NEW MEXICO OIL CONSERVATION DIVISION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date JANUARY 14, 1999 Time 9:00 A.M.

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STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION FOR THE PURPOSE OF CONSIDERING:	CASE NO. 12,115
IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION TO AMEND 19 NMAC 15.C 107.J AND K OF ITS RULES AND REGULATIONS PERTAINING TO TUBING AND CASING SIZES AND TO GIVING THE DISTRICTS AUTHORITY TO GRANT ADMINISTRATIVE EXCEPTIONS	

REPORTER'S TRANSCRIPT OF PROCEEDINGS
COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN
WILLIAM J. LEMAY, COMMISSIONER
JAMI BAILEY, COMMISSIONER

January 14th, 1999
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Thursday, January 14th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

January 14th, 1999
Commission Hearing
CASE NO. 12,117

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E X H I B I T S

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

WHEREUPON, the following proceedings were had at 9:10 a.m.:

CHAIRMAN WROTENBERY: Next, we have a couple of rulemaking matters on our agenda, and these rulemakings are at various stages of development. I think we'll take up first the ones that are furthest along in the process.

Let me ask Rand Carroll, the Division's legal counsel, should we take the tubingless completion and the multiple completions together, or do you want to take those up separately?

MR. CARROLL: I prefer they be taken up separately.

CHAIRMAN WROTENBERY: Okay. Then we'll start with Case 12,117, the matter of the hearing called by the Oil Conservation Division, to amend 19 NMAC 15.C 107.J and K of its Rules pertaining to tubing and casing sizes and to give the District Office authority to grant administrative exceptions.

We circulated copies of a draft of the proposed rule changes with the docket for this particular hearing. I believe, Rand, you'll make an appearance in this particular case today; is that right?

MR. CARROLL: Yes, may it please the Commission, my name is Rand Carroll appearing on behalf of the Oil Conservation Division. I'll have one witness in this case.

CHAIRMAN WROTENBERY: Okay. And are there any other appearances in this particular case?

MR. KELLAHIN: May it please the Commission, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of the New Mexico Oil and Gas Association and Burlington Resources Oil and Gas Company. We have one witness to be sworn.

CHAIRMAN WROTENBERY: Okay.

MR. KELLAHIN: We're here in support of the rule change.

CHAIRMAN WROTENBERY: Thank you.

Would both witnesses stand and be sworn at this time?

(Thereupon, the witnesses were sworn.)

CHAIRMAN WROTENBERY: Rand, would you like to go first or --

MR. CARROLL: Madame Chair, with your permission I'd like to defer to Burlington, which has a fairly extensive presentation on 107. And it was at their urging that the Division consider the amendments to Rule 107.

CHAIRMAN WROTENBERY: Okay, thank you.

Mr. Kellahin?

MR. KELLAHIN: Madame Chair, thank you.

May it please the Commission, back in the early fall of last year, Burlington and the Association

approached the Division asking them to consider modifications to Rule 107.

Rule 107 deals with the tubing requirements and establishes a process where an Applicant can file an Application with the District Supervisor and obtain approval for tubingless completions if they comply with certain requirements. We will show you the existing requirements.

Those are found under Rule 107.K. They provide that if the well is of a certain minimum depth, that if it's not a wildcat well, if there's no known corrosion or pressure problems, if it's not to be a dual completion, and if the tubing to be substituted for the casing is not in excess of 2 7/8 inch, then the District Supervisor can approve it.

Under Rule 107.J, there is a procedure by which the Division Director can approve other types of tubingless completions.

Since 1996, Burlington has, in the San Juan Basin, processed perhaps 80 or 90 such applications. There's never been an example in which it has been opposed or set for hearing, and it is a matter of such routine that we have recommended to the Division that this process could be accomplished by the District Supervisor.

And so, in principle, we are asking that instead

of having exceptions processed in Santa Fe -- Roy Johnson is currently doing those -- that that entire activity be processed by a District Supervisor. We think it's an operational matter between the operator and the agency. There has never been a notice procedure set forth in this rule. We talked about it at the Association committee meeting on Tuesday. No one is aware of any reason an offset operator would care. It's an activity by that operator with the approval of the Division.

In addition, Burlington has found that current practice and technology, particularly for the Pictured Cliff formation in the San Juan Basin, makes it very feasible and suitable to use tubingless completions with a casing size of 3 1/2 inch. So we have proposed to the Division that the rule be relaxed so that we could have tubingless completions for our gas wells, so long as the casing size didn't exceed 3 1/2 inches.

We discussed that at the meeting on Tuesday, and we found that Amoco and others had obtained approval for tubingless completions using casing sizes as large as 5 1/2 inches. So you may decide that there is no reason to limit it to 3 1/2 inches. That's your choice. We don't have a strong urgency to limit it to 3 1/2 inches.

My witness is an engineer. His name is Koby Killion. His last name rhymes with "million", it's

K-i-l-l-i-o-n. His first name is spelled with a K, K-o-b-y.

Mr. Killion is an expert in these matters. He has been involved in almost all of these for Burlington. And with your permission, then, we'll walk through some of his examples so that you have some visual references to see some schematics and see how this activity takes place.

It is my understanding that the operators in southeastern New Mexico seldom avail themselves of exceptions from this rule, largely because production of gas wells in southeastern New Mexico, in many instances, has some liquids associated with it. And so it is their custom and practice to have tubing in their wells there, simply to aid in the lifting of those liquids.

In the San Juan Basin, particularly for the dry gas pools, and extensively in the Pictured Cliff, tubing is eliminated. That elimination of tubing, as Mr. Killion will testify, is of significance. It saves them, per well, almost $30,000. It also improves the efficiency of lifting the dry gas hydrocarbons in wellbores configured in this fashion, and Mr. Killion can describe that for you.

So with your permission and that introduction, we'll turn to his exhibit book and show you the specifics.

CHAIRMAN WROTENBERY: Could I ask you to repeat one thing that you said, about the numbers of these

applications that are submitted? You said 80 to 90, but I didn't catch the period.

MR. KELLAHIN: Mr. Killion has the specifics --

CHAIRMAN WROTENBERY: Okay.

MR. KELLAHIN: -- he'll show those to you behind Exhibit Tab Number 3 --

CHAIRMAN WROTENBERY: Okay.

MR. KELLAHIN: -- in fact, he's listed all of them.

CHAIRMAN WROTENBERY: Thank you.

MR. KELLAHIN: They are tubingless completions processed for the Pictured Cliff reservoir since 1996. I forgot the exact number. There's more than 80 of them, I think.

KOBY KILLION,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, sir, would you please state your name and occupation?

A. Koby Killion, reservoir engineer for Burlington Resources.

Q. Mr. Killion, you'll have to speak up. The microphone does not amplify your voice. It's for the court

reporter, and there's a fan overhead that has a background hum to it, so if you'll speak up, sir.

On prior occasions have you ever testified before the Division?

A. No, I have not.

Q. Summarize for us your education.

A. I graduated in 1995 from Texas Tech University in Lubbock, Texas.

Q. And your current position with Burlington is in what activity, sir?

A. I am currently the reservoir engineer for the Pictured Cliffs restimulation team in Farmington.

Q. As part of that team, are you involved on a regular basis with the Rule 107 of the Division rulebook?

A. Yes, I am.

Q. How long have you been involved with looking at tubingless completions for the Pictured Cliff reservoir in the San Juan Basin?

A. I've personally been involved with the process since 1996, when the Pictured Cliffs restimulation team was formed, and this was our first attempt at reducing costs in this tight reservoir to make them more economical to produce their existing reserves in place.

Q. As a consequence of that effort, have you and representatives of Burlington filed applications before the

Division for exceptions from Rule 107?

A. Yes, we have.

MR. KELLAHIN: We tender Mr. Killion as an expert witness.

CHAIRMAN WROTENBERY: So qualified.

Q. (By Mr. Kellahin) Let's turn to the exhibit book, Mr. Killion, and let's start -- We're going to skip around just a little bit. Let's pass Exhibit 1, which is simply a cop of the draft rule changes, and turn to the first foldout behind Exhibit Number 2. When we look at this plat, what are we looking at?

A. This map shows the locations of 135 Pictured Cliffs projects submitted and approved for tubingless completion orders since 1996.

The heavy outlines represent the current field boundaries in the Pictured Cliffs formations in the San Juan Basin, and you can see that our activity has been confined primarily to Ballard, Fulcher-Kutz and Aztec PC fields.

Q. Turn behind Exhibit Tab Number 2 and identify for us what is shown behind Exhibit Tab Number 3.

A. This is a simple tabular listing of those same projects, along with the tubingless completion order that we have received. This listing shows the location of the projects, the project top. We're principally involved with

redrills and restimulations in the Pictured Cliffs. It shows the project year and then the field that the project occurred in.

Q. How many wells are listed here, Mr. Killion?

A. There are 135 projects in this listing. 111 of those are restimulations, and 24 are redrills.

Q. Have all of these been approved by the Division?

A. Yes, they have.

Q. Has the Division ever denied any of your applications for tubingless completions?

A. No, they have not.

Q. Let's turn to Exhibit Tab Number 4, and let's talk about some of the reasons for the rule change.

Does Burlington support changing this rule?

A. Yes.

Q. Does Burlington support allowing approval of this activity and the exceptions from this rule to take place at the District level?

A. Yes.

Q. Let's talk about the first item here -- the second item. It says "Why Tubingless" completion? Let's talk about your opinions concerning the advantages of tubingless completions in the reservoirs that you're working.

A. Well, most importantly, tubingless completions

allow us to complete these projects much more economically than tube completions. We have averaged a cost savings of just over $29,000 per well with tubingless completions in the Pictured Cliffs.

We also feel that we have lessened our risk during future workovers, since there will be no tubing in the well to become stuck over time.

We also have seen significant flow-rate increases during production, due to the larger diameter tubulars.

Q. Let's go down to the bottom, it says "Economic Summary". Describe for us your example here that supports your conclusion about the magnitude of economic savings.

A. This is -- basically, the four columns -- the column on the far left, the first column, is a list of our economic indicators that we as a company use to identify and support projects.

The second column shows the cost and those associated indicators without running tubing, or a tubingless instance.

The third column shows the associated economics with running tubing in these projects.

And then the final column, then, is just a simple difference between the two.

And as you can see, in every instance our projects are more economical when we eliminate running

tubing strings. For instance, we're able to lessen the payout after restimulation by two years, from seven years down to five years, without running the tubing.

And most important to Burlington is the profit-to-investment ratio that you see the fifth line down. You can see that our PI, as it's called, increases almost 100 percent, from a .23 to a .4, which in many cases allows us to receive funding for those projects, which otherwise may not have been funded.

Q. This economic summary is based upon your analysis of the Pictured Cliff wells that you've worked on?

A. Yes.

Q. Let's go to the top heading and talk about the specific advantages of the change in size in the rule. Current rule limits tubingless completion sizes to 2 7/8 inch?

A. Yes, sir.

Q. You're requesting that it be increased at least to 3 1/2 inch?

A. Yes, sir.

Q. Describe for us what that matters.

A. Well, there are several advantages to running 3-1/2-inch casing tubingless over 2-7/8-inch casing. First, we feel that the larger wellbore, larger 3-1/2-inch wellbore, offers more flexibility to the operator in both

completion production practices now and long term, as more slimhole technology advances occur.

We've also seen improved success during fishing operations in 3-1/2-inch casing.

We've found that the 3-1/2-inch wellbore is easier to clean up after stimulation, which results in a reduced project cost.

There are currently more completion and workover tools available in 3-1/2-inch casing.

We're able to run larger tubing if fluid production does indeed occur in the future, to help minimize waste.

We've also seen reduced stimulation costs, due to less friction pressure during interval treatment.

And the final point there is that there are currently more options available if artificial lift does become necessary to prevent waste in the future.

Q. Are you aware of any kind of waste issue if this rule is changed? Is there any compromise in your ability to produce the hydrocarbons in the reservoir if this rule is changed?

A. In the dry portions of the Pictured Cliff reservoir I feel that there is no harm of waste. Our current practice in the more wet areas is to, indeed, run tubing strings to help produce those liquids.

Q. So the operator decision by Burlington and others, to the best of your knowledge, is to make a choice about whether or not they have dry gas or liquids associated. If it's dry gas production, then there's a significant advantage to the tubingless completions?

A. Yes.

Q. Do you see any reason that -- Under the current procedure, are you required to notify anyone if you ask for a tubingless completion?

A. No, we are not.

Q. Do you see any reason to provide notice to anyone?

A. No, I do not.

Q. If Amoco is an offset operator during this process, would it be of interest to you to know about it?

A. No, it would not.

Q. In the final portion of your summary you said, "Why should the rule be revised?" You can summarize those for us. I think you've covered some of them.

A. The first point there is that it would eliminate the tubingless completion application for wells with 3-1/2-inch casing or smaller. The significance of that would be that it would reduce the amount of paperwork completed and reviewed by both the operator and the regulatory agency on qualified wells.

It would help to streamline and improve the process by eliminating the 30-day approval period that we're currently averaging on qualified wells.

And finally, it removes -- or moves responsibility from the Directors and Examiners to the District Supervisors on tubingless completion applications with casing in excess of 3 1/2 inch.

Q. Let me talk about the processing period. This period is associated with the time between the date the information is submitted to the Division and, on average, the time it takes to get the approval back?

A. Yes.

Q. All right. Let's turn to an example of what those look like. If you'll look behind Exhibit Tab Number 5, what is the first document we see?

A. The first document is the actual administrative order that we received after application.

Q. All right. My copy doesn't have the signature page attached to it, but the first page, in fact, is the kind of approval you get back?

A. Yes.

Q. It's assigned administrative order number, it's a TX number, and then you get a letter back?

A. Yes.

Q. All right. What type of information is

submitted? If you'll turn to the next cover sheet, describe for us what Burlington submits to the Division.

A. This is a copy of our application. In this instance there's several redrill wells that we have submitted for tubingless completion approval.

After showing that they do meet the requirements of sub-rule K, we then submit a pertinent data sheet and wellbore schematic with each of those projects, along with the application.

Q. In this case, the exception from the rule you're seeking is the current limitation of the 2-7/8-inch?

A. Yes.

Q. All right. Let's turn to an example of the schematics that are submitted so we can give them a visual illustration of what you're doing, Mr. Killion. If you'll turn to Exhibit 6, let's look at the schematic for the Morris A 7 well. Start with the left side and show us the current.

A. This is a wellbore schematic of a typical Pictured Cliffs open hole completion, completed typically in the 1950s era.

What you typically have in an open hole completion is a surface string, which will cement to surface, and a 7-inch or a 5-1/2-inch casing string that was topset in the Pictured Cliffs reservoir. So the

Picture Cliffs, then, was capable of drilled out and completed open hole with nitroglycerine or sandhole fracs, which were popular in that period.

You also see that they have a tubing string, which is typically a 1-inch string.

The diagram on the right is the actual restimulation project. And during that project we will pull the old one-inch tubing, we'll drill out the open hole interval to expose the entire productive formation. We'll then run and cement our 3 1/2 to bottom, or run and cement our 3 1/2 inch back to surface, and perforate and stimulate the Pictured Cliffs reservoir. And finally, we'll produce the well with the aid of compression. In this particular example we show a tubing string, and so this would be our wellbore schematic in a wet area.

Q. All right, let's turn to an example of a wellbore configuration that would require an exception from current Rule 107. If you'll turn to the Huerfanito Unit Number 20 well.

A. The current diagram on the left is the same as the previous diagram. The only thing that's changed here is the elimination of the tubing string on the proposed diagram. So it's essentially the same process.

Q. This will be an example of a recompletion?

A. Restimulation.

Q. Restimulation? What would you do for a new drill?

A. For a new drill we would have a 7-inch surface string, cemented back to surface, and then we would eliminate, of course, the 5-1/2-inch or the 7-inch casing string, and it would be replaced with a 3-1/2-inch casing string to bottom, which again would be cemented to surface.

And the same would apply for tubing, whether or not it was a wet or a dry area.

Q. Let's turn back now to the proposed rule change. If you'll look at Exhibit 1, this current proposed rule draft is dated December 29th and was prepared by Mr. Stogner. Are you familiar with this draft, Mr. Killion?

A. Yes, I am.

Q. With the exception of numbered paragraph 5, are you in support of these other changes that he is proposing in Rule 107.J?

A. Yes, I am.

Q. And to accomplish the delegation of this authority to the District, Mr. Stogner is suggesting the repeal of 107.K. Do you see that?

A. Yes, I do.

Q. Are you in support of that?

A. Yes, I am.

Q. As to subparagraph (5), do you see any reason to

set up a notice procedure for this particular activity?

A. No, I do not.

MR. KELLAHIN: That concludes my examination of Mr. Killion.

We would move the introduction of his Exhibits 1 through 6.

CHAIRMAN WROTENBERY: We will accept Exhibits 1 through 6 into the record.

Are there any questions of Mr. Killion?

COMMISSIONER LEMAY: I have one.

EXAMINATION

BY COMMISSIONER LEMAY:

Q. Do you know the purpose for approval? I'm just trying to go back a little ways. Why not have the application submitted with the type of completion you were going to do on the well without approval? What's the purpose of the approval?

A. I guess the purpose of the approval -- You mean of the application that we actually send in?

Q. Yeah. I mean in contrast to just a normal completion of a well, the extra step involved in getting this approval. What's the purpose involved in that.

A. I think that the main purpose of the approval is for the Examiners and the Commissioners to ensure that there is no waste occurring. I guess that we would not

want to go out and just give free will to tubingless completions on that account. I'm not real certain why the rule was in place.

COMMISSIONER LEMAY: Okay.

CHAIRMAN WROTENBERY: Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. Could you enumerate advantages and disadvantages for protection of fresh water in these areas?

A. We -- With the current configuration of the redrill, cementing our casing back to surface, with the better design, the better casing strings, we currently do have coverage, and are required to have coverage, over all freshwater zones. In a restimulation, we currently are bringing those into compliance at the time of plug and abandonment.

Does that answer your question? I mean --

Q. For deeper aquifers, below the 950, is there a potential advantage to your new proposed new well drilling schematic? Because you mentioned cementing all the way back to surface on the production string.

A. We -- The technology is currently in place to provide adequate cementing across all zones from depths, in slimhole cases, in particular, as deep as 10,000 feet back to surface. So I don't see any potential problems with

freshwater aquifers at deeper depths.

CHAIRMAN WROTENBERY: Do you have another? Go ahead.

COMMISSIONER LEMAY: Just a quick one.

FURTHER EXAMINATION

BY COMMISSIONER LEMAY:

Q. Are you doing this to any other formations in the PC? Are you doing it with coal-seam wells? Have you tried it with coal-seam wells? They're dry.

A. Currently, this is the only formation in the San Juan Basin that I'm aware of that Burlington submits for tubingless completion applications. Certainly, there are other applications of this process.

CHAIRMAN WROTENBERY: I had a couple of questions as well.

EXAMINATION

BY CHAIRMAN WROTENBERY:

Q. You answered a couple questions from Mr. Kellahin about waste implications of these changes, particularly the increase from 2 7/8 to 3 1/2 inch of the threshold casing size, and if I understood you correctly you didn't feel like there were any waste implications for dry gas wells. But I'm thinking, if I understood your testimony correctly, you do think that tubing should be used in wet-gas wells?

A. Our current practice is to include tubing strings

in areas that have known fluid production, to minimize liquid loading in the wellbore. So that is -- I believe that all prudent operators would follow that same line of thinking, so that -- The reserves, certainly, are more economical to us, and they're worth more value to us out of the ground and not left in the formation. So I'm not aware of anyone, particularly in the San Juan Basin, that does not include tubing in areas that are indeed wet.

Q. Would you suggest, then, perhaps making this change only for dry-gas wells?

A. The boundaries of wet and dry are, even to this day and time, still being tested. For instance, in Ballard field, the entire Ballard field is not completed -- is not considered completely dry. There are some areas along the fringe that, indeed, do produce water. And so I'm not aware of a way that you would be able to blanketly say, this area is wet, this area is dry. I think that it is definitely a formation-specific process, as well as a field-specific process.

Q. And one other questions, to try to -- to clarify the amendments that you would suggest we do make to the rule. I think you concurred with the change in number (2) that Mr. Stogner included in his draft of the proposed rule, and with the change in number (4), and then also you concurred with the repeal of 107.K. But you didn't agree

with number (5). Are you proposing alternative language for number (5), or are you proposing the deletion of that particular paragraph entirely?

MR. KELLAHIN: Our proposal is simply to delete paragraph (5). We are not aware of a case ever coming to hearing for a tubingless completion. We think it's an activity that can be handled by the Supervisor. I think it's one of the examples -- You know, it's like filing an APD with the necessary information. There's no hearing process for that. It's simply an approval of arrangement between the operator and the agency, and we don't see the need to put a hearing procedure in here.

CHAIRMAN WROTENBERY: Okay, I believe that's all I have for Mr. Killion.

Any other questions at this stage?

Thank you, Mr. Killion.

THE WITNESS: Thank you.

CHAIRMAN WROTENBERY: Mr. Carroll?

MR. CARROLL: Thank you. We call Michael Stogner to the stand.

Chairman Wrotenbery, fellow Commissioners, what I have given you is what has been marked OCD Exhibits Number 1 and 2. I have stapled them together. They're only one page each.

The first page is a further draft from the

Division. It's a cleaner version of Mr. Stogner's December 29th draft of our proposed Rule 107.J. There's nothing of substance changed, it just makes it a little cleaner.

The second page is the rule as it is currently stated.

MICHAEL E. STOGNER,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARROLL:

Q. Mr. Stogner, will you please state your name and your occupation for the record?

A. Michael Stogner, I'm a petroleum engineer with the Engineering Bureau at the OCD.

Q. And Mr. Stogner, how long have you been in that position?

A. I've got seven and a half years to retire from 25, so whatever that comes out to be.

(Laughter)

Q. (By Mr. Carroll) Is that about seventeen and a half years?

A. Yeah.

Q. And what are your duties as a petroleum engineer with the OCD?

A. Hearing Examiner, review administrative

applications, and various other duties as far as engineering and the regulatory aspect of the OCD duties go.

Q. And your duties include reviewing completion techniques on wells in New Mexico?

A. When I'm called upon to, yes.

Q. Mr. Stogner, have you testified before the Oil Conservation Commission before and had your qualifications as an expert witness in petroleum engineering matters accepted?

A. Yes, I have.

MR. CARROLL: I tender Mr. Stogner as an expert witness in petroleum engineering.

CHAIRMAN WROTENBERY: He's so qualified.

Q. (By Mr. Carroll) Mr. Stogner, you have reviewed Burlington's proposal today, and you heard Burlington when they testified that they were open to expanding the tubingless exception past 3 1/3 inches to diameters above 3 1/2; is that correct?

A. That's what I understand, yes.

Q. And what's your opinion of that?

A. Okay, in looking at their exhibits, I concur with what they're doing, where they're at. This is dry gas in Pictured Cliffs. 107.J applies statewide, and this is what we've got to remember. And I'm really questioning if Burlington is here representing their resources statewide,

or just the Pictured Cliffs.

We have situations where if we open it up to 5 1/2 o.d. -- and I can visualize some deep gas wells down in the southeast, old ones, say, that were drilled back in the 1950s, and for the sake of saving a few bucks an operator chooses to pull the tubing, and we may have some sour gas problems.

We're going to be in danger of perhaps opening up maybe some leaky pipe into other formations, harming groundwater contamination.

I can also see where these slimholes, by allowing that, could be drilled, that there may be some examples where the surface casing and the production casing being so small, especially if you hit a high-pressure sour zone down in the southeast -- not in this area; I concur with what they're doing in this area; but not down there, I do not -- you may have some channeling between the two casing strings. I would have a problem about that.

So I don't agree with opening it up to 5 1/2. And besides I think the rules, as we're proposing today, can follow up on some other items such as this, even in the southeast, and to even protect Burlington from other situations.

Q. Mr. Stogner, you do agree with opening up to 3-1/2-inch for gas wells?

A. Yes, I do agree with that.

Q. Mr. Stogner, you've reviewed the OCD draft of its proposed rule. Will you please inform the Commission as to the procedure that will be used under the OCD's proposed rule?

A. Okay, what we're trying to do here when we go to 5 -- and it is designed to protect the Supervisors, the Districts, even the operator, and here's the scenario on this.

Let's say that an application comes in to -- And what I mean by "application", it's really up to the District Supervisor and the operator. I don't lay down any guidelines. This is essentially what is turned in to them. The operator and the Supervisor is going to determine what is needed.

But after you have a new technique or a technique that's questionable, and the Supervisor, is a little bit leery about -- for some reason, maybe he's not an engineer, or there's a new technique that comes up. He could then request that the application come here for review. This is a technique that we have used ever since these rules have been adopted. Hear them first, make an administrative process later, and then let the District Supervisor.

But this also -- This will allow for, if a new technique comes up, the supervisor doesn't feel comfortable

with it, he requests that it comes up here.

The Director, then -- and this is what we mean by unprotested applications. I'm sorry, let's go back up. "The supervisor or an operator may request an application be reviewed by the Director." And they "shall submit information and give notice as requested by the Director."

It would be up to our review here and the Director's review of, there's a problem here, let's in this instance notify everybody around, or for whatever reason it's determined at that time. And then, if it's unprotested in 20 days, then we can issue a TX order like we've always done. But this helps the District Supervisors in laying down some frameworks.

Let's take another scenario. How about if you bring an application in, and under the proposal the Supervisor denies it? What recourse would you have? Yeah, it's stipulated that the recourse -- or it's given in the rules and regs that you could bring it up here. But this also makes the supervisor accountable if he is to deny one.

It also gives due process to the operator. Well, we have a disagreement. The operator then can bring it here. We can either request it to go to hearing -- Who knows what's going to happen in the future? I think these rules allow for that. It allows for better working relations between the operator and the supervisor. If our

input is needed here in any way, it is provided.

So I think that is a -- how would you say? A safety mechanism or a safety valve, that I've tried to incorporate in section (5), or portion (5).

Also, back to the 5 1/2, if Burlington thinks that's an applicable situation in the Pictured Cliffs, they can make whatever application between them and the present supervisor, Frank, whatever he needs. Perhaps this would suffice. And then they can refer back to it. They can still get their approval through the District Supervisor. So...

But I think that 3 1/2, if we go any larger, we're just opening up some situations that we may not want to. I think it's another safety valve that is built into the rules and regs.

Q. Mr. Stogner, do you have anything else to add in this case?

A. No, I do not.

MR. CARROLL: Chairman Wrotenbery, I move the introduction of OCD Exhibits 1 and 2 into the record.

CHAIRMAN WROTENBERY: OCD Exhibits 1 and 2 are accepted into the record.

MR. CARROLL: And that's all I have in this case.

CHAIRMAN WROTENBERY: Any questions for Mr. Stogner?

EXAMINATION

BY COMMISSIONER LEMAY:

Q. Mr. Stogner, have you ever had a case concerning a tubingless completion at all, that you can recall, that's come to hearing? Where it's maybe protested, or there were some waste issues involved?

A. Not since I've been here, no. But when -- One of the questions that Mr. Kellahin asked his witness, I just happen to have here, when Rule 107 was initially -- came into being, effective January 1st, 1950, there's only three paragraphs. And now we're up to -- What is there? Around --

MR. CARROLL: Two paragraphs.

THE WITNESS: K. I mean, we're up to subparagraph K?

MR. CARROLL: Right.

THE WITNESS: But when tubingless completions or whatever -- There was some in the past, but not since I've been here. I haven't had a chance to review one. But back in ancient history, between 1950 and when I got here, there were some, but I don't know the particulars of them.

Q. (By Commissioner LeMay) This would apply to gas wells and oil wells, I take it? There's no distinction made in the rule itself?

A. Yeah, there is, actually. 107.J (1) and (2)

talks about flowing oil wells shall be put with -- And that remains the same. And it's paragraph (2) that goes from 2-7/8-inch to 3-1/2-inch, if I understand your question.

Q. Well, I was curious to know whether tubingless oil well completions were allowed at the District level approval?

A. Not under the present form, other than the rules that you have here, but --

Q. I don't have a lot of them. I remember distinctly, though, that tubingless oil well completions were, say, tried in the Vacuum field by Texaco, and they had some problems with it where they set three sets of tubing and they cemented all three sets in the hole. I think they were 2 7/8. But they limited themselves on workovers, and they really crippled their ability to do much with the well after those were in there and --

A. Yes, those particular wells, and there were some others like that, that had dual completions. And you mentioned one triple completion. I don't remember the particulars on that one. It also rendered that wellbore useless.

Q. Okay.

A. And also that is the same situation I'm referring to in -- God forbid we'll have to ever re-enter that well and plug it, there's going to be some large cost just to

mill out that. And that is what I'm trying to stop or put a safety mechanism on.

It can still be allowed. Let's say a shallow oil zone is discovered somewhere. It allows for a cheap way to complete it, but yet it leaves some safety mechanisms, and it sets some standards. Entrada comes to mind. Perhaps that might be a zone where the District Supervisor -- But I feel confident our Supervisors in the District Offices, not to allow for that situation. However, it's in here. But there's still this other safety mechanism.

COMMISSIONER LEMAY: Thank you, that's all I have.

CHAIRMAN WROTENBERY: Commissioner Bailey?

COMMISSIONER BAILEY: No questions.

EXAMINATION

BY CHAIRMAN WROTENBERY:

Q. Okay, Mr. Stogner, you feel comfortable with this change from 2-7/8 to 3-1/2-inch throughout the Pictured Cliffs, throughout Burlington's operations in the Pictured Cliffs?

A. Yes, I do, and I even still feel comfortable with it statewide.

Q. Okay, that was my next question. You don't have any waste concerns about making that change on a statewide basis?

A. No, I do not.

Q. And I wanted to follow up with you a little bit on the notice question, because I'm still not quite clear on what possible case we might want to require notice to other parties, for this kind of an application, when you're talking about how a particular wellbore is completed.

A. That's the reason I worded it like that, because I can't think of one either.

Just off the cuff, perhaps if a well had received an unorthodox-location request in a different horizon and they want to come up and complete it in this manner. And if it comes here perhaps the offset party may need to be notified.

Or potash. Potash zone.

Q. Currently, though, the way the rule is written, there is no notice required of this type of application?

A. No.

Q. And you're not aware of any circumstance where that has been an issue or a problem in the past?

A. No.

COMMISSIONER LEMAY: Madame Chair --

CHAIRMAN WROTENBERY: Yes?

COMMISSIONER LEMAY: -- just to shed some light on it, I might inject something.

CHAIRMAN WROTENBERY: Sure.

COMMISSIONER LEMAY: I think a lot of the tubingless completion regulations in the past have been at a time when you had allowable wars. If you had a gas well, you could take the tubing out, produce at a higher rate than your offset, you were competing for allowable in that field, that was the purpose of notice and that was the purpose for having regulations, so that it would tend to equalize the production from those wells, if everyone had to have two.

I don't think we're in that position today where we have this competition in the reservoir for allowable, and that should maybe be taken into consideration when we're looking at the rules today as they were in the past.

Q. (By Chairman Wrotenbery) Okay. And in that situation where the District Supervisor denied an application or maybe put some conditions on it that the operator felt were unacceptable, does that operator have the right to appeal that decision to the Commission under our general rules of practice and procedure?

A. Yeah, they do. Yes.

Q. Okay. So we don't need to address that circumstance in this particular...

A. Oh, I think it's good to leave those reminders in there to everybody.

MR. CARROLL: Chairman Wrotenbery, I think it

would come to the Division level if an operator disagreed with the Supervisor's decision. They would make an application before the Division.

CHAIRMAN WROTENBERY: Okay, and go up through that process.

Okay, that's all I have of Mr. Stogner.

MR. CARROLL: That's all.

CHAIRMAN WROTENBERY: That's all you have.

I might ask, Mr. Kellahin, have you had a chance to take a look at the latest draft of the revisions with the editorial changes?

MR. KELLAHIN: Yes, ma'am. The editorial changes, I think, are fine. They do improve upon the earlier draft. We have no objection to Mr. Stogner's additional changes, within the context of our comments that we've already provided.

CHAIRMAN WROTENBERY: Yes, I understand.

Okay, thank you.

Mr. Carroll, where do we go from here?

MR. CARROLL: We will address Rule 112.A now.

CHAIRMAN WROTENBERY: Okay, on 107 the Commission, if I understand the process correctly, and correct me if I'm wrong, but the Commission will continue this particular case to the February hearing in the meantime.

The Division will circulate the revised draft of the rule, or a revised draft of the rule, through the docket?

MR. CARROLL: Right, this -- the latest draft will be attached to the docket for the February 11th hearing. At the February 11th hearing, you can take additional comments or testimony and then adopt the rule, and then we will submit it for publication in the *New Mexico Register* by the 16th. So you could leave the record open, even, a few days after the February 11th hearing.

CHAIRMAN WROTENBERY: Okay.

MR. CARROLL: And then it will be published February 28th, and that will be the effective date of the new rule.

CHAIRMAN WROTENBERY: Okay. What I might just ask the Commission, whether it's comfortable with publishing this latest draft of the rule as the proposal, or would you like to consider making some changes to this draft at this point in the proceeding before we circulate it further?

In particular, the number (5), I was wondering if you might want to discuss making some changes there.

COMMISSIONER LEMAY: Mr. Kellahin, how strong are you at taking out (5)? I'm a little bit ambig- -- I'm not sure how strong you feel about it.

MR. KELLAHIN: How strongly do I feel about (5)?

COMMISSIONER LEMAY: Yes.

MR. KELLAHIN: Well, I don't know. It doesn't matter one way or another, quite frankly. I think your comments were appropriate. There are means for Mr. Carr and the other attorneys to get their clients to a Division hearing if there's a supervisor that disagrees with them.

Mr. Stogner is correct, a lot of people can't find those rules when they look for them; having it in the order seems to work. It doesn't tell you who to send notice to, but the Director could tell us who to send notice to. As long as we don't have to send notice when we file an application, and that's not --

CHAIRMAN WROTENBERY: That's not in this.

MR. KELLAHIN: So you can put it in or take it out; it doesn't matter to us.

CHAIRMAN WROTENBERY: And is it the sense of the Commission that we should publish it as --

COMMISSIONER LEMAY: Well, Madame Chair, if you put it in the comments can always be such that you could take it out. If you leave it out I don't think you'll get any comments to put it in, because they don't know it's there.

CHAIRMAN WROTENBERY: Well, that's right, that's right.

Okay, then we will proceed to circulate this latest draft of the Rule 107, and --

MR. CARROLL: And Sally Martinez has it on her computer already, so...

CHAIRMAN WROTENBERY: Okay, so she will circulate it with the docket for the Commission Hearing on February 11th, and we will plan to -- we'll take any additional comment that people might want to offer up until that date, and we'll plan to take final action on this rulemaking at the February 11th hearing.

Anything else on that one?

Okay, thank you.

(Thereupon, these proceedings were concluded at 9:59 a.m.)

* * *

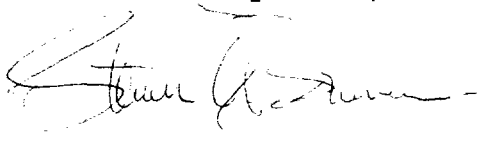
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL January 15th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

107.J. Well Tubing Requirements

(1) All flowing oil wells equipped with casing larger in size than 2 7/8-inch OD shall be tubed.

(2) All gas wells equipped with casing larger in size than 3 1/2 inch OD shall be tubed.

(3) Tubing shall be set as near the bottom as practical and tubing perforations shall not be more than 250 feet above top of pay zone.

(4) The supervisor of the appropriate Division district office, upon application, may grant exceptions to these requirements, provided waste will not be caused.

(5) The supervisor or an operator may request that an application be reviewed by the Director. The operator shall submit information and give notice as requested by the Director. Unprotested applications may be approved after 20 days of receipt of the application and supporting information. If the application is protested, or the Director so decides, the application shall be set for hearing.

107.K. REPEALED

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 12117 Exhibit No. 1
Submitted by OCD
Hearing Date 1/14/99

(2) Casing strings in wells drilled with cable tools may be tested as outlined in sub-paragraph I. (1) above, or by bailing the well dry in which case the hole must remain satisfactorily dry for a period of at least one (1) hour before commencing any further operations on the well. [5-5-58...2-1-96]

107.J. Requirements for tubing of wells are as follows:

(1) All flowing oil wells equipped with casing larger in size than 2 7/8-inch OD shall be tubed.

(2) All gas wells equipped with casing larger in size than 2 7/8-inch OD shall be tubed.

(3) Tubing shall be set as near the bottom as practical and tubing perforations shall not be more than 250 feet above the top of the pay.

(4) The Division Director may, upon proper application, grant administrative exceptions to the provisions of sub-paragraphs (2) and (3) above, without notice and hearing, provided waste will not be caused thereby.

[6-26-59...2-1-96]

107.K. The Division's District Supervisors or their representatives shall have authority to approve tubingless completions without the necessity of administrative approval or notice and hearing when the following conditions exist:

(1) The well is to be completed with a total depth of 5,000 feet or less,

(2) The well is not a wildcat (it is not more than one mile from an existing well producing from the same common source of supply to which it is projected),

(3) No known corrosive or pressure problems exist which might make the tubingless method of completion undesirable,

(4) The well will not be a dual completion,

(5) The tubing used as a substitute for casing will be either 2 3/8-inch OD or 2 7/8-inch OD.

[6-26-59...2-1-96]

108 DEFECTIVE CASING OR CEMENTING

If any well appears to have a defective casing program or faultily cemented or corroded casing which will permit or may create underground waste or contamination of fresh waters, the operator shall give written notice to the Division within five (5) working days and proceed with diligence to use the appropriate method and means to eliminate such hazard. If such hazard of waste or contamination of fresh water cannot be eliminated, the well shall be properly plugged and abandoned. [1-1-50...2-1-96]

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 12117 Exhibit No. 2
Submitted by OCD
Hearing Date 1/14/99