

November 4, 1986

MEMORANDUM

TO: NEW MEXICO PRODUCERS AND OTHER INTERESTED PARTIES

FROM: R. S. STAMETS, DIRECTOR

SUBJECT: ALTERNATIVES TO PROPOSED RULE CHANGES

Subsequent to the Commission hearing on October 23, 1986, amended language has been suggested for a number of the rule changes considered at that time. This alternative language will be considered at the November 20, 1986, Commission hearing and is here presented for your information.

Case No. 9012, amendment of Rule 701 B and D.

Based upon comments, an alternate proposal will be put forward as follows:

B.

2. The applicant shall furnish, by certified or registered mail, a copy of the application to the owner of the surface of the land on which each injection or disposal well is to be located and to each leasehold operator within one-half mile of the well, except in cases for commercial disposal wells where the applicant shall furnish, by certified or registered mail, a copy of the application to the owner of the surface of the land on which said well is to be located and to each well operator or, if the acreage is undeveloped, each leasehold owner within two miles of the well. For purposes of this rule, a commercial operation shall be defined as one which involves the disposition of water originating on a lease other than that on which it is to be disposed in exchange for compensation or which is available for public disposition of produced water.

D.

Salt Water Disposal Wells

1. The Division Director shall have authority to grant an exception to the requirements of Rule 701-A for water disposal wells only, without hearing, when the waters to be disposed of are mineralized to such a degree as to be unfit for domestic, stock, irrigation, or other general use, and when said waters are to be disposed of into a formation older than Triassic (Lea County only) and provided no objections are received pursuant to Rule 701-B(3).

Case No. 9015, adoption of new rules for a priority production schedule.

Based upon comments, revised proposals will be put forward as follows:

ALTERNATE PROPOSED RULE 903 PRIORITIES ON PRODUCTION

When market conditions or other conditions exist whereby a gas purchaser and/or pipeline system is unable to take all gas legally produced or available from wells connected to its system, to prevent waste and to the extent permitted by Section 70-2-19 F, NMSA 1978, such purchaser or pipeline system operator shall observe the following priority production schedule. For purposes of this rule, a system consists of a series of interconnected gathering and trunk lines under the control of a pipeline company which purchases and transports gas to a market. Gas purchased by the pipeline for resale shall be considered in a separate system from gas transported in the same pipeline network for another purchaser for resale to the same or any other market.

- (a) overproduced wells in prorated gas pools and high capacity wells in unprorated gas pools shall be first restricted followed by;
- (b) underproduced and marginal wells in prorated gas pools and lower capacity wells in unprorated gas pools followed by;
- (c) downhole commingled wells involving one or more gas zones and one or more oil zones followed by;
- (d) casinghead gas (including gas from associated pools) followed by;
- (e) hardship gas wells designated by the Division under Rule 410, Rule 411, or after hearing.

ALTERNATE PROPOSED RULE 315 and 413 PRIORITIES ON PRODUCTION

Where market conditions or other conditions exist whereby a gas purchaser and/or pipeline system is unable to take all gas legally produced or available from wells connected to the appropriate transportation system, to prevent waste, operators connected to such system shall observe the following priority production schedule:

- (a) overproduced wells in prorated gas pools and high capacity wells in unprorated gas pools shall be first restricted followed by;
- (b) underproduced and marginal wells in prorated gas pools and lower capacity wells in unprorated gas pools followed by;
- (c) downhole commingled wells involving one or more gas zones and one or more oil zones followed by;
- (d) casinghead gas (including gas from associated pools) followed by;
- (e) hardship gas wells designated by the Division under Rule 410, Rule 411, or after hearing.

Case No. 9016, adoption of a new rule for gas sales by less than 100 percent of the owners in a well.

Based upon further study committee work, a revised proposal will be presented as follows:

PROPOSED ALTERNATE NO. 4

RULE 414 GAS SALES BY LESS THAN 100 PERCENT OF THE OWNERS IN A WELL

When there are separate owners in a well and where any such owner's gas is not being sold with current production from such well, such owner may, if necessary to protect his correlative rights, petition the Division for a hearing seeking appropriate relief.

Case No. 9018, amendment of the General Rules for Prorated Gas Pools.

In addition to the amendment of Rule 10(a), 11(a), and 11(b) of the General Rules, new rules for the creation and operation of a "Gas Bank" are proposed as follows:

RULE 20. GAS BANK

A. Primary Gas Bank

1. The operator of a non-marginal gas well in a prorated gas pool may elect, either prior to connection to a gas pipeline or thereafter for economic or other valid reason, to withhold the production from sale. Upon written request to the Santa Fe office of the Division together with documentation that the well is capable of producing its allowable at the time of request, the well shall be placed in the primary gas bank.

2. Gas wells in the primary gas bank shall be included in the gas proration schedule with a symbol indicating such status but shall receive no allowable for any month the well remains in the bank. The allocation of the pool allowable shall be made in accordance with Rule 5 above to the remaining wells in the pool after excluding wells placed in the primary gas bank.

3. At any time, an operator may elect to commence or resume production from a well which has been placed in the primary gas bank. Upon notice to the Santa Fe office of the Division before the 20th day of a month the well on the first day of the month following said notice will be given its allocation under the proration formula and in addition shall have credited to it an amount of underproduction equal to its full accrued bank account multiplied by a fraction, the numerator of which is one and the denominator of which is twice the number of months the well remained in the bank.

4. During the time a well remains in the gas bank, it shall accrue an account of gas allowable each month equal to the allowable given to a non-marginal well of equal acreage and/or deliverability which received an allocation during that month.

5. Upon written request and at the discretion of the Director, a fraction of restoration other than that described above may be used in making up the gas bank account. Such fraction may also be varied for any month as provided in Rule C2 herein below.

B. Secondary Gas Bank

1. A secondary gas bank shall be established for wells which are capable of producing the non-marginal allowable but are prevented from doing so because of limited market or other conditions beyond the control of the operator and, as a result of such condition suffer the cancellation of allowable.

2. The operator of a well, within 20 days following cancellation, may request in writing to the Director, together with documentation that accrued underproduction was the result of conditions beyond the control of the

operator and that the well is capable of producing its assigned allowable, that the cancelled allowable be placed in the secondary gas bank.

3. A well accruing a secondary gas bank account shall be so identified by a symbol in the gas proration schedule and be exempt from reclassification to marginal status unless the Director, upon sufficient evidence, determines the well to be incapable of producing a non-marginal allowable. The gas bank account for any well shall be increased on each occasion of gas cancellation to include the additional gas being cancelled, provided the operator so requests within 20 days following the cancellation of the allowable which is to be added to the well's account.

4. In the event the Director determines a well is no longer capable of producing a non-marginal allowable, he shall notify the operator of such finding and the reasons therefor. If upon presentation of rebuttal information the director is unconvinced of the well's ability to produce a non-marginal allowable, the operator may request a hearing on the matter.

5. At such time as the condition which has prevented a well from producing its allowable has been removed, the operator may request in writing the restoration of the underproduction. Such a request should include a recommended rate at which the underproduction is to be made up.

6. Underproduction restored as described above shall be produced in addition to the assigned allowable or shall be subject to cancellation at the next balancing date. Gas underproduction restored from the secondary gas bank shall not be eligible for further accumulation in the gas bank.

#### C. Withdrawal from Gas Bank

1. At such time as gas is withdrawn from either the primary or secondary gas bank accounts, the allocation to the pool shall be reduced by the allocation to marginal wells, and the gas volume withdrawn from the primary and secondary gas banks before allocating allowable to the non-marginal wells.

2. At no time shall withdrawal of gas from the combined primary and secondary gas banks in a pool exceed one-half of the pool allocation remaining after deducting the allocation to marginal wells.

NOTE: Rule 13(a) will be amended to preclude reclassification of a well in the secondary gas bank as provided in Rule 13 B above, by inserting in the first sentence, after GPU, the phrase "subject to limitation imposed by Rule 20 B.3."



November 11, 1986

**Sun Exploration and  
Production Company**  
Four NorthPark East  
5656 Blackwell  
P O Box 2880  
Dallas TX 75221-2880  
214 890 6000

State of New Mexico  
Oil Conservation Commission  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

Attn: Mr. R. L. Stamets, Director

RE: Comments on Proposed Rules

Dear Mr. Stamets:

Please accept the following as Sun Exploration and Production Company's formal comments on the proposed rule additions and amendments which are set for hearing on November 20, 1986.

Case 9010  
Adoption of New Rule 118

Paragraph A:

1. The phrase "known H<sub>2</sub>S producing area" is vague and could lead to abuse of this rule. Clarification should be included by rule or policy which specifies how a "known H<sub>2</sub>S producing area" is designated. Consideration should be given to publication of a list of the current "known H<sub>2</sub>S producing areas."

2. The term "dangerous concentrations" is vague as used in this paragraph. According to the remaining parts of this rule, one could assume 500 ppm. Clarification of this term and the intent should be set forth in this paragraph.

Paragraph B:  
No comment.

Paragraph C.1:

1. Sun currently has signs posted on many of our New Mexico leases with similar wording to the required "Danger-Poisonous Gas". However, our signs are printed with the colors black, red and white instead of the required black and yellow coloring. Some signs use the word "Caution" instead of "Danger". Wording such as "unless an existing sign is in place" or "any other color acceptable to the Director" should be added to this paragraph to allow flexibility for sign installation as long as the sign indicates an existence of a potential hazard.

Paragraph C.2:

1. It is our understanding that the purpose of the sign required by this paragraph is to make the public aware of an eminent danger if they are trespassing around our tank batteries. It is not appropriate to require "a second sign at the foot of the battery stairway stating "Fresh Air Breathing Equipment Required Beyond This Point" when such equipment is not indeed required. Operators are not required to and do not carry such equipment, but in many cases are assigned personal H<sub>2</sub>S monitors that will alarm at 20 ppm. Sun suggests that no requirement or recommendation be made for such a sign, but suggests an alternative sign which reads, "DO NOT ENTER. AUTHORIZED PERSONNEL ONLY-POISON GAS PRESENT".

Paragraph C.3:

1. The fact that all three requirements of this paragraph must be met prior to requiring automatic detection equipment should be clarified.

2. The phrase "as much as 10 MCFPD of H<sub>2</sub>S" should be clarified. It is our understanding that this phrase means 10 MCF per day of 100% H<sub>2</sub>S.

Paragraph D:  
No Comment.

Case 9012

Amendment of Rule 701 B and D

Sun recommends adoption of these amendments as published which eliminate the requirement for a hearing for certain disposal well applications.

Case 9016

Adoption of New Rule 414

Sun recommends that no action be taken on these new rules designed to regulate sales of gas by separate owners in a well. Sun requests that Case 9016 be dismissed.

Thank you for this opportunity to respond by written comment.

Yours very truly,



Allen R. Tubb  
Conservation Attorney

ART:laa



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
PRESIDENT  
JOHN A. YATES  
VICE PRESIDENT  
B. W. HARPER  
SEC. - TREAS.

October 28, 1986

*Case  
File*

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

ATTN: David Catanach

Dear Mr. Catanach:

Re: NMOCD Case 9012  
SWD Rules

I believe there will be a problem concerning adequate notice if Rule 701.D is amended as proposed in Case 9012. As you know, Case 9012 seeks to eliminate the requirement for a hearing when a disposal well is to be located within two miles of oil or gas production in the same formation. The idea of reducing the number of NMOCD hearings is surely attractive. However, this proposed change removes much of the notice protection in the current regulations.

The form C-108 for salt water disposal wells sets up a one-half mile area of review and a two mile area. I am concerned mainly about giving notice to those people who operate leases between one-half mile and two miles from the proposed disposal well. If Case 9012 is approved in its current form, the only requirements of notice will be a newspaper ad and written notice to those owners within one-half mile of the proposed disposal well. This means that people between one-half and two miles from the proposed disposal well will receive no notice except for that placed in some newspaper. I think it is unreasonable to require that people search every newspaper in southeast New Mexico everyday in order to catch proposed disposal wells that could easily effect their leases. A further problem arises because there is only a 15 day waiting period after notice is given. If one is fortunate enough to see the notice in the newspaper, he still has too little information on which to judge whether the proposed disposal well is objectionable. It can often take 10 to 15 days to get the necessary information from the person proposing the SWD well. The operator of nearby acreage is then placed in the position where he must oppose the application before he has time to know whether the application is in fact good or bad. You force him to oppose it because there is not enough time to learn the facts.

I believe the problem is serious enough for you to modify your proposed procedures. The suggestion I like best is to place notice of administrative SWD cases on the regular examiner docket. This is similar to the suggestion made in regard to Case 9014. A second alternative is to increase the notice requirements on the C-108

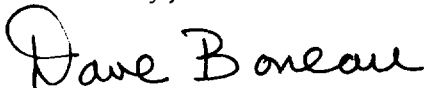
David Catanach  
October 28, 1986  
-2-

from one-half mile to two miles. This would insure that all people whose acreage is considered in the C-108 receive notice of the salt water disposal application. The last alternative would be to increase the waiting time from 15 to 30 days. This would allow more time to work out problems once notice is given, but really does nothing to provide timely notice.

I think that people with leases between one-half mile and two miles from the proposed salt water disposal well deserve positive notice. These people have often received notice via the hearing docket because of the requirement for hearing whenever there is production from the same formation within two miles. If you take away this protection, these people are left with only the newspaper to provide notice. I consider that inadequate and ask that you provide a positive means for getting notice to these people.

Thank you for listening to my thoughts on this matter.

Sincerely,

A handwritten signature in cursive script that reads "Dave Boneau". The signature is written in dark ink and is positioned below the word "Sincerely,".

DAVID F. BONEAU  
Engineering Manager

DFB/cvg

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

20 November 1986

COMMISSION HEARING

IN THE MATTER OF:

The hearing called by the Oil Con- CASE  
servation Division on its own motion 9012  
to consider the amendment of Rules  
701 B and D.

BEFORE: Richard L. Stamets, Chairman  
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor  
Legal Counsel for the Division  
Oil Conservation Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

Further appearances listed on Pages 2 thru  
3, inclusive.



- |    |                           |                               |
|----|---------------------------|-------------------------------|
| 1  | For Phillips Petroleum,   | W. Thomas Kellahin            |
| 2  | Lewis B. Burleson, &      | Attorney at Law               |
| 3  | Tenneco:                  | KELLAHIN, KELLAHIN & AUBREY   |
|    |                           | P.O. Box 2265                 |
|    |                           | Santa Fe, New Mexico 87501    |
| 4  | For Dugan Production,     | Robert G. Stovall             |
| 5  | C&E Operators Inc.        | Attorney at Law               |
| 6  | La Plata Gathering        | Dugan Production Corp.        |
| 7  | System, Inc., Turner      | P.O. Box 208                  |
|    | Production System,        | Farmington, New Mexico 87499  |
|    | A.R. Kendrick, &          |                               |
|    | Merrion Oil & Gas:        |                               |
| 8  | For Independent Petroleum | Robert H. Strand              |
| 9  | Assn. of New Mexico,      | Attorney at Law               |
| 10 | Doyle Hartman, and        | ATWOOD, MALONE, MANN & TURNER |
|    | Alpha Twenty-One Prod.:   | Roswell, New Mexico 88201     |
|    |                           |                               |
| 11 | For Amoco Production Co., | J. Scott Hall                 |
| 12 | Blackwood & Nichols,      | Attorney at Law               |
| 13 | Exxon Company USA,        | CAMPBELL & BLACK, P.A.        |
| 14 | Union Texas Petroleum,    | P.O. Box 2208                 |
| 15 | Unocal Corp., Yates       | Santa Fe, New Mexico 87501    |
| 16 | Petroleum Corp., Mobile   |                               |
| 17 | Producing Texas and       |                               |
| 18 | New Mexico, and Columbus  |                               |
| 19 | Energy Corp.:             |                               |
| 20 |                           |                               |
| 21 | For Southern Union        | Dennis K. Morgan              |
| 22 | Exploration:              | Southern Union Exploration    |
| 23 |                           | Company                       |
| 24 |                           | Texas Federal Bldg.           |
| 25 |                           | 1217 Main Street              |
|    |                           | Dallas, Texas 75202           |
|    |                           |                               |
|    | For BHP Petroleum &       | James Bruce                   |
|    | (Americas) Inc.:          | Attorney at Law               |
|    |                           | HINKLE LAW FIRM               |
|    |                           | P.O. Box 2068                 |
|    |                           | Santa Fe, New Mexico 87501    |
|    |                           |                               |
|    | For Amoco Production:     | Daniel S. Currens             |
|    |                           | Attorney at Law               |
|    |                           | Amoco Production Company      |
|    |                           | Houston, Texas                |

1 For Michael Klein &  
2 John R. Hendrix:

Ernest L. Padilla  
Attorney at Law  
PADILLA & SNYDER  
P.O. Box 2523  
Santa Fe, New Mexico 87501

4 For Northwest Pipeline:

Del Draper  
Attorney at Law  
Northwest Pipeline Corporation  
295 Chipeta Way  
Salt Lake City, Utah 84108

7 For Gas Company of New  
8 Mexico:

Jonathon Duke  
Gas Company of New Mexico

9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## I N D E X

## DAVID CATANACH

Direct Examination by Mr. Taylor	5
Cross Examination by Mr. Kellahin	7
Questions by Mr. Boneau	8
Cross Examination by Mr. Hall	10
Cross Examination by Mr. Stamets	10

## WILLIAM J. MUELLER

Direct Examination by Mr. Kellahin	14
Cross Examination by Mr. Taylor	17
Questions by Mr. Pitre	17

STATEMENT BY MR. CURRENS	19
--------------------------	----

STATEMENT BY MR. STAMETS	20
--------------------------	----

1  
2 DAVID CATANACH,  
3 having been previously sworn and remaining under oath,  
4 testified as follows, to-wit:

5  
6 DIRECT EXAMINATION

7 BY MR. TAYLOR:

8 Q Would you please state your name and  
9 position for the record?

10 A Yes, sir. My name is David Catanach.  
11 I'm a petroleum engineer with the Division here in Santa Fe.

12 Q And, Mr. Catanach, you've testified  
13 previously in this matter and you've already been sworn?

14 A Yes, sir.

15 Q Are you familiar with the matters in  
16 Division Case Number 9012?

17 A Yes, sir, I am.

18 Q Would you please explain what is proposed  
19 by the Division in Case 9012?

20 A Case 9012, the Division is proposing to  
21 amend Rule 701 B, Subpart 1, to eliminate the requirement  
22 for a hearing when a disposal well is to be located within  
23 two miles of oil or gas production in the same formation.

24 The Division is also proposing to amend  
25 Rule 701 B, Subpart 2, to require all commercial disposal

1 well applications to go to hearing and to further expand the  
2 notice requirements for a -- for commercial disposal  
3 wells.

4 Our proposal would require the applicant  
5 for commercial wells to furnish by certified or registered  
6 mail a copy of the application to the owner of the surface  
7 on which the disposal well is located, and to each operator,  
8 or if the acreage is undeveloped, each leasehold owner,  
9 within a 2-mile radius of the well.

10 Q Would you explain the purposes of the  
11 rule change as it relates to commercial wells?

12 A Well, the Division feels that due to the  
13 substantially larger volumes of water disposed of in a  
14 commercial well, that the well would possibly have a greater  
15 impact on a -- on a greater number of operators who surround  
16 the disposal well.

17 Q Does the Division intend to define  
18 commercial well for purposes of this rule?

19 A Yes. For purposes of this rule the  
20 Division is proposing to define a commercial disposal well  
21 as one which involves the disposition of water originating  
22 on a lease other than that on which it is to be disposed, in  
23 exchange for compensation, or which is available for public  
24 disposition of produced water.

25 Q Now, as I recall, at the last hearing we

1 had testimony by you on Case 9012, and that related to a  
2 change in the rule relating to noncommercial wells.

3 A That's correct.

4 Q So this testimony today is supplemental  
5 to that and only relates to commercial wells and the  
6 proposed rule that you testified about at the last hearing  
7 remains unchanged.

8 A Yes, sir.

9 Q Okay. Is that all you have in this mat-  
10 ter?

11 A Yes, sir.

12 MR. TAYLOR: That's all we  
13 have, Mr. Commissioner.

14 MR. STAMETS: Are there any  
15 questions of the witness?

16 MR. KELLAHIN: Yes, sir.

17 MR. STAMETS: Mr. Kellahin.

18

19 CROSS EXAMINATION

20 BY MR. KELLAHIN:

21 Q Mr. Catanach, could you explain to us the  
22 reasons that caused you to use a 2-mile radius on the com-  
23 mercial disposal application as opposed to a 1-mile radius?

24 A We use the 2-mile radius in -- in eval-  
25 uating a regular disposal well, in evaluating the leasehold

1 interest owner, is all, and other than that we -- we just  
2 thought that two miles would be an appropriate number, an  
3 appropriate area.

4 Q A commercial disposal applicant would  
5 still file a Form C-108 with the attachments, among which is  
6 included the 2-mile radius plat?

7 A Yes, sir.

8 Q In addition under this change, though, he  
9 would also be required to search files and find all the  
10 operators and if the acreage is undeveloped the leasehold  
11 owners within a 2-mile radius of that wellbore.

12 A Which can be proably determined from a  
13 lease map.

14 Q Thank you.

15 MR. STAMETS: Are there other  
16 questions of this witness?

17 Mr. -- Mr. Boneau, you going to  
18 question the witness or make a statement?

19 MR. BONEAU: I would like to  
20 ask a question, whether Mr. Catanach could help me under-  
21 stand what a commercial disposal well is as opposed to non-  
22 commercial, and let me ask my specific question.

23

24 QUESTIONS BY MR. BONEAU:

25 Q We have a disposal system, Yates Petro-

1 leum disposal system, in the Saunders Filed, where we pipe  
2 water from approximately 10 different leases to our own; our  
3 own 10 leases to our own salt water disposal well. Is that  
4 a commercial operation?

5 MR. STAMETS: Mr. Catanach, un-  
6 der the scenario that's been describe to you and your pro-  
7 pose rules, would you consider that to be a commercial dis-  
8 posal well?

9 A No, sir, I wouldn't.

10 MR. STAMETS: And is that be-  
11 cause there is no exchange for compensation or there's no  
12 public disposition allowed?

13 A Yes, sir.

14 MR. STAMETS: Does that clarify  
15 it?

16 MR. BONEAU: I don't like that  
17 answer but it's clarified.

18 It's not, you know, our accoun-  
19 ting system charges out 24 cents a barrel from lease to  
20 lease, and in that sense there is compensation. I think  
21 that anyone who brings water from another lease to is going  
22 to not do it for totally gratis, so I don't see why -- the  
23 exchange for compensation is in there, as far as I can see;  
24 any time that water is brought from another lease it's com-  
25 mercial.



1 But thank you for the clarifi-  
2 cation.

3 MR. STAMETS: Are there other  
4 questions of this witness?

5 Mr. Hall.

6  
7 CROSS EXAMINATION

8 BY MR. HALL:

9 Q Excuse me, I wonder if the witness could  
10 explain the reasons why we're differentiating between com-  
11 mercial and noncommercial water in the first place?

12 A Well, as I previously stated, Mr. Hall,  
13 we feel that due to the larger volumes of water disposed of  
14 in a commercial well, that it would have have a greater im-  
15 pact on a greater number of people.

16 Q Aren't -- aren't there also situations  
17 where a so-called noncommercial facility could be disposing  
18 of great volumes, as well? It seems to me we're more con-  
19 cerned about volumes than any sort of economic considera-  
20 tions.

21 A It's possible. I'll grant you that.

22  
23 CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. Catanach, as I recall, the original

1 purpose for this rule was to save time and money for both  
2 the Division and for the operators.

3 In its present form, do you feel that the  
4 operator is going to be saved very much?

5 A On which part of the rule change, Mr.  
6 Commissioner?

7 Q Well, in -- if a commercial well now has  
8 to notify everybody, do the research and notify everybody  
9 within two miles, is that going to be less costly, in your  
10 opinion, than -- than a hearing?

11 A It probably is.

12 MR. STAMETS: Are there other  
13 questions of this witness?

14 Mr. Sexton?

15 MR. SEXTON: Well, I was just  
16 going to give a statement on some clarifications, at least  
17 in the southeast.

18 When you have -- the water com-  
19 ing from just leases out of the same reservoir, you almost  
20 have a net replacement, whereas if you haul water into it,  
21 then you start an action drive above the withdrawal rates,  
22 and to me this is a -- this is what they're trying to do  
23 away with, is when you become an active waterdrive versus a  
24 replacement disposal system and (inaudible.)

25 MR. STAMETS: Mr. Boneau, what

1 would the impact be if we inserted the words "between opera-  
2 tors" after the word "compensation"? Would that resolve  
3 your --

4 MR. BONEAU: Those words would  
5 make clearer that his intention is the actual interpretation  
6 of those words and goes further to accomplish -- it makes it  
7 clear that you're not going to accomplish what I seek to ac-  
8 complish.

9 MR. STAMETS: What is it that  
10 you're trying to accomplish?

11 MR. BONEAU: That people get  
12 notice.

13 MR. STAMETS: Okay, are you  
14 satisfied with the notice as it's written in here?

15 MR. BONEAU: I'd love the  
16 notice as it's written if it means that whenever you bring  
17 water from another lease it's commercial, but if people, if  
18 Yates or anybody else can bring thousands and thousands,  
19 millions barrels of water from adjacent leases and put it in  
20 these wells, and that doesn't qualify as commercial, then it  
21 seems to me some people are not going to give notice when  
22 there's going to be a lot of water moving through their  
23 leases.

24 My purpose would be accom-  
25 plished much more if you just eliminated "in exchange for

1 compensation".

2 MR. STAMETS: And then you  
3 would only have a situation where the commercial well is one  
4 which is available for public disposal.

5 MR. BONEAU: Well, a commercial  
6 well would be any well where water is brought from another  
7 lease.

8 MR. STAMETS: Thank you, Mr. --

9 MR. BONEAU: Just as long as I  
10 make myself clear; you can do whatever you want.

11 MR. STAMETS: Thank you, we ap-  
12 preciate that.

13 Are there any other questions  
14 of the witness?

15 He may be excused.

16 Are there any statements or  
17 testimony in this case?

18 Mr. Kellahin:

19 MR. KELLAHIN: Mr. Chairman, I  
20 have a witness to be called at this time.

21 MR. STAMETS: Please proceed.  
22 Has this witness been sworn, Mr. Kellahin?

23 MR. KELLAHIN: I don't think  
24 so.

25 MR. STAMETS: Okay. Well,

1 let's have him raise his right hand.

2

3

(Witness sworn.)

4

5

WILLIAM J. MUELLER,

6

7

being called as a witness and being duly sworn upon his  
8 oath, testified as follows, to-wit:

9

10

DIRECT EXAMINATION

11

BY MR. KELLAHIN:

12

Q

Mr. Mueller, for the record would you  
13 please state your name and occupation?

14

A

My name is William J. Mueller, spelled M-  
15 U-E-L-L-E-R. I'm a reservoir engineering supervisor with  
16 Phillips Petroleum Company over the New Mexico area.

17

Q

Have you previously testified before the  
18 Oil Conservation Commission and had your qualifications as  
19 an engineer accepted and made a matter of record?

20

A

Yes.

21

Q

And have you caused to be prepared  
22 certain comments and evaluations about this proposed rules  
23 change by the Division?

24

A

Yes.

25

Q

Would you describe for us, Mr. Mueller,

1 what Phillips' concern is about the specific language as now  
2 suggested by Mr. Catanach in the rule as we have it before  
3 us.

4 A We have the same concern as Mr. Boneau  
5 with Yates has. The word "commercial" should not be there.  
6 It should be called "off lease disposal." Any time there's  
7 water brought on the lease from another lease, then the not-  
8 ification should exceed the current half mile radius and  
9 maybe up to 1 mile but not 2 miles.

10 We think the 2-mile radius is an undue  
11 burden.

12 Q So you have two points of comment on the  
13 proposed rules change.

14 The first is with the regards to the 2-  
15 mile versus 1-mile notice area?

16 A Yes, between the -- well, the current  
17 half mile ad the 2-mile radius, yes. We think that should  
18 be more moderated into right about a 1-mile radius.

19 Q So if it's a commercial disposal facili-  
20 ty, you're recommending a 1-mile notice?

21 A Right.

22 Q All right, what is the difficulty to  
23 Phillips as an operator if it has to undertake the expense  
24 and time to tabulate the ownership of the operators and own-  
25 ers within a 2-mile radius?



1 Chairman.

2 MR. STAMETS: Are there ques-  
3 tions for Mr. Mueller?

4 MR. TAYLOR: I have a question,  
5 Mr. Chairman.

6 MR. STAMETS: Mr. Taylor.

7

8 CROSS EXAMINATION

9 BY MR. TAYLOR:

10 Q Mr. Mueller, you said that Phillips would  
11 rather have a 1-mile notice period. Is it your professional  
12 opinion that the effects of disposing water into a well are  
13 not so great that 2-mile notice is necessary?

14 A That's right.

15 Q And those effects would be usually lim-  
16 ited to one mile?

17 A Right. I have a hard time opposing any-  
18 body putting water any place if they're over a mile from me.

19 Q Okay, thank you.

20 MR. STAMETS: Are there other  
21 questions?

22 Yes, sir.

23

24 QUESTIONS BY MR. PITRE:

25 Q Is -- do you believe that there is a



1 significant difference --

2 MR. STAMETS: Would you ident-  
3 ify yourself for the record, please?

4 MR. PITRE: I'm Randy Pitre  
5 with Cities Service Oil and Gas Corporation. Pitre, P-I-T-  
6 R-E.

7 Q Do you believe there's a significant dif-  
8 ference between companies that operate disposal wells as  
9 their principal business and operators -- a significant dif-  
10 ference in the way these wells are operated, and operators,  
11 oil and gas operators, that operate wells, disposal wells,  
12 for off lease water disposal?

13 A I believe there's probably a substantial  
14 difference in mode of operation but I don't know how you  
15 could prove it.

16 Q Well, a further question on that is, do  
17 you believe that the Oil Conservation Division should have a  
18 closer review for companies that operate salt water disposal  
19 wells as their principal business, as opposed to oil and gas  
20 operators that operate wells for off lease disposal?

21 A No, I think they ought to treat everybody  
22 the same.

23 MR. STAMETS: Are there other  
24 questions of the witness?

25 He may be excused.

1 Does anyone else have any tes-  
2 timony they wish to offer in this case?

3 Are there any statements in  
4 this case?

5 Mr. Currens?

6 MR. CURRENS: Dan Currens, Amo-  
7 co Production Company.

8 I'd like to make a statement in  
9 this case.

10 Amoco believes that it would  
11 benefit both the Division and the operators to have addi-  
12 tional procedures to eliminate unnecessary hearings having  
13 to do with water disposal.

14 We've heard two suggested  
15 amendments to this rule this morning, one, the insertion of  
16 the words "between operators", having to do with this com-  
17 pensation, and the other, a 1-mile investigation and notice  
18 radius, and we would also support both of those suggestions.

19 MR. STAMETS: What's your opin-  
20 ion of the change from "commercial" to "off lease"?

21 MR. CURRENS: The "off lease"  
22 and "between operators" -- is "between operators" still in  
23 the compensation part?

24 MR. STAMETS: No, just -- just  
25 "off lease".

1 MR. CURRENS: The use of "off  
2 lease" certainly would bring notice requirements in that --  
3 to be fair and honest to everyone -- that would include  
4 those that would be intra-company disposals. It's not an  
5 unfair system.

6 MR. STAMETS: The Commission  
7 intends to issue an order which would modify the Rule 701 B  
8 and D.

9 We believe we will change the  
10 word "commercial" to "off lease", with appropriate language  
11 as it shows up elsewhere; to change the notice requirement  
12 to 1-mile from 2-mile, and eliminate the words "in exchange  
13 for compensation."

14 We will allow two weeks for  
15 comments on this proposal. It would be our intention to  
16 meet on the 18th of December in Mr. Kelley's office to sign  
17 orders from this hearing.

18 So with that, then, we will  
19 conclude Case 9012 and go back and call Case 9010.

20

21 (Hearing concluded.)

22

23

24

25

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

CASE NO. 9012  
Order No. R-8390

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION ON ITS OWN MOTION TO  
CONSIDER THE AMENDMENT OF RULE  
701 (B)2 AND (D)1.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 23 and November 20, 1986, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 26th day of January, 1987, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The Oil Conservation Division (Division) seeks to amend General Rule Nos. 701 (B)2 and (D)1 concerning the disposition and notice requirements for salt water disposal well applications.

(3) The proposed amendment of Rule 701 (D)1 would allow administrative approval of salt water disposal wells that would be injecting into a formation which is productive of oil or gas within a radius of two miles.

(4) Currently, General Rule No. 701 (D)1 requires that all such applications for disposal into a producing formation be set for hearing.

(5) The vast majority of these applications that are set for hearing are unopposed and the applicant is not required to furnish any additional information or notify any additional party(s) for a hearing than would normally be required for administrative approval.

(6) The proposed amendment would only apply to those applications that are unopposed and would not preclude any affected party or interest owner from requesting a hearing.

(7) Adoption of the proposed amendment for unopposed applications would reduce unnecessary appearance and oral testimony expenses on the part of the applicant and hearing expenses for the Division.

(8) The proposed amendment would be in the best interest of conservation, would continue to protect correlative rights, and should be approved in the form shown on Exhibit "A", attached hereto and made a part hereof effective February 1, 1987.

(9) The amendment of Rule 701 (B)2 was proposed by an interested party at the hearing on October 23, 1986.

(10) The proposed amendment of Rule 701 (B)2 would require the applicant for a commercial or off-lease disposal well to furnish, by certified or registered mail, a copy of the application to the owner of the surface of the land on which the well is to be located and to each operator, or if the acreage is undeveloped, to each leaseholder within a radius of one mile of the proposed disposal well.

(11) The proposed amendment would further define a commercial disposal well as one which involves the disposition of produced water in exchange for compensation or which is available for public use and would define an off-lease disposal well as one which is utilized for the disposal of produced water not originating on the lease in which the disposal well is located.

(12) The proposed amendment would cause notice to be given to offset operators within a one-mile radius of the disposal well due to the larger volumes of water that would normally be disposed of into a commercial or off-lease disposal well.

(13) It is very difficult to determine how large an area will be affected by the injection of water into a disposal well.

(14) Any such determination of how large an area would be affected by the injection of water into a disposal well should be made on the basis of such factors as volume of water, porosity, saturation, thickness of the receiving formation, etc., and should not be made simply by a definitional change as proposed.

-3-  
Case No. 9012  
Order No. R-8390

(15) There is no evidence at this time which indicates that additional notice requirements should be imposed on applicants for commercial or off-lease disposal wells or that the present rules governing these matters are inadequate.

(16) General Rule 701 (B)2 should not be amended as proposed at this time, and that portion of this case concerning said amendment should therefore be dismissed.

IT IS THEREFORE ORDERED THAT:

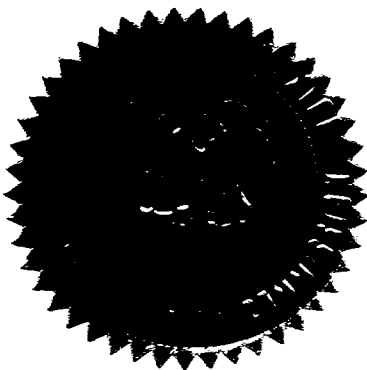
(1) Division General Rule No. 701 (D)1 is hereby amended to read as shown on Exhibit "A" attached to and made a part of this order.

(2) The effective date of the amendment contained herein shall be February 1, 1987.

(3) The portion of this case concerning the proposed amendment of General Rule 701 (B)2 is hereby dismissed.

(4) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*W.R. Humphries*

WILLIAM R. HUMPHRIES, Member

*Erling A. Brostuen*

ERLING A. BROSTUEN, Member

*William J. Lemay*

WILLIAM J. LEMAY, Chairman and  
Secretary

S E A L

fd/

EXHIBIT "A"  
CASE NO. 9012  
ORDER NO. R-8390

RULE 701 D-1.

The Division Director shall have authority to grant an exception to the requirements of Rule 701-A for water disposal wells only, without hearing, when the waters to be disposed of are mineralized to such a degree as to be unfit for domestic, stock, irrigation, or other general use, and when said waters are to be disposed of into a formation older than Triassic (Lea County only) and provided no objections are received pursuant to Rule 701-B 3, .