conservation Division was reported
 by me; that said transcript is a full, true, and correct
 record of the hearing, prepared by me to the best of my
 ability, knowledge, and skill, from my notes taken at the
 time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
 a complete record of the proceedings in
 the Examiner hearing of Case No. _____
 heard by me on _____ 19____.

_____, Examiner
 Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
25 April 1979

EXAMINER HEARING

IN THE MATTER OF:

The hearing called by the Oil Conser-) CASE
vation Division on its own motion to) 6526
consider a procedure for the adoption)
of findings, when applicable and pur-)
suant to the Federal Natural Gas Policy)
Act.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

For Hanagan Petroleum Corp.: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
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For Phillips Petroleum Co.: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

For El Paso Natural Gas Company: John Nance, Esq.
El Paso Natural Gas Co.
El Paso, Texas

For Amoco Production Co.: Guy Buell, Esq.
Amoco Production Company
Houston, Texas

For Sun Gas Company: Michael Kovich, Esq.
Sun Gas Company

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I N D E X

LYNN TESCHENDORF

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Cross Examination by Mr. Nance	14
Cross Examination by Mr. Stamets	15
Recross Examination by Mr. Nutter	16

E X H I B I T S

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1 MR. STAMETS: We'll call next case 6526, in
2 the matter of the hearing called by the Oil Conservation
3 Division on its own motion to consider a procedure for the
4 adoption of findings, when applicable, and pursuant to
5 Federal Natural Gas Policy Act, that another well is necessary
6 to effectively and efficiently drain that portion of a pro-
7 ration unit which cannot be so drained by any existing well.

8 Call for appearances in this case.

9 MR. PADILLA: Ernest L. Padilla for the Oil
10 Conservation Division.

11 MR. STAMETS: Any other appearances in this
12 case?

13 MR. KELLAHIN: I'm Tom Kellahin of Santa Fe,
14 New Mexico, appearing on behalf of Hanagan Petroleum Cor-
15 poration, and Phillips Petroleum Company.

16 MR. STAMETS: I'm John Nance with El Paso
17 Natural Gas Company, El Paso, Texas.

18 MR. STAMETS: Any other appearances?

19 MR. BUELL: For Amoco Production Company, my
20 name is Guy Buell.

21 MR. KOVICH: For Sun Gas Company, Michael
22 Kovich.

23 MR. STAMETS: Any other appearances?

24 Will the rest of you attorneys who appeared
25 have any witnesses?

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MR. BUELL: Amoco has none, Mr. Examiner.

MR. STAMETS: Okay, thank you.

MR. NANCE: El Paso will have none.

MR. STAMETS: Do you have one witness, Mr.

Padilla?

MR. PADILLA: I have called Lynn Teschendorf.

MR. STAMETS: I'd like to have her stand and
be sworn.

(Witness sworn.)

LYNN TESCHENDORF

being called as a witness and having been duly sworn upon
her oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. PADILLA:

Q Ms. Teschendorf, would you for the record
state your name and by whom you are employed and in what
capacity you are employed?

A Lynn Teschendorf, General Counsel for the
Oil Conservation Division in Santa Fe.

Q Have you testified previously before the
Division? And are your credentials a matter of record be-
fore the Division?

A Yes, I have, and yes, they are.

1 MR. PADILLA: Mr. Stamets, in view of her
2 credentials being a matter of record before the Division,
3 I ask that she be qualified as to testify before the Divi-
4 sion.

5 MR. STAMETS: Notwithstanding whatever she
6 may have said before, she is considered qualified.

7 MR. PADILLA: Very well, thank you, sir.

8 Q (Mr. Padilla continuing.) Ms. Teschendorf,
9 are you familiar with the subject matter of this hearing?

10 A Yes, I am.

11 Q What is the purpose of the case?

12 A The purpose of this case is to adopt an ad-
13 ministrative procedure whereby the Division can approve
14 findings that infill wells are necessary to drain their
15 proration units.

16 The 95th Congress last fall passed the
17 Natural Gas Policy Act of 1978; it was enacted on November
18 9th and became effective on December 1st of 1978, and pur-
19 suant to that Act the Federal Energy Regulatory Commission
20 has promulgated interim regulations, which among other
21 things, establish the definition of new onshore production
22 wells and also grant exceptions to that definition to wells
23 which are drilled on existing proration units.

24 These exceptions are contained in Sections
25 271.304 and 271.305 of the interim regulations, and I'd

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1 like to point out part of the Section 271.305 (b), which
2 applies to wells spudded after December 31st, '78, and for
3 which a drilling permit had not been issued prior to January
4 1, 1979.

5 Part of this paragraph states that in order
6 for natural gas from a well to which this paragraph applies
7 to qualify for the maximum lawful price under this sub-part,
8 which is qualification as a new onshore production well, the
9 jurisdictional agency must find prior to the commencement
10 of drilling that the well is necessary to effectively and
11 efficiently drain a portion of the reservoir covered by the
12 proration unit which cannot be effectively and efficiently
13 drained by any existing well within the proration unit.

14 Such finding must be explicit and must in-
15 volve either a redefinition of the boundaries of the pre-
16 viously existing proration unit or an alteration of or
17 exception to otherwise applicable well spacing rules.

18 The FERC regulations also establish the Oil
19 Conservation Division as the jurisdictional agency for wells
20 on State and fee lands in New Mexico.

21 Up to this time the Division has been holding
22 public hearing in order to make these findings but at this
23 point we feel we have heard enough of these cases so that
24 we know what kind of information we need in order to make
25 the findings, and I am therefor proposing an administrative

1 procedure to make those findings at this time.

2 Q Have you prepared an exhibit for this hearing?

3 A Yes, I have. It's marked Exhibit One and
4 it's entitled Special Rules and Regulations, Natural Gas
5 Policy Act Infill Findings, Administrative Procedure.

6 I've put some by the door for people who are
7 interested in getting them.

8 Q Ms. Teschendorf, would you explain Exhibit
9 Number One?

10 A Exhibit Number One is a proposal for this
11 administrative procedure. There are eleven rules in all.
12 I'm just going to point out a few things.

13 In Rule One I have defined infill well as an
14 additional producible well completed on an established
15 proration unit.

16 The reason I have used the word "producible"
17 rather than producing is that oftentimes the first well on
18 a proration unit is in a temporarily abandoned state or is
19 producing very low amounts, and the operator is probably
20 going to plug it at some time in the near future or is not
21 going to be producing it, but a second well drilled on that
22 unit would be an infill well under the FERC regulations,
23 and that's why I used the word "producible".

24 Rule Two is applicability. Because of the
25 FERC rules they'll have to apply to wells for which a

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1 drilling permit had not been approved prior to January 1,
2 '79, and it also will apply only to wells which have not
3 yet been spudded. So the operator will have to come in and
4 get a finding under this procedure before he spuds the well.

5 This is also necessitated by the current
6 FERC regulations and I'm not sure if the final regs will
7 require this or not, but right now they do.

8 Rule Three (b) states that an Examiner or
9 the Director may find that an infill well is necessary, and
10 part of the requirement is that we receive waivers from off-
11 set operators or it can be approved if no offset operator
12 has entered an objection to the infill finding within thirty
13 days after receipt of the application by the Director.

14 We have had a number of comments from in-
15 dustry people stating that by granting an infill finding
16 the Oil Commission is essentially granting a waiver of
17 spacing requirements in a pool, and they feel that they
18 would like to know about this before we grant the finding
19 so that they might have an opportunity to object if they
20 want to.

21 Rule Eleven at the very end states that when
22 an operator files an application for an infill finding he
23 would have to state in his application that notice has been
24 given to the offset operators.

25 The only other rule I wanted to comment on

1 is Rule Ten.

2 Over the hearing process we have come down
3 to a number of factors which we feel are crucial to making
4 an infill finding, and I've tried to include these on the
5 information that we would require with an infill finding
6 application.

7 One of these is a formation structure map.
8 Another one is the amount of increase in ultimate recovery
9 expected to be obtained, and a narrative describing how the
10 increase was determined.

11 (c) is description of any mechanical prob-
12 lems in any existing well along with a summary of remedial
13 action taken and the results thereof.

14 And (d) is the current rate of production
15 for any existing well on the proration unit.

16 The applicant can also submit any other data
17 that he thinks might support his application, and we've
18 given him the option of supplying porosity and permeability
19 factors, production/pressure decline curves, and the effects
20 of secondary recovery or pressure maintenance operations.

21 He doesn't have to include these but they
22 are suggestions. Sometimes they've been helpful.

23 I think the rest of the rules are self-explan-
24 atory and since they're being introduced as an exhibit, I
25 don't think I'll go over them.

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1 Q Do you have anything further on Exhibit One?
2 A No, I don't.
3 MR. PADILLA: I offer Exhibit Number One into
4 evidence at this time.
5 MR. STAMETS: Exhibit Number One will be ad-
6 mitted.
7 MR. PADILLA: And I have no further questions
8 of the witness.
9 MR. STAMETS: Are there questions of the
10 witness? Mr. Nutter?
11
12 CROSS EXAMINATION
13 BY MR. NUTTER:
14 Q Ms. Teschendorf, your Rule One (a) defines
15 an infill well as an additional producible well completed
16 on an established proration unit.
17 A Uh-huh.
18 Q But isn't it necessary that these findings
19 be obtained before a well is spudded?
20 A Right, yes, it is.
21 Q How can it be a producible well, then?
22 A Well, the additional producible well would
23 refer to the first one on the unit. If you have a better
24 suggestion for defining what this well is going to be --
25 Q Well, I thought that the infill well was the

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1 new well, not the old one.

2 A. That's right, it is. It will be an additional
3 one on the unit.

4 I might add that I have lifted this definition
5 from your definition in the State NGFA definitions.

6 Q. That was Dick's definition.

7 A. Oh, oh, pardon me, I apologize.

8 Q. It's an additional well on a producible unit,
9 is that what we're after?

10 A. No, I don't think so. What I wanted to say
11 was that you've already got a well on there that's producible.

12 Q. But that's not the infill well. That's the
13 original well.

14 A. No, that's right, but this would be an addi-
15 tional one, an additional producible well.

16 Q. Well, this is something we can hassle over
17 during our coffeebreak, as we usually do.

18 A. Well, you can change it, if you want. I'm
19 not going to be picky about it.

20 MR. STAMETS: Does that conclude your cross
21 examination?

22 MR. NUTTER: Yeah.

23 MR. STAMETS: Mr. Kellahin?
24
25

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Ms. Teschendorf, let me ask you some questions to clarify your proposed Rule Number Eleven.

I don't have a copy of that rule. If the Applicant makes his filing for an infill well under the proposed new rules, will he still be required to come to a hearing before the Division with regards to an unorthodox well location for the second well?

A Yes, he will.

Q The proposal as to notice of offsetting operators, would it not also be appropriate to include notice to the gas purchaser?

A That was something that we discussed. The purchaser is going to get notice of the application when they file it, the application for determination, when they file it with this office. We didn't feel that it was necessary that we require an applicant to notify the purchaser that he's getting this finding. He certainly has to notify the purchaser that he's making the application for determination.

We didn't feel that it was important at this stage that the purchaser be notified.

Q How do you reconcile Rule Number Eleven with General Rule Number 5 that was entered earlier under Order

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1 Number R-5878 on December 14th, '78?

2 A. I'm not sure I see the conflict.

3 Q. Well, you indicated in your verbal testimony
4 that you thought a period of something like thirty days, I
5 believe, in which the affected offsetting operator would
6 have an opportunity to file an objection.

7 Rule Number Five speaks in terms of fifteen
8 days.

9 A. Well, these are two different procedures.
10 The procedure I've been talking about today is simply for
11 findings that an infill well is necessary. You would have
12 thirty days to object to that.

13 Once you get the findings, you go ahead and
14 drill your well. When it's completed then you file an ap-
15 plication for determination and that is the procedure that
16 you're referring to that was adopted in R-5878.

17 Q. I assume that you envision by Rule Number
18 Eleven that the kind of procedure that's used by the Division
19 with regards to topographical unorthodox locations that are
20 found in Rule 104-F?

21 A. Right.

22 Q. That's what you're talking about?

23 A. That's right.

24 MR. KELLAHIN: I have no further questions.

25 MR. STAMETS: Any other questions of the

1 witness? Yes, Mr. Nance.

2

3

CROSS EXAMINATION

4 BY MR. NANCE:

5 Q Ms. Teschendorf, El Paso has a well, I believe
6 it's in Eddy County, the Shell State No. 1 Well, for which
7 a hearing has been continued. It has already been spudded
8 and I wanted to seek a point of clarification to make sure
9 that a hearing would still be required with respect to that
10 well and that Rule Two, then, requires that only wells not
11 yet spudded are subject to these rules.

12 A That's correct.

13 MR. STAMETS: I might indicate, that in the
14 last week we've gotten some clarification from FERC on that
15 and it sounded as though they are considering changing their
16 rules so that your well might be covered, but at this time
17 there's no way we can approve it.

18 MR. NANCE: As the rules exist now, then?

19 MR. STAMETS: Yes.

20 MR. NANCE: These wells are designed to ap-
21 ply it that way, then.

22 MR. STAMETS: Right.

23 Are there other questions of the witness?

24

25

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CROSS EXAMINATION

BY MR. STAMETS:

Q Ms. Teschendorf, getting back to the requirements of whichever rule it is,

A Three (b)?

Q Yes, Three (b), that the offset operators be notified, this seems inconsistent with our other rules and regulations. I don't recall that we do require notice of offset operators of infill wells anywhere else.

A I don't think there is notice to offset operators anywhere else. I think this was added as a response to concern by members of the industry that they be notified.

I think they are probably interested in finding out who's going to try to get a higher price for another well, in practically speaking.

Q What -- what specifically would we protect by such notice?

A Well, I think that the example that I've used is if someone has a gas well on 320-acre proration unit, and he's going to drill an infill well on that 320-acre proration unit, an offset operator might be concerned that his correlative rights would be violated, since the Commission established a 320-acre unit as the area that could be drained by one well.

If they're drilling a second well there might

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1 be concern that correlative rights could be affected.

2 Q Do we have any mechanism in our regular rules
3 and regulations to prohibit the second well from being
4 drilled on a proration unit as long as it's being drilled
5 at a standard location?

6 A I have always felt that our rules prohibit
7 the drilling of more than one well on a proration unit; how-
8 ever, as you well know, the rest of the Division staff don't
9 agree with me.

10 Q Is it possible that, Ms. Teschendorf, we
11 should review our general rules and regulations on the matter
12 of infill drilling?

13 A I don't know if that's necessary at this time.
14 This particular administrative procedure is simply to ac-
15 commodate the Federal rules on the pricing.

16 Q For the purposes of the Federal rules, is
17 there really any reason to notify the offset operators?

18 A No, they certainly don't require it. I do,
19 however, feel they probably are interested parties.

20 MR. STAMETS: Any other questions of the
21 witness? Mr. Nutter?

22
23 RECROSS EXAMINATION

24 BY MR. NUTTER:

25 Q Ms. Teschendorf, in effect couldn't an oper-

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1 ator ask for infill drilling on all of his units in a pool
2 and without notification in essence change the spacing that
3 has been designated for that pool?

4 A. In practical terms that's what he'd be doing.

5 Q. And the other operators in the pool wouldn't
6 even know about it, if he didn't notify them.

7 A. Uh-huh. Yes.

8 MR. STAMETS: Any other questions of the
9 witness? She may be excused.

10 Is there anything further in this case?

11 Mr. Kellahin?

12 MR. KELLAHIN: On behalf of Hanagan Petroleum
13 Corporation and Phillips Petroleum Company, those two com-
14 panies support Ms. Teschendorf's recommendations as outlined
15 in Exhibit Number One and would strenuously object to the
16 deletion of any requirement as to waiver.

17 We believe that it's necessary and an integral
18 part of the Oil Conservation Division's rules and regula-
19 tions that offset operators be notified for an infill well
20 and we concur in her statements and comments with regards
21 to her exhibit.

22 MR. STAMETS: Any other comments? Mr. Buell?

23 MR. BUELL: May it please the Examiner, Amoco
24 Production Company is proud to support Ms. Teschendorf's
25 last official act for the Oil Conservation Division. As

1 everything else she's done, it has tremendous merit.

2 MR. STAMETS: Any other comments?

3 The case will be taken under advisement.

4 (Hearing concluded.)

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd CSR
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6526 heard by me on 4-25 1977
Richard L. Hunt, Examiner
Oil Conservation Division

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Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

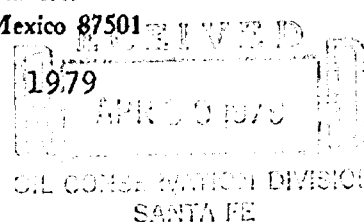
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April 27, 1979



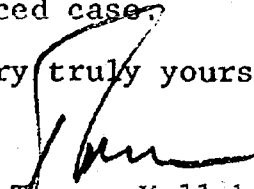
Mr. Richard Stamets
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: NMOCD Case No. 6526

Dear Mr. Stamets:

On behalf of Phillips Petroleum Company, I would appreciate you making the enclosed statement part of the record in the above referenced case.

Very truly yours,


W. Thomas Kellahin

WTK:eps
Enclosure

cc: Mr. Joe Peacock



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79762
4001 PENBROOK

LEGAL

April 24, 1979

Re: Case No. 6527 - Hearing Called
by Oil Conservation Division

Mr. W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

Dear Mr. Kellahin:

Please enter the following statement in the subject case
on behalf of Phillips Petroleum Company:

"Phillips Petroleum Company supports the proposals of the Oil Conservation Division to be considered in Case No. 6526 whereby procedures are to be considered for adoption of findings, when applicable and pursuant to the Natural Gas Policy Act - 1978, that another well is necessary to effectively and efficiently drain that portion of its proration unit which cannot be so drained by any existing well; that the then existing well spacing requirements be waived, and such procedures provide a system whereby such findings could be issued administratively without the necessity for public hearing.

"Further, Phillips Petroleum Company wishes to suggest that the procedural system, when adopted, include the requirement that the applicant provide notice of the application to all operators offsetting the pertinent proration unit, and to the gas purchaser. In conjunction with this suggestion, it then appears that a waiver/objection notice time period prior to administrative action should also be included."

Yours truly,


Joe V. Peacock

JVP:nc

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional producible well completed on an established proration unit.

B. APPLICABILITY

RULE 2. These Special Rules and Regulations shall only apply to wells for which a drilling permit had not been approved prior to January 1, 1979, and which have not yet been spudded.

C. JUSTIFICATION FOR FINDINGS

RULE 3. An examiner or the Director may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 30 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a C-101 showing date of approval, if any, and a C-102 showing the proration unit dedicated.

RULE 6. Applicant shall give the name of the pool in which completion will be attempted and the standard spacing unit size therefor.

RULE 7. If the proration unit is nonstandard, the applicant shall furnish the number of the Division order approving it.

RULE 8. The applicant shall state whether the well has been spudded, and the spud date, if any.

RULE 9. The applicant shall submit a description of all wells drilled on the proration unit including:

- a. lease name and well location
- b. spud date
- c. producing formation(s)
- d. date of plug and abandonment, if any

RULE 10. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:

- a. formation structure map
- b. the amount of increase in ultimate recovery expected to be obtained and a narrative describing how the increase was determined.

- c. description of any mechanical problems in any existing well along with a summary of remedial action taken and the results thereof.
- d. current rate of production for any existing well
- e. any other supporting data which the applicant deems to be relevant which may include:
 - (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations

RULE 11. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

SPECIAL RULES AND REGULATIONS CASE NO. 6526
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE Submitted by JCD

Hearing Date 4-25-79

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional producible well completed on an established proration unit.

B. APPLICABILITY

RULE 2. These Special Rules and Regulations shall only apply to wells for which a drilling permit had not been approved prior to January 1, 1979, and which have not yet been spudded.

C. JUSTIFICATION FOR FINDINGS

RULE 3. An examiner or the Director may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 30 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a C-101 showing date of approval, if any, and a C-102 showing the proration unit dedicated.

RULE 6. Applicant shall give the name of the pool in which completion will be attempted and the standard spacing unit size therefor.

RULE 7. If the proration unit is nonstandard, the applicant shall furnish the number of the Division order approving it.

RULE 8. The applicant shall state whether the well has been spudded, and the spud date, if any.

RULE 9. The applicant shall submit a description of all wells drilled on the proration unit including:

- a. lease name and well location
- b. spud date
- c. producing formation(s)
- d. date of plug and abandonment, if any

RULE 10. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:

- a. formation structure map
- b. the amount of increase in ultimate recovery expected to be obtained and a narrative describing how the increase was determined.

- c. description of any mechanical problems in any existing well along with a summary of remedial action taken and the results thereof.
- d. current rate of production for any existing well
- e. any other supporting data which the applicant deems to be relevant which may include:
 - (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations

RULE 11. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

Dockets Nos. 18-79 and 20-79 are tentatively set for hearing on May 9 and 23, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 25, 1979

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stanets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- CASE 6525: In the matter of the hearing called by the Oil Conservation Division on its own motion to amend the Special Rules for the Tubb Gas Pool in Lea County, New Mexico, to provide for the classification of wells as oil wells and gas wells on the basis of gas-oil ratios rather than on the basis of liquid gravity as at present.
- CASE 6526: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider a procedure for the adoption of findings, when applicable and pursuant to the Federal Natural Gas Policy Act, that another well is necessary to effectively and efficiently drain that portion of its proration unit which cannot be so drained by any existing well, and that existing well spacing requirements are waived. The proposed procedure would provide a system whereby such findings could be issued administratively without the necessity for public hearing.
- CASE 6527: Application of Tenneco Oil Company for two non-standard oil proration units, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 80-acre non-standard oil proration units, the first comprising the N/2 NW/4, the other the N/2 NE/4, of Section 12, Township 9 South, Range 34 East, Vada-Pennsylvanian Pool, Lea County, New Mexico, said units to be dedicated to applicant's Ward Insall Wells Nos. 1 and 2, respectively, located in Units D and A of said Section 12.
- CASE 6528: Application of Pass Enterprises Production Co. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox Morrow test well location to be drilled 660 feet from the North and West lines of Section 10, Township 21 South, Range 32 East, Lea County, New Mexico, the W/2 of said Section 10 to be dedicated to the well.
- CASE 6529: Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 22, Township 23 South, Range 28 East, Eddy County, New Mexico, to be dedicated to its Brantley Gas Com. Well No. 1 located in Unit K of said Section 22. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6530: Application of Amoco Production Company for unorthodox gas well locations, temporary injection of produced gas, and to vent gas, Union and Harding Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox locations in the Tubb formation of its State FI Well No. 3, located 1315 feet from the South line and 1980 feet from the East line of Section 36, Township 20 North, Range 34 East, Union County, and its Heimann Well No. 5, located 660 feet from the South line and 1315 feet from the West line of Section 3, Township 19 North, Range 33 East, Harding County. Applicant further seeks authority to conduct pressure interference tests, including authority to vent gas produced from the State FI Well No. 1 for a period not to exceed 45 days and to inject produced gas into its Heimann Well No. 4 located in Unit K of Section 34, Township 20 North, Range 33 East, for a period not to exceed six months.
- CASE 6531: Application of Getty Oil Company for an unorthodox gas well location and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to simultaneously dedicate its Baker B Well No. 6 at an unorthodox location 510 feet from the South and West lines of Section 10, Township 22 South, Range 37 East, Lea County, New Mexico, and its Baker B Well No. 15 located in Unit L of said Section 10, the current unit well, to the existing proration unit.
- CASE 6532: Application of Northwest Production Corporation for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Tapacito-Pictured Cliffs and Blanco Mesaverde production in the wellbore of its Jicarilla 117E Well No. 5 located in Unit M of Section 28, Township 26 North, Range 3 West, Rio Arriba County, New Mexico.
- CASE 6072: (Continued from March 28, 1979, Examiner Hearing)
- In the matter of Case 6072 being reopened pursuant to the provisions of Order No. R-5643 which order created the Travis-Upper Pennsylvanian Pool, Eddy County, New Mexico, with provisions for 80-acre spacing. All interested parties may appear and show cause why the Travis-Upper Pennsylvanian Pool should not be developed on 40-acre spacing units.

April 25

Case 6526

In the matter of the hearing held by
the OLC on the petition to adopt
an administrative procedure for
the issuance of findings pursuant to
the NAPA Act, no other well is
necessary to effectively and efficiently
drain that portion of its production
unit which cannot be so drained
by any existing well and that
existing well-spacing requirements
are waived.

ROUGH

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6526

Order No. R-6013

IN THE MATTER OF THE HEARING CALLED BY THE OIL
CONSERVATION DIVISION ON ITS OWN MOTION TO CONSIDER A
PROCEDURE FOR THE ADOPTION OF FINDINGS, WHEN APPLICABLE AND
PURSUANT TO THE FEDERAL NATURAL GAS POLICY ACT, THAT ANOTHER
WELL IS NECESSARY TO EFFECTIVELY AND EFFICIENTLY DRAIN THAT
PORTION OF ITS PRORATION UNIT WHICH CANNOT BE SO DRAINED BY
ANY EXISTING WELL, AND THAT EXISTING WELL SPACING REQUIREMENTS ARE
WAIVED.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 25
19 79, at Santa Fe, New Mexico, before Examiner Richard L. Stamets
NOW, on this _____ day of _____, 19 79, the
Division Director, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the 95th Congress of the United States passed
the Natural Gas Policy Act of 1978, P.L. 95-621, 92 Stat. 3350.

(3) That said Act was enacted on November 9, 1978, and went into effect on December 1, 1978.

(4) That pursuant to said Act, the Federal Energy Regulatory Commission, ~~hereinafter referred to as "FERC"~~, has promulgated interim regulations establishing ~~gas pricing categories and filing requirements~~ ^{gas pricing categories and filing requirements} and exceptions thereto for wells drilled on existing proration units.

(5) That said regulations also established the Oil Conservation Division as the jurisdictional agency with respect to wells located on state and fee lands within the State of New Mexico.

(6) That an infill well drilled on an existing proration unit would not qualify under the ^{higher} "New Onshore Production Well" category (Section 103) of said interim FERC regulations but would command a lower category determination unless such well should qualify under certain exception provisions set out therein.

(7) That said exceptions are contained in Sections 271.304 and 271.305 of the FERC regulations and require that the jurisdictional agency must find, prior to the commencement of drilling of an infill well, that the well is necessary to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit. without the necessity of a public hearing in each case, and yet to be

(8) That in order to make such findings in accordance with the FERC regulations and in accordance with State law, the Oil Conservation Division should adopt special rules for Natural Gas Policy Act infill findings ^{to be followed in the application} ~~for and promulgation of such findings administratively.~~ ^{The filing of}

(9) That said Special Rules should require ^{the filing of} geological and reservoir information sufficient to support a finding as to the necessity for ^{the drilling of the infill well.} ~~an infill well to be filed, and that offset operators should be notified of the filing of an application for an infill finding.~~

(10) That said special rules should be in the form and content prescribed on Exhibit A, attached hereto and made a part hereof.

IT IS THEREFORE ORDERED:

(1) That the "Special Rules ^{and Regulations,} ~~for~~ Natural Gas Policy ^{Pct} Infill
Findings, ^{Administrative Procedure"} attached hereto as Exhibit A are hereby adopted ^{effective} ~~by~~
^{immediately.} ~~the Oil Conservation Division.~~

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

SPECIAL RULES AND REGULATIONS
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional ~~produceable~~ ^{to be drilled for} well ~~completed~~ ^{production} on an established proration unit.

B. APPLICABILITY

RULE 2. These Special Rules and Regulations shall only apply to wells for which a drilling permit had not been approved prior to January 1, 1979, and which have not yet been spudded.

C. JUSTIFICATION FOR FINDINGS

RULE 3. ~~The Division Director or a Division Examiner~~
~~An examiner or the Director~~ may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered, an objection to the infill finding within ²⁰~~30~~ days after receipt of the application by the Director.

Ex. A

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a C-101 showing date of approval, if any, and ^{copy of Form} C-102 showing the proration unit dedicated.

RULE 6. Applicant shall give the name of the pool in which completion will be attempted and the standard spacing unit size therefor.

Rule 7. ^{If applicable,} The applicant shall give the number of the Division Order approving the nonstandard proration unit.

RULE 8. The applicant shall state whether the well has been spudded, and the spud date, if any.

RULE 9. The applicant shall submit a description of all wells drilled on the proration unit ^{which are or have been completed} including: ^{in the same pool or reservoir as the proposed infill well showing:}

a. lease name and well location;

b. spud date;

c. ^{completion date} ~~producing formation(s)~~;

d. a description of any mechanical problems experienced along with a summary of remedial action(s) taken and the results obtained;

e. The current rate of production; and,

f. date of plug and abandonment, if any

RULE 10. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:

a. formation structure map

b. the ^{volume of} ~~amount of~~ increased ~~in~~ ultimate recovery expected to be obtained and a narrative describing how the increase was determined.

- c. description of any mechanical problems in any existing well *Shown under Rule 9 above* along with a summary of remedial action taken and the results thereof.
- d. current rate of production for any existing well *shown under Rule 9*
- C. any other supporting data which the applicant deems to be relevant which may include:
- (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations

RULE 11. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.