

CASE 6786: OGD TO CONSIDER AMENDMENT OF
ADMINISTRATIVE PROCEDURE FOR APPROVAL OF
INFILL DRILLING ON EXISTING GAS PRODUCTION
UNITS

CASE NO.

6786

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

click:

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6786

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6786
Order No. R-6013-A

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION ON ITS OWN
MOTION TO CONSIDER THE AMENDMENT OF ITS
ADMINISTRATIVE PROCEDURE FOR THE APPROVAL
OF INFILL DRILLING ON EXISTING GAS PRORATION
UNITS AS PROMULGATED BY ORDER NO. R-6013 TO
PERMIT THE APPROVAL OF INFILL WELLS AS NEW
ONSHORE PRODUCTION WELLS PURSUANT TO THE
NATURAL GAS POLICY ACT OF 1978 WITHOUT NOTICE
AND HEARING EVEN THOUGH SUCH WELLS HAVE BEEN
SPUDDED PRIOR TO RECEIVING SUCH APPROVAL.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3,
1980, at Santa Fe, New Mexico, before Examiner Richard L.
Stamets.

NOW, on this 8th day of February, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.
- (2) That the 95th Congress of the United States passed
the Natural Gas Policy Act of 1978, P.L. 95-621, 92 Stat. 3350.
- (3) That said Act was enacted on November 9, 1978, and
went into effect on December 1, 1978.
- (4) That pursuant to said Act, the Federal Energy Regu-
latory Commission, hereinafter referred to as "FERC", has
promulgated regulations establishing gas pricing categories
and filing requirements.

(5) That said regulations also established the Oil Conservation Division as the jurisdictional agency with respect to wells located on state and fee lands within the State of New Mexico.

(6) That an infill well drilled on an existing proration unit would not qualify under the higher "New Onshore Production Well" category (Section 103) of said FERC regulations but would command a lower category determination unless such well should qualify under certain exception provisions set out therein.

(7) That said exceptions were originally contained in Sections 271.304 and 271.305 of the FERC regulations and required that the jurisdictional agency find, prior to the commencement of drilling of an infill well, that the well is necessary to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit.

(8) That in order to make such findings without the necessity of a public hearing in each case, and yet to be in accordance with the FERC regulations and in accordance with State law, the Oil Conservation Division adopted special rules for Natural Gas Policy Act infill findings to be followed in the application for and promulgation of such findings administratively by its Order No. R-6013 entered June 7, 1979.

(9) That by its Order No. 43-A issued November 16, 1979, the FERC amended said Sections 271.304 and 271.305 to permit the jurisdictional agency to make the findings described in Finding No. (7) above after completion of an infill well.

(10) That the best evidence that an infill well will more efficiently and effectively drain a portion of the reservoir covered by the appropriate proration unit will most often be obtained during and following completion of such well.

(11) That the Division's administrative procedure for making the aforesaid findings should rely on the best evidence available of enhanced drainage and recovery.

(12) That the Division's "Special Rules and Regulations, Natural Gas Policy Act Infill Findings, Administrative Procedure" should be amended to provide for the granting of infill findings only after completion of an infill well.

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Case No. 6786

Order No. R-6013-A

(13) That the amendment of said special rules to read in their entirety as shown on Exhibit A attached hereto will provide for granting of "findings" in accordance with Finding No. (12) above and will not cause waste nor violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That the amended "Special Rules and Regulations, Natural Gas Policy Act Infill Findings, Administrative Procedure" attached hereto as Exhibit A are hereby adopted effective immediately.

(2) 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 DIVISION


JOE D. RAMEY
Director


S E A L

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SPECIAL RULES AND REGULATIONS
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE
(Amended February 8, 1960)

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional well which has been drilled for production on an established proration unit.

B. APPLICABILITY

RULE 2. These special rules and regulations shall apply to effective and efficient drainage findings for completed infill wells pursuant to Section 271.305 of the final Rules and Regulations of the Federal Energy Regulatory Commission relating to Section 103 of the Natural Gas Policy Act of 1978. (These special rules and regulations do not apply to infill wells drilled in the Blanco Mesaverde or Basin-Dakota Pools. Infill wells in these two pools are covered by Rule 15 B of the "Special Rules for Applications for Wellhead Price Ceiling Category Determinations" promulgated by Division Order No. R-5878 as amended by Order No. R-5878-A.)

C. JUSTIFICATION FOR FINDINGS

RULE 3. The Division Director or a Division Examiner may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 20 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

Exhibit A
Order R-6013-A

D. FILING REQUIREMENTS

- RULE 5.** Each applicant shall submit a copy of the approved Form C-101 for the infill well and Form C-102 showing the proration unit dedicated.
- RULE 6.** Applicant shall give the name of the pool in which the infill well has been drilled and the standard spacing unit size therefor.
- RULE 7.** If applicable, the applicant shall give the number of the Division order approving the non-standard proration unit dedicated to the well.
- RULE 8.** The applicant shall submit a description of all wells drilled on the proration unit (including the completed infill well) which are or have been completed in the same pool or reservoir as the proposed infill well showing:
- a. lease name and well location;
 - b. spud date;
 - c. completion date;
 - d. a description of any mechanical problems experienced along with a summary of remedial action(s) taken and the results obtained;
 - e. the current rate of production; and
 - f. date of plug and abandonment, if any;
 - g. a clear and concise statement indicating why the existing well(s) on the proration cannot effectively and efficiently drain the portion of the reservoir covered by the proration unit.
- RULE 9.** The applicant shall submit geological and engineering information sufficient to support a finding as to the necessity for an infill well including:
- a. formation structure map
 - b. the volume of increased ultimate recovery expected to be obtained and a narrative describing how the increase was determined

Exhibit A
Order R-6013-A

C. any other supporting data which the applicant deems to be relevant which may include:

- (1) porosity and permeability factors
- (2) production/pressure decline curves
- (3) effects of secondary recovery or pressure maintenance operations

RULE 10. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division.

RULE 11. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

Exhibit A
Order R-6613-A

Memo

From

R. L. STAMETS
Technical
Support Chief

To Florence

Van Temple ^{Petroleum}
Union Texas ^{M. & L. & T.}
2nd well on ⁷⁹⁷⁰¹ ~~Prora~~ ~~Union~~

1300 Witco Bldg

Send copy of order
in Case 6786

Let me know when this comes
out we need a special
waiting

OIL CONSERVATION DIVISION SANTA FE

Don Steinnerd
USGS, Conservation Div
Box 26124

1716g 87125
Copy of order in case
6786

OIL CONSERVATION DIVISION SANTA FE

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

The hearing called by the Oil Con-)	
servation Division on its own)	
motion to consider the amendment)	CASE
of its administrative procedure)	6786
for the approval of infill drilling)	
on existing gas proration units as)	
promulgated by Order No. R-6013...)	

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

Speaking for El Paso Natural:

E. R. Manning

Speaking for Amerada Hess:

Albert E. Miller

Speaking for Southland Royalty:

Curtis Parsons

I N D E X

STATEMENT OF MR. PADILLA

Questions by Mr. Parsons

Questions by Mr. Knauf

Questions by Mr. McKay

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STATEMENT OF MR. MANNING

STATEMENT OF MR. MILLER

E X H I B I T S

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Division Exhibit One, Rules

MR. STAMETS: We'll call next Case 6786, in the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of its administrative procedure for the approval of infill drilling on existing gas proration units, promulgated by Order No. R-6013.

Call for appearances in this case.

MR. PADILLA: Mr. Examiner, Ernest L. Padilla on behalf of the Oil Conservation Division.

MR. STAMETS: Any other appearances in this case?

MR. MANNING: E. R. Manning, with El Paso Natural Gas. I'll have a statement.

MR. MILLER: Gilbert Miller, with Amerada Hess Corporation in Tulsa. I'll have some comments to put into the record.

MR. PARSONS: Curtis Parsons, with Southland Royalty Company in Farmington, with some comments to put in the record.

MR. STAMETS: Mr. Padilla, are you the witness in this case?

MR. PADILLA: Yes, sir.

MR. STAMETS: Would you please stand and be sworn?

(Witness sworn.)

MR. PADILLA: Before commencing, Mr. Examiner, I have put some copies of the proposed rules and regulations in the back of the room here, and they're available for any of you who may wish to look at them.

The purpose of this hearing is to amend the Division's Special Rules and Regulations promulgated by Order R-6013 on June 7th, 1979, providing for administrative approval of infill findings for certain on shore production wells.

These special rules were promulgated to eliminate the necessity of having a formal hearing in each case, but yet comply with the FERC's rules and regulations, and also with the Division's Rules and Regulations.

The background of this rules began as a result of the Natural Gas Policy Act of 1978, which was promulgated or became effective on December 1st, 1978.

On December 1st, 1978, the FERC also issued interim regulations to implement the NGPA.

Section 271.305 of the interim regulations contained requirements that in order for infill wells to qualify for the maximum lawful price under Section 103 of the NGPA, a jurisdictional agency must have found, prior to

commencement of drilling of an infill well, that the well was necessary to effectively and efficiently drain the proration -- or drain the reservoir covered by the proration unit.

On December 16th, 1979 the FERC issued final regulations applicable to Section 103 and deleted the requirements that the findings of Section -- that the effective and efficient drainage findings of Section 271.305 of the FERC Regulations be made prior to commencement or spudding of the well.

So, essentially, under the final regulations, the FERC has interpreted Section 103 so that the timing of the effective and efficient finding does not have to be made prior to commencement of the infill well.

The effect of our rules, now, of our proposed rules today, as outlined in Exhibit One, which is a copy of these rules that were put at the back of the room, and which the Examiner also has a copy of, would allow the Division to make an administrative -- or administratively approve infill findings after the well has been drilled.

Briefly I'll go through the changes that we have made concerning -- well, briefly, the changes that we have made from the rules promulgated under Order R-6013, we have changed the definition of infill well to -- to say that an infill well is a well that has been drilled on an established proration unit.

The entire, well, actually the entire scope of the rules is -- has been changed to make the determination after the infill well has been drilled. So in that respect, Rule 6 has also been changed to reflect a finding after the well has been drilled, and I think -- well, Rule 8 has also been eliminated because Rule 9 covers when -- the spud date of the infill well.

Under the new Rule 8 a new section has been added to subsection g. to require a clear and concise statement as to why the existing wells on the proration unit cannot effectively and efficiently drain the proration unit.

Now, it must be emphasized that these rules apply only for administrative approval of infill findings and does not limit an applicant to seek a formal hearing on one of these infill findings, and I'll stand for questioning at this point, Mr. Examiner.

MR. STAMETS: Are there any questions of Mr. Padilla?

Mr. Parsons.

MR. PARSONS: One question. You say that this applies only to administrative proceedings. Is there a possibility that necessary infill classification can be made prior to spudding the well through a hearing procedure?

MR. PADILLA: That's correct. You can still have that, that option.

MR. PARSONS: Okay. Would the testimony to be presented be very similar to what would be required for the administrative procedure and just be handled at a hearing instead of administratively?

MR. PADILLA: That's correct.

MR. PARSONS: Thank you. No further questions.

MR. STAMETS: Any other questions of Mr. Padilla?

MR. KNAUF: Does this pertain to just gas wells or oil well gas, also?

MR. PADILLA: This would also apply -- could equally apply to oil wells, as well. Now, if you fall under the -- well, I think I'd have to give that more thought, but I shouldn't see why it shouldn't apply to oil wells, if what you're really seeking is to fall under the NGPA classification.

MR. STAMETS: I believe --

MR. PADILLA: Or seek a price under Section 103 of the NGPA.

MR. STAMETS: I believe that we're processing these type of applications at the present time for both gas wells and oil wells, so I don't imagine we would change that.

Any other questions of Mr. Padilla?

MR. McKAY: If this is adopted, would it --

MR. STAMETS: Would you identify yourself for the record?

MR. McKAY: Yes. Horace McKay. Would this go back, be effective as of February '77?

MR. STAMETS: Yes, sir. It would apply to all wells spudded after February 19th, 1977.

MR. STAMETS: Any other questions? The witness may be excused and the Division will accept Exhibit One in this case.

Does anybody else wish to put on any evidence in this case? In that case, we will accept statements at this time.

Mr. Manning?

MR. MANNING: E. R. Manning for El Paso Natural Gas.

El Paso supports these proposed rules. Anything that will lessen our paper work burden is certainly welcome and we support the Commission in this application.

MR. STAMETS: Mr. Miller?

MR. MILLER: Amerada Hess has some comments on the proposals today. If it's satisfactory to the Examiner, I'll submit these comments in a written form so they can be entered into the record.

Would you rather they be read? They're rather lengthy.

MR. STAMETS: Give a copy to the reporter.

MR. MILLER: Certainly.

MR. STAMETS: And I still think we should discuss your comments today. I'd like to ask you a question or two about them.

Let me suggest, Mr. Miller, that rather than reading your whole statement, that you get right to the nitty-gritty of it and let's discuss that particular problem.

MR. MILLER: Very well. My name is Gilbert Miller, Conservation Supervisor for Amerada Hess Corporation.

We did want to commend the Division for acting promptly by proceeding to take advantage of the flexibility permitted by the amendments to the Federal Regulations, but we did have some comments that in some cases we feel that delaying the action on the -- on the applications until after the wells have been drilled could lead to some, perhaps, unfair practices by making all of the evidence depending on the outcome of drilling the new wells.

In some cases the pre-drilling indications by geological and engineering evidence would indicate that you could increase the reserves from these production units by drilling well, but indeed, when you drill the additional well

you may find that the formation was not as indicated. You may have problems on your drilling of the wells, and not be able to get the desired measurements to prove your assumptions. And with this, we think that, perhaps, the applications should always be made with the idea that the conditions the findings are to be made on are those conditions that exist prior to the spudding of the well, regardless of the time the conditions were made.

MR. STAMETS: Are you saying, Mr. Miller, that after the well is completed we should also consider what the applicant expected to find when he started drilling the well?

MR. MILLER: That's correct, based on the best engineering and geological data that was available at that time, and we feel that in several instances substantial evidence will be available prior to spudding the well to indicate that this should increase the reserves when indeed you can't substantiate that with the information that you find from the new well, due to mechanical problems or conditions being different than everything indicated they should be in the reservoir.

MR. STAMETS: It's difficult for me to imagine circumstances under which you would complete an additional well on a proration unit and not be able to prove that that second well is going to more effectively and efficiently drain the unit having two wells on there than if you just had

one well.

MR. MILLER: Well, in many instances you drill the second well because the first well is no longer capable of draining that unit, and so the first well will be abandoned on completion of the second well. But all indications can be that this second well will drain additional reserves to what could have been drained by the first well, but for mechanical reasons or formation damage and other problems, the first well must be abandoned because of economic reasons.

So here, in this case, you do not have two wells on the proration unit; you have a second well, which is indeed a replacement well, but it is the second well in this drilling unit.

MR. STAMETS: In that case, it sounds like the second well isn't going to drain as much as the first well and that's contrary to the intent of the Federal Regulations, and it doesn't look like it ought to qualify.

MR. MILLER: Well, it will drain more than the first well would have drained had the first well been able to continue to produce without having to be abandoned. So therefore, we feel like you do indeed increase reserves by drilling a second well into an area away from the damage or away from the mechanical problems that you're experiencing on your first well.

MR. STAMETS: Is this a problem that you

see in relationship to only a specific category of wells, those that are extremely marginal going in, or do you see this as covering the full spectrum of wells?

MR. MILLER: I see this as covering mostly those wells that are in the, not marginal, but in the salvage stage of the reservoir.

MR. STAMETS: Such as what pools?

MR. MILLER: Eumont is primarily the pool that we're thinking of; perhaps Jalmat, as well. Where you have low bottom hole pressures, the wells are susceptible to formation damage, are easily restricted by fluid production, and the wells just aren't strong enough to continue to produce as they once were.

MR. STAMETS: Does Amerada Hess have a projected program for infill drilling in the Eumont-Jalmat area?

MR. MILLER: We do have. We anticipate approximately thirty wells falling under the category that we're concerned with, to be drilled over the next three years or perhaps sooner.

MR. STAMETS: So in that case we might be looking at as many as ten applications a year from Amerada Hess, either administratively or having a hearing.

MR. MILLER: Yes, sir, over the next 3-year period.

MR. STAMETS: Do you feel that each one

of these is going to be in the salvage category?

MR. MILLER: The entire reservoir, I would feel like, is in the salvage category, and that the bottom hole pressures are considerably below what they were originally. They're down in the 350 pound category now, whereas, they were originally, what, 1100 to 1200 pounds.

MR. STAMETS: If Amerada Hess has some language that they would like to propose for this administrative procedure, which would allow the Division to consider administratively applications for infill wells only in salvage areas, I would appreciate receiving that subsequent to this hearing.

MR. MILLER: All right.

MR. STAMETS: Does anyone have any questions of Mr. Miller? He's not officially a witness but I think we're searching for information at this hearing and -- Mr. Parsons?

MR. PARSONS: May I make just a comment with regard to the drilling of essentially a replacement well?

MR. STAMETS: Yes.

MR. PARSONS: Southland has already made application and received approval of that application for classification as a necessary infill well in just such a case, and our statement with regard to reserves was that since the original well was no longer capable of producing any hydro-

carbon that any reserves be attributable to the second well and therefore be considered as additional reserves, and these would qualify for the additional reserve required in your ruling, so that, to our understanding, took care of that particular problem.

MR. PADILLA: But this, if I may ask, isn't that case really a case of a replacement well, though, something wrong with the first well?

MR. PARSONS: Well --

MR. PADILLA: What was the reason for the first well not being able to produce?

MR. PARSONS: Mechanical failure. The situation is, as all of us are aware, gas prices have generated a lot more activity. That's why we're drilling again instead of rigs being stacked. That's why we can afford to replace this well that could not have been replaced at old gas prices. If we can get new gas prices and get a finding that additional reserves will be recovered, as outlined in this NCPA ruling, then we can afford to drill that well economically.

MR. PADILLA: But a replacement well would qualify for Section 103 treatment provided you get the efficient and effective findings, drainage findings, would it not?

MR. PARSONS: Yes, I'm saying that the order, as you have it, would be good. It would be all right. I think that that particular case would not necessarily require the finding before spud, but I would still like to have the

capability of classifying a well as a necessary infill well prior to drilling. I do not have a specific case at present that would require that, but I think that's an option that we would like to have in the event that we do find circumstances where a well would not be drilled without this finding, and where the risk, we would feel, would be high enough that we just wouldn't want to drill it unless we had a guarantee that we had new prices.

MR. STAMETS: If you have any proposed language along those lines, Mr. Parsons, we certainly would appreciate it. Our experience has been that these applications for infill findings before the well is drilled are very difficult for all concerned; difficult for the applicant, difficult for the Division, and I'm afraid that if we allow it to be done before the well is drilled, everyone of them are going to come in that way and we really haven't saved ourselves or you any work. I'm also afraid that if we limit the infill findings to administratively to only after the well is drilled, we're going to have a whole rash of hearings, which is not the intent of administrative procedure.

So anything that you could offer us along these lines which would relieve the problems which you see but would still limit this administrative procedure mostly to wells already completed would certainly be beneficial.

Do you have any other statement, Mr.

Parsons, other than what you made in your statement?

MR. PARSONS: Not really. I think the question that I asked Mr. Padilla, perhaps I'm not clear on what the answer was. I was under the impression that we could get necessary infill classification prior to spudding the well, but perhaps that's not going to be the case.

Now, we very much would like to have that capability, and I'm not prepared today to leave you any wording, as you requested, but I'll be happy to work on that and submit it at a later date.

MR. STAMETS: We certainly would appreciate it.

MR. MANNING: Mr. Examiner, can't an affected party request a hearing on just about anything?

MR. STAMETS: Certainly can.

MR. MANNING: Well, that would leave -- I mean, they're not taking that away from Mr. Parsons with these rules here, are they?

MR. STAMETS: No, but you can see our concern. We don't want to create something that's not going to be used. We don't want to --

MR. MANNING: I assure you, El Paso is going to use it. Don't worry about that.

Another point I'd like to make, fre-

quently in southeast New Mexico they will drill an infill well down there, or maybe a -- let me correct that, a replacement well, and then at the time they complete the well, well, something happens on this well they were replacing and they decide, well, look, we'd better not plug that thing. We'd better keep that, so let's just call this an infill well. Now, there's nothing in these rules that will hinder that, which, see, if I -- I didn't understand Amerada's objection, I guess. I felt maybe that was in what he was objecting to on this, or what he was wanting more latitude on.

MR. STAMETS: I believe that Amerada and Southland both have indicated that there may be circumstances under which they feel they must be guaranteed the price of the gas before they go in and drill it, in order to get into a salvage operation.

MR. MANNING: There are no more free lunches. They're gone.

MR. PARSONS: We don't want a free lunch. We just want something we can plan on getting a return on, getting a return on our money.

MR. STAMETS: Are there any other comments; anything anyone else would like to say before we conclude the hearing in this case?

Okay, the case will be taken under advisement. We certainly appreciate everybody's input.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation 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
from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6786.
heard by me on 1-3 1980.
Richard L. Smith Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

The hearing called by the Oil Con-
servation Division on its own
motion to consider the amendment
of its administrative procedure
for the approval of infill drilling
on existing gas proration units as
promulgated by Order No. R-6013...

CASE
6786

BEFORE: Richard L. Stawetz

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

Speaking for El Paso Natural:

E. R. Manning

Speaking for Amerada Hess:

Albert E. Miller

Speaking for Southland Royalty:

Curtis Parsons

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MR. PADILLA: Yes, sir.

MR. STAMETS: Would you please stand and be sworn?

(Witness sworn.)

MR. PADILLA: Before commencing, Mr. Examiner, I have put some copies of the proposed rules and regulations in the back of the room here, and they're available for any of you who may wish to look at them.

The purpose of this hearing is to amend the Division's Special Rules and Regulations promulgated by Order R-6013 on June 7th, 1979, providing for administrative approval of infill findings for certain on shore production wells.

These special rules were promulgated to eliminate the necessity of having a formal hearing in each case, but yet comply with the FERC's rules and regulations, and also with the Division's Rules and Regulations.

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commencement of drilling of an infill well, that the well was necessary to effectively and efficiently drain the proration -- or drain the reservoir covered by the proration unit.

On December 16th, 1979 the FERC issued final regulations applicable to Section 193 and deleted the requirements that the findings of Section -- that the effective and efficient drainage findings of Section 271.305 of the FERC Regulations be made prior to commencement or spudding of the well.

So, essentially, under the final regulations, the FERC has interpreted Section 193 so that the timing of the effective and efficient finding does not have to be made prior to commencement of the infill well.

The effect of our rules, now, of our proposed rules today, as outlined in Exhibit One, which is a copy of these rules that were put at the back of the room, and which the Examiner also has a copy of, would allow the Division to make an administrative -- or administratively approve infill findings after the well has been drilled.

Briefly I'll go through the changes that we have made concerning -- well, briefly, the changes that we have made from the rules promulgated under Order R-6013, we have changed the definition of infill well to -- to say that an infill well is a well that has been drilled on an established proration unit.

The entire, well, actually the entire scope of the rules is -- has been changed to make the determination after the infill well has been drilled. So in that respect, Rule 6 has also been changed to reflect a finding after the well has been drilled, and I think -- well, Rule 8 has also been eliminated because Rule 9 covers when -- the spud date of the infill well.

Under the new Rule 8 a new section has been added to subsection g. to require a clear and concise statement as to why the existing wells on the proration unit cannot effectively and efficiently drain the proration unit.

Now, it must be emphasized that these rules apply only for administrative approval of infill findings and does not limit an applicant to seek a formal hearing on one of these infill findings, and I'll stand for questioning at this point, Mr. Examiner.

MR. STAMETS: Are there any questions of Mr. Padilla?

Mr. Parsons.

MR. PARSONS: One question. You say that this applies only to administrative proceedings. Is there a possibility that necessary infill classification can be made prior to spudding the well through a hearing procedure?

MR. PADILLA: That's correct. You can still have that, that option.

MR. PARSONS: Okay. Would the testimony to be presented be very similar to what would be required for the administrative procedure and just be handled at a hearing instead of administratively?

MR. PADILLA: That's correct.

MR. PARSONS: Thank you. No further questions.

MR. STAMETS: Any other questions of Mr. Padilla?

MR. KNAUF: Does this pertain to just gas wells or oil well gas, also?

MR. PADILLA: This would also apply -- could equally apply to oil wells, as well. Now, if you fall under the -- well, I think I'd have to give that more thought, but I shouldn't see why it shouldn't apply to oil wells, if what you're really seeking is to fall under the NGPA classification.

MR. STAMETS: I believe --

MR. PADILLA: Or seek a price under Section 103 of the NGPA.

MR. STAMETS: I believe that we're processing these type of applications at the present time for both gas wells and oil wells, so I don't imagine we would change that.

Any other questions of Mr. Padilla?

9

MR. McKAY: If this is adopted, would it --

MR. STAMETS: Would you identify yourself for the record?

MR. McKAY: Yes. Torace McKay. Would this go back, be effective as of February '77?

MR. STAMETS: Yes, sir. It would apply to all wells spudded after February 19th, 1977.

MR. STAMETS: Any other questions? The witness may be excused and the Division will accept Exhibit One in this case.

Does anybody else wish to put on any evidence in this case? In that case, we will accept statements at this time.

Mr. Manning?

MR. MANNING: E. E. Manning for El Paso

Natural Gas.

El Paso supports these proposed rules. Anything that will lessen our paper work burden is certainly welcome and we support the Commission in this application.

MR. STAMETS: Mr. Miller?

MR. MILLER: Amerada Hess has some comments on the proposals today. If it's satisfactory to the Examiner, I'll submit these comments in a written form so they can be entered into the record.

Would you rather they be read? They're rather lengthy.

MR. STAMETS: Give a copy to the reporter.

MR. MILLER: Certainly.

MR. STAMETS: And I still think we should discuss your comments today. I'd like to ask you a question or two about them.

Let me suggest, Mr. Miller, that rather than reading your whole statement, that you get right to the nitty-gritty of it and let's discuss that particular problem.

MR. MILLER: Very well. My name is Gilbert Miller, Conservation Supervisor for Amerada Hess Corporation.

We did want to commend the Division for acting promptly by proceeding to take advantage of the flexibility permitted by the amendments to the Federal Regulations, but we did have some comments that in some cases we feel that delaying the action on the -- on the applications until after the wells have been drilled could lead to some, perhaps, unfair practices by making all of the evidence depending on the outcome of drilling the new wells.

In some cases the pre-drilling indications by geological and engineering evidence would indicate that you could increase the reserves from these production units by drilling well, but indeed, when you drill the additional well

you may find that the formation was not as indicated. You may have problems on your drilling of the wells, and not be able to get the desired measurements to prove your assumptions. And with this, we think that, perhaps, the applications should always be made with the idea that the conditions the findings are to be made on are those conditions that exist prior to the spudding of the well, regardless of the time the conditions were made.

MR. STAMETS: Are you saying, Mr. Miller, that after the well is completed we should also consider what the applicant expected to find when he started drilling the well?

MR. MILLER: That's correct, based on the best engineering and geological data that was available at that time, and we feel that in several instances substantial evidence will be available prior to spudding the well to indicate that this should increase the reserves when indeed you can't substantiate that with the information that you find from the new well, due to mechanical problems or conditions being different than everything indicated they should be in the reservoir.

MR. STAMETS: It's difficult for me to imagine circumstances under which you would complete an additional well on a proration unit and not be able to prove that that second well is going to more effectively and efficiently drain the unit having two wells on there than if you just had

one well.

MR. MILLER: Well, in many instances you drill the second well because the first well is no longer capable of draining that unit, and so the first well will be abandoned on completion of the second well. But all indications can be that this second well will drain additional reserves to what could have been drained by the first well, but for mechanical reasons or formation damage and other problems, the first well must be abandoned because of economic reasons.

So here, in this case, you do not have two wells on the proration unit; you have a second well, which is indeed a replacement well, but it is the second well in this drilling unit.

MR. STAMETS: In that case, it sounds like the second well isn't going to drain as much as the first well and that's contrary to the intent of the Federal Regulations, and it doesn't look like it ought to qualify.

MR. MILLER: Well, it will drain more than the first well would have drained had the first well been able to continue to produce without having to be abandoned. So therefore, we feel like you do indeed increase reserves, by drilling a second well into an area away from the damage or away from the mechanical problems that you're experiencing on your first well.

MR. STAMETS: Is this a problem that you

see in relationship to only a specific category of wells, those that are extremely marginal going in, or do you see this as covering the full spectrum of wells?

MR. MILLER: I see this as covering mostly those wells that are in the, not marginal, but in the salvage stage of the reservoir.

MR. STAMETS: Such as what pools?

MR. MILLER: Eumont is primarily the pool that we're thinking of; perhaps Jalmat, as well. Where you have low bottom hole pressures, the wells are susceptible to formation damage, are easily restricted by fluid production, and the wells just aren't strong enough to continue to produce as they once were.

MR. STAMETS: Does Amerada Hess have a projected program for infill drilling in the Eumont-Jalmat area?

MR. MILLER: We do have. We anticipate approximately thirty wells falling under the category that we're concerned with, to be drilled over the next three years or perhaps sooner.

MR. STAMETS: So in that case we might be looking at as many as ten applications a year from Amerada Hess, either administratively or having a hearing.

MR. MILLER: Yes, sir, over the next 3-year period.

MR. STAMETS: Do you feel that each one

of these is going to be in the salvage category?

MR. MILLER: The entire reservoir, I would feel like, is in the salvage category, and that the bottom hole pressures are considerably below what they were originally. They're down in the 350 pound category now, whereas, they were originally, what, 1100 to 1200 pounds.

MR. STAMETS: If Amerada Hess has some language that they would like to propose for this administrative procedure, which would allow the Division to consider administrative applications for infill wells only in salvage areas, I would appreciate receiving that subsequent to this hearing.

MR. MILLER: All right.

MR. STAMETS: Does anyone have any questions of Mr. Miller? He's not officially a witness but I think we're searching for information at this hearing and -- Mr. Parsons?

MR. PARSONS: May I make just a comment with regard to the drilling of essentially a replacement well?

MR. STAMETS: Yes.

MR. PARSONS: Southland has already made application and received approval of that application for classification as a necessary infill well in just such a case, and our statement with regard to reserves was that since the original well was no longer capable of producing any hydro-

carbon that any reserves be attributable to the second well and therefore be considered as additional reserves, and these would qualify for the additional reserve required in your ruling, so that, to our understanding, took care of that particular problem.

MR. PADILLA: But this, if I may ask, isn't that case really a case of a replacement well, though, something wrong with the first well?

MR. PARSONS: Well --

MR. PADILLA: What was the reason for the first well not being able to produce?

MR. PARSONS: Mechanical failure. The situation is, as all of us are aware, gas prices have generated a lot more activity. That's why we're drilling again instead of rigs being stacked. That's why we can afford to replace this well that could not have been replaced at old gas prices. If we can get new gas prices and get a finding that additional reserves will be recovered, as outlined in this NGPA ruling, then we can afford to drill that well economically.

MR. PADILLA: But a replacement well would qualify for Section 103 treatment provided you get the efficient and effective findings, drainage findings, would it not?

MR. PARSONS: Yes, I'm saying that the order, as you have it, would be good. It would be all right. I think that that particular case would not necessarily require the finding before spud, but I would still like to have the

capability of classifying a well as a necessary infill well prior to drilling. I do not have a specific case at present that would require that, but I think that's an option that we would like to have in the event that we do find circumstances where a well would not be drilled without this finding, and where the risk, we would feel, would be high enough that we just wouldn't want to drill it unless we had a guarantee that we had new prices.

MR. STAMETS: If you have any proposed language along those lines, Mr. Parsons, we certainly would appreciate it. Our experience has been that these applications for infill findings before the well is drilled are very difficult for all concerned; difficult for the applicant, difficult for the Division, and I'm afraid that if we allow it to be done before the well is drilled, everyone of them are going to come in that way and we really haven't saved ourselves or you any work. I'm also afraid that if we limit the infill findings to administratively to only after the well is drilled, we're going to have a whole rash of hearings, which is not the intent of administrative procedure.

So anything that you could offer us along these lines which would relieve the problems which you see but would still limit this administrative procedure mostly to wells already completed would certainly be beneficial.

Do you have any other statement, Mr.

Parsons, other than what you made in your statement?

MR. PARSONS: Not really. I think the question that I asked Mr. Padilla, perhaps I'm not clear on what the answer was. I was under the impression that we could get necessary infill classification prior to spudding the well, but perhaps that's not going to be the case.

Now, we very much would like to have that capability, and I'm not prepared today to leave you any wording, as you requested, but I'll be happy to work on that and submit it at a later date.

MR. STAMETS: We certainly would appreciate it.

MR. MANNING: Mr. Examiner, can't an affected party request a hearing on just about anything?

MR. STAMETS: Certainly can.

MR. MANNING: Well, that would leave -- I mean, they're not taking that away from Mr. Parsons with these rules here, are they?

MR. STAMETS: No, but you can see our concern. We don't want to create something that's not going to be used. We don't want to --

MR. MANNING: I assure you, El Paso is going to use it. Don't worry about that.

Another point I'd like to make, fre-

quently in southeast New Mexico they will drill an infill well down there, or maybe a -- let me correct that, a replacement well, and then at the time they complete the well, well, something happens on this well they were replacing and they decide, well, look, we'd better not plug that thing. We'd better keep that, so let's just call this an infill well. Now, there's nothing in these rules that will hinder that, which, see, if I -- I didn't understand Amerada's objection, I guess. I felt maybe that was in what he was objecting to on this, or what he was wanting more latitude on.

MR. STAMETS: I believe that Amerada and Southland both have indicated that there may be circumstances under which they feel they must be guaranteed the price of the gas before they go in and drill it, in order to get into a salvage operation.

MR. MANNING: There are no more free lunches. They're gone.

MR. PARSONS: We don't want a free lunch. We just want something we can plan on getting a return on, getting a return on our money.

MR. STAMETS: Are there any other comments; anything anyone else would like to say before we conclude the hearing in this case?

Okay, the case will be taken under advisement. We certainly appreciate everybody's input.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation 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
from my notes taken at the time of the hearing.

Sally W. Boyd, C S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

AMERRADA HESS CORPORATION

January 16, 1980

P. O. BOX 2040
TULSA, OKLAHOMA 74102
918-584-5554

Mr. R. L. Stamets
Technical Support Chief
New Mexico Oil Conservation Division
Post Office Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Re: NGPA Infill Well Findings
Case No. 6786
Administrative Procedure

Dear Mr. Stamets:

The captioned case was heard January 3, 1980. This post-hearing letter is submitted to suggest an amendment to the proposed administrative procedure, specifically Rule 9. The amendment is suggested to accommodate infill wells drilled in salvage type reservoirs where pre-drilling evidence sufficient to support a necessity determination is often available.

The following amendment of Rule 9 is suggested:

Rule 9. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:

a. In the case where the infill well is completed in other than salvage reservoirs, data obtained after drilling as follows:

- (1) formation structure map
- (2) the volume of increased ultimate recovery expected to be obtained and a narrative describing how the increase was determined.
- (3) any other supporting data which the applicant deems to be relevant which may include:
 - (I) porosity and permeability factors
 - (II) production/pressure decline curves
 - (III) effects of secondary recovery or pressure maintenance operations


b. In the case where the infill well may be completed in a salvage reservoir, data listed in (1), (2) and (3) above based on interpretive geological and engineering data that existed prior to the drilling of the infill well which may, at the option of the applicant, be substantiated by data obtained after commencement of drilling.

-2-

I believe the amended procedure will be acceptable under and in line with the intent of FERC Order No. 43-A and further that it will promote production by avoiding the possibility that the applicant may be unable to qualify its well for the NGPA Section 103 price due to circumstances that may be beyond his control in a salvage reservoir.

Very Truly Yours,

AMERADA HESS CORPORATION



Gilbert E. Miller
Conservation Supervisor

GEM:ds

cc: Messrs. Curtis C. Parsons
Southland Royalty Company

E. R. Manning
El Paso Natural Gas Company

W. Thomas Kellahin
Kellahin & Kellahin

SPECIAL RULES AND REGULATIONS
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE

*rather than
is to be*

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional well which has been drilled for production on an established proration unit. ✓

B. APPLICABILITY

RULE 2. These special rules and regulations shall apply to effective and efficient drainage findings for completed infill wells pursuant to Section 271.305 of the final Rules and Regulations of the Federal Energy Regulatory Commission relating to Section 103 of the Natural Gas Policy Act of 1978

C. JUSTIFICATION FOR FINDINGS

RULE 3. The Division Director or a Division Examiner may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 20 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a copy of Form C-101 showing date of approval, if any, and Form C-102 showing the proration unit dedicated.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

FILE NO. 1

CASE NO. 6786

Submitted by CCD

Hearing Date 1/3/80

rather than to

RULE 6. Applicant shall give the name of the pool in which the infill completion has occurred and the standard spacing unit size therefor.

old & out

RULE 7. If applicable, the applicant shall give the number of the Division Order approving the non-standard proration unit.

RULE 8. The applicant shall submit a description of all wells drilled on the proration unit (including the completed infill well) which are or have been completed in the same pool or reservoir as the proposed infill well showing:

- a. lease name and well location;
- b. spud date;
- c. completion date;
- d. a description of any mechanical problems experienced along with a summary of remedial action(s) taken and the results obtained;
- e. the current rate of production; and
- f. date of plug and abandonment, if any.
- g. a clear and concise statement indicating why the existing well(s) on the proration unit cannot effectively and efficiently drain the portion of the reservoir covered by the proration unit.

new

RULE 9. The applicant shall submit geological and reservoir information sufficient to support a finding as to the necessity for an infill well including:

- a. formation structure map
- b. the volume of increased ultimate recovery expected to be obtained and a narrative describing how the increase was determined
- c. any other supporting data which the applicant deems to be relevant which may include:
 - (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations

RULE 10. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division.

RULE 11. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

AMENDMENT OF ADMINISTRATIVE
PROCEDURE FOR INFILL DRILLING:

CASE NO. 6786

Comments of Amerada Hess Corporation

At the outset, I would like to commend the Division for acting promptly by this proceeding to take advantage of the flexibility permitted by recent amendments to federal regulations. However, I wish to bring to your attention that the proposed modification, if undertaken without certain additional precautions, could lead to a procedure which in practice contravenes the intent of the NGPA (and the Ferc regulations) and discourages drilling of development wells in this state.

We understand that a major reason for this amendment is the lack in some cases of what is considered by the hearing examiners to be substantial evidence supporting a pre-spud finding that the new well is necessary to efficiently and effectively drain the unit. We recognize and understand that this concern is warranted in certain cases.

However, out of the natural desire to base findings upon the best possible evidence, we fear that post-spud findings will be favored, indeed may come to be required, in virtually every case, including those in which there exists pre-spud evidence which before this amendment would have warranted the pre-spud finding of necessity. Such a practice would place heavy emphasis on post-spud evidence even where substantial pre-spud evidence had been available, and in those cases, would actually raise the standard of evidence above the traditional "substantial evidence" ordinarily adequate for support of agency findings of fact.

In most cases, the evidence obtained by drilling the new well would undoubtedly support that previously available, and the finding of necessity would be made without difficulty at the time the Division considered the producer's NCPA Section 103 application. Then, the fact that substantial pre-spud evidence had been offered would be of no significance. However, a troublesome problem would arise if the pre-spud finding of necessity were denied or deferred upon substantial evidence, but the drilling of the new well produced little or no additional supporting evidence.

The latter situation could arise, for example, where (1) the new well has penetrated an unexpectedly thin spot in the productive formation, (2) some structural anomaly existed which was unpredictable and it adversely affected the capability of the new well to drain the unit, or (3) on account of some difficulty in drilling the new well, additional, reliable evidence was hard or impossible to obtain from it. In such instances, the previous Division records would contain the specific or implied finding that evidence offered in support of the pre-spud application had not been adequate.

The result? The unnecessary postponement of the finding of necessity would have removed the possibility of its ever being made. In spite of having provided evidence sufficient to support the pre-spud finding, the producer would be unable to qualify its well for the NGPA Section 103 price due to circumstances entirely beyond its control.

In connection with the problem described, two points should be emphasized. First, although it is commendable to strive for the best possible evidence in arriving at any decision, the price of that endeavor can be unreasonably high and the result inequitable. Whenever there is sufficient evidence to do so, on proper application the pre-spud finding of necessity should in all fairness be rendered. Second, whether the application is considered before or after the new well has been drilled, the finding is to relate to "the time of the commencement of surface drilling" in the view of the Federal Energy Regulatory Commission. This is true even when the jurisdictional agency is evaluating evidence garnered after the well has been spudded. (See p. 7 of Ferc Order No. 43-B.)

The second point further supports the importance of making pre-spud findings where appropriate. It also means that the fact that a new well turns out not to be capable of effectively and efficiently draining a unit for such reasons as were cited above should not affect the finding if at the time it was begun substantial evidence indicated that it would, and that it was necessary to drill the well to achieve that result.

Consistent and uniform adherence to these two important points would do much to cure the problem outlined in these comments. To safeguard such adherence and to offer greater certainty in applying the amendment proposed in this proceeding, Amerada Hess Corporation offers for your consideration the following suggestions:

1. Development by the Oil Conservation Division of objective guidelines or rules indicating the kinds and degree of evidence which will and will not be deemed to constitute support for the finding of necessity, at whatever time such finding is made.

2. The further amendment of Order R 6013 at Rule 3 of Exhibit A thereto by substituting for line 2 of said Rule the following:

that as of the time of the commencement of surface drilling, the well is/was necessary to effectively and efficiently drain a portion of the reservoir covered by the unit which cannot be effectively and efficiently drained by any existing well within the proration unit.

3. The amendment of the Division form entitled "Infill Drilling Findings & Well Spacing Waiver Made Pursuant to Section 271.305(b) of the Federal Energy Regulatory Commission

Regulations, Natural Gas Policy Act of 1978 and Oil Conservation Division Order R 6013" at section 11(9) by substituting for that section the following:

- (9) That there is substantial evidence to indicate that as of the time of the commencement of surface drilling, the well is/was necessary to effectively and efficiently drain a portion of the reservoir covered by the unit which cannot be effectively and efficiently drained by any existing well within the proration unit, and therefore the subject application should be approved as an exception to the standard well spacing requirements for the pool. (Unchanged language is underscored)

It is true that the majority of wells covered by Order R 6013 will not be affected by this proposal; however, we believe that for those which are affected the consequences are such that the problem warrants your immediate and earnest consideration. We urge you to give that consideration, and to adopt the recommendations set out herein.

Respectfully submitted,



Marilyn O. Adamson
Attorney for Amerada Hess Corporation

Post Office Box 2040
Tulsa, Oklahoma 74102

Docket No. 1-80

Dockets Nos. 2-80 and 3-80 are tentatively set for January 16 and 30, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JANUARY 3, 1980

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

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

CASE 6770: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit National Petroleum Company and all other interested parties to appear and show cause why its Well No. 1 located 905 feet from the North line and 1155 feet from the West line of Section 22, Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6786: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of its administrative procedure for the approval of infill drilling on existing gas proration units as promulgated by Order No. R-6013 to permit the approval of infill wells as new onshore production wells pursuant to the Natural Gas Policy Act of 1978 without notice and hearing even though such wells have been spudded prior to receiving such approval.

CASE 6771: Application of Getty Oil Company for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the E/2 SW/4 of Section 31, Township 24 South, Range 37 East, and the NW/4 NE/4 and NE/4 NW/4 of Section 6, Township 25 South, Range 37 East, Jalmat Gas Pool, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6772: Application of Reading & Bates Petroleum Co. for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the SE/4 of Section 17, Township 24 North, Range 3 West, Chacon-Dakota Pool, 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6773: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 20, Township 19 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6774: Application of Doyle Hartman for an unorthodox location, non-standard proration unit, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 120-acre non-standard proration unit comprising the NW/4 NW/4 of Section 6, Township 25 South, Range 37 East, and the W/2 SW/4 of Section 31, Township 24 South, Range 37 East, to be dedicated to his Federal Jalmat Com Well No. 1 at an unorthodox location 590 feet from the North line and 660 feet from the West line of said Section 6; applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of an existing proration unit which cannot be so drained by the existing well.

CASE 6768: (Continued and Readvertised)

Application of Alpha Twenty-One Production Company for two non-standard gas proration units, compulsory pooling, unorthodox well location, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 40-acre non-standard gas proration unit comprising the SW/4 SE/4 of Section 21, Township 24 South, Range 37 East, Jalmat Gas Pool, to be dedicated to the El Paso Natural Gas Company Shell Black Well No. 2. Applicant also seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the E/2 SW/4 and NW/4 SE/4 of said Section 21 to form a 120-acre non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 990 feet from the South line and 1650 feet from the West line of said Section 21. 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well. Applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of the existing proration unit which cannot be so drained by the existing well.

CASE 6767: (Continued from December 12, 1979, Examiner Hearing)

Application of Alpha Twenty-One Production Company for two non-standard gas proration units, unorthodox well location, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 40-acre non-standard proration unit comprising the NW/4 NW/4 of Section 27, Township 25 South, Range 37 East, Jalmat Gas Pool, to be dedicated to El Paso Natural Gas Company's Harrison Well No. 2, and also a 200-acre unit comprising the S/2 N/2 and NE/4 NW/4 of said Section 27 to be dedicated to a well to be drilled at an unorthodox location 1300 feet from the North line and 560 feet from the West line of Section 27. Applicant further seeks a finding that the drilling of the latter well is necessary to effectively and efficiently drain that portion of an existing proration unit which cannot be so drained by the existing well.

CASE 6487: (Continued from October 17, 1979, Examiner Hearing)

Application of El Paso Natural Gas Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a waiver of existing well-spacing requirements and a finding that the drilling of its Shell E State Com Well No. 2 located in Unit N of Section 6, Township 21 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6732: (Continued from November 28, 1979, Examiner Hearing)

Application of Dorchester Exploration, Inc. for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Morton Solid State Unit Well No. 1 located 2156 feet from the North line and 990 feet from the West line of Section 4, Township 15 South, Range 34 East, Tres Papalotes-Pennsylvanian Pool.

CASE 6775: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Young Deep Unit Area, comprising 2242 acres, more or less, of Federal lands in Township 13 South, Range 32 East.

CASE 6776: Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Young Deep Unit Well No. 1, a Morrow test to be drilled 660 feet from the North and West lines of Section 10, Township 18 South, Range 32 East, the W/2 of said Section 10 to be dedicated to the well.

CASE 6777: Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its Amoco 22 State Well No. 2 located in Unit G of Section 22, Township 23 South, Range 27 East.

CASE 6778: Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its Loco Hills Welch Well No. 2 located in Unit N of Section 4, Township 18 South, Range 29 East.

CASE 6745: (Continued from November 28, 1979, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Pennsylvanian formations underlying the W/2 of Section 28, Township 23 South, Range 24 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6779: Application of Yates Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Pronghorn Unit Area, comprising 5,120 acres, more or less, of State and Federal lands in Townships 22 and 23 South, Range 33 East.

CASE 6780: Application of Yates Petroleum Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Serpentine Bends Unit Area, comprising 4,802 acres, more or less, of State and Federal lands in Township 24 South, Ranges 23 and 24 East.

CASE 6781: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be drilled 660 feet from the South line and 1980 feet from the East line of Section 1, Township 20 South, Range 28 East, the E/2 of said Section 1 to be dedicated to the well.

CASE 6782: Application of Inexco Oil Company for an exception to Order No. R-3221, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located in Unit H of Section 7, Township 19 South, Range 13 East.

CASE 6783: Application of McClellan Oil Corporation for an unorthodox oil well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Marlissue State Well No. 6 located 1155 feet from the North line and 2475 feet from the West line of Section 24, Township 14 South, Range 29 East, Double "L"-Queen Associated Pool, the NE/4 NW/4 of said Section 24 to be dedicated to the well.

CASE 6784: Application of Merrion & Bayless for a non-standard proration unit and an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 640-acre non-standard gas proration unit comprising the W/2 of Section 18 and the W/2 of Section 19, Township 32 North, Range 14 West, Barker Creek-Paradox Pool, to be dedicated to its Ute Well No. 7 at an unorthodox location 1685 feet from the South line and 3335 feet from the East line of said Section 19.

In the alternative, applicant seeks an order force pooling all of said Section 19 to form a standard 640-acre unit.

CASE 6785: Application of The Harlow Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SW/4 SW/4 of Section 18, Township 8 South, Range 29 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Case 6786

permanant to the
Natural Gas Policy Act of 1978
8 Countries

In the matter of the hearing called
by the Oil Conservation Division
on its own motion to consider the
amendment of its administrative procedure
for the approval of infill drilling on existing
gas production units as promulgated by
Order No. R-6013 to permit the approval
of infill wells as new onshore produc-
tion wells without notice and hearing
even though such wells have been spudded
prior to ~~making~~ receiving such approval.

ROUGH

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6786
Order No. R-6013A

In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of its administrative procedure for the approval of infill drilling on existing gas proration units as promulgated by Order No. R-6013 to permit the approval of infill wells as new onshore production wells pursuant to the Natural Gas Policy Act of 1978 without notice and hearing even though such wells have been spudded prior to receiving such approval.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3
19 80, at Santa Fe, New Mexico, before Examiner R.L.S.

NOW, on this _____ day of January, 19 80, the
Division Director, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the 95th Congress of the United States passed the Natural Gas Policy Act of 1978, P.L. 95-621, 92 Stat. 3350.
- (3) That said Act was enacted on November 9, 1978, and went into effect on December 1, 1978.
- (4) That pursuant to said Act, the Federal Energy Regulatory Commission, hereinafter referred to as "FERC", has promulgated ~~various~~ regulations establishing gas pricing categories and filing requirements.

-2-

Case No. 6526

Order No. R-6013

(5) That said regulations also established the Oil Conservation Division as the jurisdictional agency with respect to wells located on state and fee lands within the State of New Mexico.

(6) That an infill well drilled on an existing proration unit would not qualify under the higher "New Onshore Production Well" category (Section 103) of said ~~interim~~ FERC regulations but would command a lower category determination unless such well should qualify under certain exception provisions set out therein.

(7) That said exceptions ^{were originally} ~~are~~ contained in Sections 271.304 and 271.305 of the FERC regulations and required that the jurisdictional agency ~~must~~ find, prior to the commencement of drilling of an infill well, that the well is necessary to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit.

(8) That in order to make such findings without the necessity of a public hearing in each case, and yet to be in accordance with the FERC regulations and in accordance with State law, the Oil Conservation Division ~~should~~ adopt special rules for Natural Gas Policy Act infill findings to be followed in the application for and promulgation of such findings administratively *by its Order No R-6013 entered June 7, 1979.*

(9) That by its Order No. 43-A issued November 16, 1979, the FERC amended said Sections 271.304 and 271.305 to permit the jurisdictional agency to make the findings described in Finding No. (7) above after completion of an infill well.

(10) That the best evidence that an infill well will more efficiently and effectively drain a portion of the reservoir covered by the appropriate proration unit will most often be obtained during and following completion of such well.

(11) That the Division's ~~said~~ administrative procedure ^{for making the aforesaid findings} should rely on the best evidence ^{available} of enhanced drainage and recovery.

(12) That the Division's "Special Rules and Regulations, Natural Gas Policy Act Infill Findings, Administrative Procedure" should be amended to provide for the granting of infill findings only after completion of an infill well.

(13) That the amendment of said special rules to read in their entirety as shown on Exhibit A attached hereto will provide for granting of "findings" in accordance with Finding No. (12) above and will not cause waste nor violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That the amended "Special Rules and Regulations, Natural Gas Policy Act Infill Findings, Administrative Procedure" attached hereto as Exhibit A are hereby adopted effective immediately.

(2) 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.

Types
these on
two pages

SPECIAL RULES AND REGULATIONS
NATURAL GAS POLICY ACT INFILL FINDINGS
ADMINISTRATIVE PROCEDURE
(Amended)

Date of
Order

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure only, the following definitions are adopted:

- a. Infill well: An additional well which has been drilled for production on an established proration unit. ✓

B. APPLICABILITY

RULE 2. These special rules and regulations shall apply to effective and efficient drainage findings for completed infill wells pursuant to Section 271.305 of the final Rules and Regulations of the Federal Energy Regulatory Commission relating to Section 103 of the Natural Gas Policy Act of 1978. (These special rules and regulations do not apply to infill wells drilled in the Blanco Mesaverde or Basin-Dakota Pools. Infill wells in these two pools are covered by Rule 15 B of the "Special Rules for Applications for Wellhead Price Ceiling Category Determinations" promulgated by Division Order No. R-5878 as amended by Order No. R-5878-A.)

C. JUSTIFICATION FOR FINDINGS

RULE 3. The Division Director or a Division Examiner may find that an infill well is necessary:

- a. upon a showing by the operator that an additional well is needed to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be so drained by any existing well within that unit, and
- b. upon receipt of waivers from all offset operators, or if no offset operator has entered an objection to the infill finding within 20 days after receipt of the application by the Director.

RULE 4. The Director may set any application for hearing at his discretion or at the request of an applicant.

D. FILING REQUIREMENTS

RULE 5. Each applicant shall submit a copy of ^{the approved} Form C-101 ^{for the infill well} ~~showing~~ ~~date of approval, if any,~~ and Form C-102 showing the proration unit dedicated.

Exhibit A
Order R-603-A

BEFORE EXAMINER STAMPS	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	1
CASE NO.	6786
Submitted by	CCD
Hearing Date	1/3/80

well has been drilled

RULE 6. Applicant shall give the name of the pool in which the infill ~~completion has occurred~~ and the standard spacing unit size therefor.

RULE 7. If applicable, the applicant shall give the number of the Division order approving the non-standard proration unit *dedicated to the well*.

RULE 8. The applicant shall submit a description of all wells drilled on the proration unit (including the completed infill well) which are or have been completed in the same pool or reservoir as the proposed infill well showing:

- a. lease name and well location;
- b. spud date;
- c. completion date;
- d. a description of any mechanical problems experienced along with a summary of remedial action(s) taken and the results obtained;
- e. the current rate of production; and
- f. date of plug and abandonment, if any.
- g. a clear and concise statement indicating why the existing well(s) on the proration unit cannot effectively and efficiently drain the portion of the reservoir covered by the proration unit.

new

RULE 9. The applicant shall submit geological ^{al} and ~~reservoir~~ *engineering* information sufficient to support a finding as to the necessity for an infill well including:

- a. formation structure map
- b. the volume of increased ultimate recovery expected to be obtained and a narrative describing how the increase was determined
- c. any other supporting data which the applicant deems to be relevant which may include:
 - (1) porosity and permeability factors
 - (2) production/pressure decline curves
 - (3) effects of secondary recovery or pressure maintenance operations

Exhibit A
Order R-6613-A

RULE 10. Applications for infill findings shall be filed in duplicate with the Santa Fe office of the Division.

RULE 11. All operators of proration or spacing units offsetting the unit for which an infill finding is sought shall be notified of the application by certified or registered mail, and the application shall state that such notification has been given.

Exhibit A
Order R-6013-A