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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:

941)
CASES: 696) consolidated
Order No. R-566-D

THE APPLICATION OF THE OIL
CONSERVATION COMMISSION UPON
ITS OWN MOTION FOR AN ORDER
REVISING ORDER R-566-C AFFECT-
ING AND CONCERNING THE WEST KUTZ-
PICTURED CLIFFS GAS POOL, SAN
JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing on May 19, 1954, June 24, 1954, July 14, 1954, and August 17, 1955, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission".

NOW, on this 13th day of October, 1955, the Commission, a quorum being present, having considered the records and the testimony adduced and being fully advised in the premises,

FINDS:

(1) That due notice of the time and place of hearing and the purpose thereof having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

(2) That there is need for the revision of Orders R-566, R-566-A, R-566-B, and R-566-C and their consolidation into this order, due to the revision of Order R-333-B.

IT IS THEREFORE ORDERED:

That the following shall be the:

SPECIAL RULES AND REGULATIONS
FOR THE WEST KUTZ-PICTURED CLIFFS
GAS POOL

Well Spacing and Acreage Requirements for Drilling Tracts:

RULE 1: Any well drilled a distance of one mile or more from the outer boundary of the West Kutz-Pictured Cliffs Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of said pool shall be spaced, drilled, operated and prorated in accordance with the regulations in effect in the West Kutz-Pictured Cliffs Gas Pool.

RULE 2: Each well drilled or recompleted within the West Kutz-Pictured Cliffs Gas Pool shall be located on a tract consisting of not less than a quarter section of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter section) of the U. S. Public Land Surveys.

RULE 3: Any well drilled within the defined limits of the West Kutz-Pictured Cliffs Gas Pool shall be located on a designated drilling tract consisting of not less than a quarter section which is a legal subdivision of the U. S. Public Lands Survey, such quarter section to contain approximately 160 contiguous acres and to be substantially in the form of a square. Such well shall be located at least 990 feet from the outer boundary of said quarter section, provided, however, that a tolerance of 200 feet is permissible.

RULE 4: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rules 2 and 3 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or, in the case of Rule 3, the necessity for exception is based upon topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written statement that all such operators have been properly notified by registered mail. The Secretary-Director of the Commission shall wait at least 20 days before approving any such exception, and shall approve such exception only in the absence of objection of any offset operators. In the event an operator objects to the exception, the Commission shall consider the matter only after proper notice and hearing.

RULE 5: The provision of Statewide Rule 104, Paragraph (k), shall not apply to the West Kutz-Pictured Cliffs Gas Pool.

Gas Proration and Allocation:

RULE 6: (A) The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the West Kutz-Pictured Cliffs Gas Pool, a standard proration unit shall consist of approximately 160 surface contiguous acres substantially in the form of a square which shall be a legal subdivision (quarter-section) of the U. S. Public Land Survey; provided, however, that a non-standard gas proration unit may be formed after notice and hearing by the Commission or under the provisions of Paragraph (B) of this Rule.

The allowable production from any non-standard gas proration unit as compared with the allowable production therefrom if such tract were a standard unit shall be in the ratio which the area of the non-standard proration unit bears to a standard proration unit of 160 acres. Any gas proration unit containing between 158 and 162 acres shall be considered to contain 160 acres for the purpose of computing allowables.

(B) The Secretary-Director of the Commission shall have authority to grant an exception to Rule 6 (A) without notice and hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with:

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1. The proposed non-standard proration unit consists of less than 158 acres.
2. The unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.
3. The acreage assigned the non-standard unit lies wholly within a legal section.
4. The acreage assigned the non-standard unit is contiguous with the acreage containing said well.
5. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas.
6. The length or width of the non-standard gas proration unit does not exceed 2640 feet.
7. The operator making application for such exception to Rule 6 (A) includes with such application:

(a) Waivers from (1) all operators owning interests in the quarter sections in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration units; and (2) all operators owning interests in acreage offsetting the non-standard proration unit; or

(b) A list of names and mailing addresses of all operators outlined in paragraph (a) above, together with proof of the fact that said operators were notified by registered mail of the intent of the applicant to form such non-standard gas proration unit. The Secretary-Director of the Commission may approve such application if, after a period of 20 days following the mailing of said notice, no operator as outlined in paragraph (a) (1) above has entered an objection to the formation of such non-standard gas proration unit.

RULE 7: At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser "Preliminary Nominations" of that quantity of gas which each purchaser in good faith actually desires to purchase within the ensuing proration period, by months, from the West Kutz-Pictured Cliffs Gas Pool. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste from said pool within the ensuing proration period. "Preliminary Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

RULE 8: In the event a gas purchaser's market shall have increased or decreased, purchaser may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas the purchaser actually in good faith desires to purchase during the ensuing proration month from the West Kutz-Pictured Cliffs Gas Pool. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas from said pool for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month.

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"Supplemental Nominations" shall be submitted on Form C-121-A as prescribed by the Commission.

Included in the monthly proration schedule shall be (a) a summary of the total pool allocation for that month showing nominations, and adjustments made for underage or overage applied from a previous month, (b) a tabulation of the net allowable and production for the second preceding month together with a cumulative overage or underage computation, (c) a tabulation of the current and net allowables for the preceding month, (d) a tabulation of current monthly allowable for the ensuing proration month, and (e) a tabulation of the acreage and deliverabilities assigned each well, and the factors assigned each well for use in calculating individual well allowables. The Commission shall include in the proration schedule the gas wells in the West Kutz-Pictured Cliffs Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of said pool any well which the Commission finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to said pool each month shall be equal to the sum of the preliminary or supplemental nominations, whichever is applicable, together with any adjustment which the Commission deems advisable.

If, during a proration month, the acreage assigned a well is increased, the operator shall notify the Secretary-Director in writing of such increase. The increased allowable assigned the gas proration unit for the well shall become effective on the first day of the month following receipt of the notification by the Director. All communications shall be mailed to the Director, at Box 871, Santa Fe, New Mexico.

RULE 9: The monthly gas allocation to the West Kutz-Pictured Cliffs Pool shall be divided and allocated among the wells connected to a gas transportation facility in the following manner;

The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF per day) for that well shall be known as the "AD" factor for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160. The "AD" factor shall be computed to the nearest whole unit.

A tentative allocation shall be made by dividing seventy-five percent (75%) of the pool allocation among the wells in the proportion that each well's "AD" factor bears to the sum of the "AD" factors of all wells in the pool.

The remaining twenty-five percent (25%) of the pool allocation shall be divided among wells in the proportion that each well's acreage factor bears to the sum of the acreage factors of all wells in the pool.

When the tentative allowable received by a well is in excess of its known producing ability, the well shall be classed as a marginal well and its allowable limited to its known producing ability. The sum of the difference between the tentative allowables and the limited allowables of all marginal wells on the proration schedule shall be reallocated to the non-marginal wells by application of the same formula. If such reallocation shall result in placing any other well within the marginal classification, the difference between the tentative allowable and the limited allowable of such marginal well shall be redistributed by application of the same formula until no well has received an allowable in excess of its known producing ability.

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RULE 10: The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of Order R-333-C.

Balancing of Production:

RULE 11: Underproduction: The hours of 7 o'clock a.m., M.S.T., February 1, and 7 o'clock a.m., M.S.T., August 1, shall be known as balancing dates and the periods of time bound by these dates shall be known as gas proration periods. In order to effectively administer the prorationing of gas in the West Kutz-Pictured Cliffs Pool, it is advisable to have a portion of each proration period include both summer and winter months. Therefore, the first proration period shall commence on March 1, 1955, and shall continue for a period of eleven months until February 1, 1956. Future proration periods shall commence on the dates set out above. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the next succeeding proration period in addition to the normal gas allowable for such succeeding period; provided, however, that whatever amount thereof is not made up within the first succeeding proration period shall be cancelled.

If it appears that such continued underproduction has resulted from inability of the well to produce its allowable, it may be classified as a marginal well and its allowable reduced to the level of the well's ability to produce.

If, at the end of a proration period a marginal well has produced more than the total allowable assigned a non-marginal unit of corresponding size and deliverability, such marginal well shall be reclassified as a non-marginal well and its allowable prorated accordingly.

If, during a proration period a marginal well is reworked or recompleted in such a manner that its productive capacity is increased to an extent that said well should be reclassified as a non-marginal well, the reclassification shall be effective on the first day of the proration month following the date of recompletion.

The Secretary-Director may reclassify a well at any time if production data or deliverability tests reflect the need for such reclassification.

RULE 12: Overproduction: A well which has produced a greater amount of gas than was allowed during a given proration period shall have its allowable for the first succeeding proration period reduced by the amount of such overproduction and such overproduction shall be made up within the first succeeding proration period. If, at any time, a well is overproduced an amount equivalent to six times its current monthly allowable, said well shall be shut-in during the current month.

The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in if, upon public hearing after due notice, it is shown that complete shut-in of the well would result in material damage to said well.

Granting of Allowables:

RULE 13: No gas well shall be given an allowable until Form

C-104 and Form C-110 have been filed, together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 14: Allowables to newly completed gas wells shall commence (a) on the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (Box 697, Aztec, New Mexico) by the purchaser, (b) the latest filing date of Form C-104, Form C-110 or the above described plat, or (c) a date 45 days prior to the date upon which the well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122-A in conformance with the provisions of R-333-C, whichever date is the later.

No well shall be assigned an allowable unless a deliverability test, or a potential test taken in conformance with the provisions of Order R-333-C has been submitted.

Deliverability tests shall be taken and calculated in conformance with Order R-333-C, the provisions of Rule 10 of this order and the testing schedule provisions of Order R-333-C.

A change in a wells deliverability due to retest or test after recompletion or workover shall become effective the first of the month following receipt and approval of Form C-122-A for such test. Such tests shall be taken in accordance with Order R-333-C.

Deliverability tests taken during 1954 shall be used in calculating allowables for the proration period commencing March 1, 1955. Subsequent annual tests shall be used in calculating allowables for proration periods commencing during the next ensuing year.

Reporting of Production:

RULE 15: The monthly gas production from each well shall be metered separately and the production therefrom shall be reported to the Commission on Form C-115, such form shall be postmarked on or before the 24th day of the month immediately following the month in which the gas reported was produced. The operator shall show on such report the disposition of the gas produced.

Each purchaser or taker of gas in the West Kutz-Pictured Cliffs Gas Pool shall submit a report to the Commission, and such report shall be postmarked on or before the 15th day of the month immediately following the month in which the gas was purchased or taken. Such report shall be filed on either Form C-111 or Form C-114, whichever is applicable, and the wells shall be listed in approximately the same order as they are found listed on the proration schedule.

Forms C-111 and C-114 as referred to herein shall be submitted in triplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, remaining copies will be sent to Box 697, Aztec, New Mexico, and Box 2045, Hobbs, New Mexico, respectively.

Forms C-115 shall be submitted in accordance with Rule 1114 of the Commission's Rules and Regulations.

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The full production of gas from each well shall be charged against the well's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

RULE 16: The term "gas purchaser" as used in these rules, shall mean any "taker" of gas either at the wellhead or at any point on the lease where connection is made to facilitate the transportation or utilization of gas. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rules 7 and 8 of this order.

RULE 17: No gas, either dry gas or casinghead gas, produced from the West Kutz-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

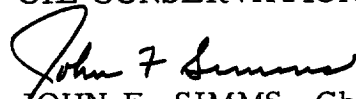
PROVIDED FURTHER, That in filing Form C-101, "Notice of Intention to Drill", or USGS Form 9-331-a, (whichever is applicable), all operators shall strictly comply with the applicable provisions of Rule 104 (b). Accompanying the above form shall be a plat of the acreage contained in the proration unit, together with a complete list of all working interest owners designating the acreage they hold within the communitized area dedicated to the well.

PROVIDED FURTHER, That failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected well. No further allowable shall be assigned to the affected well until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

PROVIDED FURTHER, That all transporters of gas or users of gas shall file with the Commission connection notices in accordance with the provisions of Rule 14, as soon as possible after the date of connection.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JOHN F. SIMMS, Chairman


E. S. WALKER, Member


W. B. MACEY, Member and Secretary

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