

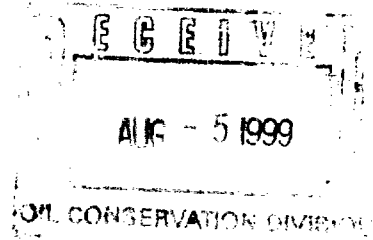


Case No. 12119

Exploration and Production

August 3, 1999

New Mexico Oil Conservation Commission
2040 Pacheco Street
Santa Fe, New Mexico 87505



RE: **PROPOSED RULE 104 REVISION**
COMMENTS ON PROPOSED DRAFT
19 NMAC 15.C

Dear Commissioners:

Texaco Exploration and Production Inc. (Texaco) is pleased to participate in the revision of Rule 104 - Well Spacing and Location. Texaco participated in the development of, and continues to recommend adoption of, the comments that were prepared and submitted to the Oil Conservation Commission by the New Mexico Oil and Gas Association (NMOGA) at an earlier hearing this year. These comments were the consensus opinion of the Regulatory Practices Committee membership which represents over 100 oil and gas operating companies in New Mexico.

Texaco wishes to offer additional comments concerning the proposed revised rule as follows:

- 104.C.(2).(b) – It is concerning to Texaco that an operator would be allowed to drill a second well on a 320 acre spacing unit without having to notify the affected offset parties surrounding the unit. The NMOCD is charged with the protection of correlative rights and is, therefore, mandated to at least require notice by the operator proposing such an infill well. Offset operators will be faced with demands by their royalty owners and will often wind up in court. The offset operators must be entitled to hear in a formal hearing process why the proposing operator feels such infill well is needed to drain the spacing unit. Following such information sharing, the offset operator can be prepared to drill a well to protect against drainage or defend its position that drainage will not occur. Texaco receives demand letters from royalty owners routinely and must define its reservoir management with those owners. It would be inappropriate for the NMOCD to create a situation where court action will result or an operator may drill a well that is expensive and was not necessary to drain the spacing unit. It is, therefore, recommended that this item be revised to allow a second well following notice to the offset operators of the adjacent spacing units with the opportunity for hearing in the case of objection by any offset operator.
- 104.C.(2).(c) – This section should be revised to read “the Division-designated operator for the infill well shall be the same operator designated by the Division for the initial well, *or an approved operator to which the spacing unit has been*

transferred". This change will allow an operator that has purchased a lease from an operator that drilled the first well on a 320 spacing unit to drill a well.

- 104.D.(1)(a) – This section proposed that one of two dates, whichever occurs first, will be used as the completion date. However, there is only one date being discussed, that being the date that active completion work is concluded. Therefore, need to delete the statement "whichever date comes first".
- 104.D.(2)(a) – This section allows a smaller or larger spacing unit to be approved without notice. It is essential that the operator of that spacing unit be given an allowable which is prorated in ratio to the standard spacing unit for that pool if proration is in effect within the pool.

Again, Texaco appreciates the opportunity to work with the NMCCD to strive for improvements in the rules that govern the production of oil and gas, while protecting correlative rights and avoiding waste. Please consider these constructive comments in the finalization of this Rule 104.

Respectfully yours,



R. Frank Gray
Regulatory Compliance Manager

RFG/cfb

File
Chrono

NMOGA Regulatory Practices Committee