



PETROLEUM AND ITS PRODUCTS

MAIN OFFICE OCC

GULF OIL CORPORATION

P. O. DRAWER 35 1290 · FORT WORTH 1, TEXAS

H. M. BAYER
VICE-PRESIDENT

June 21, 1954

FORT WORTH
PRODUCTION DIVISION

The Oil Conservation Commission
State of New Mexico
Santa Fe, New Mexico

Attention - Mr. R. R. Spurrier
Secretary

Re - Case No. 673 Before the
Oil Conservation Commission

Gentlemen:

Enclosed herewith are seven (7) copies of a proposed Order to be entered in Case No. 673.

The proposed Order which is being submitted for your consideration has been prepared without any particular gas pool being designated, and we recommend that the same Order be entered for the Eumont, Arrow, and the combined Jalco and Langmat Gas Pools in Lea County, New Mexico.

Your consideration of this proposed Order will be greatly appreciated.

Yours very truly,

H. M. BAYER

cc: Ross Malone
Atwood & Malone
Roswell, New Mexico

JACK M. CAMPBELL

ATTORNEY AT LAW
224 J. P. WHITE BUILDING
ROSWELL, NEW MEXICO

MAIN OFFICE OCC

1954 MAY 19 AM 10:33

PHONE 4975

May 14, 1954

Case 673

Oil Conservation Commission of New Mexico
Santa Fe, New Mexico

Re: Gas Prorationing

Gentlemen:

At the close of the special hearings in Santa Fe, held on May 10th and 11th, the Commission advised that it would receive comments and proposed rules in connection with gas prorationing. The comments contained herein, and the suggested Order attached hereto, are submitted on behalf of Texas Pacific Coal and Oil Company.

The essential elements of the proposed order are as follows:

1. The Jalco and Langmat Pools are combined into a single gas pool for which the name "Jalmat" is suggested. The areal limits as proposed by Exhibit "A" are taken from Order No. 264 of the Commission, dated February 17, 1953, and it may be that there have been additions or deletions since that time. If the Commission decides to combine these pools then these areal limits should be checked. The vertical limits of the Jalmat Pool are shown as a point 100 feet above the base of the Seven Rivers formation, although we have no particular objection to the vertical limits based upon sea level datum as suggested by the Commission geologist. In order to establish some certainty as to the classification of wells, we are suggesting that all wells completed solely above this point be classified as gas wells, all wells completed solely below this point be classified as oil wells, and that all wells completed both above and below this point be classified according to a definition of gas wells which we suggest to be those producing at a gas/oil ratio in excess of 100,000 to 1. We recognize that there will be localized areas in the gas pool which will be producing oil, and of course we feel that the Commission should consider these at special hearings in order to make certain that as much of the oil is recovered as is possible before pressure declines in the reservoir cause migration and loss of ultimate recovery.

2. With regard to the gas/oil ratio limit of oil wells in this area, we are suggesting a limit of 10,000 to 1, based upon the current top unit allowable for oil proration units. Both our own situation and the testimony offered by the operators of gasoline plants taking casinghead gas from this area, indicate that this is the lowest limit which can be established without seriously disrupting the economic picture in the area, including royalties and taxes to the State of New Mexico.

3. The proposed Order contains a provision making it unlawful to allow the escape into the open air of gas from oil wells. We concur with the recommendation of the Commission staff in this regard, believing that the gas/oil ratio limitation cannot be properly enforced without such an order. Our proposed order does not provide for any particular exceptions, and it may be that the Commission will desire to authorize the venting of gas for a temporary period after the completion of a new well. We feel that the right to seek an exception for economic reasons is implicit in any order of the Commission, and have not, therefore, included any provision for the venting of gas where a market is not available.

4. With reference to the creation of unorthodox proration units, our proposed order continues 160 acres as the basic proration unit, but provides for an increase up to 640 acres upon application to the Commission where the acreage assigned is adjacent to the well, and where the applicant has furnished the Commission with evidence that a copy of the application has been mailed to offset operators. If there is no objection in writing by any offset operator within 10 days, then the non-standard unit is approved and the allowable is increased or decreased in the proportion that the standard unit allowable bears to the number of acres in a non-standard unit. We feel that due to the history of development in the area on a 160-acre spacing, and due to the fact that a number of people have entered into communitization agreements on a 160-acre basis, that it would be more practical to grant multiples of 160 rather than change the basic unit to 640 acres and grant fractional allowables. We would, however, raise no particular objection to 640-acre basis proration units.

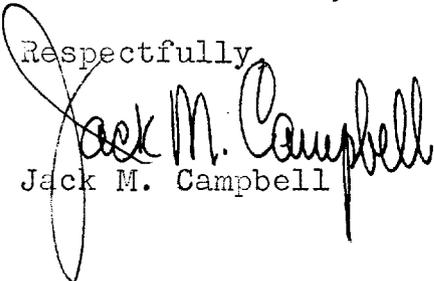
5. We have made no changes in the present rule with reference to gas allocation inasmuch as this is essentially an administrative problem. For whatever it may be worth, it is our thought that perhaps the procedure followed by the State of Kansas in the basic proration order for the Hugoton gas field might offer a more simplified procedure. Under this plan the proration schedule is set up for the next six months after the hearing, and if the purchasers are unable to limit their "takes" of gas to the quantities fixed in the six months proration schedule, then the director of the Commission has authority to permit production to be increased ratably from all wells in the field to meet the emergency increased demand, and the facts concerning this are presented at or before the next six months hearing for such action as may be necessary. Adjustments are made for overages and underages at the end of each six months period and any overage not made up during the succeeding period results in the shutting-in of the well. Whenever the overage is three times the amount of the current month's allowable, the well must be shut-in until the

overage is fully absorbed. Underages in excess of three times the allowable for the current month result in cancellation of the accumulated excess. If the Commission wants to know what is taking place each month, there is nothing to prevent their requiring purchasers to submit reports to the Commission on each unit each month, which would be available to any interested producer. As we indicated at the hearing, we have, for the time being, withdrawn our request for minimum allowables in view of the letter from the President of El Paso Natural Gas Company. This letter, which is in evidence, states that El Paso Natural Gas Company will honor the "take or pay" provisions of their contracts, despite the allowable, if their failure to take up to the minimum in any year is due to their own nominations. We have some serious concern about the future of the dry gas market in Lea County, and of course retain the right to reconsider the matter if and when the actual allowables assigned during any six months period fall below the "minimum take" provisions of our contracts.

The Order which is enclosed covers only the Jalco and Langmat areas, but of course additional orders could be issued covering the Arrow and Eumont Pools, or it could all be embraced in one order. Our principal concern is with pool delineation, and we therefore confined our proposed order to the Jalco and Langmat areas.

As the Commission knows, Case No. 582, which is the rehearing on the Jalco Gas Pool, is closed and is awaiting the Order of the Commission. We do not, of course, know what Order the Commission may ultimately enter in Case No. 673, but we would appreciate it if we could be advised as soon as the Order is entered, in order that we may make a decision with reference to the procedure to be followed relative to Case No. 582.

Respectfully,


Jack M. Campbell

JMC:le
Enc.

May 20, 1954

John H. ...

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Gentlemen:

With reference to revision of gas proration rules as set forth in orders previously issued by the Commission, I respectfully suggest to the Commission that consideration be given to the following:

1. Define a gas well in terms of gas-oil ratios. My definition would be, "A gas well shall mean a well that produces more than one hundred thousand cubic feet of gas to each barrel of crude oil from the same producing formation."
2. Prorate each zone of the same general structure as a separate pool, either as an oil pool or as a gas pool, granting an allowable to each zone. I believe the Commission is directed to so allocate production in this manner under the basic Oil and Gas Conservation Act of 1949 and as amended. This act states that the Commission shall prohibit waste on "a pool" basis and "Pool" is defined "as an underground reservoir containing a common accumulation of oil or gas or both. Each zone of a general structure, which zone is completely separated from any other zone in the structure, is covered by the word "pool" as used herein. Therefore the Commission is directed to prorate as separate units oil and or gas areas within each producing zone. (Yates, Queen, Grayburg, San Andres zones, in the same general structure.)"
3. Issue a "no-flare order" for each prorated oil or gas field.
4. Place a limiting gas-oil ratio on all prorated oil pools. Said ratio to be not less than 10,000 to 1 in the sand area of South Lea County, but should be adjusted upward as reservoir conditions dictate.

ILLEGIBLE

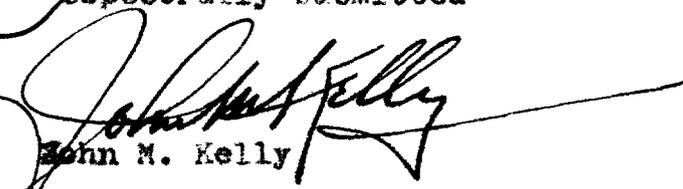
5. Consider correlative rights and/or equal economic return to an operator for invested capital; if the Commission imposes gas-oil ratio control on oil fields to balance volumetric withdrawals from the gas fields, I request the Commission to consider and balance the economic return an operator receives from high pressure dry gas as compared to low pressure casinghead gas.

6. Issue a six months proration schedule for gas pools and supplement this schedule as demand increases toward the end of the six month period.

7. Grant each completed gas well an allowable based on its share of market demand on the day that Forms C-104 and C-110 are filed with the Commission. It is unfair for an operator to wait for an allowable until such time as a purchaser desires to grant him a connection.

8. Allocate gas to carbon black or other non-industrial pipe line use only if the price paid the producer is equal that paid by interstate pipeline transporters taking similar gas.

Respectfully submitted


John M. Kelly

Y

ILLEGIBLE

THE OHIO OIL COMPANY

CITY NATIONAL BANK BUILDING

P. O. BOX 3128

HOUSTON 1, TEXAS

MAIN OFFICE OCC

W. H. EVERETT
JOHN L. CAMP
J. O. TERRELL COUCH
ATTORNEYS

May 21, 1954

1954 MAY 21 AM 9:45

STATEMENT OF THE OHIO OIL COMPANY
RE: CASE NO. 673

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Gentlemen:

The following observations are made on behalf of The Ohio Oil Company regarding this case:

1. The great preponderance of the testimony and evidence has established that the formations in question do not constitute a single pool or reservoir throughout the entire expanse of the large area involved. Certainly the Grayburg and San Andres formations have been shown to be separate and disconnected from all other formations in question.
2. It has not been established that any of the presently designated pools should be combined, with the possible exception of the Jalco and Langmat gas pools.
3. The use of subsea datum lines as vertical limitations of the oil and gas pools is not supported geologically and would introduce a serious question as to the legality of any order based thereon.
4. It has not been established whether any of the proposed combinations of any of the pools in question would protect or injure the correlative rights of the parties affected.
5. Contractual rights and obligations have been created and capital investments have been made on the basis of the present designations of these pools. No action should be taken which will subject these established economic rights to readjustment except such action as is necessary from the standpoint of conservation, for the protection of correlative rights, and for the orderly development of and production from the reservoirs in question in accordance with laws of this State.
6. The facts now available now dictate that certain changes should be made at this time in the present field rules of each of the four gas pools in order to promote and encourage development of and protection from such pools in a manner which will promote conservation and protect correlative rights.

7. Certain inequities exist which could and should be corrected by this Commission after separate hearings dealing with the respective problems.

Based upon the foregoing analysis of the record in this case, The Ohio makes the following recommendations:

1. The twelve oil pools and four gas pools involved in this hearing should remain as presently delineated; however, The Ohio has no objection to the combination of the Jalco and Langmat gas pools. The question of eliminating the overlap in vertical delineation of certain gas pools and oil pools should be dealt with on a pool to pool basis at separate hearings dealing with the respective areas.

2. Any well having an actual producing ratio of more than 100,000 cubic feet of gaseous hydrocarbons to each barrel of crude petroleum oil and completed in a designated gas pool should be defined by the field rules as a gas well, and any other well completed in a designated gas pool should be defined by the field rules as an oil well and should be prorated as such.

3. A limiting gas-oil ratio should be applied to all oil wells. The statewide limiting gas-oil ratio should be applied to each well which is not now subject to a limiting gas-oil ratio until such time as a higher ratio is shown to be necessary for such wells from the standpoint of conservation.

4. The allocation of the gas allowable among the gas wells in each gas pool should be on the basis of a formula giving due weight to the factor of deliverability. Such formula should be adopted for each of the respective gas pools only after notice and hearing at a time when the results of the current deliverability tests have been completed. In the interim The Ohio does not oppose the allocation of gas allowable in each of the pools on the basis of acreage alone.

5. Liberal provisions should be made for obtaining unorthodox proration units for gas wells in the gas pools, based on the proposition that a gas well can efficiently drain 640 acres. The boundaries of such unorthodox units should not be arbitrarily limited by section lines or subdivision lines.

Respectfully submitted,

THE OHIO OIL COMPANY

By

A handwritten signature in cursive script, reading "Darrell Couch", is written over a horizontal line. The signature is written in dark ink and is the only handwritten element on the page.