

*Entered August 19/1960
A.P.P.*

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 2014
Order No. R-1744

APPLICATION OF JAL OIL COMPANY
AND OLSEN OILS, INC., FOR A
REVISION OF THE JALMAT GAS POOL
RULES TO CREATE A CATEGORY OF
"DISTRESS" WELLS WHICH WOULD BE
EXEMPT FROM GAS PRORATION.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on July 13, 1960, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 4th day of August, 1960, 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 the applicants, Jal Oil Company and Olsen Oils, Inc., operators in the Jalmat Gas Pool, Lea County, New Mexico, seek a revision of the Special Rules and Regulations for said Pool by creating a category of wells to be known as "distress" wells, which wells would be exempt from gas proration.

(3) That under the proposed rule as presented by the applicants and El Paso Natural Gas Company, a well would be eligible for classification as a "distress" well when the following conditions have been met:

(a) The operator shows that he has exercised due diligence and used all feasible means to maintain the well in a producible condition and the well is producing through artificial means with a free floating piston or pump jack, or from other mechanical means, and the well is making water in such amounts as after a 72-hour shut-in period the well becomes logged-off and is unable

to be restored to production after being swabbed for not less than 24 hours, or the operator shows that it is uneconomically feasible to utilize mechanical aids to maintain the well on production;

(b) That all acreage belonging to the operator capable of being assigned to said well has been dedicated;

(c) The operator must furnish to the Commission a report giving in detail all pertinent data with respect to the method employed by the operator in producing the well sought to be classified as a distress well, and such other and further information as the Commission may desire from time to time;

(d) The applicant presents written consent in the form of waivers from all operators offsetting acreage dedicated to the proposed distress well;

(e) In lieu of paragraph (d) of this Rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail and furnished the same information as was furnished in their application to the Commission with respect to the proposed distress well. The Secretary-Director of the Commission may classify the well as a distress well if, after a period of twenty days following the mailing of said notice, no operator has made objection to the classification of the proposed distress well. If a protest is received, the matter shall be set for hearing.

(4) That a standard gas proration unit in the Jalmat Gas Pool is 640 acres, the Commission having long since found after proper notice and hearing that one gas well in said Pool can efficiently and economically drain that amount of acreage. However, the Pool has, over the course of the years, been developed on a density averaging approximately one gas well per 160 acres. Consequently, to permit any gas well to produce at an unrestricted rate while limiting the production of offset gas wells to an allowable based on the proration formula for the Pool would allow the well producing at an unrestricted rate to drain gas from an area larger than that dedicated to the well, thereby impairing correlative rights.

(5) That permitting some gas wells in a common source of supply to produce at unrestricted rates while at the same time limiting the production of other wells to certain prescribed production rates does violence to the basic precept and principle of

gas prorationing. The Principle of gas prorationing is to enable each owner in a pool to produce his just and equitable share of the gas underlying his property and to utilize his fair share of the reservoir energy. In endeavoring to accomplish this goal, the Commission makes every effort to afford each operator the opportunity, insofar as is practicable and insofar as it can be done without causing waste, to produce an amount of gas substantially in the proportion that the quantity of recoverable gas under his property bears to the total recoverable gas in the pool. Adoption of the proposed rule change would violate this legislative mandate and would necessarily cause a severe impairment of the correlative rights of the operators in the Jalmat Gas Pool.

(6) That the applicant takes the position that unless a classification of "distress wells" is created for wells with severe water problems, and unless such wells are permitted to produce at unrestricted rates, they will have to be abandoned, thereby resulting in otherwise producible gas being left in the reservoir. But particularly where, as in the Jalmat Gas Pool, the drilling density has been on units considerably smaller in size than the area that one gas well can efficiently drain, all or most of such otherwise producible gas, if any there be, will be produced from other wells in the pool.

(7) That the risk that a well will produce excessive amounts of water due to structural position or other geological factors is, like the risk of drilling a dry hole, simply a hazard inherent in the oil and gas business. Economic realities dictate that at some point every well must be abandoned, even though from the standpoint of physical factors considerable amounts of oil or gas are left under the tract dedicated to the well, this despite any action that the Commission might or might not take.

(8) That if an operator believes that significant amounts of gas could be produced from a well if the water could be shut-off, prudent business judgment will dictate that proper remedial work, such as squeeze-cementing, will be undertaken to alleviate the problem of undue water encroachment. While the applicants have taken no such action on most of their wells with water problems, the evidence establishes that other operators in the Jalmat Gas Pool who have wells in the same general area which are located in a structurally similar position have been successful in utilizing such remedial techniques where the recoverable reserves justified such action. And if the otherwise recoverable reserves do not justify such remedial work on the operator's own initiative, then the amount of gas remaining under that tract dedicated to the well must, in the operator's opinion, be relatively insignificant. Further, most, if not all, of such gas will be produced by offsetting wells if the well with the water problem is plugged and abandoned or if remedial work on it proves to be unsuccessful.

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(9) That adoption of the proposed rule change would, as the testimony presented by Continental Oil Company indicates, most probably encourage imprudent operations by operators whose wells make considerable amounts of water. The oil and gas business being highly competitive, it is only reasonable to presume that if the proposed rule change were adopted, such operators would at least delay remedial activities while attempting to get a "distress well" classification. Such a delay might well result in both underground and surface waste as defined in Section 65-3-3, NMSA, 1953 Comp. If successful in getting a well so classified, the operator would never attempt remedial work; if unsuccessful in getting a well so classified, the delay would tend to result in such remedial work being started too late to be physically effective or no longer justified from an economic standpoint.

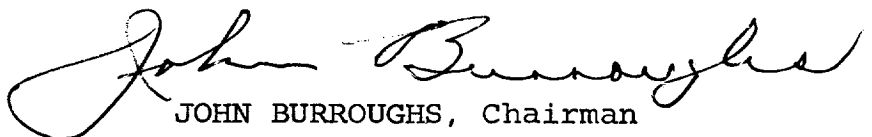
(10) That for the reasons set forth above the application should be denied.

IT IS THEREFORE ORDERED:

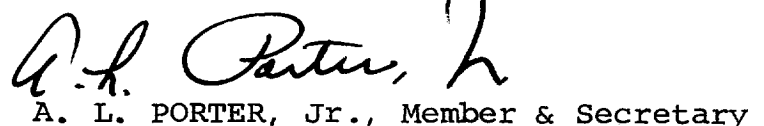
That the application of Jal Oil Company and Olsen Oils, Inc., for a change in the Special Rules and Regulations for the Jalmat Gas Pool, Lea County, New Mexico, to create a category of wells to be exempt from gas proration be and the same is hereby denied.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JOHN BURROUGHS, Chairman


MURRAY E. MORGAN, Member


A. L. PORTER, Jr., Member & Secretary

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