

BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
October 17, 1957

IN THE MATTER OF:

Case No. 1323

TRANSCRIPT OF PROCEEDINGS

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BEFORE THE  
OIL CONSERVATION COMMISSION  
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 IN THE MATTER OF: )  
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 Application of the Oil Conservation Commission )  
 upon its own motion for an order revising Rule )  
 803 of the Commission Rules and Regulations. )  
 Applicant, in the above-styled cause, seeks an )  
 order revising Rule 803 of the Commission Rules ) Case 1323  
 and Regulations concerning the authorization of )  
 liquid hydrocarbon production from gas wells )  
 and to eliminate the necessity of individually )  
 listing each of said wells on the oil proration )  
 schedule. )  
 )  
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BEFORE:

Mr. A. L. Porter  
Mr. Murray Morgan  
Governor Edwin L. Mechem

TRANSCRIPT OF PROCEEDINGS

MR. PORTER: The meeting will come to order, please. The next case to be considered is Case 1323.

MR. COOLEY: Application of the Oil Conservation Commission upon its own motion for an order revising Rule 803 of the Commission Rules and Regulations. Mr. Commissioner, I'm testifying in this case.

(Witness sworn.)

MR. COOLEY: My name is William J. Cooley. I am attorney for the Oil Conservation Commission of New Mexico. I have prepared a proposed revision of Rule 803 concerning the production of liquid

hydrocarbon from gas wells. It might be well to preface any remarks concerning the revision with a reading of the present Rule 803.

"Rule 803. Production and Transportation of Condensate

The operator of a gas well in a gas pool may produce from such well the amount of condensate which such well is capable of producing without waste, provided that said operator shall file with the Commission a written application setting forth the estimated amount of condensate to be produced from such wells; and provided further, that a proration schedule or supplementary proration schedule is issued setting forth the amount of condensate to be produced from such well during each proration period."

It should be noted that the present Rule 803 authorizes the production of all condensate which a gas well is capable of producing without waste. Thus there is no attempt under the present rules to limit the amount of condensate which can be produced from a gas well.

The requirement of the present Rule 803 which the Commission feels that it can no longer live with is that a proration schedule or a supplementary proration schedule be issued setting forth the amount of condensate to be produced. During the operation and preparation of the proration schedule under this rule, we are presently listing some three hundred gas wells in Lea County, New Mexico, which are producing some condensate. Opposite each of these wells there is set a figure which purports to be a maximum

figure that that gas well can produce in the way of condensate. However, it should be noted again that this figure is not an attempt by the Commission to limit the amount of condensate which can be produced.

With the forthcoming proration of oil in the San Juan Basin it will be necessary to list the oil wells in that area on the proration schedule. At the present time no gas wells in the Northwestern New Mexico are being listed, but with oil proration in that area, we would have something on the order of two thousand condensate producing gas wells which would have to be listed on the proration schedule, along with the comparatively few oil wells in that area.

This additional administrative burden would make the preparation of the schedule nearly impossible by this Commission at any appropriate time. Thus I propose that Rule 803 be revised to read as follows:

"Production of liquid hydrocarbon from gas wells: All liquid hydrocarbons produced incidental to the authorized production of gas from a well classified by the Commission as a gas well shall, for all purposes, be legal production.

For purposes of this rule, all gas produced from a gas well shall be considered to be authorized production with the following exceptions:

- (1) When the well is being produced without an approved Form C-110, designating the gas transporter and the oil or condensate

transporter for said well.

(2) When the well has been directed to be shut in by the Commission.

In the event a gas well is directed to be shut-in by the Commission, both the gas and oil transporters named on the well's Form C-110 shall be immediately notified of such fact."

The purpose of this rule change is merely to eliminate the necessity of individually listing each gas well in the State of New Mexico which produces some condensate on the oil proration schedule.

With this one exception, there would be no change in the procedures that have been followed by the Commission. The key word in the entire rule change is that "all liquid hydrocarbons produced incidental to the authorized production of gas." So long as gas production is authorized, the incidental hydrocarbons are likewise authorized and legal production, and the only two ways that you can have unauthorized gas production in the State is to be producing a gas well without a Form C-110, or to be producing the well after the Commission has ordered that such well be shut-in.

I don't believe that any transporter of condensate or gas would transport the hydrocarbons without a Form C-110 having been filed for said well. With the C-110 objection eliminated, the only thing left, that if the well has been ordered to be shut-in would be illegal production. When a well is ordered shut-in, the Commission under this rule would be under obligation to notify the

oil and gas and condensate transporter.

I believe that concludes my recommendations.

MR. PORTER: Does anyone have a question of Mr. Cooley?

Mr. Campbell.

MR. CAMPBELL: Jack M. Campbell, Roswell, New Mexico, appearing on behalf of Texas Pacific Coal and Oil Company.

Mr. Cooley, I'm not clear -- perhaps I should have mentioned this sooner, I'm not clear. You just made the statement that the only way you could produce illegal gas is the two methods mentioned here?

MR. COOLEY: Yes, sir.

MR. CAMPBELL: You don't intend by this proposed rule to abolish gas prorationing or limitations on the gas from the gas wells, do you?

MR. COOLEY: None whatsoever.

MR. CAMPBELL: Could it be construed that way? By that I mean that the statutes prohibit the production of gas except in emergency conditions for any period of time in excess of the allowable. As I read it, it might be construed that the only circumstances in which you would be in violation for producing illegal gas would be the two circumstances you mentioned?

MR. COOLEY: I believe that's correct.

MR. CAMPBELL: What about the situation where you just produce in excess of the allowable indefinitely?

MR. COOLEY: Indefinitely?

MR. CAMPBELL: Well, yes, in violation of the allowable order.

MR. COOLEY: Unless a well is ordered to be shut-in by the Commission, a gas well, any gas produced by that well, as I interpret the present rules, is legal gas.

MR. CAMPBELL: What about the statute, Mr. Cooley, that provides that illegal gas is gas produced in excess of the allowable except under the emergency provision?

MR. COOLEY: Well, the allowable is what the well may produce in the current month plus any underage plus the right to overproduce, unless the right to overproduce is contrary to statute then, I mean for a limited period of time, that period being six months or six times the well's current allowable.

MR. CAMPBELL: What right of overproduction are you referring to?

MR. COOLEY: Well, take a concrete example. If a well has an allowable of one hundred MCF and is listed on the proration schedule with that allowable, is in balance at the time the allowable is assigned, it could produce as much under the present rules as six hundred MCF, or six times the current monthly allowable before that well would be in violation of our present gas proration rules, at which time the Commission would take positive action by ordering that well to be shut-in to make up the overproduction.

MR. CAMPBELL: You consider that the present statute and rules adequately protect the production of gas in excess of the

designated gas allowable, except for this emergency provision?

Do you see what I mean?

MR. COOLEY: I don't understand what you mean by "emergency provision".

MR. CAMPBELL: Emergency provision, producing for ten days, a ten-day emergency period in excess of the allowable in the statute.

MR. COOLEY: Yes, but under the present gas proration rules, you can't overproduce your monthly allowable. Also the statutes provide for a six month gas proration period and the monthly allowables are merely, really one-sixth, or approximate of that, assuming that they were all equal, it would be one-sixth of the well's allowable for the proration period, which is a six month period, not a one month period.

MR. CAMPBELL: I see, then you feel that this rule does not conflict in any manner with provisions of the statute: "...no natural gas well or pool shall be allowed to produce natural gas in excess of the allowable assigned to such source during any proration period..." You feel that is fully protected under this rule?

MR. COOLEY: Yes, I do, since that is a six-month period and at the end of the six-month period we take a look at the gas wells for one thing, if they are six times overproduced they are ordered to be shut-in; if they are not over six times overproduced, they have a right or the obligation to make up the overproduction by underproducing their current allowables to compensate for the

previous period's overproduction. If at the end of the second proration period, or the proration period of which the overage was produced, they have not compensated for that overage, then the well will be ordered shut-in regardless of whether it is six times overproduced or not.

MR. CAMPBELL: You satisfied that that program complies with the statute?

MR. COOLEY: Yes, I am.

MR. CAMPBELL: I think that's all.

MR. PORTER: Anyone else have a question of the witness?  
Mr. Dipple.

MR. DIPPLE: Harry Dipple with Continental Oil Company. Mr. Cooley, I suffer from some confusion here, too. I'm not clear as to what real purpose will be served by the second paragraph of your proposed rule.

MR. COOLEY: Sub paragraph 2?

MR. DIPPLE: No, sir. The main paragraph beginning with "For purposes of this rule", including sub 1 and 2.

MR. COOLEY: Well, we'll have to go back to paragraph 1 to clarify that. As I tried to point out on direct testimony, the word "authorized production" is the key word, which authorizes the production of liquid hydrocarbon from gas wells. "All liquid hydrocarbons produced incidental to the authorized production of gas ....shall ...be legal production." Now to clarify the meaning of the word "authorized", the use of it as it is used in this rule,

I tried to define that term that all gas produced from the gas well shall be considered to be authorized production, with the following exceptions, these two exceptions set forth in paragraphs 1 and 2 are the only two instances of which I can conceive that you can have illegal gas production in the State of New Mexico. If there are others, I would like to know them.

MR. DIPPLE: The Form C-110 is required to be filed at the present time under the present rules, is it not?

MR. COOLEY: It is.

MR. DIPPLE: So that under the rule as it now reads, if that form had not been filed, that would be an illegally produced gas anyway, would it not?

MR. COOLEY: It would.

MR. DIPPLE: And under the current rules, if a well had been directed by the Commission to be shut-in but was continued as a producing well, it would be producing illegal gas, under the present rules, would it not?

MR. COOLEY: It would.

MR. DIPPLE: Well, would I be correct in understanding then that you included this in your proposed rule out of an abundance of caution and you meant to be sure you preserve the situation that exists under the present rules with respect to these two exceptions that you mentioned?

MR. COOLEY: Not so much to preserve the rules concerning the requirement of a Form C-110 or that no well shall be produced

after it has been ordered to be shut-in by the Commission, but rather to point out that these are the only two methods that I'm aware of that you can have illegal gas production. Without paragraph 2, it occurred to me that the transporters, people who will be taking this liquid hydrocarbon production, would be very reluctant to take it, because the onus would be upon them to determine what authorized production is. While they might realize that under one set of circumstances, "We know this is illegal", and another, "We know this is illegal", they might not be aware that -- there might in their mind be the possibility of a third method of producing illegal gas in the State. It was merely to clarify rather than to preserve.

MR. DIPPLE: Thank you.

MR. PORTER: Mr. Selinger.

MR. SELINGER: George Selinger. Actually, what you are doing with the proposed rule is to avoid the double reporting and the double handling on the part of the State in its administering of the laws on those type of wells that produce both liquid hydrocarbons and gaseous for relative things; for example, as long as you have control over your gas part or portion of your well, the liquid hydrocarbon is merely incidental, isn't that correct?

MR. COOLEY: That is correct. On the gas well, the well that has been classified by the Commission as a gas well, the liquid hydrocarbon production is considered incidental; likewise on the oil well, the gas production is considered incidental.

MR. SELINGER: The effect of your rule, then, is to avoid the double handling and reporting and the administration on the part of the State on those type of wells, and as long as you have a reporting and prorationing administration, insofar as the gas is concerned, it completely safeguards the other incidental products?

MR. COOLEY: The limit on the amount of gas which can be produced is most certainly a limit on the condensate that could be produced. We would still require the amount of production of condensate from the gas wells.

MR. SELINGER: The sole purpose is to eliminate the double reporting?

MR. COOLEY: Not so much the reporting as it is the necessity of listing the wells on the proration schedule when it serves no purpose.

MR. SELINGER: Actually you eliminate the reporting because nowhere do you report your liquid hydrocarbon, because the only thing that your State gas report is is on Form C-110, which is the reporting of the gas, but it would eliminate the necessity of the liquid hydrocarbon being reported?

MR. COOLEY: No, sir, it will not. Form C-115 will be filed on the well showing the amount of gas and the amount of liquid hydrocarbons produced.

MR. SELINGER: Form C-115?

MR. COOLEY: You would still have a monthly report of gas and the amount of liquid hydrocarbons produced.

MR. SELINGER: You would report that on classified gas wells?

MR. COOLEY: Yes, sir.

MR. SELINGER: The rule itself, Rule 1114, which is the Operator's Monthly Report, Form C-115, on page 50 of the Rules, does not indicate whether the liquid hydrocarbons would be reported on that form, but you are talking about classified gas wells which have to report on Form C-111, and nothing in that report indicates the reporting of a liquid hydrocarbon. I think Form C-115 is applicable to classified oil wells.

MR. PORTER: Mr. Selinger, I believe to straighten the record, Form C-111 which you referred to is a gas transmission report filed by the operator of a gas transmission system. C-115 is a form to be filed by the individual operators of oil or gas wells, so the operator does file the amount of both gas and any liquid hydrocarbons that are produced by his well on a monthly basis.

MR. SELINGER: I believe that form-- I don't want to get into an argument, but I believe that is applicable to casinghead gas, that is, gas produced from classified oil wells. You'll find there is no report for liquid hydrocarbons produced from classified gas wells.

MR. COOLEY: We have interpreted C-115 as being a dual purpose form and do presently require it of all wells.

MR. SELINGER: And the sole object was to indicate that

from a practical standpoint it would eliminate the necessity of keeping voluminous records on information highly unnecessary, as long as you control adequately the major product from a well of this type?

MR. COOLEY: I personally would be opposed to eliminating the necessity of reporting condensate production from a gas well. I feel that we should have that information. I don't think it is pertinent to the discussion of the present rule, but for one reason, it would be impossible for this Commission to estimate the demand for oil without knowing with some certainty what the production of condensate is, since to a great extent they are in competition with each other for a market.

MR. SELINGER: Your purpose is to avoid the listing of individual wells to be carried on the record?

MR. COOLEY: That is the sole purpose.

MR. SELINGER: Thank you.

MR. PORTER: Anyone else have a question? Mr. Utz.

MR. UTZ: Mr. Cooley, referring to your last paragraph of the proposed rule, is it your thought that that notification to both the gas and oil transporter in regard to a shut-in well could be accomplished on the proration schedule or by special communication?

MR. COOLEY: By special communication.

MR. UTZ: Would not notification on the proration schedule be sufficient?

MR. COOLEY: Well, I might revise that answer to a certain extent. If a well is ordered to be shut-in for a period of a month or for a period of several months, then notification on the proration schedule, I think, would be sufficient but it is conceivable that a well would be shut-in for only a portion or during the middle of the month, and my point is, if a well was shut-in in that manner, it would be necessary to do it by special communication.

MR. UTZ: That would be a special situation, though?

MR. COOLEY: Yes.

MR. PORTER: Do you know whether or not the transporters of liquid hydrocarbon receive the gas proration schedule?

MR. COOLEY: I do not know.

MR. CAMPBELL: Who would notify the gas and oil transporters, the man whose well was shut-in?

MR. COOLEY: No, the rule provides that the Commission shall notify, any authorized representative of the Commission.

MR. PORTER: Mr. Cooley, there is one other aspect of the problem, I don't believe it has been brought out. You may have touched on it, concerning the amount of condensate which is actually authorized each month. Now I notice on the October oil proration schedule that we have approximately 8,000 barrels a day allocated to 288 condensate wells. Do you have any knowledge as to approximately what percentage of the allowable that these wells have actually has been produced?

MR. COOLEY: I believe an average amount would be in the

vicinity of thirty percent.

MR. PORTER: Then if that's true, your total allocation picture would be to storage to the tune of about 5,000 barrels?

MR. COOLEY: Yes. At present, with the addition of another 2,000 wells in the Northwest, why it would be aggravated some five, ten times more, the differential would.

MR. PORTER: Now if this rule were adopted, of course, it would eliminate the necessity of listing each individual condensate well, but would the condensate which is to be produced by all of the wells be considered in our total, in our monthly allowable hearing, monthly oil allowable hearing?

MR. COOLEY: It most certainly would, because the condensate production is for the most part in competition with the crude oil and it would have to be considered in establishing the oil allowable.

MR. PORTER: What would the estimate be based on?

MR. COOLEY: It is my understanding that there is a direct proportion or direct relationship between the amount of gas, the time of the year that the gas is produced, and the amount of condensate that will be produced. By knowing these figures and by surveillance of past records of the Commission, this relationship has remained very steady, and it would be quite possible for the Commission to estimate very closely the amount of condensate that will be produced, given a certain gas allowable in a certain month.

MR. PORTER: Does anyone else have a question of Mr. Cooley?  
The witness may be excused.

