

Entered November 13, 1972
A.L.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. 4843
Order No. R-4435

APPLICATION OF DALPORT OIL
CORPORATION FOR DESIGNATION
OF THE SOUTHEAST CHAVES QUEEN
GAS AREA AND SPECIAL RULES
THEREFOR, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 1, 1972, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 13th day of November, 1972, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Dalport Oil Corporation, is the operator of one or more gas wells and is the owner of one or more leases in that certain area of Chaves County, New Mexico, described as:

Township 12 South, Ranges 30 and 31 East, NMPM: All
Township 13 South, Ranges 30 and 31 East, NMPM: All
Township 14 South, Ranges 29, 30, and 31 East, NMPM: All
Township 15 South, Ranges 29 and 30 East, NMPM: All

(3) That the applicant seeks the promulgation of special rules and regulations governing the Queen formation in the above-described area, including a provision for the classification of wells completed in the Queen formation as oil wells or gas wells, and providing for the dedication of 320 acres to wells classified as gas wells.

(4) That the permeability and the drainage characteristics of the Queen formation in the general vicinity of the area described in Finding No. (2) above, as indicated by wells in the area and nearby thereto, are such as to indicate that one gas well will efficiently and economically drain the gas reserves underlying 320 acres.

(5) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, the special rules and regulations proposed by the applicant should be adopted, provided however, said rules should not be applicable within the limits of any designated Queen pool, nor within one mile of the limits of any Queen pool having rules governing gas wells which are in contradiction to these rules, and provided further, that provision should be made for restricting the production of gas from any well completed within one mile of an oil well producing from the same interval of the Queen formation.

(6) That this case should be reopened at an examiner hearing in November, 1974, at which time the operators in the subject area should be prepared to appear and show cause why this order should not be rescinded.

IT IS THEREFORE ORDERED:

(1) That effective December 1, 1972, and for a period of two years thereafter, a new area in Chaves County, New Mexico, classified for the production of gas from the Queen formation is hereby created and designated as the Southeast Chaves Queen Gas Area, with vertical limits comprising the Queen formation and horizontal limits comprising the following described area:

TOWNSHIP 12 SOUTH, RANGE 30 EAST, NMPM
Sections 1 through 36: All

TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM
Sections 1 through 34: All

TOWNSHIP 13 SOUTH, RANGE 30 EAST, NMPM
Sections 1 through 36: All

TOWNSHIP 13 SOUTH, RANGE 31 EAST, NMPM
Sections 4 through 9: All
Sections 16 through 21: All
Sections 28 through 32: All

TOWNSHIP 14 SOUTH, RANGE 29 EAST, NMPM
Sections 1 through 36: All

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TOWNSHIP 14 SOUTH, RANGE 30 EAST, NMPM
Sections 1 through 36: All

TOWNSHIP 14 SOUTH, RANGE 31 EAST, NMPM
Sections 5 through 7: All
Sections 18 and 19: All
Sections 30 and 31: All

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM
Sections 1 through 36: All

TOWNSHIP 15 SOUTH, RANGE 30 EAST, NMPM
Sections 1 through 36: All

(2) That effective December 1, 1972, and for a period of two years thereafter, special rules and regulations for the Southeast Chaves Queen Gas Area are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
SOUTHEAST CHAVES QUEEN GAS AREA

RULE 1. Each gas well completed or recompleted in the Southeast Chaves Queen Gas Area which is not within the limits of any designated Queen pool governed by Special rules and regulations in conflict herewith, shall be spaced, drilled, operated and produced in accordance with the special rules and regulations hereinafter set forth.

RULE 2. Each gas well completed or recompleted in the Southeast Chaves Queen Gas Area shall be located on a standard unit containing 320 acres, more or less, comprising the N/2, S/2, W/2, or E/2 of a governmental section of the United States Public Land Surveys.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit and an unorthodox size or shape of unit is necessitated by the variation in the legal subdivision of the United States Public Land Surveys or the following facts exist and the following provisions are complied with:

(a) The non-standard unit consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

(b) The non-standard unit lies wholly within a governmental half section and contains less acreage than a standard unit

(c) The applicant presents written consent in the form of waivers from all offset operators and from all operators

owning interests in the half section in which the non-standard unit is situated and which acreage is not included in said non-standard unit.

(d) In lieu of paragraph (c) of this rule, the applicant may furnish proof of the fact that all of the afore-said operators were notified by registered or certified mail of his intent to form such non-standard unit. The Secretary-Director may approve the application if no such operator has entered an objection to the formation of such non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each gas well shall be located not closer than 660 feet to the nearest side boundary line of the designated tract nor closer than 1980 feet to the nearest end boundary line nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. (For the purpose of this rule, "side" boundary is defined as one of the outer boundaries running lengthwise to the tract's greatest overall dimension; "end" boundary is defined as one of the outer boundaries perpendicular to a side boundary and closing the tract across its least overall dimension.)

RULE 5. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox well location which relates to any well drilled (whether presently producing, shut-in or a dry hole) prior to the effective date of these rules or when the proposed unorthodox location is based upon topography.

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.

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 Secretary-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 Secretary-Director has received the application.

RULE 6. A well shall be classified as a gas well if it has a gas-liquid ratio of 30,000 or more cubic feet of gas per barrel of liquid hydrocarbons.

RULE 7. The operator of each newly completed well shall cause a gas-liquid ratio test to be taken on the well upon completion of the well and in any event such test shall be commenced not later than 30 days from the date of first production of the well; provided however, any well which is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. The initial gas-liquid ratio test shall be taken in the manner prescribed by Rule 8. If the gas-liquid ratio is 30,000 cubic feet of gas per barrel of liquid hydrocarbons, or more, the operator shall not produce the well until beneficial use can be made of the gas.

RULE 8. Gas-liquid ratio tests shall be taken on all wells during the months of March and September of each year. The initial gas-liquid ratio test shall suffice for the first semi-annual test. Tests shall be 24-hour tests, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of such tests shall be filed on Commission Form C-116 on or before the 10th day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the appropriate district office of the Commission a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the test schedule shall also be furnished to all offset operators. Commission district supervisors may grant exceptions to the above test requirements where it is demonstrated that wells produce no liquids.

Special tests shall also be taken at the request of the Secretary-Director and may also be taken at the option of the operator. Such special tests shall be taken in accordance with the procedures outlined hereinabove, including notification to the Commission and offset operators.

RULE 9. Any well completed after the effective date of these rules shall receive an allowable only upon receipt by the appropriate district office of the Commission of Commission Forms C-104 and C-116, properly executed. The supervisor of the district office is also authorized to assign a temporary gas allowable to wells connected to a gas transportation facility during the recovery of load oil.

RULE 10. An initial shut-in pressure test shall be taken on each gas well and shall be reported to the Commission on Form C-125.

RULE 11. The monthly gas production from each gas well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas was produced. The operator shall show on such report what disposition has been made of the produced gas.

RULE 12. Each purchaser or taker of gas shall submit a report to the Commission so as to reach the Commission on or before the 15th day of the month next succeeding the month in which the gas was purchased or taken. Such report shall be filed on Form C-111 with the wells being listed in the same order as they are listed on the appropriate proration schedule.

RULE 13. All transporters or users of gas shall file gas well-connection notices with the Commission as soon as possible after the date of connection.

RULE 14. Any well whose classification has changed from oil to gas as the result of a gas-liquid test shall be permitted to produce as a gas well on the first day of the month following the month in which such test was reported provided that a plat (Form C-102) dedicating 320 acres to the well has been filed or a non-standard unit has been approved pursuant to the provisions of Rule 3 of these rules.

RULE 15. Any well whose classification has changed from gas to oil as the result of a gas-liquid test or which has been so reclassified by the Commission on the basis of production history shall immediately have assigned thereto by the Commission the 40-acre tract upon which the well is located and shall have an oil allowable assigned in accordance with the Commission's statewide rules.

RULE 16. Any gas well in the subject area which is not subject to any other special rules for any Queen gas pool or Queen associated pool, and which is within one mile of a well producing from the Queen formation which is classified as an oil well by the Commission, shall be subject to the above rules and in addition thereto, shall be subject to the following rules.

RULE 17. A gas well shall be permitted to produce only that amount of gas obtained by multiplying top unit allowable for a Queen oil well by 2,000 and by a fraction, the numerator of which is the number of acres dedicated to the well and the denominator of which is 40. In the event there is more than one gas well on the 320-acre unit, the operator may produce the amount of gas assigned to the unit from the wells on the unit in any proportion.

RULE 18. The date 7:00 a.m. January 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period.

RULE 19. Any gas well which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the

allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 20. Production during any one month of a gas proration period in excess of the allowable assigned to a well for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 21. Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period, provided that such overproduction shall be compensated for during such succeeding period. Any well which has not compensated for the overproduction carried into a gas proration period by the end of such proration period shall be shut in until such overproduction is compensated for. If, at any time, a well is overproduced an amount equalling three times its current monthly allowable, it shall be shut in during that month and each succeeding month until the well is overproduced less than three times its current monthly allowable.

RULE 22. The allowable assigned to a well during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction carried into such period in determining the amount of overproduction, if any, which has not been compensated for.

RULE 23. The Commission may allow overproduction to be compensated for at a lesser rate than would be the case if the well were completely shut in upon a showing after notice and hearing that complete shut in of the well would result in material damage to the well or reservoir.

IT IS FURTHER ORDERED:

(1) That pursuant to Paragraph A. of Section 65-3-14.5, NMSA 1953, contained in Chapter 271, Laws of 1969, existing gas wells in the Southeast Chaves Queen Gas Area subject to the rules for said area shall have dedicated thereto 320 acres in accordance with the foregoing area rules; or, pursuant to Paragraph C. of said Section 65-3-14.5, existing wells may have non-standard spacing or proration units established by the Commission and dedicated thereto.

Failure to file new Forms C-102 with the Commission dedicating 320 acres to a well or to obtain a non-standard unit approved by the Commission within 60 days from the effective date of this order shall subject the well to cancellation of

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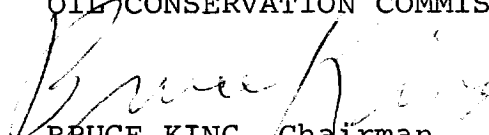
allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each gas well presently drilling to or completed in the Southeast Chaves Queen Gas Area shall be limited to that amount of gas obtained by multiplying top unit allowable for a Queen oil well in said area by 2,000 and by a fraction, the numerator of which is 160 and the denominator of which is 40.

(2) That this case shall be reopened at an examiner hearing in November, 1974, at which time the operators in the subject area may appear and show cause why this order should not be rescinded.

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

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

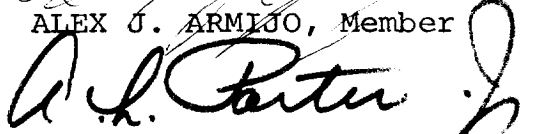
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



BRUCE KING, Chairman



ALEX J. ARMILLO, Member



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

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