



TONEY ANAYA
GOVERNOR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



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POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

November 4, 1985

MEMO No. 5-85

MEMORANDUM

TO: NEW MEXICO OPERATORS

FROM: R. L. STAMETS, DIRECTOR *RLS*

SUBJECT: PROPOSAL TO END OCD NGPA DETERMINATIONS

I have been considering seeking an end to the NGPA well price category determination work performed by the Division. The basis for this proposed action includes:

- 1) When initiated, we did not expect this work to continue beyond January 1985. Recent discussions with FERC personnel now indicate there is no end in sight for the program.
- 2) Ending this effort would permit more time to work on matters related to our statutory duties.
- 3) Budgeting considerations may demand cutbacks in Division activities.

This proposal was announced at the Independent Petroleum Association and Oil and Gas Association annual meetings. At those times I invited comments. To date only one comment has been received and it was favorable.

By this memo I am making a final appeal for comments both in favor or in opposition. I would further request that any party commenting in opposition indicate if they would support a fee system to continue this Division program. Many states apparently are charging 100 dollars or so for each NGPA determination sought.

Responses to this memo should be submitted on or before November 30, 1985.

dp

RULE 14.2.c.

" A location plat which locates and identifies the well for which the determination is sought and all wells ~~[which produced natural gas after January 1, 1970, and before April 20, 1977]~~ within the 2.5 mile radius drawn from the well for which a determination is sought, ~~[including specific identification of all marker wells within the 2.5 mile radius drawn from the well for which a determination is sought]~~ with sufficient information on those wells to determine whether or not they are considered to be marker wells."

RULE 16A.4.

" The C-102 attached to Form C-132 shall locate and identify the well for which a determination is sought and all other wells within the proration unit in which the well for which a determination is sought is located, giving for each well which has or is producing and/or injecting from the same pool or reservoir as the subject well the spud date, recompletion date, cumulative production, and date of plug and abandonment, if any."

RULE 17.5 (New Addition)

"5. Occluded Natural Gas Produced from Coal Seams

- a. FERC Form No. 121;
- b. Division Form C-132 and the required attachments;
- c. Geological information sufficient to support a determination that the gas being produced is naturally occurring gas released from entrapment from the fractures, pores, and bedding planes of coal seams. Such information shall include to the extent reasonably available to the applicant at the time the application is filed:
 - (1) well logs;
 - (2) a subsurface cross-section chart;
 - (3) gas analysis;
 - (4) all well completion reports for the well for which a determination is sought; and,
 - (5) a copy of the Division Order resulting from a hearing to establish a "Coal Seam Pool" if such a hearing was held by the Division;

- d. A detailed description of the production process if the gas is not produced through a well bore;
- e. A statement by the applicant, under oath, that the gas was produced from a coal seam and that the applicant has no knowledge of any information not described in the application which is inconsistent with his conclusion."

May 1, 1986

MEMORANDUM

TO: NEW MEXICO PRODUCERS AND OTHER INTERESTED PARTIES

In mid April, 1986, the Division held a staff meeting in Santa Fe. As a result of this meeting, a number of policy or rule changes are being considered. These changes are listed below and your comments are solicited.

Some of the proposals, if implemented, would save time and money for both the industry and the Division. In other cases, the proposals are to rectify perceived deficiencies in our rules or policies. I will be at the Bureau of Land Management's Oil and Gas Conference for Industry and Government on May 22 and will be prepared to discuss or answer questions about these proposals. Any written comments should be submitted not later than May 30, 1986.

Proposal for Revision of Gas Priority Production Schedule

It is proposed to replace the gas production priority schedule set out in the Director's memorandum of February 18, 1983. The revised schedule is proposed as follows:

- (1) gas wells;
- (2) downhole commingled wells when any of the commingled zones is gas;
- (3) casinghead gas (including gas from associated pools); and,
- (4) hardship gas wells approved by the Division.

Clarification of Administrative Approval Process in Certain Pool with Special Rules

Division Rule 1 provides in part that: "Special rules, regulations and orders have been and will be issued when requested and shall prevail as against General Rules, Regulations and Orders if in conflict therewith. However, whenever these General Rules do not conflict with special rules heretofore or hereafter adopted, these General Rules shall apply."

Over the years, many special pool rules have been written. Many of these contained special rules providing for administrative exceptions to such matters as location requirements or spacing unit size while others did not. One prevailing opinion is that the intent of those special rules without administrative exception provisions was to preclude such exceptions. The counter opinion is that when read with Rule 1, if nothing is said then the administrative exception provisions the General Rules shall apply,

It is proposed that henceforth it should be Division policy to utilize the administrative exemptions or approval procedures of the General Rules when special pool rules are silent as to such exceptions. This policy would save both the Division and operators the cost of unnecessary hearings.

Any person who is aware of any pool with special rules which should preclude any of the administrative exceptions or approvals provided in the General Rules would allowed to notify this office of such situation and the Division would schedule a case to modify such special rules to incorporate the necessary prohibitions.

Downhole Commingling of Oil and Gas Zones

During the continuing severely restricted gas market, it is proposed that all applications for approval of downhole commingling of gas pool and oil pool production must be accompanied by a statement from the applicable pipeline. The pipeline statement would indicate whether or not the well in question is expected to be subject to shut in due to gas market conditions.

This action would be taken because of concerns about the potential for crossflow and waste of oil in downhole commingled oil and gas wells shut in because of market conditions. Administrative approval of such downhole commingling applications without the pipeline statement would be suspended until further notice.

Proposals Relative to Injection and Disposal Wells

Consideration is being given to prohibiting the use of oil blankets in any injection or disposal well utilizing 3-inch or smaller diameter tubing.

This proposal is to facilitate testing of such wells for mechanical integrity.

The Division is considering amending its Rule 701 D. 1. to permit administrative approval of water disposal wells regardless of the proximity to production. The current requirement for a hearing when there is production within two miles would be eliminated. We would be especially interested to hear whether or not the one-half mile notice provisions of Rule 701 B.2. are sufficient when there is production within two miles of a proposed disposal well.

Rule 704 is proposed to be amended, as attached, to provide for pressure testing of injection wells whenever the tubing is pulled or the packer is reseated. Any such test would reset the clock on the five-year mechanical integrity test provisions of the current rule.

A new provision is proposed to be added to Rule 704 to clarify procedures to be followed in seeking increases in injection well pressure limits.

RULE 704. TESTING, MONITORING, STEP-RATE TESTS, NOTICE TO THE DIVISION,
REQUESTS FOR PRESSURE INCREASES

A. Testing

Prior to commencement of injection and any time tubing is pulled or the packer is reseated, wells shall be tested to assure the integrity of

the casing and the tubing and packer, if used, including pressure testing of the casing-tubing annulus to a minimum of 300 psi for 30 minutes. A pressure recorder shall be used and copies of the chart shall be submitted to the appropriate Division district office within 30 days following the test date.

At least once every five years thereafter, injection wells shall be tested to assure their continued mechanical integrity. Tests demonstrating continued mechanical integrity shall include the following:

- (a) measurement of annular pressures in wells injecting at positive pressures under a packer or a balanced-fluid seal;
- (b) pressure testing of the casing-tubing annulus for wells injecting under vacuum conditions; and,
- (c) such other tests which are demonstrably effective and which may be approved for use by the Division.

Notwithstanding the test procedures outlined above, the Division may require more comprehensive testing of the injection wells when deemed advisable, including the use of tracer surveys, noise logs, temperature logs, or other test procedures or devices.

In addition, the Division may order special tests to be conducted prior to the expiration of five years if conditions are believed to so warrant. Any such special test which demonstrates continued mechanical

integrity of a well shall be considered the equivalent of an initial test for test scheduling purposes, and the regular five-year testing schedule shall be applicable thereafter.

The injection well operator shall advise the Division of the date and time any initial, five-year, or special tests are to be commenced in order that such tests may be witnessed.

B. Monitoring

Injection wells shall be so equipped that the injection pressure and annular pressure may be determined at the wellhead and the injected volume may be determined at least monthly.

Injection wells used for storage shall be so equipped that both injected and produced volumes may be determined at any time.

(New Material)

C. Step-Rate Tests, Notice to the Division, Requests for Pressure Increases

Whenever an operator shall conduct a step-rate test for the purpose of increasing an authorized injection or disposal well pressure limit, notice of the date and time of such test shall be given to the appropriate Division district office.

Copies of all injection of disposal well pressure limit increase applications and supporting documentation shall be submitted to the Division Director and to the appropriate district office.

Compulsory Pooling

Consideration is being given to simplifying the process necessary to obtain compulsory pooling under Section 70-2-17 C of the Oil and Gas Act.

Our current thoughts are that in uncontested cases, the applicant would submit all data normally presented at a hearing, notarized as being true, correct and complete, along with a proposed order. This package would be reviewed for completeness and accepted for record purposes at the hearing. If no other persons appeared, an order would be entered. Upon the request of any interested party, a full hearing would be held.

The nature of the notarized submittal could include:

- (1) ownership information including addresses, percents,
a map;
- (2) the spacing unit(s) and formation(s) to be pooled;
- (3) written evidence of attempts to gain voluntary agreement;
- (4) appropriate geological maps and a geological and/or

engineering assessment of risk;

(5) proposed overhead charges; and

(6) an AFE for the well.