

RULE 503. AUTHORIZATION FOR PRODUCTION OF OIL

(a) Except as provided below, the daily top unit allowable for any oil pool shall be 100 percent of the depth bracket allowable for the pool determined pursuant to the provisions of Rule 505.

(b) The Division shall have the option, within five days prior to the end of the month, to make a determination as to the likelihood of the total producing capacity of all oil wells in the state being in excess of anticipated reasonable market demand for crude petroleum oil from this state.

If the Division determines that such capacity may be in excess of the anticipated reasonable market demand, and that a market demand factor of less than 100 percent may be necessary to prevent waste, it shall immediately institute proper proceedings for a hearing to be held before the 20th day of the following month to determine actual reasonable market demand.

(c) At said hearing the Division shall consider all evidence of market demand for crude petroleum oil from this state, and if it is determined that the market demand percentage factor should be less than 100 percent, an order shall be issued establishing the market demand factor and setting a date for the next market demand hearing.

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| BEFORE THE                  |                                  |
| OIL CONSERVATION COMMISSION |                                  |
| Santa Fe, New Mexico        |                                  |
| Case No.                    | <u>9504</u> Exhibit No. <u>1</u> |
| Submitted by                | _____                            |
| Hearing Date                | _____                            |

(d) The market demand factor thus established shall be multiplied by the applicable depth bracket allowable for each well and each pool to determine its unit allowable. Any fraction of a barrel shall be regarded as a full barrel in determining top unit allowable.

Upon initial establishment of a market demand factor, and from time to time thereafter, the Division shall issue a proration schedule authorizing the production of oil from the various proration units in the various pools in the state. Any well completed or recompleted after the issuance of said schedule and for which Form C-104 has been approved, shall, by supplement to the schedule, be authorized a daily allowable equal to the top unit allowable in effect. The allowable for such well shall become effective at 7:00 a.m. on the date of the completion, provided Form C-104 is submitted and approved within ten days following date of completion; otherwise the allowable shall be effective on the date the C-104 is approved. (As provided in Rule 1104, "date of completion" is the date when new oil is delivered into the stock tanks.)

(e) A non-marginal unit is defined as being a proration unit which is capable of producing top unit allowable for the pool in which it is located and to which has been assigned a top unit allowable. Any such non-marginal unit shall be permitted to

produce said top unit allowable without waste and subject to the provisions of Rules 301, 502, and 506, and all other applicable rules.

A marginal unit is defined as being a proration unit which is incapable of producing top unit allowable for the pool in which it is located as evidenced by well test, production history, or other report or form filed by the operator with the Division. Any such marginal unit shall be permitted to produce any amount of oil which it is capable of producing without waste up to top unit allowable for the pool, subject to the provisions of Rules 301, 502, and 506, and all other applicable rules, provided that an allowable has been assigned to the unit to authorize such production.

A penalized non-marginal unit is defined as being a proration unit to which, because of an excessive gas-oil ratio, an allowable has been assigned which shall be determined in accordance with the procedure set forth in Rule 506. In calculating a penalized allowable, any fraction of a barrel shall be regarded as a full barrel.

(f) A periodic tabulation of all supplements to the current proration schedule shall be made and distributed by the Division.

(g) The provisions of Rule 104(h) et seq. shall be adhered to in fixing top unit allowables.

(h) In the event it becomes necessary for any transporter of crude petroleum to resort to pipeline proration in New Mexico, such transporter shall, as soon as possible and not later than 24 hours after the effective date thereof, notify the Division of its decision to so prorate; upon receipt of such notice from such transporter, the Division may take such emergency action, as may be deemed proper, and/or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority, to preserve and protect correlative rights.

In case of pipeline proration any operator affected thereby has the right to make application to the Division for authorization to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such applications shall be made upon a form hereby authorized to be prescribed by the Division and filed therewith within thirty days after the close of the first proration period in which such pipeline proration shortage occurred, and such authorization shall be limited in any event to wells capable of producing the daily top unit allowable for such period.

In approving any such application the Division shall determine the period of time during which such shortage shall be made up without injury to the well or pool, and shall include the same in the regularly approved proration schedules following the conclusion of pipeline proration.

PROPOSED RULE CHANGES

RULE 503. AUTHORIZATION FOR PRODUCTION OF OIL

(a) Except as provided below, the daily top unit allowable for any oil pool shall be 100 percent of the depth bracket allowable for the pool determined pursuant to the provisions of Rule 505.

(b) ~~Every other month~~ The Division shall have the option, within five days prior to the end of the month, to make a determination as to the likelihood of the total producing capacity of all oil wells in the state being in excess of anticipated reasonable market demand for crude petroleum oil from this state.

If the Division determines that such capacity may be in excess of the anticipated reasonable market demand, and that a market demand factor of less than 100 percent may be necessary to prevent waste, it shall immediately institute proper proceedings for a hearing to be held before the 20th day of the following month to determine actual reasonable market demand ~~for the next two succeeding months.~~ *up to a maximum of 6 months*

(c) At said hearing the Division shall consider all evidence of market demand for crude petroleum oil from this state, and if it is determined that the market demand percentage factor should be less than 100 percent, an order shall be issued establishing the market demand factor ~~for the ensuing two-month period~~ and setting a date for the next market demand hearing.

(d) The market demand factor thus established shall be multiplied by the applicable depth bracket allowable for each well and each pool to determine its unit allowable. Any fraction of a barrel shall be regarded as a full barrel in determining top unit allowable.

Upon initial establishment of a market demand factor, and from time to time thereafter, the Division shall issue a proration schedule authorizing the production of oil from the various proration units in the various pools in the state. Any well completed or recompleted after the issuance of said schedule and for which Form C-104 has been approved, shall, by supplement to the schedule, be authorized a daily allowable equal to ~~the ability of the well to produce up to and including~~ the top unit allowable in effect. The allowable for such well shall become effective at 7:00 a.m. on the date of the completion, provided

Form C-104 is submitted and approved within ten days following date of completion; otherwise the allowable shall be effective on the date the C-104 is approved. (As provided in Rule 1104, "date of completion" is the date when new oil is delivered into the stock tanks.)

(e) A non-marginal unit is defined as being a proration unit which is capable of producing top unit allowable for the pool in which it is located and to which has been assigned a top unit allowable. Any such non-marginal unit shall be permitted to produce said top unit allowable without waste and subject to the provisions of Rules 301, 502, and 506, and all other applicable units rules. ~~Top unit allowable will be assigned only to those units which by tests have demonstrated their ability to produce top unit allowable.~~

A marginal unit is defined as being a proration unit which is incapable of producing top unit allowable for the pool in which it is located as evidenced by well test, production history, or other report or form filed by the operator with the Division. Any such marginal unit shall be permitted to produce any amount of oil which it is capable of producing without waste up to top unit allowable for the pool, subject to the provisions of Rules 301, 502, and 506, and all other applicable rules, provided that an allowable has been assigned to the unit to authorize such production.

A penalized non-marginal unit is defined as being a proration unit to which, because of an excessive gas-oil ratio, an allowable has been assigned which ~~is less than top unit allowable for the pool and also less than the ability of the well(s) on the unit to produce.~~ Such penalized allowable shall be determined in accordance with the procedure set forth in Rule 506. In calculating a penalized allowable, any fraction of a barrel shall be regarded as a full barrel.

(f) ~~Any change in the allowable assigned to any unit, non-marginal, marginal, or penalized, shall be accomplished through issuance of a new proration schedule or by supplement to a previously issued proration schedule.~~ A periodic tabulation of all supplements to the current proration schedule shall be made and distributed by the Division.

(g) The provisions of Rule 104(h) et seq. shall be adhered to in fixing top unit allowables.

(h) In the event it becomes necessary for any transporter of crude petroleum to resort to pipeline proration in New Mexico, such transporter shall, as soon as possible and not later than 24 hours after the effective date thereof, notify the Division of its decision to so prorate; upon receipt of such notice from such transporter, the Division may take such emergency action, as may be deemed proper, and/or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority, to preserve and protect correlative rights.

In case of pipeline proration any operator affected thereby has the right to make application to the Division for authorization to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such applications shall be made upon a form hereby authorized to be prescribed by the Division and filed therewith within thirty days after the close of the first proration period in which such pipeline proration shortage occurred, and such authorization shall be limited in any event to wells capable of producing the daily top unit allowable for such period.

In approving any such application the Division shall determine the period of time during which such shortage shall be made up without injury to the well or pool, and shall include the same in the regularly approved proration schedules following the conclusion of pipeline proration.

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| Santa Fe, New Mexico        |                        |
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