

CASE NO.

7435

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
22 December 1981

COMMISSION HEARING

IN THE MATTER OF:

The Commission will consider the amend-
ment of Rule 104 of the Oil Conserva-
tion Division Rules and Regulations. CASE
7435

BEFORE: Mr. Raney
Mr. Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. RAMEY: We'll call Case 7435.

MR. HALL: The Commission will consider the amendment of Rule 104 of the Oil Conservation Division Rules and Regulations.

MR. RAMEY: This case was heard on December 3rd and due to an error in advertising was reopened on this date.

Does anyone have anything to add in Case 7435?

If not, the Commission will take the case under advisement.

(Hearing concluded.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
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 that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was ^{not} reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 December 1981

COMMISSION HEARING

IN THE MATTER OF:

The Commission will consider the
amendment of Rule 104 of the Oil
Conservation Division Rules and
Regulations.

CASE
7435

BEFORE: Commissioner Ramey
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

Commission:
For the ~~Applicants~~

J. Scott Hall, Esq.
ENERGY & MINERALS DEPT.
Santa Fe, New Mexico 87501

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

A P P E A R A N C E S

For Amoco Production Co.: Clyde Mote, Esq.
AMOCO PRODUCTION COMPANY
Houston, Texas

As Chairman of the
Regulatory Practices
Committee for the New
Mexico Oil and Gas
Association: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

(REPORTER'S NOTE: All other interested parties who made comments or asked questions during these hearings are listed on the Commission roster for 3 December 1981.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

RICHARD L. STAMETS

Direct Examination by Mr. Pearce	4
Questions by Mr. Kalteyer	10
Statement by Mr. Yates	11
Questions by Mr. Harper	12
Cross Examination by Mr. Ramey	13

E X H I B I T S

Division Exhibit One

1
2 MR. RAMEY: Call next Case 7435.

3 MR. HALL: The Commission will consider
4 the amendment of Rule 104 of the Oil Conservation Division
5 Rules and Regulations.

6 MR. PEARCE: May it please the Commis-
7 sion, I am W. Perry Pearce, appearing on behalf of the New
8 Mexico Oil Conservation Division.

9 I have one witness and I would like the
10 record to reflect that that witness, Mr. Richard L. Stamets,
11 has been previously sworn and qualified.

12 With the permission of the Commission,
13 we will proceed at this time with an explanation of the pro-
14 posed changes to Commission Rule 104-F.

15 MR. RAMEY: You may proceed, Mr. Pearce.

16 MR. PEARCE: Thank you, sir.

17
18 RICHARD L. STAMETS

19 being called as a witness and having been previously sworn
20 upon his oath, testified as follows, to-wit:

21
22 DIRECT EXAMINATION

23 BY MR. PEARCE:

24 Q At this time, Mr. Stamets, in regard to
25 the proposed changes to Commission Rule 104-F, would you for

1
2 the Commission and those in attendance at this hearing sum-
3 marize and outline the proposed changes?

4 A Yes. For many years we have had an
5 administrative procedure whereby an operator could get an ex-
6 ception to the well location requirements of our rules because
7 of reasons of topography. The well can't be located at a
8 standard location because it's in the middle of a river or
9 out in a lake or on a steep hillside, under a highline, or
10 over a gas pipeline.

11 A few years ago we added a section to
12 this to permit the drilling of wells at unorthodox locations
13 within a secondary recovery project or pressure maintenance
14 projects, to allow for better recovery from those units.

15 In recent years we have had many, many
16 hearings for unorthodox locations for the deeper gas wells in
17 southeast New Mexico. These are wells which are located on
18 320-acre units, primarily being drilled to the Pennsylvanian
19 formation.

20 We've had reams of testimony about the
21 nature of the Pennsylvanian formation and how the productive
22 zones meander about and it seems as though they are found
23 more often along the section lines than any place else.

24 We also had an industry committee re-
25 viewing our rules and regulations some time in the last two

1
2 years, looking for any rules or regulations which might be
3 inhibiting development of oil and gas in the nation.

4 And one of the things that they recom-
5 mended was that the -- the relaxation of the location re-
6 quirements relative to wells, the deep Pennsylvanian wells
7 on 320-acre units.

8 We looked at their proposal; there were
9 some problems with those. We worked that over and I hope that
10 we have something here which will allow for the administra-
11 tive approval of unorthodox locations for geologic reasons
12 for those deeper wells on 320-acre proration units.

13 Those have been incorporated into Rule
14 104 by rewriting the rule, breaking it down into paragraphs.

15 Now paragraph 1 is the same as the ex-
16 isting rule, simply allowing for unorthodox location for
17 topography or secondary and tertiary recovery -- or in pres-
18 sure maintenance.

19 Paragraph 2 is the new rule, new part
20 of the rule, which states that the Division Director will
21 have authority to grant an exception to the well location
22 requirements of Rule 104-BIA and Rule 104-C2A, those being
23 the two rules requiring 320-acre units and the specified
24 locations on such units for the Wolfcamp and deeper wells in
25 southeast New Mexico.

1
2 This will be allowed without notice and
3 hearing when the necessity for such location is based upon
4 geologic conditions and provided that in such unorthodox
5 location shall be -- excuse me -- be no closer than 660 to
6 the nearest side boundary, nor 990 to the nearest end boundary
7 of the proration unit, the end boundary being the short side
8 of the 320.

9 Now, the next paragraph, III, initially
10 sets out the filing requirements for getting an unorthodox
11 location, and until we get to the last sentence, these are
12 identical to the current requirements, who's to be notified,
13 what's to be submitted.

14 In the last sentence we deal with this
15 new part for geologic reasons for the deep wells, and it
16 does say that the proposed unorthodox, if it's to be based
17 on geology, the application shall include appropriate
18 geologic maps, cross sections and/or logs, and a discussion
19 of the geologic conditions which result in the necessity for
20 the unorthodox location.

21 And reading this over yesterday, it
22 occurred to me that perhaps we might need to insert something
23 there which would clarify that this is only an exception to
24 Rule 104-BIA and 104-C2A, so that the casual reader won't
25 decide that he can get an unorthodox location for geology

1
2 for any -- any other zone.

3 Paragraph V is identical to the existing
4 rule and it simply requires for notice to the offset opera-
5 tors, giving them an opportunity of 20 days to object.

6 The last paragraph is new and states
7 that the Division Director in his discretion may set any ap-
8 plication for administrative approval of an unorthodox loca-
9 tion for public hearing.

10 Q At this time, Mr. Stamets, if you would,
11 proceed. Are there proposed changes to Section III of that
12 rule?

13 A Yes. In the producing counties of the
14 state we have a standard gas well location and spacing re-
15 quirements of 160 acres, and even for wildcat wells, which
16 may -- which will probably be gas wells in those counties,
17 160 acres is the standard required.

18 In the rest of the state we've always
19 considered that a wildcat well was a wildcat well and it
20 should be spaced as a wildcat oil well.

21 Well, this is no longer the situation.
22 Up in the northeastern part of the state we have quite a
23 few wells which are classified as wildcat wells being drilled
24 for carbon dioxide, and we're confident and the operator is
25 confident when he goes out and drills that well that it's

1
2 going to be a gas well.

3 We have a number of wildcat wells being
4 drilled in Chaves County to the Abo, which we feel are ob-
5 viously going to be gas wells.

6 The same thing is occurring in DeBaca
7 County and in Lincoln County where the Abo is being explored.

8 So what we're proposing here is an
9 amendment which will provide that the operator can and should
10 dedicate 160 acres for a wildcat well anywhere in this state
11 when that well is going to likely be a gas well. We've done
12 this by adding a paragraph to Rule 104-B-III, that paragraph
13 being -- stating that any wildcat well which is projected as
14 a gas well to a formation and in an area which in the opinion
15 of the engineer or supervisor approving the application to
16 drill may reasonably be presumed to be productive of gas
17 rather than oil shall be located on a drilling tract consisting
18 of 160 surface contiguous acres or less substantially in the
19 form of a square, which is a quarter section, being a legal
20 subdivision of the U. S. Public Land Survey, and shall be
21 located not closer than 660 feet to any outer boundary of
22 such tract, nor closer than 330 feet to any quarter quarter
23 section or subdivision inner boundary.

24 Q With regard, Mr. Stamets, to Case 7435,
25 is there anything additional at this time?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

A. There is not.

MR. PEARCE: Mr. Commissioner, if you please, we move the admission of Exhibit One to Case 7435, and the Division has nothing further at this time.

MR. RAMEY: Exhibit One will be admitted. Are there any questions of Mr. Stamets? Mr. Kalteyer.

QUESTIONS BY MR. KALTEYER:

Q. Charles Kalteyer for Gulf Oil.

I have a question of clarification there on the first paragraph of 104-B-III, which is the same wording as before. Is that to -- is it your intent that that should apply only to wildcat oil wells?

If so, should we set that out as small (a) Wildcat Oil Wells, and then the second paragraph, the new one to be subset (b) Wildcat Gas Wells, and further, the question is, would this apply to CO₂ wells or is it just for hydrocarbon gas wells?

Should that be in the title?

A. Okay. Dealing with those in order, I'm not sure that what you have proposed helps or hurts what we have here. I think that if you sit down and read it, it's obvious that if it's a wildcat well and we don't designate it as being a gas well, and if the supervisor doesn't think

1
2 it'S a gas well, it's going to be an oil well and will meet
3 the first paragraph.

4 If it's projected as a gas well and the
5 supervisor agrees, that it's going to be a gas well and 160
6 is required, and in our rules and regulations we treat CO₂
7 gas as any other gas.

8 Q Well, this would be -- to set that out
9 would be in keeping with your other breakdown of wildcat oil
10 wells in Lea, Chaves, Eddy County, as such, covering wildcat
11 oil wells. It would be consistent with your prior nomen-
12 clature if you did set those out.

13 MR. RAMEY: Any other questions?

14 Mr. Yates?

15
16 STATEMENT BY MR. YATES:

17 MR. YATES: The Independent Petroleum
18 Association also wishes to congratulate the Commission on
19 addressing the issue of the unorthodox spacing of gas wells.
20 Some of our members have been up here more than 50 to 75
21 times attending hearings on unorthodox locations and most of
22 those hearings were unopposed and could have been easily
23 handled administratively -- administrative process; however,
24 we would like to point out that the proposal does not really
25 address the question of what is an unorthodox gas well. We

1
2 think that in the future this may have to be addressed and
3 will before the Commission.

4 We think that the separation here will
5 help considerably the State of New Mexico in attempting to
6 maximize its conservation efforts, maximize the drilling for
7 natural gas in areas such as southeastern New Mexico where we
8 have Pennsylvanian formation. There will be many occasions,
9 given the proper economics, where we will be experiencing the
10 need for second and possibly third wells on 320-acre locations
11 in order to sufficiently test that 320-acre location for re-
12 serves that could be recovered.

13 We do appreciate the effort that you've
14 made.

15 MR. RAMEY: Thank you, Mr. Yates.

16 Mr. Harper.

17
18 QUESTIONS BY MR. HARPER:

19 Q I'd like to ask a clarifying question.
20 I'm a little, perhaps, confused in paragraph I and II, Rule
21 104-F, Roman numeral III.

22 The title talks about all counties and
23 then it excepts certain counties.

24 The first paragraph also recites those
25 counties, but apparently the second paragraph is also under

1
2 that heading. So it seems to me, in order to be perfectly
3 clear, that you don't need it in the first paragraph, but
4 the second paragraph shouldn't be under the title.

5 So I'm having a little trouble.

6 A Well, we'll see if we can make that --

7 Q Because I understood from your testimony
8 that the second paragraph does not have the same restriction
9 the first paragraph has.

10 A Those are supposed to be dealing with
11 the same counties and the same issues except in one case it's
12 an oil well and the other case it's a gas well.

13 And perhaps --

14 Q There's an addition and there's an omis-
15 sion, and I'm unclear. One way or the other.

16 A I think we can clarify that. There's
17 no real problem with this, is there, except that --

18 Q No, just for the sake of clarity --

19 A To make it look nice?

20 Q Thank you.

21 MR. RAMEY: Any other questions?

22
23 CROSS EXAMINATION

24 BY MR. RAMEY:

25 Q Mr. Stamets, in the last paragraph is

1
2 the word -- do the words "engineer" or "supervisor" prohibit
3 anyone else from approving these applications?

4 A It certainly shouldn't.

5 Q Mr. Ulvog is a geologist.

6 A And of course we --

7 Q Is that a supervisor?

8 A -- consider him a supervisor as well,
9 so perhaps that --

10 Q Maybe you should say the individual
11 approving the application.

12 A Division representative or --

13 MR. RAMEY: Any other questions? The
14 witness may be excused.

15 Does anyone have anything further to
16 add to Case 7435?

17 If not, the case will be readvertised
18 and reopened on December 22nd.

19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
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 that
the foregoing Transcript of Hearing before the Oil Conserva-
Commission
tion ~~Division~~ was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO ON ITS OWN
MOTION FOR THE PURPOSE OF CONSIDERING
AMENDMENT OF RULE 104 OF THE OIL
CONSERVATION DIVISION'S RULES AND
REGULATIONS.

CASE NO. 7435
Order No. R-6870

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on December 3 and 22, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 7th day of January, 1982, 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:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That Rule 104 B.I.(a) and Rule 104 C.II.(a) of the Oil Conservation Division (Division) Rules and Regulations provide for 320-acre spacing units and specific location requirements for gas wells drilled to the Wolfcamp or deeper formations in Lea, Chaves, Eddy, and Roosevelt Counties, New Mexico.
- (3) That geologic conditions in said formations result in the hearing by the Division of scores of applications for unorthodox locations annually.
- (4) That most of such applications are justified and few are protested by offset operators.
- (5) That an administrative process for approval of such unorthodox locations should be adopted.

Case No. 7435
Order No. R-6870

(6) That amendment of Division Rule 104 F. as shown on Exhibit "A" to this Order will permit the administrative approval of said applications for unorthodox locations while continuing to provide notice, opportunity for protest, and opportunity for public hearing to offset operators.

(7) That in all New Mexico counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval, Division Rule 104 B.III. precludes the assignment of more than 40 acres to a wildcat well regardless as to whether such well is projected as an oil well or as a gas well.

(8) That there are many legitimate wildcat gas well prospects in counties other than those named in Finding (7) above.

(9) That Division Rule 104 B.III. should be amended as shown on Exhibit "B" to this Order to provide for 160-acre spacing units for wildcat gas wells in New Mexico counties other than those named in Finding No. (7) above.

(10) That the proposed amendments to Division Rule 104 F. and Rule 104 B.III. will provide for more efficient operations as well as the prevention of waste and the protection of correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That effective February 1, 1982, Rule 104 F of the Oil Conservation Division's Rules and Regulations is hereby amended to read in its entirety as shown on Exhibit "A" attached to this Order.

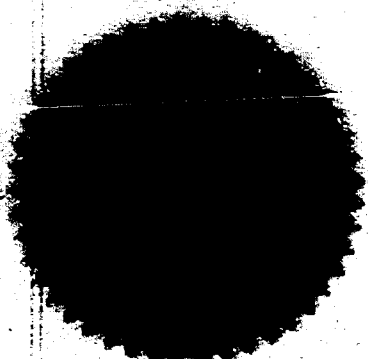
(2) That further effective February 1, 1982, Rule 104 B.III. of the Oil Conservation Division's Rules and Regulations is hereby amended to read in its entirety as shown on Exhibit "B" attached to this Order.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

-3-
Case No. 7435
Order No. R-6870

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



Emery C. Arnold
EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

Joe D. Ramsey
JOE D. RAMSY, Member & Secretary

S E A L

"F. UNORTHODOX LOCATIONS

I. The Division Director shall have authority to grant an exception to the well location requirements of Sections B and C above without notice and hearing when the necessity for such unorthodox location is based upon topographical conditions, the recompletion of a well previously drilled to another horizon, provided said well was drilled at an orthodox location for such original horizon, or to permit the completion of an efficient production and injection pattern within a secondary recovery or pressure maintenance project, provided that any such unorthodox location within such project is no closer than 330 feet to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

II. The Division Director shall have authority to grant an exception to the well location requirements of Rule 104 B.I. (a) and Rule 104 C.II. (a) without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the proration unit.

III. Applications for administrative approval of unorthodox locations shall be filed in triplicate and shall be accompanied by plats, showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon. If the proposed unorthodox location is based upon topography, the plat shall also show and describe the existent topographical conditions. If the proposed unorthodox location is based upon completion of an efficient production and injection pattern, the plat shall also show the project outline identifying all producing and injection wells therein, and the applicant shall further include a statement setting forth the necessity for such location. If the proposed unorthodox location is based upon geology as provided in Paragraph II above, the application shall include appropriate geologic maps, cross-sections, and/or logs, and a discussion of the geologic conditions which result in the necessity for the unorthodox location.

IV. All operators of proration or spacing units offsetting the unit for which the unorthodox location is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the unorthodox location upon receipt of waivers from all offset operators or if

no offset operator has entered an objection to the unorthodox location within 20 days after the Director has received the application.

V. The Division Director may, at his discretion, set any application for administrative approval of an unorthodox location for public hearing."

EXHIBIT "A"
Order No. R-6870

"III. All Counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval

Any wildcat well which is projected as an oil well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U. S. Public Land Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract.

Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the Division representative approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U. S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary."

EXHIBIT "B"
Order No. R-6870

It is proposed to provide for administrative approval of Wolfcamp or deeper gas wells in southeast New Mexico for geologic reasons. This change would be accomplished by amending Rule 104 F. to read in its entirety as follows:

"RULE 104 F.

I. The Division Director shall have authority to grant an exception to the well location requirements of Sections B and C above without notice and hearing when the necessity for such unorthodox location is based upon topographical conditions, the recompletion of a well previously drilled to another horizon, provided said well was drilled at an orthodox location for such original horizon, or to permit the completion of an efficient production and injection pattern within a secondary recovery or pressure maintenance project, provided that any such unorthodox location within such project is no closer than 330 feet to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

II. The Division Director shall have authority to grant an exception to the well location requirements of Rule 104 B.I. (a) and Rule 104 C.II. (a) without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the proration unit.

III. Applications for administrative approval of unorthodox locations shall be filed in triplicate and shall be accompanied by plats, showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon. If the proposed unorthodox location is based upon topography, the plat shall also show and describe the existent topographical conditions. If the proposed unorthodox location is based upon completion of an efficient production and injection pattern, the plat shall also show the project outline identifying all producing and injection wells therein, and the applicant shall further include a statement setting forth the necessity for such location. If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic maps, crosssections, and/or logs, and a discussion of the geologic conditions which result in the necessity for the unorthodox location.

IV. All operators of proration or spacing units offsetting the unit for which the unorthodox location is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the unorthodox location upon receipt of waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Director has received the application.

V. The Division Director may, at his discretion, set any application for administrative approval of an unorthodox location for public hearing."

The Division proposes to permit the designation of wildcat gas wells and dedication of 160 acres thereto, statewide, by amending Rule 104 B.III. to read as follows:

"III. All counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval

Any wildcat well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract.

Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the engineer or supervisor approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary."

BEFORE THE
LAND OIL AND GAS COMMISSION
SANTA FE, NEW MEXICO
O.C.D. EXHIBIT No. 1
CASE 7435

Dockets Nos. 1-82 and 2-82 are tentatively set for January 6 and January 20, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - DECEMBER 22, 1981

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

CASE 7390: (Continued and Readvertised)

Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Ordovician formation underlying the W/2 of Section 18, Township 9 South, Range 27 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

(The following cases have been continued from December 3, 1981 Commission Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the following cases. Copies of all rule changes and forms as presently proposed are available for inspection during normal business hours at the main office of the Oil Conservation Division, State Land Office Building, Santa Fe, and at the Division's District Offices in Artesia, Aztec, and Hobbs.

CASE 7433: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the designation of two crude petroleum oil producing areas and the amendment of the Oil Conservation Division's Rules and Regulations governing the acquisition, movement, and disposition of crude oil and condensate, sediment oil, tank bottoms and other miscellaneous hydrocarbons as well as produced waters. Pursuant to Section 30-16-48, NMSA 1978 Comp. the Commission would designate Chaves, De Baca, Eddy, Lea, and Roosevelt Counties, and Cibola, McKinley, Rio Arriba, Sandoval, San Juan, and Valencia Counties as Crude Petroleum Oil Producing Areas. Further, in order to facilitate oil theft investigation and provide an improved audit trail for the movement of liquid hydrocarbons, the Commission will consider certain amendments to the Division's Rules relating to the acquisition, movement, and disposition of crude oil and condensate, sediment oil, tank bottoms and other miscellaneous hydrocarbons as well as produced waters. Specifically, the Commission will consider the amendment of Division Rules 310, 311, 312, 1110, 1117, and 1119, and the adoption of new Rules 709, 710, 804, and 1133. Also to be considered will be the revision of existing Forms C-117-A and C-117-B governing the acquisition, movement and disposition of tank bottoms, sediment oil, waste oil and other miscellaneous hydrocarbons, and the adoption of a new Form C-133, Authorization To Move Produced Water.

CASE 7434: The Commission will consider the amendment of Division Rule 112-A to permit the Division's District Supervisors to approve the multiple completion of wells under certain specified conditions and to delete the requirement for notice to offset operators. Form C-107, Application For Multiple Completion, would also be revised. Also to be considered will be the amendment of Rule 303-C to permit the Division Director to approve the downhole commingling, under certain specified conditions, of two or more oil zones, or gas zones, or oil zones and gas zones in the wellbore of a single well.

CASE 7435: The Commission will consider the amendment of Rule 104 of the Oil Conservation Division Rules and Regulations. Specifically, the Commission will consider the amendment of Rule 104 to permit the Division Director to approve unorthodox gas well locations for geological reasons under certain specified conditions in Lea, Chaves, Eddy, and Roosevelt Counties, and the amendment of Rule 104 B Section III to require the dedication of 160 acres to wells projected as gas wells in presumed or known gas producing formations and areas outside Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval Counties.

CASE 7436: The Commission will consider the adoption of a Rule Number for the Definitions Section of the Division's Rules.

Page 2

COMMISSION HEARING - TUESDAY - DECEMBER 22, 1981

CASE 7437: The Commission will consider the amendment of Division Rule 105 to prescribe certain requirements governing the disposition of drill cuttings and drilling fluids.

CASE 7438: The Commission will consider the amendment of Division Rule 1204 to require applicants for hearings to make a reasonable effort to provide notice of hearings to adversely affected persons or, in the alternative, to adversely affected operators.

.....

Docket No. 42-81

DOCKET: EXAMINER HEARING - MONDAY - DECEMBER 28, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following case will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7450: Application of Kanai Oil and Gas Inc. for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Ojito Unit Area, comprising 6425 acres, more or less, of Federal and fee lands in Townships 24 and 25 North, Ranges 1 and 2 West.

DOCKET: COMMISSION HEARING - THURSDAY - DECEMBER 3, 1981

9 A.M. - OIL CONSERVATION COMMISSION - MORGAN HALL
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the following cases. Copies of all rule changes and forms as presently proposed are available for inspection during normal business hours at the main office of the Oil Conservation Division, State Land Office Building, Santa Fe, and at the Division's District Offices in Artesia, Aztec, and Hobbs.

CASE 7433: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the designation of two crude petroleum oil producing areas and the amendment of the Oil Conservation Division's Rules and Regulations governing the acquisition, movement, and disposition of crude oil and condensate, sediment oil, tank bottoms and other miscellaneous hydrocarbons as well as produced waters. Pursuant to Section 30-16-48, NMSA 1978 Comp. the Commission would designate Chaves, De Baca, Eddy, Lea, and Roosevelt Counties, and Cibola, McKinley, Rio Arriba, Sandoval, San Juan, and Valencia Counties as Crude Petroleum Oil Producing Areas. Further, in order to facilitate oil theft investigation and provide an improved audit trail for the movement of liquid hydrocarbons, the Commission will consider certain amendments to the Division's Rules relating to the acquisition, movement, and disposition of crude oil and condensate, sediment oil, tank bottoms and other miscellaneous hydrocarbons as well as produced waters. Specifically, the Commission will consider the amendment of Division Rules 310, 311, 312, 1110, 1117, and 1118, and the adoption of new Rules 709, 710, 804, and 1133. Also to be considered will be the revision of existing Forms C-117-A and C-117-B governing the acquisition, movement, and disposition of tank bottoms, sediment oil, waste oil and other miscellaneous hydrocarbons, and the adoption of a new Form C-133, Authorization To Move Produced Water.

CASE 7434: The Commission will consider the amendment of Division Rule 112-A to permit the Division's District Supervisors to approve the multiple completion of wells under certain specified conditions and to delete the requirement for notice to offset operators. Form C-107, Application For Multiple Completion, would also be revised. Also to be considered will be the amendment of Rule 303-C to permit the Division Director to approve the downhole commingling, under certain specified conditions, of two or more oil zones, or gas zones, or oil zones and gas zones in the wellbore of a single well.

CASE 7435: The Commission will consider the amendment of Rule 104 of the Oil Conservation Division Rules and Regulations. Specifically, the Commission will consider the amendment of Rule 104 F to permit the Division Director to approve unorthodox gas well locations for geological reasons under certain specified conditions in Lea, Chaves, Eddy, and Roosevelt Counties, and the amendment of Rule 104 B Section III to require the dedication of 160 acres to wells projected as gas wells in presumed or known gas producing formations and areas outside Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval Counties.

CASE 7436: The Commission will consider the adoption of a Rule Number for the Definitions Section of the Division's Rules.

CASE 7437: The Commission will consider the amendment of Division Rule 105 to prescribe certain requirements governing the disposition of drill cuttings and drilling fluids.

CASE 7438: The Commission will consider the amendment of Division Rule 1204 to require applicants for hearings to make a reasonable effort to provide notice of hearings to adversely affected persons or, in the alternative, to adversely affected operators.

(1)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the foregoing case. ~~etc~~ Copies of all rule changes and forms as presently proposed are available for inspection during normal business hours at the main office of the Oil Conservation Division, New Land Office Building, Santa Fe, and at the Division's District Offices in Artesia, Alton, and Hobbs.

"All" means Lea, Chavez, Rowlett, Eddy, San Juan, Sandoval, Rio Arriba, McKinley, Union, and Quay

(3)

Case 7435

The Commission will
consider the amendment of Rule 104 of
the Oil Conservation Division Rules and
Regulations, ^{specifically,} The Commission will consider
all the amendment of Rule 104 F to permit the
Division Director to approve certain unorthodox
gas well locations for geological reasons under
certain specified conditions, and the amendment
of Rule 104 B Section III to require the dedication
of 160 acres to wells projected as gas wells in
known or presumed or known gas producing formations and areas
outside San. Cham, Eddy, Roosevelt, San Juan,
Rio Arriba, and Sandoval Counties.

Case 7436

The Commission will consider the
adoption of a Rule Number for the Definitions
Section of the Division's Rules.

Case 7437

The Commission will consider the amendment
of Rule Division Rule 105 to prescribe
all certain requirements governing the disposi-
tion of drill cuttings.

NEW DO

Final copy

RL

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO ON ITS OWN
MOTION FOR THE PURPOSE OF CONSIDERING
AMENDMENT OF RULE 104 OF THE OIL
CONSERVATION DIVISION'S RULES AND
REGULATIONS.

[Handwritten initials]

MS.

[Handwritten signature]

CASE NO. 7435

Order No. R-6870

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on December 3 and 22, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this _____ day of December, 1981, 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:

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

(2) That Rule 104 B.I.(a) and Rule 104 C.II.(a) of the Oil Conservation Division (Division) Rules and Regulations provide for 320-acre spacing units and specific location requirements for gas wells drilled to the Wolfcamp or deeper formations in Lea, Chaves, Eddy, and Roosevelt Counties, New Mexico.

(3) That geologic conditions in said formations result in the hearing by the Division of scores of applications for unorthodox locations annually.

(4) That most of such applications are justified and few are protested by offset operators.

(5) That an administrative process for approval of such unorthodox locations should be adopted.

(6) That amendment of Division Rule 104 F. as shown on Exhibit "A" to this Order will permit the administrative approval of said applications for unorthodox locations while

continuing to provide notice, opportunity for protest, and opportunity for public hearing to offset operators.

(7) That in all New Mexico counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval, Division Rule 104 B.III. precludes the assignment of more than 40 acres to a wildcat well regardless as to whether such well is projected as an oil well or as a gas well.

(8) That there are many legitimate wildcat gas well prospects in counties other than those named in Finding (7) above.

(9) That Division Rule 104 B.III. should be amended as shown on Exhibit "B" to this Order to provide for 160-acre spacing units for wildcat gas wells in New Mexico counties other than those named in Finding No. (9) above.

(10) That the proposed amendments to Division Rule 104 F. and Rule 104 B.III. will provide for more efficient operations as well as the prevention of waste and the protection of correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That effective February 1, 1982, Rule 104 F of the Oil Conservation Division's Rules and Regulations is hereby amended to read in its entirety as shown on Exhibit "A" attached to this

Order.

(2) That further effective February 1, 1982, Rule 104 B.III. of the Oil Conservation Division's Rules and Regulations is hereby amended to read in its entirety as shown on Exhibit "B" attached to this Order.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO

OIL CONSERVATION COMMISSION

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

JOE D. RAMEY, Member & Secretary

"F. UNORTHODOX LOCATIONS

I. The Division Director shall have authority to grant an exception to the well location requirements of Sections B and C above without notice and hearing when the necessity for such unorthodox location is based upon topographical conditions, the recompletion of a well previously drilled to another horizon, provided said well was drilled at an orthodox location for such original horizon, or to permit the completion of an efficient production and injection pattern within a secondary recovery or pressure maintenance project, provided that any such unorthodox location within such project is no closer than 330 feet to the outer boundary of the lease or the unitized area, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

II. The Division Director shall have authority to grant an exception to the well location requirements of Rule 104 B.I. (a) and Rule 104 C.II. (a) without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the proration unit.

III. Applications for administrative approval of unorthodox locations shall be filed in triplicate and shall be accompanied by plats, showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon. If the proposed unorthodox location is based upon topography, the plat shall also show and describe the existent topographical conditions. If the proposed unorthodox location is based upon completion of an efficient production and injection pattern, the plat shall also show the project outline identifying all producing and injection wells therein, and the applicant shall further include a statement setting forth the necessity for such location. If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic maps, crosssections, and/or logs, and a discussion of the geologic conditions which result in the necessity for the unorthodox location.

IV. All operators of proration or spacing units offsetting the unit for which the unorthodox location is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the unorthodox location upon receipt of waivers from all offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Director has received the application.

V. The Division Director may, at his discretion, set any application for administrative approval of an unorthodox location for public hearing."

*as provided
in paragraph
II above,*

Exhibit "A"

Order ^{no} R _____

*III. All counties except Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval

which is projected as an oil well
Any wildcat well in any county other than Lea, Chaves, Eddy, Roosevelt, San Juan, Rio Arriba, and Sandoval shall be located on a tract consisting of approximately 40 surface contiguous acres substantially in the form of a square which is a legal subdivision of the U.S. Public Land Surveys, or on a governmental quarter-quarter section or lot and shall be located not closer than 330 feet to any boundary of such tract.

Any wildcat well which is projected as a gas well to a formation and in an area which, in the opinion of the ~~engineer or supervisor~~ approving the application to drill, may reasonably be presumed to be productive of gas rather than oil shall be located on a drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys, and shall be located not closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary."

Division representative

Exhibit "B"
Order No R - 6870

SECTION 801 STATE
SECTION 801
SECTION 801