

CASE 5217: MOTION OF THE OCC TO
CONSIDER TEMPORARY ABANDONMENT
OF WELLS & AMENDMENT OF RULE 202.

CASE No.

5217

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 11, 1974

COMMISSION HEARING

IN THE MATTER OF:

The hearing called by the Oil Conservation
Commission upon its own motion to consider
the adoption of a Commission definition for
"Temporary Abandonment" of wells, and further
to consider the amendment of Rule 202.

CASE
5217

BEFORE: A. L. Porter, Secretary-Director

I. R. Trujillo, Chairman

Alex J. Armijo, Member.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: William Carr, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

I N D E X

	<u>Page</u>
Statement of Mr. Hanagan	4
Direct Examination of Mr. Lamb by Mr. Carson	12
Statement of Mr. Dutton	19
Statement of Mr. Hocker	20
Statement of Mr. Gentry	20
Statement of Mr. Pickerill	21

MR. PORTER: We will proceed to Case 5217. At this time I would like to call for appearances in that Case. Mr. Hanagan?

MR. HANAGAN: Peter Hanagan with the New Mexico Oil and Gas Association.

MR. PORTER: Mr. Hanagan, it is your intention to present some testimony this morning?

MR. HANAGAN: Yes, sir.

MR. PORTER: All right.

MR. PICKERILL: Jerry Pickerill with Amerada Hess Corporation.

MR. PORTER: Amerada?

MR. PICKERILL: Yes, sir. We will present no testimony, Mr. Porter, we just have a statement.

MR. PORTER: I see. Okay, you have a statement.

MR. DUTTON: Jack Dutton with Tenneco, we wish to make a statement.

MR. HOCKER: R. L. Hocker with Cities Service Oil Company, a statement.

MR. GENTRY: A. A. Gentry, Continental Oil Company, I wish to make a statement.

MR. CARSON: Joel Carson representing Wilson Oil Company and Yates Petroleum, Harvey Yates Company, and

Nix and Yates, and Franklin, Aston and Fair. We will have one witness to make a statement.

MR. PORTER: You won't have any testimony, but just a statement?

MR. CARSON: We will have some testimony, but it will be just more or less a statement.

MR. PORTER: Okay.

MR. WARNER: Frank Warner, Shell Oil Company and we may want to make a statement.

MR. PORTER: Okay, anyone else?

Mr. Carr, I believe that at the first session on Case 5217 in April, April 23rd, that the Commission staff had three witnesses, do you plan to put on any testimony at this Case today?

MR. CARR: The Commission plans to put on no additional testimony at this time. The testimony offered in April will be incorporated with this record.

MR. PORTER: All right. Mr. Hanagan, suppose you take the stand first.

(Whereupon, the witness was sworn.)

MR. HANAGAN: Mr. Chairman, and members of the Commission, my name is Peter Hanagan, Executive Vice President of the New Mexico Oil and Gas Association.

Since this Case was continued on April 23, there has been considerable discussion within the industry of the changes as proposed by the Commission and Rule 202. And my statement represents a consensus, I think and hope, of the various points raised by various members of the Association.

The changes that we recommend to Rule 202, as proposed by the Commission, will not do violence to the overall objectives sought to be obtained by the Commission. The changes we propose will, first of all, help prevent any premature permanent plugging and abandonment, and also will prevent the necessary flexibility in matters of bonding and formal hearings.

Now with respect to the provisions contained in the third paragraph of proposed Rule 202B, we recommend, first of all, and we repeat our request that the Commission accept a blanket bond as an alternative to a one-well plugging bond as the condition for the granting of a permit for a further temporary abandonment. This could be accomplished very easily by tying the bonding request back to the provisions of existing Rule 101 concerning plugging bonds. Rule 101 now permits a one-well plugging bond, or a blanket bond with the Commission's approval.

If the Commission feels that the \$10,000 bond limit

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provides insufficient protection. We recommend that the Commission initiate action in the next legislative session to increase the bond limit to an amount which will be protective of the Commission's obligation to the public. Secondly, the industry again requests that additional extensions for temporary abandonment be grantable by the District Supervisor without notice and formal hearing before the Commission for good cause shown, and upon the furnishing of evidence that the condition of the well is as described in the first paragraph of proposed Rule 202B.

In the event that a request is disapproved by the District Supervisor, the operator will then be forced to either plug the well or ask the Commission for an exception to the Rule, and this in turn would require notice and hearing. But until such an event occurs, we would ask the Commission's consideration not to require the expensive, time consuming formal hearing.

Our third request is that the Commission consider adding a new section D to Rule 202 which would read as follows:

(Reading) 202D. No permit for temporary abandonment will be necessary for inactive zones in multiple completed wells as long as one or more zones are actively being utilized. (End of reading.)

Our fourth principal point is that: We recommend that the proposed definition of temporary abandonment be amended to exclude shut-in wells which are capable of producing, but are either pending a pipeline connection or are shut-in by order of the Commission.

Mr. Chairman, that concludes my formal statement. Obviously it does reiterate much of what was testified to before. This time it has the backing of many more operators, after what we consider a very thorough examination of the proposal, and I think this statement does reflect a great number of operators' views. However, I would like to have it subject to any supplement by operators here or by any clarification by any operators that may want to add to it, and I will be happy to answer any questions.

MR. PORTER: All right. Does anyone have a question of Mr. Hanagan? Any comment on his testimony? Mr. Ramey?

MR. RAMEY: Mr. Hanagan, you proposed that the district supervisor will grant approval for temporary abandonment. In the event that the district supervisor cannot see his way clear, then you would propose that the operator have a hearing before the Commission.

MR. HANAGAN: Well, yes, Mr. Ramey, the proposal

is that the district supervisor have the authority to grant an indefinite number of extensions, so long as the operator can show good cause, and can also satisfy the conditions that exist in the proposed Rule, the conditions of the well. If the district supervisor has any doubt about the validity of the reasons given or the conditions of the well he could simply deny the request for an additional extension, in which case the operator would then be under the obligation to plug the well or he could seek an exception to the Commission which would require a formal hearing, notice and formal hearing. But until that event occurs we would recommend that the district supervisor have the authority to grant indefinite extensions as long as good cause can be shown and the condition of the well is satisfactory.

MR. RAMEY: I think everybody will agree that probably 90% of the wells have legitimate reasons for being temporary abandonment, and it is the other 10% which we are concerned about, and I wonder if the operators would be willing to post a one-well bond on a well that is questionable if the district supervisor could not see fit or even after notice of hearing the Commission did not see fit, and then the operator still wants to maintain this well in a shut-in status, we could then require a one-well bond. I

really don't anticipate this happening, but there will be somebody.

MR. HANAGAN: That should be satisfactory. Our problem with the Rule on the bonding requirement in its present form, is that it is restricted to one-well plugging bond at the present time. There is no provision for a blanket bond, so in a tough case which you were describing, perhaps a one-well plugging bond would be the answer, but there are probably many other cases in which the blanket bond would be more satisfactory to the Commission and certainly to the operators.

MR. RAMEY: Thank you.

MR. PORTER: Mr. Kendrick?

MR. KENDRICK: Mr. Hanagan, in your statement about a blanket bond, do you consider one blanket bond for all the wells that are operator-owned or are you talking about one blanket bond for these temporary abandoned wells separate from the blanket bond for the operational wells?

MR. HANAGAN: I'm not real certain how to answer that. I really don't know; it seems to me that the blanket bond should be the type of bond that the Commission considers necessary to protect themselves against an improper plugging, abandonment. I'm not really sure how to answer your question.

Perhaps somebody in the audience is more able than I am.

MR. TRUJILLO: Would it be that the second bond, Mr. Hanagan, in order to take care of all of the wells of this particular type or that are in this situation?

MR. HANAGAN: I'm not sure that we need a second bond; it seems to me that bonding provisions in Rule 101, that bond is adequate to take care of this type of situation too, because Rule 101 describes in detail that this in fact a plugging bond and designed to protect against --

MR. TRUJILLO: (Interrupting) In this case it would change nothing, would it; it wouldn't change our present practice of keeping track of wells?

MR. HANAGAN: You mean the bonding requirement?

MR. TRUJILLO: Let's assume that an operator already has a blanket plugging bond, then if the temporarily abandoned wells were going to be covered by that bond, then nothing would change, would it, insofar as the bonding requirements?

MR. HANAGAN: I think that is correct as far as the bonding requirements are concerned, yes. But, this would change, Mr. Trujillo, obviously in the sense that the proposed rule change would give the Commission a much better handle on what the conditions of wells are throughout the

State, but by this periodic, in effect, permit requirement, and we are in agreement with that, you know, with that approach to give the Commission a better handle on exactly what the posture of the well is at any one time.

MR. KENDRICK: One other question, Mr. Hanagan. If you are referring the Commission to the legislature to modify the bonding requirements, is it the consensus of opinion that if the operator belongs to the Association that possibly the bond should be a flexible bond so that it would reflect the number of wells covered by that bond?

MR. HANAGAN: Yes, I think so very definitely, and that would be up to the discretion of the Commission. What we had in mind and are suggesting is that if the present \$10,000 bond limit is inadequate, particularly in view of a blanket bond that might cover large operators throughout the whole state, then we suggest that the Commission might want to initiate action in the legislature to raise the maximum bond limit to whatever it feels necessary, but, of course, not to apply that maximum to every operator; make it flexible, depending on the operator, the number of wells in the State, perhaps this past history of responsibility, these kinds of considerations, and this is the kind of language that is already in Rule 101; it seems to me

in allowing the Commission flexibility in determining what amount of bond to set for a particular operator.

MR. KENDRICK: Thank you.

MR. PORTER: Any further questions? You may be excused.

MR. HANAGAN: Thank you.

MR. PORTER: Mr. Carson, I believe you indicated that you will have one witness. Will you have him come forward at this time?

MR. CARSON: Thank you.

(Whereupon, the witness was sworn.)

M. RAYMOND LAMB

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARSON:

Q Would you state your name, please?

A M. Raymond Lamb.

Q Mr. Lamb, you have previously testified before this Commission in connection with this same proposed Rule?

A That is correct.

Q And it is your desire to present further testimony as to possible amendments as to the views of the persons that

we mentioned awhile ago as to the Rule, is it not?

A That is correct.

Q Would you state to the Commission what your occupations have been, based on your experience in the oil fields?

A Yes. We have no disagreement with Mr. Hanagan's points that he has brought out here; they are basically the same points that we presented to the Commission at its previous hearing. Briefly, that our point of concern is the premature abandonment of temporarily abandoned wells which might be utilized at a later date, and even new processes of secondary and tertiary recovery. I look back in the history of secondary recovery and water flooding in New Mexico; a large number of temporarily abandoned wells were utilized in those processes. It would not have eliminated water flooding, but it probably would have delayed it for sometime. As a matter of fact, I think the thing that brought water flooding to New Mexico was an action by the previous Oil Commission people who recommended and presented to the industry a sum of money for research out of the Commission funds for the carrying on of experimental secondary recovery projects. As a matter of fact, the project under consideration by the Commission at that time with their funds

was in the Artesia pool; it was a lease described as a Rotary lease and there were five wells involved, and our conversations with the operator on behalf of the Commission and other State agencies encouraged these people to do secondary recovery work and the funds from the Commission were never utilized. These wells to be utilized by the Commission at that time were temporarily abandoned wells, and this is a vital thing with the energy crisis as of now, we do not want to close the door on any well that could be utilized at a later date, with the understanding that no zone was being contaminated in the way of gas or oil, that they be properly temporarily abandoned.

I think the merit of the Commission's proposal to bring up this point of temporarily abandoned is well taken; I think the industry was somewhat lax in their activity in this area. We have now been brought to attention and are pursuing the putting on of temporarily abandoned wells or utilizing them. Those that we see really no benefit to be derived are considering for abandonment. One major company at the meeting in Hobbs told me that they had 57 wells temporarily abandoned and that your bringing the case brought to their attention a survey of these wells. All but four will be carried on in remedial work and four will be plugged

and abandoned. As far as my company is concerned, we have surveyed ours, we have none that we feel that we could put back on production, but we do want to retain them for water disposal to meet the requirements of the Commission in the disposal of oil field brine.

Another thing that is taking place in the industry that has a great effect upon what you are proposing, and that is the temporary abandonment of wells now is being pursued by operators for the recovery of usable tubular goods. I know that the salvage people now are searching for every well that is to use and that these wells will in time, as soon as men and material are available will recover this material and these wells will be plugged and abandoned.

From our own personal experience, we plugged some wells a couple of years ago, the salvage material was of no value at the time, and we left the salvage material in the ground. We are now discussing the proposition with the salvage people to re-enter these wells and recover the material. So I say that the industry itself is searching out all salvagable materials and it will increase the value of the temporarily abandoned wells and will relieve the situation as far as the Commission is concerned in the way of having an obligation maybe in the future to pay the cost in the event that the

bond does not cover the plugging of a well.

We feel that the bond established by the legislature in 1935 needs to be increased with the present cost of drilling and materials; we feel that a blanket bond increase is in order; we feel that the one-well bond is in order, the increase is in order. We do not propose that a blanket bond be established for an operator and then he also be subjected to a one-well temporarily abandoned bond. As we discussed at the hearing before, the Commission is not seriously concerned about the majors or the substantial independent operator not carrying out his duties in the plugging of the wells. It is the people who are not substantially established in the industry that you have the concern with. We feel that a one-well \$10,000 bond will take care of most of those.

We also feel that the district supervisor is the man most knowledgeable about wells in his area, and that he should be the one to extend the temporarily abandoned status. We do feel like the two-year proposal in your Rules should be eliminated and that we be permitted to go on as long as the hole is not contaminating areas, so that we can utilize these wells at a later date for remedial work or for even exploratory zones, deeper than the well is at the time.

We agree that a well capable of producing oil and gas which is shut-in for various reasons, should not be classified as a temporarily abandoned well.

I believe that covers the main points that we covered before and established a little more data that we projected at this time.

Q Mr. Lamb, is it your position that there should be separate temporary plugging bond, separate and apart from the blanket bond?

A No, we feel that the operator should be subjected to the bond requirement that it takes to carry out the project from beginning to end, and that no additional bond should be required for temporarily abandoned wells.

MR. PORTER: Any questions? Mr. Kendrick?

MR. KENDRICK: Mr. Lamb, do you believe the plugging bond should reflect the number of wells owned by any particular operator?

MR. LAMB: I do not. I think that the blanket bond should be sufficient with his assets in the area and the amount of the bond that he should not be increased with the number of wells that he has.

MR. KENDRICK: The same bond will serve for three wells or three hundred wells?

MR. LAMB: That is right.

MR. KENDRICK: Do you consider the cost of plugging three wells to be the same as for plugging three hundred wells?

MR. LAMB: Well, you are not looking at the point that the man does have production under these wells and he is not going to plug all three hundred wells at the same time.

MR. KENDRICK: Well, the point we are looking at is that we may have to, or the bondsman may have to.

MR. LAMB: I see no reason to subject industry to a \$20,000 bond for each well that the operator has. I don't believe that has been a serious problem since 1935, the establishment of the Commission.

MR. KENDRICK: I'm sorry, I don't know of any case where the operator is subjected to the \$20,000 bond.

MR. LAMB: This is what we are proposing at this time, that the blanket bond be increased. The \$10,000 is the blanket bond in effect now, and as you say, it is for three wells or three hundred wells, but I don't know of any operator with that number of wells that the Commission has had any problem with in getting them to plug their wells, since the Commission was established in 1935.

MR. PORTER: Any further questions?

MR. CARSON: The witness may be excused.

MR. PORTER: Does anyone else desire to put on testimony? If you don't, we will entertain statements.

Mr. Dutton would you like to make a statement?

MR. DUTTON: Yes, sir. Tenneco operates 735 wells in New Mexico and of which about 80 are shut-in at this time. As a matter of course since this hearing started we have put a couple of wells back on production and they are making over a hundred barrels a day, so we are just presenting that these wells do have future value.

We are essentially in agreement with Mr. Hanagan's statements. We would like to offer one other consideration for the Commission, that is that the initial permit period would be extended to one year rather than six months. We believe this would eliminate considerable work on both the Commission's part and the operator's part.

MR. PORTER: Would you say this hearing motivated putting those two wells back on production?

MR. DUTTON: Not necessarily, there was some other work we were doing in the area, it brings out though that there are wells that we don't know all about that we would like to know.

MR. PORTER: I see, well that precludes our sending you a statement for consulting. Mr. Hocker?

MR. HOCKER: Cities Service agrees with the proposal to classify wells as temporary abandoned after two months inactive for gunned wells and after six months for other wells. Cities supports the suggestion of the New Mexico Oil & Gas Association that a blanket plugging bond of an adequate amount, rather than a single well bond be used. It is further suggested that new periods, possibly annually, be granted, if necessary, upon application for good cause. Those applications not approved by the Commission could be set for hearing and the operator given an opportunity to explain in better detail his particular problem. In case of multiple completion, I think that has been well covered and I think it is probably the intent of the Commission anyway that if there was a producing zone in a multiple completed well, the wellbore itself will not be considered temporary abandoned until the last producing zone became temporary abandoned.

MR. PORTER: Thank you. Mr. Gentry?

MR. GENTRY: A. A. Gentry representing Continental Oil Company is in accord with the overall desires of the Commission in this matter. We do wish to point out that

we feel mandatory public hearings are to the best interests of the Commission or industry and that individual well bonds would be burdensome because of unnecessary administrative work loads. If it is deemed necessary to make changes with regard to temporary abandonment of wells, we respectfully suggest that they be handled normally with administrative matters, with a hearing if necessary, only occasionally at the request of the Commission or industry.

We further recommend that the Commission determine to its satisfaction that an operator is financially responsible that the matter of individual well bonds be optional with the Commission. Thank you.

MR. PORTER: Mr. Warner?

MR. WARNER: I have no statement.

MR. PORTER: Okay. Does anyone else desire to comment on the case?

MR. PICKERILL: I am Jerry Pickerill with the Amerada Hess Corporation.

On May 3, following the initial hearing on this matter on April 23rd, Amerada Hess presented to the Commission a proposed alternative to the amended Rule 202. And then subsequent to our submission, the industry had a hearing or meeting in Hobbs, New Mexico on the 23rd of May, and at

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that hearing, or at that meeting both the Amerada Hess proposals and the Commission's proposal and everybody else's input was taken into account. We feel that Mr. Hanagan's statement does reflect the position of the industry that has come out of that meeting. Particularly we felt that the notice and the hearing provisions after the first extension granted by the district supervisor and also particularly in light of the bond provisions in tying the bonding provision back to Rule 101, essentially making the blanket bond the single requirement. Now with those changes, and, of course, with the consideration of Mr. Hanagan's initial proposal that it be a one-year extension in lieu of six months as Tenneco has also suggested. Amerada Hess would like at this time to withdraw this suggestion to the Commission and support the industry statement.

MR. PORTER: Anyone else have a comment?

Mr. Hanagan, you indicated that some increase in the blanket-bond requirement might be in order. I wonder if the Oil & Gas Association would take a position favoring a reasonable increase should such a proposal be made to the legislature?

MR. HANAGAN: Mr. Porter, I feel that the industry would take a favorable position and would do what we could

to assist the Commission in the legislature. That has not been formally proposed to the Association, as yet, but I think I can assure you that their act would be favorable.

MR. PORTER: Thank you. Does anyone else have a comment or any further statements?

Gentlemen, we heard testimony at the prior hearing, I believe on April 23rd; we have heard some additional testimony today, some complements to the testimony that we heard at that time, so the Commission will take the Case under advisement. We don't feel that further containments would be in order; we feel that we have had about all the testimony that our efforts would elicit if the hearing were prolonged. I do not know the exact nature of an Order the Commission will enter at this time; it will be thoroughly discussed and the record reviewed. One thing, however, the Commission and the staff is thinking of at the present time, we were concerned, of course, when it was brought to our attention that between four and five thousand wells were inactive in the State, and I am a little at a loss as to, or would be, to describe the status of any of these particular wells without going to the well file at this time, so the only thing we are considering now is a key print-out of all of the inactive wells and we hope that this can be sent to all

of the operators; I mean each individual's well would be sent to him, or each company's wells would be sent to them for examination and asked to report back to us as to the status. Maybe it would be accompanied by some kind of a questionnaire that would give us a better inventory on the inactive wells in the State. This is one of the first things we have in mind regardless, as I say, of the type of Order that we may enter in this Case. All of the testimony will be taken into consideration.

(Whereupon, a discussion was held off the record.)

MR. PORTER: I would like to reopen just briefly, the last correspondence to be recognized in Case 5217. Mr. Carr, you have some letters, I believe, from some interested parties; some of these people, I believe, have testified here or had representatives.

MR. CARR: We won't go into the letters that were sent by people who made appearances today. We have, however, received a letter from Mobil Oil Corporation supporting the position of the New Mexico Oil and Gas Association, and requesting that this letter supercede any previous correspondence with the Commission.

We received a letter from Sun Oil Company in support of

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the New Mexico Oil & Gas Association.

We received a letter from Chevron Oil Company that goes through the proposed changes in Rule 202B and it sets out a number of specific amendments that it requests the Commission to consider these, since Chevron does agree to the revision of Rule 202B as necessary to prevent surface waste and subsurface damage.

We also have a letter from W. J. Ledbetter in opposition to any change to Rule 202, stating that they believe that the tightening of these rules will only hurt independent operators in New Mexico.

MR. PORTER: These letters, this correspondence will be placed in the Case files and given whatever weight the Commission deems necessary and desirable to give them.

STATE OF NEW MEXICO)
) SS.
COUNTY OF SANTA FE)

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

RICHARD L. NYE, Court Reporter

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 23, 1974

COMMISSION HEARING

IN THE MATTER OF:

Hearing called by the Oil Conservation
Commission upon its own motion to con-
sider the adoption of a Commission de-
finition for "Temporary Abandonment"
of wells, and further to consider the
amendment of Rule 202 of the Commission
Rules and Regulations to adopt an admin-
istrative procedure for abandonment of
wells in this state for a limited per-
iod of time only, and for the adoption
of a requirement for an individual one-
well plugging bond for the continued
temporary abandonment of any well after
the expiration of the administrative
period of time in which such well could
be temporarily abandoned.

Case No.
5217

BEFORE: A.L. Porter, Secretary and Director
I.R. Trujillo, Chairman of the Commission

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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I N D E XPAGE

DAN NUTTER

Direct Examination by Mr. Carr	5
Direct Examination by Mr. Carr	33

EMORY ARNOLD

Direct Examination by Mr. Carr	13
Cross Examination by Mr. Porter	20
Cross Examination by Mr. Kellahin	21
Redirect by Mr. Carr	27

JOE D. RAMEY

Direct Examination by Mr. Carr	28
Cross Examination by Mr. Porter	32

N. RAYMOND LAMB

Direct Examination by Mr. Kellahin	47
------------------------------------	----

E X H I B I T S

Marked

Admitted

Oil Conservation Commission's Exhibits 1 through 4	--	44
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MR. PORTER: We'll move on to Case 5217.

MR. DERRYBERRY: Case 5217. In the matter of the hearing called by the Oil Conservation Commission upon its own motion to consider the adoption of a Commission definition for "Temporary Abandonment" of wells, and further to consider the amendment of Rule 202 of the Commission Rules and Regulations to adopt an administrative procedure for abandonment of wells in this state for a limited period of time only, and for the adoption of a requirement for an individual one-well plugging bond for the continued temporary abandonment of any well after the expiration of the administrative period of time in which such well could be temporarily abandoned.

MR. CARR: May it please the Commission, I am William F. Carr, appearing for the Commission, and I have three witnesses to be sworn.

MR. PORTER: Let's have all the Witnesses stand and be sworn at the same time. Just a moment, Mr. Kellahin?

MR. KELLAHIN: If the Commission please, Jason Kellahin, Kellahin & Fox of Santa Fe, appearing on behalf of Caulkins Oil Company, Sun Oil Company, Yates Petroleum Corporation, Yates Drilling Company, Wilson Oil Company, Harvy Yates, Franklin, Aston & Fair, and Ralph Nix.

I have one witness I would like to have sworn.

MR. PORTER: All right. Does anyone else desire to be heard?

MR. HANAGAN: Mr. Porter, Peter Hanagan, with the New Mexico Oil and Gas Association; I have a brief statement to make.

MR. PORTER: Do you want to be sworn?

MR. HANAGAN: I'm willing to be sworn.

MR. PORTER: All right.

MR. COBB: Mr. Porter, Joe P. Cobb, Phillips, Odessa. I have a statement to make, and if you want me to be sworn, I'll be glad to be.

MR. PORTER: All right.

MR. BROWN: Mr. Porter, Clyde Brown, Continental. We'll have a brief statement; not testimony, really, just a statement out our position.

MR. PORTER: All right. Mr. Motter?

MR. MOTTER: Cities Service, same line; we have a brief statement to make.

MR. PORTER: Well, I'm sure there are others who will have statements to make. Right now I would like to find out if there are other people who have not indicated that they would like to project testimony. If not, all

NUTTER-DIRECT

CASE 5217

Page..... 5

those who intend to be sworn, please stand.

(Witnesses sworn.)

DAN NUTTER

called as a witness, having been first duly sworn, was
examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name for the record, please?

A Dan Nutter.

Q And your occupation?

A Chief Engineer, New Mexico Oil Conservation
Commission.

Q Mr. Nutter, do your duties as Chief Petroleum
Engineer for the Oil Conservation Commission include
making recommendations to the Commission on proposed
rule changes?

A Yes, sir, they do.

Q Are you familiar with the change proposed and
being considered by the Commission in Case 5217?

A Yes, sir, I am.

Q Mr. Nutter, what are you proposing in Case 5217?

A I am proposing certain amendments to the Rules
and Regulations of the Commission. The first amendment

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NUTTER-DIRECT

CASE 5217

Page.....6.....

would be the adoption of a definition for the words "Temporary Abandonment of Well." The second would be a revision of Rule 202 of the Commission's Rules and Regulations, which, at the present time, is entitled simply "Method of Plugging." We would change the name of the Rule to "Plugging and Temporary Abandonment," and adopt the procedure whereby administrative approval at the District Office could be given for the temporary abandonment of oil and gas wells.

Q Mr. Nutter, do you propose to go into the Rules and all the provisions of the Rules at this time?

A No, I do not. I propose at this time to go into certain generalities concerning active and inactive wells, the trends that seem to be developing concerning these wells, and the reasons therefor. Mr. Arnold, Supervisor of our Aztec Office, and Mr. Ramey, Supervisor of our Hobbs Office, will then explain some of the problems that they have encountered with inactive wells. I will then return to the stand to explain the Rule as it has been circulated and attempt to answer any questions anyone may have concerning it.

Q Would you refer to what has been identified as Exhibit 1 in Case 5217 and explain it. First, what does

NUTTER-DIRECT

CASE 5217

Page.....7

it show in respect to an active and inactive oil well?

A Exhibit No. 1 in Case 5217 is entitled "Inactive Wells in the State of New Mexico Compared to Active Wells." It is a summary from 1968 through 1973. These figures are compiled from the Statistical Report Annual and are based on the number of wells listed in that Statistical Report at the end of each of these respective years. We see that the total number of oil wells in the State at the end of 1968 was 19,353. This number has gradually increased to where at the end of 1973 the total number of oil wells was 20,050. The inactive oil wells at the end of 1968 was 2,356, which was 12.2 percent of the total number of oil wells. The inactive oil wells at the end of 1973 was 3,938, or 19.6 percent. Now, we'll notice at the end of 1968 that meant that one out of eight wells that was classified as an oil well, or had been an oil well, was now an inactive well that had not been plugged and abandoned. At the end of 1973 this number had grown from one out of eight to one out of five in the inactive status.

Now, the next portion of the Exhibit is total gas wells. We see at the end of 1968 we had 8,841 gas wells. At the end of 1973 we had 10,136. The number of inactive gas wells has not grown as much as the number of

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NUTTER-DIRECT

CASE 5217

Page.....8.....

inactive oil wells because we see at the end of 1968 we had 302 inactive gas wells; at the end of 1973 we had 351, and the percentage had gone from 3.4 percent in '68 to 3.5 percent in '73. In the years '71 and '72 the percentage did increase to 3.9 and 3.8 percent respectively. Total wells in the State has gone from 28,194 at the end of '68 to 30,186 at the end of '73, or an increase of about 2,000. The inactive wells has gone from 2658 to 4289. The percent of inactive wells has gone from 9.4 percent of the total wells in the State at the end of 1968 were inactive to 14.2 percent of the wells at the end of 1973 were inactive.

Q Mr. Nutter, I notice there is a wide variation in the number of inactive oil wells as compared to the number of inactive gas wells. How do you explain that variation?

A Well, that's due basically to the difference between an oil well and a gas well, the nature of the well, and the Commission's Computer Program. If an oil well is completed, no matter how poor that oil well is, if it makes any oil at all this oil is put in a tank and sold, and that oil is reported to the Commission. It's marketable production; the production goes into the computer's

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memory, and that well is listed as a producing well. However, if that well never produces another drop, and the computer reads the well at the end of the year as a non-producer, it will classify it as an inactive well, which it is. On the other hand, a gas well, and I put quotes around the word "gas," if it's reported to the Commission, but it doesn't have any connection and may never get one, it may be such a marginal gas well that it may never be produced, but it doesn't have any reportable production so that well doesn't get into the computer's memory and it is not listed as an inactive gas well then if it doesn't have any production. So, at the end of the year, that well doesn't show up as anything. This contributes to a higher reading of inactive oil wells than inactive gas wells. In other words, many more non-commercial oil wells than non-commercial gas wells will be listed by the computer as inactive simply because the one category has been able to sell some production while the other has not, even though the latter may never sell anything. On the other side of the coin, there may be, and probably are, many so-called oil wells which the computer, the way it is programmed for statistical purposes, will call active, although these wells should be plugged and abandoned.

Now, for one thing, I refer to injection wells which were formerly oil wells but they are placed on injection. Now, the computer is not programmed to show injection as it analyzes a well each month, so if an injection well goes off of injection, it continues to carry it as an active well in the category of oil wells. It doesn't become an inactive well, but it is not listed as an injection well either. It comes out of the computer as an active oil well in many cases, so that would counter-balance the effect of the non-producible gas well, lowering that ratio, and it would tend to increase the number of gas wells with respect to the number of oil wells inactive. I know that is very confusing.

But, to get back to the original question, "Why is there such a variation between the percentage of inactive oil wells and inactive gas wells," the answer is that the inactive gas wells are probably too low, and, as a matter of fact, the inactive oil wells are probably too low too because we probably just don't pick up enough of them.

Q Mr. Nutter, does the compilation of figures on inactive and active wells include wells in other categories such plugged wells, disposal wells, water supply, active and inactive drilling wells, etc.?

NUTTER-DIRECT

CASE 5217

Page..... 11

A No, it does not. These figures are low in that respect. Now, of course, the category does not include plugged wells. A plugged well, once it is plugged and goes under the computer, it is listed as a P and A well and it won't be considered in any category then. A well, once it is put on salt-water disposal, is picked up by the computer as a SWD well and it's not in the figures. A well, once it is converted to a water supply well, isn't in these figures. Neither are inactive drilling wells, and there is some number of inactive drilling wells that are not included here. So, we do know that we've got some wells that should be shown as inactive that aren't shown in these figures that I have listed here on Exhibit 1.

Q Mr. Nutter, at this time I would like you to take what has been marked as Oil Conservation Commission's Exhibits 2 and 3 and explain them.

(Whereupon a discussion was held
off the record.)

BY MR. CARR:

A Exhibit 2 is simply a graphical depiction of the information that's on Exhibit 1 insofar as the gas wells are concerned. You can see there the total number of gas wells has gone from 88 to 41 to 10.36 by the blue

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line, it's identified as "Active Gas Wells" up at the top there. The red line is the total number of inactive gas wells; you can see it is the relatively flat plane at the bottom of the graph. The green line is the percentage of gas wells which are classified as inactive. You see it reached its little peak of 3.9 percent in 1971 and then has declined to 3.5 percent at the end of 1973.

Exhibit 3 over there on the right is the graphical depiction of oil wells. You see it has gone from 19,353 at the end of '68 to 20,050 in '63. The most important thing here is that we see the number of inactive oil wells has gone from a total of one out of eight here in '68 to one out of five at the end of '73.

Q Mr. Nutter, do you have anything further to add to your testimony at this time?

A No, I haven't. Mr. Arnold and Mr. Ramey will offer some evidence as to the problems that they've experienced in their districts in enforcing the existing rule. After that I shall return to the stand and offer what we consider to be one solution to the problem.

MR. CARR: Mr. Chairman, I have no further questions of Mr. Nutter at this time but I would like to reserve the right to recall him at a later time.

MR. PORTER: The Witness may be recalled later and be available for cross examination on what he has testified to already as well as the Rules he may propose.

MR. CARR: I call Mr. Emory Arnold.

(Witness previously sworn.)

EMORY ARNOLD

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name for the record, please.

A Emory Arnold.

Q Your occupation?

A I'm Supervisor of Commission's District 3.

Q Mr. Arnold, how long have you been so employed?

A For 23 years.

Q Do your duties include supervision of well plugging in the northwest?

A Yes, that's correct.

Q Are you familiar with what is proposed in Case 5217?

A Yes, I am.

Q Are you familiar with the present Rule 202

ARNOLD-DIRECT

CASE 5217

14

Page.....

governing temporary abandonment of wells?

A Yes.

Q Do you believe that this provides a practical approach to this problem in your portion of the State?

A No. The present Rule is impractical in that it states as follows: (Reading) If a well is to be temporarily abandoned, and no casing pulled, then a plug should be placed at the bottom and top of the casing in such a manner as to prevent the intrusion of any foreign matter. (End of reading.) If a well is cased to pay zone and the casing is in good condition, placing cement plugs at the top and bottom of the casing is unnecessary from a conservation standpoint and it is unnecessarily expensive from the operator's standpoint. As a result of this, this rule is very rarely enforced except in a case of temporarily abandoned wells which are to be abandoned for a period of years.

Q Mr. Arnold, would you recommend to the Commission any type of a rule which would require the plugging of wells while they still might be returned to beneficial use?

A No, it is not my position that wells which have any chance of being returned to beneficial use should be plugged prematurely. I do think that approved permits

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should be required for wells that are to be temporarily abandoned for a long period of time. I also think that the Commission should be authorized to require whatever evidence they think is necessary to show that the well is not causing waste of oil or gas or contamination of fresh water during the time it is temporarily abandoned.

Q Mr. Arnold, in 1971 you made or had made a study of the present magnitude at that time of temporarily abandoned wells in northwest New Mexico. Would you explain to the Commission the details of that survey and how you followed up on it?

A Right. In early 1971 we conducted a survey in the District Office of the Commission of the wells located in District No. 3. We included in this list all wells which seemed to us to be in a clearly abandoned status. It included wells that had been completed and never produced, such as low-volume-shut-in-gas wells, which were some distance from gathering facilities, but primarily it included wells which had previously produced but which had ceased producing. In many cases the period of activity of wells on this list span several years. Some are five, six years old. We did not include in the list wells and pressure maintenance projects or water floods

ARNOLD-DIRECT

CASE 5217

Page 16

because of the difficulty of determining bona fide abandoned wells in a waterflood. This list consisted of 488 wells, so we listed the wells by operator and mailed them to the operators of record for each of the wells and we asked the operators to clarify the status of each well and to give a statement of future intents relative to returning the well to beneficial use or in the alternative, to tell us when they were going to plug and abandon a well. We received responses relative to 430 of the 488 wells.

In the case of a large majority of these wells, the operators expressed a desire to continue the wells in temporarily abandoned status. I have listed about 7 or 8 reasons given, which I think shed some light on the problems. I'll read them to you. (Reading) (1) Shut-in pending reduced pipeline pressure and possible increased gas price. (2) Shut-in to save for possible water disposal wells. (3) Shut-in to save for possible water injection wells. (4) Waiting for compression facilities to be installed. (5) Well has potential producing zones behind the production casing which will be tested when the gas price, or when prices increase. (6) One well was being used by Wire Line Company to check their tools and lines and the operator wished to keep it for this purpose.

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(7) Some unsuccessful completions were being kept in the hope that improved technology may make the well an economic success. (8) Sentimental attachment. (End of reading.)

Prior to this Hearing we surveyed these same 488 wells in order to determine what we had accomplished with the survey. We found that 104 of the 488 wells have now been plugged and abandoned, 17 have been returned to production, 5 have been converted to water injection, 2 have been converted to water source wells, 1 is being used to supply leased fuel. The remaining 359 wells, the status is unchanged according to the records on file.

Q Mr. Arnold, are you representing that there were only 359 wells which are in a temporarily abandoned status in the northwest?

A No, many additional wells have ceased to produce since the Fall of 1971. Our computer section has just compiled a list of previously producing wells in our District which have failed to report production during the last 90 days, and this list contains 1329 total wells of which 933 were oil wells and 336 were gas wells. This 1329 wells does include a great number of wells on water plugs which possibly shouldn't be included on temporarily abandoned lists, so I'm not certain as to the accuracy of

that count, but it is obvious that there are probably close to 1000 wells in this District which should be defined as temporarily abandoned.

Q Mr. Arnold, do you believe that the present uncertainty concerning the price of oil and gas makes the proposed rule change impractical or untimely?

A No. I think that the fact that crude oil has increased rather substantially certainly will enable operators to take a second look at temporarily abandoned wells where there is any chance that they can secure any kind of production. Obviously you can produce wells to a much lower rate of completion at \$10 a barrel than you can at \$3 a barrel, so I think that wells that operators are keeping waiting for the price to increase, we should be able to expect a decision on. Also, the price of gas, although it hasn't increased as much as the price of crude oil has, is better, and we have already noted in our District that some wells are being worked over and put back on production that had been on inactive status. Also, there is one other point, casing is very short at the moment and price of casing is increased rather substantially, so in areas where pipe can be salvaged in these wells it is also an opportune time to do some plugging.

Q Mr. Arnold, would you recommend to the Commission that they require plugging bottomhole wells on Federal land?

A Yes, I believe that I would recommend that.

Q At the present time --

A (Interrupting) On temporarily abandoned wells on Federal land.

Q (Continuing) At the present time are you familiar with what sort of a control the Commission has been able to exercise over wells on Federal land?

A Actually, with no bond in effect, about the only remedy the State has on this type wells on Federal land is to sue for violation of the Rules.

Q Are you familiar with whether or not funds that are obtained pursuant to judgment could be used to plug the well, or would they go into the school fund?

A It is my understanding that they would go into the school fund.

Q Mr. Arnold, do you believe adoption of the proposed rule will get some wells plugged in New Mexico that at this time need to be plugged?

A Yes, I believe that it will.

Q Do you believe it will provide for tighter

ARNOLD-DIRECT
CROSS

CASE 5217
Page..... 20

administrative supervision of temporarily abandoned wells
in New Mexico?

A Yes, I believe so.

Q Do you support the proposed Rule as drafted?

A Yes, I do.

Q Do you recommend to the Commission that it be
adopted?

A Yes.

MR. CARR: I have no further questions of
Mr. Arnold.

MR. PORTER: Does anyone have any questions of
Mr. Arnold?

CROSS EXAMINATION

BY MR. PORTER:

Q Mr. Arnold, you say you're proposing that the
one-well bond be posted for Federal lands as well as fee
and State?

A Yes. One reason that I recommend that in our
District comes from the fact that probably somewhere be-
tween 80 and 90 percent of the wells drilled in District
3 are on Federal lands so that's where the problem is,
actually.

Q What about Indian land?

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ARNOLD-CROSS

Page..... 21

A A substantial number of wells are on Indian land also.

Q In other words, we don't want to discriminate against anybody.

A No, I sure don't.

MR. PORTER: Does anyone else have a question?

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Arnold, on Federal lands those wells do have a bond, don't they? Doesn't Federal law require it?

A Well, they don't have a bond over which the State of New Mexico has any jurisdiction.

Q But the USGS does have jurisdiction?

A I really would presume that if you want to find out about Federal bond regulations that probably you should call a USGS representative.

Q Well, I'm just asking you of your own knowledge, you have worked under them and worked with the USGS, have you not?

A I understand that they do have a bond but I'm not exactly clear as to the nature of this bond. I think that it is a performance bond as well as a plugging bond and I think they call it a lease bond, so it covers --

Q (Interrupting) In that respect it is similar

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to the New Mexico bond presently existing, is it not?

A Well, ours is strictly a plugging bond and not a performance bond.

Q Mr. Arnold, have you found, insofar as State and fee land is concerned, that the present bond is inadequate to obtain plugging where plugging should occur?

A We haven't experienced that yet. There is some question in my mind that the occasion might arise. In cases where an operator has a \$10,000 blanket-plugging bond, and where he might be operating 100, 150, or 200 wells on State or fee land, obviously the \$10,000 blanket-plugging bond is an insufficient amount to cover plugging.

Q Wouldn't the higher blanket bond then suffice rather than the one-well plugging bond for each temporary abandoned well?

A I wouldn't object to any way that you can arrive at the proper dollar figure to cover the responsibility --

Q (Interrupting) You wouldn't think an operator with 200 wells is going to default on plugging 200 wells, would you?

A I think we have to assume that that's a possibility.

Q You would want an individual plugging bond then

to cover 200 wells, is that what you are talking about?

A The blanket bond was your proposal I thought?

Q Yes, it is. Now I'm trying to arrive at what you think would be an adequate one.

A I really haven't analyzed that enough to know. I think that you almost have to look at the cost of plugging on an individual well's basis and either come up with an individual well bond which would be adequate to plug that well, or if you're going to come up with a blanket bond you start with the individual case and --

Q (Interrupting) Wouldn't the salvage value in most cases pay for the cost of plugging, or approximately pay it?

A It certainly would in some areas, but in other areas, it depends on, for instance, how much casing can be salvaged from the well, of course.

Q That would be a factor.

A That would be a factor, right. I have seen quite a few plugging jobs where the salvage has more than paid for the plugging.

MR. KELLAHIN: Thank you.

MR. TRAYWICK: Mr. Chairman, is it within the rules of procedure for me to answer Mr. Kellahin's

question?

MR. PORTER: I would like to have you answer it for him Mr. Traywick, if you would. Let the record show that this is Mr. Carl Traywick who works for the United States Geological Survey in Roswell. I believe he has been called upon to explain some of the facts concerning Federal bonding requirements.

MR. TRAYWICK: Thank you. Mr. Kellahin, Federal bonds for any lease issued after the early part of 1960, or for leases issued after the early part of 1960, are \$10,000 or \$25,000 statewide bonds to cover all the wells of the principal in New Mexico. Releases issued before that that have not been renewed or extended after that where the bond is \$5,000. The bond covers the requirements of the lease to pay royalty to comply with the regulations to comply with any orders of the Supervisor as well as ultimate plugging, abandonment and restoring of the surface. There are also what we call KGS lease bonds in the amount of \$1,000, but they just cover the surface. When they're before a well is drilled why you must have a lease bond. So, actually we do have bonds, however, you run into, since this will be a new rule if adopted, it would be better to have new bonds or bonds that accept this rule retroactively.

which may already be in effect.

I think what I'm trying to say is, consider a lease which has a temporarily abandoned well on it, and you got it drilled and had a bond, and then many changes occur in the length of time -- maybe that well has been temporarily abandoned for 5 or 10 years -- and we call on the lessee, present lessee to plug, and he says, "Well, that's not my well; I didn't drill it," so we said we would call the bonding company, so the bonding company would call on them, and they responded with what we call a surety shuffle. They say, "Well, my principal didn't drill that well, go back to the bond that covered it when it was drilled and abandoned." By that time the bonding company which covered the original principal to drill the well may be merged in another company, it may be bankrupt, or it may be changed in many ways. So, the more change you have in the title the more difficult it becomes, even though you do have a bond, so I think the bond requirement of the Commission would be a good thing and eliminate a lot of jurisdictional or bonding-company-liability arguments as to which bonding company should provide the money to have the well plugged. Does that answer your question, Mr. Kellahin?

MR. KELLAHIN: Yes, sir, it does, but would you say an individual well bond or a blanket bond?

MR. TRAYWICK: Either one. By their own terms they cover the operation as principal, and the principal does work; it is the bond that should be used to perfect a defect. We also have Unit bonds which are put up by unit operators who have a need for them. We do have one or two.

MR. KELLAHIN: Thank you, sir.

MR. TRAYWICK: Thank you, Mr. Chairman.

MR. PORTER: I have one question, Mr. Arnold. Recently I made a public appearance wherein people have expressed a concern about the number of so-called capped wells in the State. My answer has been that I've been browsing around the oil fields for about 30 years and I guess I never have seen one. I do know that wells are shut-in at times for various reasons. Now, the wells we are talking about here, are you discussing inactive wells or wells that actually, under present conditions, are not economical to produce, is that right?

MR. ARNOLD: That's right.

MR. PORTER: So, you are not talking about wells that are drilled and then shut-in, as the impression gets

around, for a better, more advantageous tax position or waiting for higher prices?

MR. ARNOLD: I wouldn't say that; I would say insofar as gas wells I have seen situations where negotiations were going on on a gas-purchase contract, and also sometimes during Federal Power Commission delays in approval of a contract, that gas wells would be shut-in for a period of months before they were connected in, and I'm sure within our count there may have been wells in that category in there, but a very minor number of wells in this count would be wells which were in that category.

MR. PORTER: Thank you. Does anyone else have a question? Mr. Carr?

REDIRECT EXAMINATION

BY MR. CARR:

Q Mr. Arnold, I believe you stated that it might be possible to alleviate part of the problems you have with temporarily abandoned wells in the northwest by increasing the amount of the blanket bond, was that your testimony? It might be possible to alleviate that situation?

A I believe that was my response in answer to a question.

Q Are you aware of any limitations, statutory or

ARNOLD-REDIRECT
RAMEY-DIRECT

CASE 5217

Page..... 28

otherwise, on the amount of the bond, blanket bond, that the Commission may seek?

A I am not aware of any limitations. It seems to me that what the Legislature had in mind when they wrote the law was that we should relate the cost of the bond to the cost of plugging the well. Whether it is done on an individual basis or on a blanket-bond basis.

MR. CARR: I have nothing further.

MR. PORTER: Any further questions? The Witness may be excused.

MR. CARR: I call Mr. Joe Ramey.

(Witness previously sworn.)

JOE D. RAMEY

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q Would you state your name for the record, please?

A Joe D. Ramey.

Q Mr. Ramey, what is your occupation?

A Supervisor of the Commission's District 1 at Hobbs, New Mexico.

Q How long have you been so employed?

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RAMEY-DIRECT

CASE 5217

Page..... 29

A Since October of '59.

Q Mr. Ramey, do your duties as Supervisor of the Commission's District 1 include supervision of the plugging of wells?

A Yes, sir, it does.

Q Are you familiar with what is proposed in Case 5217?

A Yes, I am.

Q Mr. Ramey, you heard Mr. Arnold testify as to certain problems that he had had concerning temporarily abandoned wells in northwest New Mexico. Do you encounter similar problems in the southeastern portion of the State?

A Yes. I haven't had any operator that wanted to keep a well for sentimental value yet, but I'm sure I have some. We get about the same response. An operator, if he bothers to report on shutting-in a well, will say, "To be shut-in for work-over possibilities or held for water disposal or secondary recovery or work-over possibilities."

Q Mr. Ramey, could you tell me how many temporarily abandoned wells there are in District 1 and in District 2 in New Mexico?

A From the computer printout, which I received last

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week, my count in District 1 was 2,994 wells and in District 2, 1,085. These are inactive, unreported, dead, shut-in, temporarily abandoned.

Q Do you consider the present amount of bond that the Commission is able to require inadequate?

A Yes, I think it is. We had one instance, a plugging case some time ago, where an operator just suddenly shut-in six wells, five of which he reports on and one well which we discovered when we made an inspection of the lease which the operator had drilled without obtaining permission to drill; we had no paper work whatsoever on the well. We attempted to contact this operator and finally received a response from him in that he sent in a little bit of paper work to cover the one well, but he never would indicate that he was going to plug the well, so we had the plug-in case and were prepared to foreclose on the bond, but in essence we had six wells and one \$10,000 bond.

Q Did you consider the possibility of salvaging various material located on the leases?

A Yes. We checked into that possibility and found it to be tied up in bankruptcy suit to where I didn't think that the State of New Mexico or the Oil Commission as

such could have put a lien on the property to help pay for the plugging of the well. In this case, \$10,000 would not be adequate to plug six wells.

Q Do you believe that increasing the amount of blanket bond would be a possible alternative to the proposal before the Commission today?

A That would be an alternative, but I believe we're limited by statute to \$10,000.

Q Mr. Ramey, do you believe that the adoption of the proposed Rule as written would get the wells plugged which currently need to be plugged in your portion of the State?

A Yes. I think it would make an operator look at the well. Now we've had instances up in our deep Pennsylvanian play where we have high water production, eventually the well will water out, when it does the operator will go in and pull his casing, or not the casing but the tubing out of the well, and use it elsewhere and plan on plugging the well eventually, but he'll leave it shut-in for a period of time. We've had several instances here lately where, when they've gone back to plug the well, we find pipe blast, and in some cases the pipe has sheared off completely to where the well

RAMEY-DIRECT
CROSS

CASE 5217

Page..... 32

cannot be adequately plugged.

Q Do you believe the proposed Rule would enable you to exercise tighter supervision over temporarily abandoned wells in the southeastern part of the State?

A Yes, I do; I certainly do.

Q Do you support the proposed Rule as drafted?

A Yes, I would.

Q Would you recommend to the Commission that it be adopted?

A I would.

MR. CARR: I have no further questions of this Witness.

MR. PORTER: Does anyone have any questions of Mr. Ramey?

CROSS EXAMINATION

BY MR. PORTER:

Q Mr. Ramey, you have made reference, and Mr. Carr also made reference to the proposed Rule which has not been read here this morning. Has this Rule been circulated to our mailing list?

A Yes, I understand it was; it was to be circulated with the docket but I think it was overloaded and it was circulated at a later date,

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RAMEY-CROSS
NUTTER-DIRECT

CASE 5217
Page 33

Q So you are referring to a Rule which most of the people here should be familiar with?

A Yes, sir.

MR. PORTER: Any further questions? The Witness may be excused.

MR. CARR: At this time I recall Mr. Nutter.

DIRECT EXAMINATION OF MR. NUTTER

BY MR. CARR:

Q Mr. Nutter, Case 5217 has been advertised as including a definition of the phrase "temporarily abandoned," plus a revision of Rule 202 of the Commission Rules and Regulations. Would you please turn to the definition of "temporarily abandoned" and explain why this definition is necessary?

A Yes, sir, I will. We propose the adoption in the Definition Section of the Rules and Regulations of the definition for "Temporary Abandonment" which would be as follows: (Reading) Temporary Abandonment -- and it's spelled wrong on here -- (Continuing) shall mean a state or period of suspended operations during which no continuous drilling, production, injection, storage, or work-over procedures have taken place. Such period shall be sixty days for drilling wells and six months for all

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other classes of wells. (End of reading.) We recognize the fact that there are conditions and circumstances that justify temporary abandonment of wells. The present Rule relative to temporary abandonment is confusing, in my opinion, in that it does not explicitly define the term "Temporary Abandonment," nor does it differentiate between the types of wells which are to be temporarily abandoned. Wells are temporarily abandoned for a number of legitimate reasons.

First, a well may be drilled, tested, properly cased and completed as a low-volume producing oil or gas well, but may be geographically located so far from marketing facilities that the operator may wish to shut the well in and leave it until additional drilling has been done in the area or until marketing problems are solved.

Second, wells which have been producing often reach a rate of decline which makes them uneconomical to produce and the operator may wish to shut the well in and wait for an anticipated price increase. The validity of this condition has been demonstrated during the last several months as price increases for oil and gas have caused some previously temporarily abandoned wells to be put back on production. Many wells of this type have also been worked over because of the price increase.

NUTTER- DIRECT

CASE 5217

Page..... 35

Third, in areas where water flooding and secondary recovery operations may be instituted, many operators wish to keep wells which previously produced, for use as water injection wells or as possible producers. This can be a legitimate reason for the delaying of the plugging of wells.

Fourth, some wells which have depleted the original completion zone may have potential pays behind the casing. The operator may wish to take time to evaluate such prospects before plugging. Such secondary completion attempts have been delayed by low prices over the last several years so some wells of this type may remain abandoned for substantial periods of time; others are being opened up now in these secondary zones.

Q Mr. Nutter, are wells ever temporarily abandoned for reasons not so legitimate as those just enumerated?

A Oh, yes. I have received requests for temporary abandonment of wells for every reason that you can imagine.

Q Would you care to go into those?

A Yes, I'll just mention a few of them. The Officer of one corporation one time told me, "We've got a producing gas well here, although it's not on production, but our corporation papers haven't been executed because

NUTTER- DIRECT

CASE 5217

Page.....36.....

Mr. So-and-so, who was a Baseball Hall of Fame player, or Hall of Fame baseball player, and he's Chairman of the Board, well he won't execute the papers because he is mad at the President of the corporation for marrying his daughter." So, he wants to keep that well.

Another one said, "Our oil well is capable of commercial production but the Land Office wants to cancel our lease. If we show production here they'll cancel the rest of our leases." I never could figure that one out.

Another one said, "We could produce this well but we want to keep it shut-in to try to get dry-hole money."

Another one, a religious cult drilled a well in this State, and when we approached them to plug the well they informed us that the spirit of one of their members had gone down to the bottom of the hole and observed the formation and the well will produce they said, so they won't plug it.

We've had requests for temporary abandonment ^{for water plugging} purposes in pools that aren't even suitable for water ^{for water plugging} plugging.

We've had requests for temporary abandonment on gas wells 60 miles from the nearest pipeline and the

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NUTTER- DIRECT

CASE 5217

Page..... 37

well would only make 20 to 25 mcf of gas per day.

We've had requests for TA for wells for potential use as salt-water disposal in areas where there is no water produced.

We've had requests for temporary abandonment, and the reason that they are trying to unload this property is, "We'll jeopardize our selling price if we have to show a plugged well on here."

Then, for the last unusual reason, one man asked me not to make him plug the well because his wife was divorcing him and he wanted her to be responsible for it when they got their divorce.

Those are some of the reasons we have had for temporary abandonment.

Q Mr. Nutter, do you have any other reasons why operators don't want to plug wells?

A Yes, sentimental attachment, as Mr. Arnold mentioned. This occurs not only in the small company but the large company as well. People talk about the non-existence of the corporate heart. I say there is such a thing as the corporate heart because it appears to me that sometimes the big corporation, just as much as sometimes the small company, seems to have some sort of sentimental

NUTTER- DIRECT

CASE 5217

Page..... 38

attachment for some of its wells. Without any good cause shown we often hear the plea to not plug certain wells.

No cause, I repeat, no reason. This can only be evidence of this sentimental attachment, as we sometimes use the phrase.

Q Mr. Nutter, now that you have covered the trends toward increased numbers of temporarily abandoned wells, and you have given the reasons often offered for not plugging wells, would you care to summarize your testimony and draw any conclusions at this time?

A Yes. To summarize the first part of my testimony, it appears that the number of wells on the inactive list is growing; the State is getting older in production every year and it's only a natural trend that the number of nonproducing wells will increase as the production in a State gets older. It is one of the younger states in production but it's arriving at approximately middle-age I'd say right now. So, we will see an increase in the number of wells.

We also see an increase in the variety of reasons because there are legitimate reasons in some areas that won't hold water anymore. We've had the price increases that have justified putting wells on production;

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NUTTER- DIRECT

CASE 5217

Page..... 39

still some of these wells can't be economically produced so the only trend we can see is increasing numbers.

Q Mr. Nutter, if some action is not taken by the Commission, what do you predict may happen in this situation in the near future?

A Well, I predict that as the years go on, instead of having 4,000 or 5,000 TA wells, we'll have thousands and thousands and thousands of them unless some action is not taken, and unless some rigid means is not made to determine which wells legitimately should be left in a temporary abandoned status and which ones should action be taken on and plugging required if necessary.

Q If nothing is done in the immediate future, what do you see would be the eventual possible solution?

A Well, the only eventual possible solution will be that public funds are going to have to be used one way or the other to plug the wells. Now, New York and Pennsylvania, of course, are old producing states. New York, I'm sure, and I think Pennsylvania, had the problem of many many old old abandoned wells there and they got them plugged during Johnson's Administration under Lady Bird's Beautification Program. They used Federal funds for plugging those. Michigan has a fund, I believe;

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NUTTER- DIRECT

CASE 5217

Page..... 40.....

if they don't have the fund a recommendation has been made by the Interstate Oil Compact Commission that they set up the fund, I believe it is already there, to have a revolving fund established for plugging of wells.

Q How is such a fund established ?

A The only way it can be established properly is through taxation on production. It shouldn't come out of the general fund; the general taxpayer shouldn't have to pay it.

Q Mr. Nutter, would you refer to what has been marked as Oil Conservation Commission's Exhibit No. 4, which is the text of the proposed Rule, go through the Rule and explain what changes have been recommended and the reasons for these changes?

A Yes, I will. Okay, we've already gone through the proposed definition of "Temporary Abandonment." We now have the proposed revision of Rule 202. Rule 202 as presently constituted consists of three sections, A, B and C. The new one would consist of A, B and C. A is labeled "Plugging." It is the same as the first paragraph in the existing Rule with no change. The second paragraph of the existing Rule would be identified as Paragraph B, "Temporary Abandonment," and read as follows: (Reading) No

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NUTTER- DIRECT

CASE 5217

Page..... 41

well shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. (End of reading.)

In other words, the well gets a free ride for six months if it is temporarily abandoned as defined up above here.

(Reading) Such permit shall be for a period not to exceed six months and shall be requested from the appropriate District Office of the Commission by filing Form C 103 in triplicate. (End of reading.) So there we've had the six-month free ride, we now get a six-month Temporary Abandonment Permit from the District Office. This would make a total of one year that the well has up to now.

(Reading) No such permit shall be approved unless evidence is furnished to the Commission that the condition of the well is such as to prevent damage to the producing zone migration of hydrocarbons or water, the contamination of fresh water or other natural resources or the leakage of any substance at the surface. The District Supervisor of the appropriate District Office of the Commission shall have authority to grant one extension to the permit for temporary abandonment. (End of reading.) This is after the six-month free ride and the six-month Permit for Temporary Abandonment. (Reading) Such extension shall

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NUTTER- DIRECT

CASE 5217

Page..... 42

not exceed one year and shall be requested in the same manner as the original Permit for Temporary Abandonment. No extension shall be approved unless good cause therefor shown and evidence is furnished that the continued condition of the well is as described above. (End of reading.) So there we've had six-months free ride, six-months permit, and a one year extension. The well has now been temporarily abandoned, been in a state or period of suspended operations for two years. (Reading) Upon expiration of the Permit for Temporary Abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned unless it can be shown to the Commission after notice of hearing that good cause exists why the well should not be plugged and abandoned and a Permit for Further Temporary Abandonment should be issued. No such Permit for Further Temporary Abandonment shall be approved by the Commission unless a one-well-plugging bond for the well, in an amount satisfactory to the Commission, is on file with the Commission to insure future plugging of the well. (End of reading.)

This requirement in this last paragraph that I read would mean that after a two-year period in which

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the well is in a state of limbo it would have to be plugged and abandoned unless the operator of the well would furnish a one-well bond in an amount satisfactory to the Commission. This would probably have to vary depending upon the depth of the well, the location of the well, the type of well it is, the condition of the well, the amount of possible salvageable casing in the well; all of these things would be considered in establishing the amount of the one-well bond for the well. Unless the owner of the well came into the Commission and furnished the good cause, the evidence why this well should continue in a state of suspended operation for more than a two-year period.

Paragraph C is the same as Section C of the existing Rule with some very minor word changing. It reads (Reading) When drilling operations on a well have been suspended for 60 days, the well shall be plugged and abandoned unless a Permit for Temporary Abandonment has been obtained for the well in accordance with Section B above. (End of reading.) So, that's about all that the Rule says and I would recommend its adoption as circulated.

Q Mr. Nutter, do you have anything further to add to your testimony at this time?

NUTTER- DIRECT

CASE 5217

Page.....44

A No, I haven't.

MR. CARR: If not, I'll offer Oil Conservation Commission's Exhibits 1 through 4.

MR. PORTER: Exhibits 1 through 4 will be made a part of the record.

(Whereupon, Commission's Exhibits Nos. 1 through 4 were admitted into evidence.)

MR. CARR: I have nothing further at this time.

MR. PORTER: Any questions of Mr. Nutter concerning his prior testimony or his testimony on the Rule that he just recommended?

MR. RAMEY: Mr. Nutter, you stated that the part of the bond provision may be the amount of salvageable casing in the well?

MR. NUTTER: No, no. I said that in establishing the amount of bond that would be required we would look at the amount of casing that is salvageable in the well. If the casing is cemented from top to bottom then the plugging company is not going to get any salvage out of the well and the bond should be higher. If there is 5,000 feet of pipe in there that should be pullable, then it is conceivable that the bond should be less.

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MR. BORKENHAGEN: Mr. Chairman, Robert Borkenhagen for Michael Grace, one question Mr. Nutter. Are you recommending a set amount of increase or totally leaving that up to the Commission as to the amount of increase?

MR. NUTTER: In the bond?

MR. BORKENHAGEN: Yes.

MR. NUTTER: The statute limits the amount that the Commission can establish for a bond at \$10,000, and there are some wells that a one-well bond should be \$10,000; other wells \$20,000 will plug them if there is some salvage there.

MR. BORKENHAGEN: As I understand it then, the bond will be in no way related to the raising of revenue at all?

MR. NUTTER: No, sir, it has nothing to do with the initial bond that's required for the well. This is a \$10,000 blanket bond and a \$5,000 one-well bond. This is for drilling of the well and it's to endure until the well is plugged and abandoned. However, if a well goes on this temporary abandoned status, it would have to have an individual bond on it. Of course, if it originally had a one-well bond, that original one-well bond could be cancelled and a new bond posted, or, if the well has a

one-well bond on it no other new bond would be required. It would be optional.

MR. PORTER: Any further questions?

MR. TRAYWICK: Mr. Nutter, you mentioned salvage value -- I'm Carl Traywick -- who do you consider owns the pipe?

MR. NUTTER: That is a good question. I hear sometimes that on an abandoned lease that the owner of the lease, the lessor, owns the well and all of the appurtenant equipment, including pipe in the hole. Sometimes these requirements for plugging wells are issued while the lease is still in effect, in which case the operator of the well owns that pipe, and if we require him to plug it, and he gets in a suit with his -- and he doesn't plug it and the insurance company has to plug it, they're going to give the pipe to the salvage company and then there is going to be a possible hassle between the insurance company, the salvage company and the owner or operator of the well as to whose pipe that was, but the insurance company is not going to come up on the short end of the stick in most cases.

MR. PORTER: Any further questions? Mr. Nutter may be excused. Does this conclude your testimony Mr.

LAMB-DIRECT

CASE 5217

Page 47

Carr?

MR. CARR: Yes, it does.

MR. PORTER: Who would like to go next? Mr. Kellahin, would you like to call your witness?

The Hearing will come to order, please. Mr. Kellahin.

MR. KELLAHIN: I would like to call Mr. Raymond Lamb, I believe he has previously been sworn.

MR. PORTER: The record will show that Mr. Lamb has been sworn.

(Witness previously sworn.)

N. RAYMOND LAMB

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A N. Raymond Lamb.

Q What business are you engaged in, Mr. Lamb?

A The Geological Engineering business.

Q Where are you located?

A Artesia, New Mexico.

Q How long have you worked in the Geological

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Engineering business in Artesia?

A In Artesia?

Q Yes, sir.

A Thirty-one years.

Q In connection with your work do you do work for Yates Petroleum Corporation, Yates Drilling Company, Wilson Oil Company, Harvey Yates, and others?

A I do.

Q Are you familiar with operations in the Artesia area?

A I am.

Q Have you previously testified before the Oil Conservation Commission and made your qualifications a matter of record?

A I have.

MR. KELLAHIN: Are the Witness' qualifications acceptable?

MR. PORTER: Yes, sir, they are.

BY MR. KELLAHIN:

Q Mr. Lamb, you heard the testimony in connection with the proposed Rules' changes in Case 5217. Do you visualize any problems that would arise as a result of the adoption of those Rules?

LAMB-DIRECT

CASE 5217

Page.....49.....

A Well, it appears to me basically there'd be two problems that have been presented here: That it would put an undue burden on the operator from the standpoint of a bond, and the need to come to a hearing to justify extension of temporary abandonment. Those are the two main items that I see. Now, as far as reporting to the Commission the status of your temporarily abandoned well, I'm sure this is necessary and could be done so that they could make full evaluation of all wells not plugged.

Q What would you propose as a solution to that problem, Mr. Lamb?

A Well, actually, when you come to the bonding, the people that you listed here have been in business in New Mexico probably as long as the Oil Conservation Commission has been here, and we have operated under State bond of blanket bond of \$10,000, and as far as I know, we have had no problems. To place another bond on each individual well that is temporarily abandoned more than two years is an undue burden, and also the coming to a hearing to present this would be a burden upon the operator as well as an extreme load upon the Commission, as I see it.

Q Now, Mr. Lamb, have you had any experience with

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temporarily abandoned wells coming back on your own production and being utilized for other purposes?

A Yes, I'm more familiar with Wilson Oil Company and we have had a number of temporarily abandoned wells in the past.

Q Could you give an estimate of how many?

A Well, I think probably 15 would be pretty close in the Wilson Pool Area, and all of those wells now, except one, will probably be put back into production or disposal wells in the entire area. Now we had some that had no merit and were plugged and abandoned.

Q They were plugged and abandoned at the time they were completed, is that correct?

A That's right.

Q Now, for what purposes would you visualize the need for keeping the wells temporarily abandoned?

A Well, the industry is in the throes of a technical revolution at this point by the demands of energy in the United States, and each year we see new techniques coming in and new ideas. A number of the fields in New Mexico have been put under secondary recovery from primary; there are numerous others that can be. This transition is not an all-of-a-sudden transition

from primary to secondary, and at times there are a number of temporarily abandoned wells in this transition period that are just left shut-in or temporarily abandoned.

We're now approaching another situation which will develop in New Mexico, and that is the transition from secondary to tertiary, and that is going to set aside a number of temporarily abandoned wells until the processes are ready to go.

Q Now, is it, in your opinion, a practical thing then to require a notice of hearing on each one of these individual wells before you can hold it on temporary abandon status?

A I don't see it as a practical standpoint from the Commission or from the operator's standpoint.

Q Why do you say that?

A Well, we just talked about 4000 temporarily abandoned wells and I can't expect the Commission would look forward to 4000 hearings.

Q And 4000 bonds?

A And 4000 bonds.

Q Do you have any other comments, Mr. Lamb?

A Well, let me comment a little about some experiences that we have had. We had a well on the north end

drilled by Gulf, temporarily abandoned, and turned over to Wilson Oil Company for about five years, and due to various reasons, not being able to get the land together, price not being right, and so forth, during that four or five years we did nothing with the well, and then here about a year, a year and a half ago, we made arrangements to have the well re-entered and made a Devonian discovery. Now, whether we would have stayed with the well, and paid the bond, and had the hearing, I don't know, but it certainly would have been a bigger question. Now, at this point we're at another crossroads on a well on the north end, off-set to this discovery well which went to the Devonian and was a questionable well, but at this point we have now for a year and a half been attempting to make land arrangements and re-entry arrangements to carry this well to the Ellenburger, which is vital to the New Mexico industry as far as deep production is concerned. We're not negligent in it, it's just that we can't get the operators in the right frame of mind to undertake this project in this wildcat area. So, to come to a hearing at this particular well would require another six months. The burden of coming here with technical advice and presentation to the Commission certainly could be used in

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the energy relief situation in the field, in my opinion, better there than here. I would also make one other suggestion: That on temporarily abandoned wells that the Commission set a definite date of say January 1st or July 1st or whatever it is. The random filing of these reports is a burden to us as an operator, and is also, I can see, a burden to the Commission to keep track of them.

Q You would rather make up your list and file it at regular intervals every year?

A That's right, and we have all the confidence in the world in the Commission's District Supervisors and if they felt that they needed administrative approval on down the road for further extensions, I think that in the final analysis it will be the Director of the Commission and his staff that make the extension, so why require the hearing?

Q Then do you recommend administrative procedure or additional extensions in the event the District Supervisor doesn't feel he can grant them?

A I do.

Q Is that what you're saying?

A That's right.

Q But initially you would give authority to the District Supervisor to grant any number of extensions

rather than limiting them to the two-year period?

A Yes.

Q Is that correct?

A That's right.

Q Do you have anything else?

A No, I have nothing else.

MR. KELLAHIN: That's all I have of the Witness,
Mr. Porter.

MR. PORTER: Does anyone have any questions of
Mr. Lamb? Mr. Trujillo?

MR. TRUJILLO: Mr. Lamb, do you have a period of
time that you would recommend for which a temporarily
abandoned well may retain that status?

MR. LAMB: When you look at each individual
case you really can't arrive at a time. Now, for example,
I'm looking at a well now that's been temporarily abandoned
for about six years. The gas market is available and the
price is right, so why not go in and recomplete the gas,
Yates gas which is above the normal oil producing horizon
and put in a line and sell it?

MR. TRUJILLO: So, are you saying that the
temporarily abandoned status should remain indefinitely?

MR. LAMB: As long as you can justify it to

the Commission's staff. Now, if there is an indication that you just want to pass the buck on plugging the well, that's another problem.

MR. TRUJILLO: Well, should that problem be attached to a regulation whereby a well should be plugged within a certain length of time?

MR. LAMB: I think the timing is there. All of your extensions have to be approved and justified before the Commission staff now. If you don't justify it I think --

MR. TRUJILLO: (Interrupting) You think an extension should be granted indefinitely is what you're saying?

MR. LAMB: Oh, no. No, I think that your procedure of taking a record of your own wells periodically and reporting to the State is in order. I think it's in order.

MR. PORTER: You don't think any extension should be open-ended, it should be for a definite period of time and renewable upon request of the operator?

MR. LAMB: That's right, and for just reason.

MR. PORTER: Right.

MR. LAMB: Now, I don't go with Mr. Arnold's

sentimental reasons; I don't think that is justifiable.

MR. PORTER: I doubt if Mr. Arnold thinks that's justifiable.

MR. TRUJILLO: That's all Mr. Lamb.

MR. PORTER: Do you think our present Rule is adequate, Mr. Lamb, the bonding requirements?

MR. LAMB: As far as bonding for an operator?

MR. PORTER: Yes. As far as adventually getting all the wells plugged.

MR. LAMB: Well, Mr. Porter, the thought had never crossed our minds that we weren't responsible either with or without a bond.

MR. PORTER: Well, I'm sure that's true of most operators, but you've got the eventuality of people leaving wells that are unplugged. When you're in my position, for instance, the surety company could come in and put a \$10,000 check on my desk, and the Commission is saddled with the responsibility of maybe plugging wells. There are a lot of situations where numerous stripper wells are sold one operator to another, I believe that has been indicated by some previous testimony. You do get into problems where perhaps the bond is not adequate to cover.

MR. LAMB: Well, I would think, Mr. Porter,

that in the changing times, from the date the bond amount was set to now, we have had drastic changes in the way of depth, and so forth, and if we had any bond changes, I would suggest that we have it changed in the Legislature and have a larger blanket bond, if that seems to be a problem. But, in posing an individual bond on a temporarily abandoned well, it is -- really, truly, personally it takes money out of the pocket of an operator that he could spend on exploration.

MR. PORTER: You feel that what has been recommended here would be an undue burden on the operator for both the requirement of hearing and individual well bond?

MR. LAMB: That's the objection that I have, Mr. Porter.

MR. PORTER: Does anyone else have a question?
Mr. Carr.

MR. CARR: Mr. Lamb, are you familiar with what a bond costs?

MR. LAMB: Well, I think the last one we bought \$10,000 was about \$100 a year.

MR. CARR: It is about 10 percent?

MR. LAMB: Yes, but we're talking about a well

that has no income.

MR. CARR: That's right. We wanted that in the record as to the type of figure we were talking about in the \$10,000 bond.

MR. LAMB: Yes. I would repeat that if I would see any changes in the bonding, I would suggest a change in the limit of the blanket bond.

MR. PORTER: Do you have anymore questions?
The Witness may be excused.

MR. BORKENHAGEN: Mr. Lamb, let me ask you one final question before you go. What would it cost you to come to a hearing like this on that increased bond if you had to do that?

MR. LAMB: Well, by the time you bring your lawyer, and so forth, it will be about \$600 a trip.

MR. BORKENHAGEN: Thank you.

MR. LAMB: If you've got 100 wells you're running into money.

MR. PORTER: What if you leave your lawyer at home? (Laughter) You don't have to answer that. It might cost you more.

Mr. Hanagan, would you like to put on your testimony now?

Let the record show that Mr. Hanagan was previously sworn.

MR. HANAGAN: Mr. Chairman, and Mr. Porter, my name is Peter Hanagan, with the New Mexico Oil and Gas Association, and our office has been contacted by a number of operators within the last week who are quite concerned with the proposed Rule change.

MR. PORTER: Did you leave your lawyer at home?

MR. HANAGAN: I carry him with me at all times.

(Continuing) They suggested that in view of the shortness of time of the notice that I would make a few remarks and suggested changes on their behalf. I want to emphasize that these are threshold remarks, and I think, as the operators peruse what is in the Rule change, there would be more of a reaction from them, but because, as I say, of the shortness of the notice, in our office we just received a copy of the notice a week ago today, and in view of that I would like to ask the Commission to consider not making a final decision on this matter today but allowing more time for input from the industry, unless there is a pressing need to make a decision in short order.

In the event that a continuance is not in order I would like to make a couple of principal points.

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MR. PORTER: Are you putting that in the form of a motion at this time, that the Hearing be continued, or are you asking for additional time for statements to be filed with the Commission?

MR. HANAGAN: Well, I would prefer, Mr. Chairman, that it be in the form of a motion that the Hearing be continued to receive additional evidence at a later date from operators who have not yet probably appreciated the impact of the Rule change.

MR. PORTER: Mr. Hanagan, I believe that we will allow you to go ahead and put on your testimony and we will rule on your motion after we have heard all the testimony from people who are present here today that would like to put on.

MR. HANAGAN: Okay. The chief areas of concern that have been expressed to me by members of the Association relate primarily to the third paragraph of Rule 202(b) as proposed.

The first is that indicated by a previous Witness and that is that the proposed Rule calls for a notice and hearing to extend the temporary abandonment granted by the District Supervisor for a maximum period of one-and-a-half years. Our request is that additional extensions

be granted without notice and formal hearing before the Commission for good cause shown and upon the furnishing of evidence that the condition of the well is as described in the first paragraph of the proposed Rule. However, realizing that there may be special circumstances, we would suggest that the Rule allow the Commission to hold a hearing upon the showing of such special circumstances.

Our second point is that we would request the Commission to accept a blanket bond as an alternative to a one-well plugging bond as a condition for granting a permit for further temporary abandonment. Moreover, we think the bond should be in an amount not to exceed a sum certain rather than as proposed in an amount satisfactory to the Commission. If the Commission were to adopt such changes, we suggest that the third paragraph of Rule 202(b) might read something as follows: (Reading) Upon expiration of a Permit for Temporary Abandonment and any extension thereto as above provided, the well shall be put to beneficial use or shall be permanently plugged and abandoned unless it can be shown that good cause exists why the well should not be plugged and abandoned and a Permit for Further Temporary Abandonment should be issued in the same manner as the original Permit. The Commission

may require notice and hearing before issuance of the Permit for Further Temporary Abandonment if special circumstances appear to warrant. No such Permit for Further Temporary Abandonment shall be approved unless a blanket bond in an amount not to exceed a stated number of dollars is on file, or, at the option of the applicant, a one-well plugging bond for the well in an amount not to exceed a stated number of dollars is filed with the Commission to insure future plugging of the well. (End of reading.)

Now, in addition, we recommend that a new Section D be added to Rule 202 to read as follows:

(Reading) No Permit for Temporary Abandonment will be necessary for inactive zones in multiply completed wells as long as one or more zones are actively being utilized. (End of reading.)

As a further suggestion we ask that the definition of "Temporary Abandonment" be amended to exclude shut-in gas wells that are capable of producing but are pending a pipeline connection.

Mr. Chairman, we think that the recommended changes do not do violence to the overall objectives sought to be obtained by the Commission, but will reduce unnecessary expenses and administrative burdens both within

the Commission and within the industry. The recommended changes will also permit continued flexibility, which is so necessary to industry operations. We are concerned with any Rule change which might precipitate the premature, permanent plugging and abandonment of wells.

That concludes my statement.

MR. PORTER: Any questions of Mr. Hanagan?

Mr. Arnold.

MR. ARNOLD: Mr. Hanagan, in reference to your blanket bond clause here where you say (Reading) A blanket bond in the amount not to exceed blank. (End of reading.) What criteria do you think the Commission should use in arriving at the amount that a blanket bond should be, and do you necessarily think that it should be the same amount for an operator with say 10 wells, 20 wells, 30 wells, 40 wells, or should it be related to the number of wells that the operator has?

MR. HANAGAN: Well, I don't think there is any one criterion; I think the number of wells involved should be a factor; I think the responsibility of the operator, the proven responsibility of the operator over a period of years would be a factor to be considered. I don't have a quick, easy answer. I think it's a difficult problem

but I think by putting the "not to exceed a certain number of dollars," it puts the operator on notice of what it's going to cost him. He has a better idea of what the Commission is expecting.

MR. ARNOLD: Perhaps it would be fairer to relate the blanket bond to an individual operator to the number of wells operated, do you think?

MR. HANAGAN: It could be; yes, it could well be.

MR. ARNOLD: That's all.

MR. PORTER: Does anyone else have a question?

MR. KENDRICK: Yes, sir. Henry R. Kendrick with the Oil Commission. Mr. Hanagan, in your proposed Paragraph D you mentioned that in multiple completions there would be no cause to repair a well so long as part of the well was being produced, or some of the zones were being produced.

MR. HANAGAN: There would be no necessity to require a permit.

MR. KENDRICK: Should the casing failure above the upper zone fall in this category? Would this cause immediate repair? I mean you are temporarily abandoning the shallow zone because of some problem. Now, what I'm talking about, should this operator then be

called to appear because of temporary abandonment which could be related to the casing failure?

MR. HANAGAN: I think he probably should, yes.

MR. KENDRICK: Thank you, that's all.

MR. PORTER: Mr. Borkenhagen.

MR. BORKENHAGEN: If your motion for continuance is granted -- this is more for my own information -- do you plan on calling in other experts to testify as to why your position should be tendered?

MR. HANAGAN: Well, we would hope to get expert data collected in response to the position. I'm not sure we would get the experts here physically.

MR. BORKENHAGEN: You have not at this time really had time to put together that data that you want?

MR. HANAGAN: No. That's the point; I'm not sure when industry received the actual text proposed here today. I know in the Association's Office we received it just last -- I think a week ago today. I'm suggesting that perhaps there is an inadequate amount of time allowed for the industry to think out what all the ramifications of the problems might be in a Rule change of this type.

MR. PORTER: Anyone else have a question?

Mr. Stamets.

MR. STAMETS: Mr. Hanagan, are the two bonds that you referred to in your 202(b) in addition to bonds which might originally be on file with the Commission?

MR. HANAGAN: I think they would be in addition, and as I understand it it would just be a bond for further temporary abandonment, not for the initial permits granted by the District Supervisor.

MR. STAMETS: Thank you.

MR. PORTER: Does anyone else have a question? Mr. Hanagan may be excused.

MR. HANAGAN: Thank you.

MR. PORTER: Someone else indicated they would like to put on testimony I believe. Maybe they didn't. Mr. Brown were you going to put on any testimony in the Case?

MR. BROWN: No testimony, Mr. Chairman, just a statement.

MR. PORTER: If there is no further testimony then we'll hear statements. I think we'll go ahead and hear the statements and then we will rule on Mr. Hanagan's motion. Mr. Kellahin.

MR. KELLAHIN: If the Commission please, I'm one of those who has a sentimental attachment to a couple

of dry holes, but I believe they have already been plugged. I don't want to belabor the recommendations that have already been made; I think the Commission thoroughly understands our position at this point. There are, however, a couple, to me, rather serious legal questions involved in this proposed change and I would like to comment very briefly on those.

In the first place the New Mexico Statute 65-3-11 Subsection 1 makes the requirement on the bond and it reads (Reading) To require dry or abandoned wells to be plugged in such a way as to confine crude petroleum oil, natural gas, or water in the strata in which they are found and to prevent them from escaping into other strata. The Commission may require a bond not to exceed \$10,000 in condition for the performance of such regulations. (End of reading.) Now, historically the Oil Conservation Commission has interpreted that as meaning a blanket bond, the amount of which could not exceed \$10,000. If that be true, the proposed Rule would do violence to the statute and I think our remedy is at the Legislature and not by the Commission. I seriously question the jurisdiction of the Commission to increase the statutory plugging bond, and we are talking about plugging bonds.

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In addition, I think we also have a serious question in regard to the jurisdiction of the Commission to require a one-well bond on Federal acreage. The lessee makes the contract with the United States Government when he takes his lease; he has certain rights under that lease, and to me, for the Commission to interpose additional requirements before an operator is permitted to conduct his operations on a Federal lease in compliance with the Federal regulations and Federal lease would constitute impairment of his contract with the Federal government and I seriously question the jurisdiction of the Commission to interpose any such regulations.

That's all I have. Thank you.

MR. PORTER: Mr. Brown.

MR. BROWN: Mr. Porter, I'm Clyde Brown representing Continental Oil Company. Continental supports the objectives of the Commission related to this Hearing, however, we think we see two or three pitfalls in the proposed order.

First, the mandatory requirement of a public hearing after 18 months could result, we think, in unproductive red tape, unnecessarily burdening both the Commission and the industry.

Second, the mandatory requirement for an individual well bond could become rather costly without compensating benefits to the State or to the industry, in our opinion. Bonds are required, and in order to be meaningful the Commission would need to periodically review them to see that they are in effect and in order. This seems an unnecessary burden.

It is our suggestion, first, that the mandatory hearing requirement be amended to require a public hearing at the discretion of the Commission. There are many instances where temporarily shut-in wells would obviously be needed, such as waiting on the market, pipeline connections, future use for salt-water disposal, use in secondary and tertiary recovery operations, gas-pipeline pressure is too high to deliver to it, unavailability of lift equipment, studying the remedial possibilities, unitization efforts, and the like. We suggest that where the operator can show an obvious future need for the well and demonstrate to the Commission's satisfaction that there is no likelihood of pollution, then such matters should be handled administratively to reduce the red tape for both the industry and the Commission. If the Commission is not satisfied with the operator's showing, then a public

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hearing would be called.

Second it is our suggestion that individual well bonds not be mandatory if the operator can show to satisfaction of the Commission that he is financially responsible, such as other operations in the State, and the like. In other words, it would be at the discretion of the Commission whether or not individual well-bonds are required; otherwise we see considerable administrative burden with only the bonding companies benefitting.

Mr. Chairman, these suggestions have been made without very much in depth consideration as this matter came up, as Mr. Hanagan has stated, rather suddenly. We would recommend that a committee of industry and Commission personnel be appointed to work on this matter and report back to the Commission. However, if this latter suggestion is not acceptable, we would request that the Hearing be left open for a reasonable period of time to permit more consideration and the filing of written recommendations to the Commission.

MR. PORTER: Thank you Mr. Brown. Mr. Traywick.

MR. TRAYWICK: Carl Traywick, USGS, Roswell.

Mr. Porter, we support the proposal under consideration here. We agree that there is a need for it; we believe

that control, administrative control of wells that need to be abandoned, is an important item for an obligation and we recommend the new definition and Rule change be adopted.

MR. PORTER: Thank you Mr. Traywick.

MR. PEACOCK: Mr. Porter, Joe Peacock, Phillips Petroleum Company, Odessa, Texas. We concur generally with Mr. Hanagan's recommendations for changes in the proposed Rules and in particular I would like to point out a matter which is of concern to us and that is the individual well bonds for each one of these wells as distinguished from a blanket bond. We think that it would cause too much paper work on the operator and on the Commission and we think that if individual well bonds are permitted under the statute that certainly a blanket bond would be also permitted. The Commission proposes to have a hearing or to examine each one of these wells individually and it seems to me that at that time the Commission could advise the operator that he would have to increase his blanket bond by so much or that he would not have to increase it, and I think that would carry out the purposes of the Commission's recommended changes and would be easier both on the operators and the Commission.

MR. PORTER: Mr. Motter.

MR. MOTTER: Gene Motter of Cities Service.

We also support the proposed Rules and also rather than say some of the same things that have been said about the individual bonding, I'll only recite that we think this is a burdensome task upon each temporarily abandoned well. I do have a couple of other recommendations, also some comments that I think might tie into this and other portions of the Rules. Our recommendation is that so long as a zone of multiple completed wells is producing, no Permit for Temporary Abandonment be required. Also, no Permit for Temporary Abandonment of gas wells awaiting pipeline connections should be necessary. Then, in wells in approved pressure-maintenance projects having wells assigned as provided in Rule 701(e), we suggest these wells may be either temporarily abandoned or plugged without the loss of allowable that that well contributes to the project. Another thing that might be looked into is an operator may be released from the requirement of temporary abandonment of a well if a land owner has properly filed an application to condition such well for production of fresh water. This is covered in Rule 203 but I don't know whether it goes to that extent or not. Thank you.

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MR. PORTER: Does anyone else have a comment?

Mr. Reavis.

MR. REAVIS: I'm Harley Reavis with Exxon. Exxon appreciates the problem the Oil Commission has concerning the abandonment of wells and feels the proposed amendment of Rule 202 is justified in order to get wells abandoned properly when they are no longer needed for production operations. We feel that the number of hearings that may be called by the proposed new amendment may be an excessive burden on both the Commission and the operators and for this reason we suggest that the administrative approval be granted by the Santa Fe Office in lieu of the hearings if the operator submits adequate evidence that it is justified in maintaining a well in a temporary abandoned situation. A hearing should be held only if insufficient data or unjustified reasons are submitted for abandonment or if a protest is made. We also have reservations concerning the amount of bond that will have to be posted on an individual well basis to maintain temporarily abandoned wells. It is felt that a blanket type bond would be appropriate in many cases. Therefore, we recommend that this alternative be made available to operators with a maximum bond of no more than \$100,000. This

\$100,000 is just for short time. We felt that would be more than reasonable. Thank you.

MR. PORTER: Mr. Nutter.

MR. NUTTER: Mr. Porter, I've heard these comments and some of them are very well taken, I'm sure. I would remind the Commission, however, that this is a matter which has been considered a growing problem for a number of years. We've had numerous staff meetings, both among ourselves and with representatives of the USGS. Due to the productive age of some of the oil and gas fields in the State of New Mexico, both the GS and the OCC can envision the problem getting much worse before it gets any better. We've heard comments on the burden that the proposed Rule would place on the operators, both the hearing requirement and the one-well bonding requirement. It has been the consensus of the USGS and the OCC that a procedure should be adopted that would impose a burden of some sort on leaving an inactive well unplugged because every unplugged well represents a potential underground hazard. No one can be sure of the condition of the casing and so forth in that well. To protect a truly valuable asset would cost say \$50 a year for a \$5,000 one-well bond. This is no real burden, but it is enough of a burden

that it will cause the company to truly evaluate these wells and plug the ones that don't really have a future. As I stated before, we do not want to see potentially useful wells plugged but we do not want to see thousands and thousands of inactive wells accumulate over the years. The proposal we offer here today is our solution to this growing problem. It is the result of years of study and many meetings and discussions. It was not lightly arrived at and we urge its adoption.

MR. PORTER: Does anyone else have a statement?
Mr. Borkenhagen.

MR. BORKENHAGEN: On behalf of Mr. Grace I would like to state that we support Mr. Hanagan's motion for a continuance on this, and I have one further question of the Commission. I might have missed this earlier, but does this apply to lands that are under control of the Navajo Nation?

MR. PORTER: It would apply to all wells in the State.

MR. BORKENHAGEN: Thank you.

MR. PORTER: As recommended by the State. What the orders would cover remains to be seen.

Anyone else have a statement?

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Now, Mr. Hanagan has made a motion that this matter be continued until some further date for further study on the part of various members of the industry, and I believe Mr. Brown suggested the naming of a committee to report back to the Commission. I would like to hear comments on Mr. Hanagan's motion if there are any.

Mr. Borkenhagen has already indicated that Mr. Grace would support its continuance, and I believe Mr. Brown indicated Continental would support that stay.

MR. BROWN: Yes.

MR. PORTER: Mr. Carr, do you have any comment on Mr. Hanagan's motion for continuance?

MR. CARR: Well, to the extent that there may not have been adequate opportunity to poll all members of the Oil and Gas Association and to arrive at a clear-cut position, I can't see that a short continuance would be of any damage as long as the entire record of this proceedings is incorporated into the other along with any additional comments or knowledge without going back to the beginning and going through this entire hearing again.

MR. KELLAHIN: If the Commission please, we would support the proposal as made by Mr. Carr. I think that would adequately protect everybody and give us an opportunity

to get a little better look at this.

MR. PORTER: Anyone else?

(Whereupon, a discussion was held
off the record.)

MR. PORTER: The Commission will continue the case to a date of June 11th, which will be, I believe, on a Tuesday, and the hearing will start at 9:00 A.M. on June 11th. This should give everybody sufficient time. Now, the Commission, certainly you heard Mr. Traywick's comments here as to regulatory agencies' responsibilities. Of course, you've heard a lot of testimony here concerning burdens on the industry. Certainly it is not the purpose of the Commission calling this Hearing to place an undue burden upon the Commission, but we are very conscious of our obligation too, particularly in the matter of protecting fresh water in the states. Some of the older producing states have had some rather unfortunate experiences, as Mr. Nutter pointed out in his testimony. We are concerned, very concerned, about the percentage of inactive wells growing in the State; particularly the magnitude of that growth in the last five years pointed out, or six years. We've gone from one in eight wells being inactive oil wells to one of five. Now, in continuing this Hearing

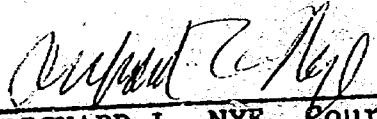
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the Commission is actively seeking more constructive suggestions from the industry to help us accomplish what we are required to do under the statute, so I hope that you here, and others, will respond. The Commission does not feel that it is necessary to appoint a committee to handle this matter; we feel that we can have the individual input of the companies or, in some cases, through the Oil and Gas Association and Mr. Hanagan. Thank you very much for the input that we've had into this Hearing so far, and we will expect more on June 11th.

I believe, by looking at the clock, that it would probably be to our advantage to recess the Hearing at this time and come back promptly at 1:00 and take up Case 5158, so the Hearing will recess until 1:00 P.M.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.


RICHARD L. NYE, Court Reporter

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

CASE NO. 5217
Order No. R-5019

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION UPON ITS OWN MOTION TO CONSIDER THE ADOPTION OF A COMMISSION DEFINITION FOR "TEMPORARY ABANDONMENT" OF WELLS, AND FURTHER TO CONSIDER THE AMENDMENT OF RULE 202 OF THE COMMISSION RULES AND REGULATIONS TO ADOPT AN ADMINISTRATIVE PROCEDURE FOR ABANDONMENT OF WELLS IN THIS STATE FOR A LIMITED PERIOD OF TIME ONLY, AND FOR THE ADOPTION OF A REQUIREMENT FOR AN INDIVIDUAL ONE-WELL PLUGGING BOND FOR THE CONTINUED TEMPORARY ABANDONMENT OF ANY WELL AFTER THE EXPIRATION OF THE ADMINISTRATIVE PERIOD OF TIME IN WHICH SUCH WELL COULD BE TEMPORARILY ABANDONED.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 23, 1974, and June 11, 1974, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 20th day of May, 1975, 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 this case was called to consider the problem of growing numbers of inactive oil and gas wells in the state of New Mexico.

(3) That as a state gets older in the production of oil and gas, more and more wells reach their economic limit each year and are placed on an inactive status.

(4) That the State of New Mexico is arriving at approximately "middle-age" in oil and gas production.

(5) That the number of "inactive" oil wells increased from 2,356 or 12.2 percent of the total oil wells at the end of 1969 to 3,938 or 19.6 percent of the total oil wells at the end of 1973.

-2-

Case No. 5217
Order No. R-5019

(6) That while not so large as the increase in the number of inactive oil wells, there was also a substantial increase in the number of inactive gas wells in the state during the same period of time.

(7) That unless firm steps are taken to ensure that wells will be properly plugged and abandoned when they are no longer useful, the number of inactive wells in this state will continue to increase.

(8) That such wells constitute a potential underground hazard and a threat to the inviolability of ground waters, and they must eventually be properly plugged and abandoned.

(9) That the Commission is charged with the responsibility "To require dry or abandoned wells to be plugged in such a way as to confine the crude petroleum oil, natural gas, or water in the strata in which they are found, and to prevent them from escaping into other strata;" Section 65-3-11(1) NMSA 1953 Comp.

(10) That in accordance with said mandate, the Commission should act to cause inactive wells to be properly plugged and abandoned on a current basis rather than to accumulate over the years.

(11) That some of the older oil and gas producing states have found it necessary to resort to the use of public funds for the plugging and abandonment of old wells which had accumulated over the years.

(12) That unless firm steps are taken to ensure that wells are properly plugged and abandoned when they are no longer useful, it is likely that public funds will eventually have to be used to plug and abandon wells in this state.

(13) That it is the Commission's view that a more propitious approach to the problem than the use of public funds to plug wells is to adopt regulations that will tend to encourage the owners of inactive wells to properly plug and abandon said wells.

(14) That such regulations should apply to all wells drilled in the State of New Mexico inasmuch as said regulations will prevent waste of crude petroleum oil, natural gas, and ground waters and are therefore in the public interest.

(15) That such regulations should provide that any inactive well should be plugged and abandoned unless it can be shown that such well has a genuine potential for further use in the reasonably foreseeable future, and that it should be permitted to remain unplugged in a temporarily abandoned state.

(16) That there is need for the adoption of a definition for "temporary abandonment" and that such definition should provide that temporary abandonment is a state or period of suspended operations upon a well during which continuous drilling, production, injection, storage, or work-over operations have not taken place; that the time period for determining whether a well is temporarily abandoned should be 60 days for drilling wells and six months for all other classes of wells.

(17) That any well which, after 60 days or six months, whichever is applicable, meets the definition of, and is, therefore, a temporarily abandoned well, should be put to beneficial use or should be properly plugged and abandoned unless a permit for temporary abandonment for such well has been obtained from the Commission.

(18) That a procedure should be adopted whereby the operator of such a temporarily abandoned well could obtain from the appropriate District Office of the Commission a permit for temporary abandonment where it can be shown that the well has a valid potential for further usefulness and should be left unplugged.

(19) That such a permit for temporary abandonment should be approved only upon a showing of satisfactory evidence that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water from one zone to another, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface, or will not in any other way cause waste or damage.

(20) That such a permit for temporary abandonment should be issued for some limited duration of time only, and one year is a reasonable duration of time for this purpose.

(21) That provision should be made whereby the District Office of the Commission could grant one extension to an expiring permit for temporary abandonment, provided conditions in the well are shown to still be as described in Finding No. (19) above, and provided that the extension should be issued for some limited duration of time only, and one year is a reasonable duration of time for this purpose.

(22) That in the case of a drilling well, this could thus make a total of two years and two months of inactive status [60 days, Finding No. (16); one year, Finding No. (20); and one year, Finding No. (21)]. That in the case of any other class of well, this could thus make a total of two and one-half years of inactive status [six months, Finding No. (16); one year, Finding No. (20); and one year, Finding No. (21)].

(23) That two years and two months, for drilling wells, and

two and one-half years, for other classes of wells, to remain on an inactive status without necessity of coming before the Commission at a hearing appears to the Commission to be a reasonable maximum of time.

(24) That upon expiration of the permit for temporary abandonment and one extension thereto, any inactive well should be put to beneficial use or should be plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned and that further extension of the temporary abandonment is warranted.

(25) That provision should be made whereby the Commission could require a one-well plugging bond for any well receiving such "further extension" of temporary abandonment, such bond being in an amount satisfactory to the Commission to meet the particular requirements of the well.

(26) That provision should be made whereby the Secretary-Director of the Commission could grant administrative relief to the aforesaid requirements for notice and hearing to obtain "further extension" under certain limited circumstances; that said circumstances should include only the following cases:

- (a) a remote and unconnected commercial gas well or a presently non-commercial gas well which may reasonably be expected to be commercial within the foreseeable future;
- (b) a well in an oil pool in which secondary recovery operations have, by actual performance, been shown to be commercially feasible, and which well may, with reasonable certainty, be expected to be included in a bona fide secondary recovery project within the foreseeable future.

(27) That provision should be made whereby the Secretary-Director could require a one-well plugging bond for any well receiving such "further extension" of temporary abandonment, such bond being in an amount satisfactory to the Secretary-Director to meet the particular requirements of the well.

(28) That no such "further extension," whether issued by the Commission after notice and hearing, or by the Secretary-Director without notice and hearing, should have a duration of more than two years, but should be eligible for renewal if circumstances so warrant.

-5-

Case No. 5217
Order No. B-5019

(29) That the adoption of a definition of "Temporary Abandonment" consonant to Finding No. (16) above, and the amendment of Rule 202 of the Commission Rules and Regulations to embody the provisions of Findings (17) through (28) above, is in the public interest and will prevent waste without impairing correlative rights, and should be approved, effective July 1, 1975.

IT IS THEREFORE ORDERED:

(1) That SECTION A, "DEFINITIONS," of the New Mexico Oil Conservation Commission Rules and Regulations is hereby amended by the addition of the following definition:

"TEMPORARY ABANDONMENT shall mean a state or period of suspended operations during which continuous drilling, production, injection, storage, or work-over operations have not taken place. Such period shall be 60 days for drilling wells and six months for all other classes of wells."

(2) That Rule 202 of the Commission Rules and Regulations is hereby amended to read in its entirety as follows:

"RULE 202. PLUGGING AND ABANDONMENT.

A. PLUGGING

Before any well is abandoned, it shall be plugged in a manner which will permanently confine all oil, gas, and water in the separate strata originally containing them. This operation shall be accomplished by the use of mud-laden fluid, cement and plugs, used singly or in combination as may be approved by the Commission. The exact location of abandoned wells shall be shown by a steel marker at least four inches in diameter set in concrete, and extending at least four feet above mean ground level. The name and number of the well and its location (unit letter, section, township, and range) shall be welded, stamped, or otherwise permanently engraved into the metal of the marker. Seismic, core or other exploratory holes drilled to or below sands containing fresh water shall be plugged and abandoned in accordance with the applicable provisions recited above. Permanent markers are not required on seismic holes.

Within thirty days following the completion of plugging operations on any well, a record of the work done shall be filed with the Commission in TRIPLICATE, on Form C-103. Such report shall be filed by the owner of the well and shall include the

-6-

Case No. 5217

Order No. R-5019

date the plugging operations were begun along with the date the work was completed; a detailed account of the manner in which the work was performed; the depths and lengths of the various plugs set; the nature and quantities of materials employed in plugging operations; the amount, size and depth of all casing left in the hole and the weight of mud employed in plugging the well and any other pertinent information. No plugging report submitted on Form C-103 shall be approved by the Commission unless such report specifically states that pits have been filled and the location levelled and cleared of junk. The filing of Form C-105, Well Completion or Recompletion Report and Log is also necessary to obtain Commission approval of a plugging report.

It shall be the responsibility of the owner of the plugged well to contact the appropriate District Office of the Commission to arrange for an inspection of the plugged well and the location by a Commission representative.

B. TEMPORARY ABANDONMENT

No well in this state shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. Such permit shall be for a period not to exceed one year and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

The District Supervisor of the appropriate District Office of the Commission shall have authority to grant one extension to the permit for temporary abandonment. Such extension shall not exceed one year and shall be requested in the same manner as the original permit for temporary abandonment. No extension shall be approved unless good cause therefor is shown, and evidence is furnished that the continued condition of the well is as described above.

Upon expiration of the permit for temporary abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned, and a further extension to the temporary abandonment permit should be issued. Prior to issuing such "further extension," the Commission may at

its option require the operator of the well to post with the Commission a one-well plugging bond for the well, in an amount determined by the Commission to be satisfactory to meet the particular requirements of the well.

The Secretary-Director of the Commission shall have the authority to waive the above requirement for notice and hearing and grant further extension to a permit for temporary abandonment in the case of

- (1) a remote and unconnected commercial gas well or a presently non-commercial gas well which may reasonably be expected to be commercial within the foreseeable future; or
- (2) a well in an oil pool in which secondary recovery operations have, by actual performance, been shown to be commercially feasible, and which well may, with reasonable certainty, be expected to be included in a bona fide secondary recovery project within the foreseeable future.

Prior to issuing such further extension, the Secretary-Director may at his option require the operator of the well to post with the Commission a one-well plugging bond for the well, in an amount determined by the Secretary-Director to be satisfactory to meet the particular requirements of the well.

No "further extension," whether issued by the Commission or by the Secretary-Director, shall be of more than two years duration, but may be renewed if circumstances warrant.

C. DRILLING WELLS

When drilling operations on a well have been suspended for 60 days, the well shall be plugged and abandoned unless a permit for temporary abandonment has been obtained for the well in accordance with Section B above."

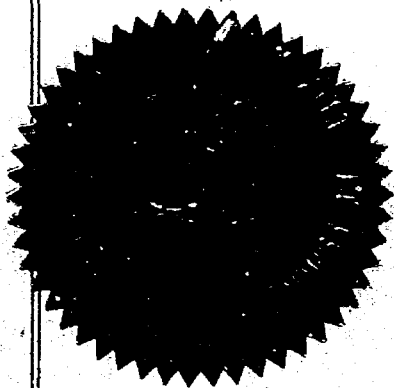
(3) That the effective date of this order shall be July 1, 1975.

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

-8-

Case No. 5217
Order No. R-5019

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



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. Trujillo
I. R. TRUJILLO, Chairman

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

S E A L

dr/

Wilson Oil Company

INCORPORATED UNDER THE LAWS OF NEW MEXICO



P. O. BOX 129
SANTA FE, NEW MEXICO 87501
TELEPHONE 983-7141

May 10, 1974

Rule 202

Mr. A. L. Porter, Director
New Mexico Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Re: Case 5217
Temporary abandonment rules

Dear Mr. Porter:

At your recent hearing on the subject case we appeared for testifying and filing a telegram. The telegram was delivered in a poor state; thus, we wish to repeat same for your convenience.

"Reference proposed changed temporary abandonment procedure. Strict TA rules in past would have caused premature plugging of numerous wells that are now, because of higher oil prices, being reentered, or will be valuable for secondary or tertiary projects. Drilling costs have increased 25 to 25% in last year, casing costs up from 100% to 400%. The value of an unplugged well has increased tremendously. Many secondary-tertiary techniques are yet to be developed and proven. Operating units should not be required to plug TA wells and thus reduce future secondary-tertiary flexibility which cannot be anticipated in today's rapidly changing petroleum industry. The goal of TA policy should not be rapid movement toward plugging TA wells. The operators must be permitted to retain flexibility for future industry technological advancements and economic changes."

The case 5217 was continued to June 11, 1974, at which time you will receive additional testimony and letter filings. Since our previous testimony is a part of the record, we will make no further appearance.

Mr. A. L. Porter, Director

-2-

May 10, 1974

The changing technology and information from new discoveries demands that the value of the hole and prospects for recovery of new oil be kept readily available to the operator with the investment in such wells. Early forced plugging of such property is not in the best interest of the industry and will deprive the operator of recovering oil that would be lost by plugging.

We feel that the Commission can tighten the rules for the few unreliable operators without penalizing the entire reliable segment of the industry.

Respectfully submitted,

N. Raymond Lamb
N. Raymond Lamb, Vice President

NRL:rh

5217

Pete Hannigan - testimony ✓

Amerade - statement

Tenneco - statements < Dutton >

Cities - statement < Hooker >

Continental - statement

Joel Carson - statement < testimony > Raymond Vels

Frank Warner -

Pete Hannigan -

proposed amendments to prevent
premature plugging and
lighter controls

want - blanket bond w/ permit for
further abandonment.

A to Feb 101

— legislative increase in bond amount.

Raymond Vels -

increase blanket bond to \$20,000

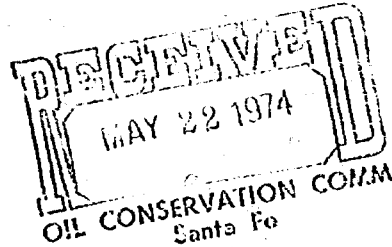
Dutton -

initial permit period - 1 yr.



Chevron Oil Company
Western Division

1700 Broadway, P.O. Box 599, Denver, CO 80201



May 20, 1974

Proposed Revision
New Mexico Oil Conservation
Commission Rule 202(B)
Case No. 5217 (June 11, 1974)

New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Attention Mr. A. L. Porter, Jr.

Gentlemen:

Chevron Oil Company as an active operator in the State of New Mexico respectfully requests that the following recommended amendments be entered as part of the record of the June 11, 1974 hearing regarding the Commission's proposed revision of Rule 202(B). With respect to such revision Chevron recommends the following:

1. Proposed definition of temporary abandonment be amended to read:

"Temporary Abandonment shall mean a state or period of suspended operations during which no continuous drilling, production, injection, storage, or workover procedures have taken place within the well bore. Such period shall be 60 days for drilling wells and six months for all other classes of wells."
(emphasis added)

This minor amendment is intended to clearly state that abandonment or inactivity of one zone in a multi-zone producer or injector will not classify that well as temporarily abandoned so long as the well is still active from one or more zones.

2. Proposed revision of Rule 202(B) be amended to read:

- a. Paragraph 1

"No well shall be temporarily abandoned for a period in excess

May 20, 1974

of six months unless a permit for such temporary abandonment has been approved by the Commission or unless the well is in an approved assisted recovery project. Such permit shall be for a period not to exceed six months and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface." (emphasis added)

The above amendment will allow operational flexibility within an approved assisted recovery project. Wells within such projects are often inactive for more than six months awaiting response to injection or conversion to injection as appropriate.

b. Paragraph 2

No amendment necessary.

c. Paragraph 3

"Upon expiration of the permit for temporary abandonment and any extension thereto, granted by the District Supervisor, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission, after notice and hearing or by written request from operator and filing of Form C-103 in triplicate, that good cause exists why the well should not be plugged and abandoned. In such case the Commission shall issue a permit for further temporary abandonment; however, no such permit for further temporary abandonment shall be approved by the Commission unless a one-well plugging bond for the well, in an amount satisfactory to the Commission, is on file with the Commission to ensure future plugging of the well, or unless the operator of said well exhibits proof of financial responsibility to the Commission sufficient to warrant waiver of the one-well plugging bond." (emphasis added)

New Mexico Oil
Conservation Commission

-3-

May 20, 1974

The above amendments are recommended to allow the Commission flexibility to grant further administrative approval of temporary abandonment and waiver of the one-well plugging bond.

Chevron agrees that revision of Rule 202(B) is necessary to prevent surface and subsurface damage. The preceding amendments to the proposed revision will serve to minimize economic burdens and promote operational flexibility necessary to conducting oil and gas operations and development of assisted recovery projects.

Very truly yours,



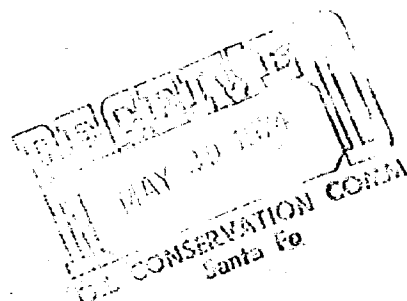
C. R. Platt
Staff Engineer - Proration

DRG:jl

cc: Mr. Jason Kellahin
Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

Case 5217

Herman J. Ledbetter
CONSULTING PETROLEUM ENGINEER
P.O. Drawer N
Hobbs, New Mexico 88240
(505) 392-5758



May 24, 1974

Mr. A. L. Porter, Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Porter:

In considering new rules for temporary abandoning and plugging oil wells in New Mexico, please keep in mind that much secondary recovery oil has been recovered in the past 15 years in this state because cased wells, which had been previously temporarily abandoned, were available to be used in waterflooding. There are also areas which will never be waterflooded because it is necessary to redrill these plugged and abandoned wells and the economics of the project can not justify such an expenditure.

With the increased price of oil, more sophisticated methods of recovery will become economical and proven. More than likely these methods will be tried on old wells which are considered to have no value and are ready to be plugged and possibly, like waterflooding, by independent operators.

Although there may be some problems caused by these temporary abandoned wells, I do not know of any. Any tightening of these rules would only hurt the independent operators since, by and large, they are the only ones interested in producing these stripper wells. I believe that doing this will cause many wells to be prematurely abandoned with a great loss of oil recovery and financial loss to the independent operator, particularly.

Best personal regards,

Herman J. Ledbetter
Herman J. Ledbetter

HJL:em

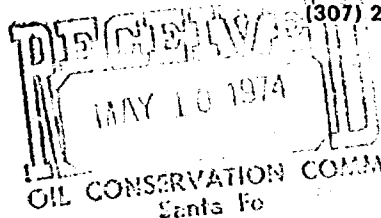
opposed to proposed rule



W. C. Blackburn
Division Manager
Production Department
Western Hemisphere Petroleum Division

Continental Oil Company
152 North Durbin
Pacific Western Life Building
Casper, Wyoming 82601
(307) 234-7311

May 6, 1974



New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

Case 5217 -
Continued to June 11, 1974
File: JO-986.511.N2-JO

The Casper Division of Continental Oil Company's Production Department was represented at the April 23, 1974 hearing in Santa Fe on Case 5217. We feel the following additional information should be considered before a final decision is made by the Commission on Case 5217.

The percentage and number of shut-in wells in New Mexico do not appear to be excessive from our viewpoint. This division of Continental Oil Company operates properties in six states. We physically operate over two thousand wells and have varying working interest ownerships in an additional 6300 plus wells. Twenty-five percent of the approximately 8400 wells are now inactive for various reasons. Of the inactive wells which are divided between temporarily shut-in and permanently shut-in, only 2.25% are classified as permanently shut-in. Our permanently shut-in category generally signifies that producing equipment has been removed from the wells and the wells are either ready for abandonment, retained as observation wells, retained pending evaluation of tertiary recovery processes, etc. In this period of shortages in oilfield materials, pumping units, tanks, tubing and casing, all wells in this division have been reviewed and wells are being plugged and abandoned if they have no value in future planned or projected operations.

Once wells are plugged and abandoned, most unrecovered hydrocarbons can be considered forever lost as the economics of most secondary recovery processes and all tertiary recovery processes are such that they cannot be profitable if the properties must be redrilled. We urge that the Commission take no action which will lead to premature abandonment of wells if they have any potential future value. In summary, future recovery of hydrocarbons should not be jeopardized to solve an apparent current problem.

New Mexico Oil Conservation Commission
May 6, 1974
Page Two

In our Northwest New Mexico operation we have ten shut-in wells. This figure does not include single zones in multiple completions as in this category we have five additional wells. Of the ten wells, two are gas wells which cannot produce against pipeline pressures; five are awaiting completion or pipeline connections; one is shut-in for proration; and two are awaiting results of engineering studies for restimulation or installation of lift equipment. We understand that three or four of the ten wells could fall under the one well plugging bond classification in your proposed revised Rule 202 even though we have no intentions of plugging or abandoning any of the ten wells. The best interests of the Commission, the State of New Mexico, or private enterprise cannot be best served by adding the burdens of additional reporting requirements, additional costly bonds, etc., to the industry to solve problems connected with temporarily shut-in wells.

We realize at some time in the future every well must eventually be plugged and abandoned properly for the protection of our environment and society. If the State of New Mexico has problems connected with having wells plugged properly or timely by bonding companies or irresponsible operators, which may be the reason for Case No. 5217, we urge that the Commission revise its bond requirements. The bond for all wells an operator operates in the state should be adequate to cover all foreseeable plugging costs. This method of solving your problem could require legislative action, but in the long run it would be preferable to creating additional individual bonds and burdensome reports.

We feel that the Commission should not be too concerned about shut-in wells on producing leases or units where the operator is financially responsible, has other operations in the state, etc. Where isolated shut-in properties are involved or the operator does not have other profitable producing operations in the State of New Mexico, we feel industry must support strong measures by the Commission to avoid abandonment of properties "by flight" of irresponsible parties.

It is respectfully requested that the Commission consider the above statements when considering the rule change proposed in Case 5217. We feel that irrevocable blanket bonds sufficient to properly P&A wells, perhaps in graduated amounts depending on the number of wells operated in the State of New Mexico, are the best final solution to your current problem.

Very truly yours,

Steve Blackburn

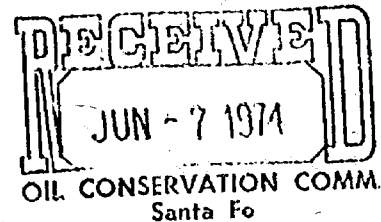
er

cc: F. E. Ellis - Houston, Attn: Clyde Brown
Paul Thompson - Hobbs
Peter Hanagan, N. Mex. Oil & Gas Association - Santa Fe

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 • MIDLAND, TEXAS 79701

PRODUCTION DEPARTMENT
MIDCONTINENT DIVISION
L. H. BYRD
MANAGER

June 3, 1974



Amendment of Rule 202
Case No. 5217

Temporary Abandonment of Wells
State of New Mexico

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

At the April 23, 1974, hearing on the amendment of Rule 202, "Temporary Abandonment of Wells in New Mexico", Exxon's representative made a statement regarding our thoughts on this case. A copy of this statement is attached. It is understood that additional testimony and statements will be given at the June 11 hearing. We will be unable to attend this hearing but trust you will give consideration to our comments that were entered.

Yours very truly,

A handwritten signature in dark ink, appearing to read "L. H. Byrd".

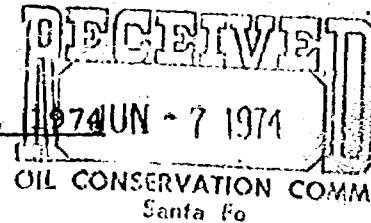
L. H. BYRD

HNR/rs
Attachment

EXXON CORPORATION STATEMENT

NEW MEXICO O.C.C. CASE NO. 5217 - APRIL 23, 1974

AMENDMENT OF RULE 202



Exxon appreciates the problem the Oil Conservation Commission has concerning the abandonment of wells and feels that the proposed amendment of Rule 202 is justified in order to get wells abandoned properly when they are no longer needed for production operations.

Exxon feels that the number of hearings that may be caused by the proposed new amendment may be an excessive burden on the Commission and the operators and for this reason suggest that Administrative approvals be granted by the Santa Fe Office in lieu of a hearing after the operator submits adequate data to justify maintaining a well as temporarily abandoned. A hearing should be held only if insufficient or unjustified reasons are submitted for abandonment or if a protest is made.

Exxon also has reservations concerning the amount of bond that will have to be posted on an individual well basis to maintain temporarily abandoned wells. It is felt that a blanket type bond would be appropriate in many cases; therefore, it is recommended that this alternative be available to operators, with a maximum bond of no more than \$100,000.

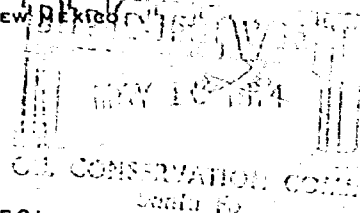
HNR/rs

Wilson Oil Company

INCORPORATED UNDER THE LAWS OF NEW MEXICO



P. O. BOX 1297
SANTA FE, NEW MEXICO 87501
TELEPHONE 983-7141



May 10, 1974

Mr. A. L. Porter, Director
New Mexico Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Re: Case 5217
Temporary abandonment rules

Dear Mr. Porter:

At your recent hearing on the subject case we appeared for testifying and filing a telegram. The telegram was delivered in a poor state; thus, we wish to repeat same for your convenience.

"Reference proposed changed temporary abandonment procedure. Strict TA rules in past would have caused premature plugging of numerous wells that are now, because of higher oil prices, being reentered, or will be valuable for secondary or tertiary projects. Drilling costs have increased 25 to 25% in last year, casing costs up from 100% to 400%. The value of an unplugged well has increased tremendously. Many secondary-tertiary techniques are yet to be developed and proven. Operating units should not be required to plug TA wells and thus reduce future secondary-tertiary flexibility which cannot be anticipated in today's rapidly changing petroleum industry. The goal of TA policy should not be rapid movement toward plugging TA wells. The operators must be permitted to retain flexibility for future industry technological advancements and economic changes."

The case 5217 was continued to June 11, 1974, at which time you will receive additional testimony and letter filings. Since our previous testimony is a part of the record, we will make no further appearance.

Mr. A. L. Porter, Director

-2-

May 10, 1974

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We feel that the Commission can tighten the rules for the few unreliable operators without penalizing the entire reliable segment of the industry.

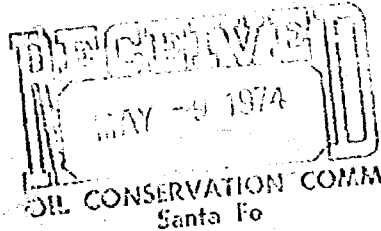
Respectfully submitted,

N. Raymond Lamb
N. Raymond Lamb, Vice President

NRL:rh

AMERADA HESS CORPORATION

May 3, 1974



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

New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

Amerada Hess Corporation respectfully requests that you consider adoption of the attached revision for the New Mexico Oil Conservation Commission Rule 202. The "Comments" located beside the proposed Rule explain why we feel the revision will solve the perplexing problem the OCC is facing with more than 4,000 temporarily abandoned wells in the State.

We feel that if a short time lapse is allowed from the time of adoption of the new Rule and the effective date of the enforcement, it will allow the operators to evaluate the need of retaining the well for future beneficial use or if the salvaged equipment and casing from some of the wells will serve better in developing additional reserves within the State.

We do not believe the posting of one-well bonds without a definite time limit will ensure plugging of the wells by all operators, but could result in the Commission engaging in extensive, time consuming, plugging operations that may cost more than the bonds would cover and possibly result in waste, contamination and the loss of correlative rights.

Very truly yours,

AMERADA HESS CORPORATION

Gilbert E. Miller
Gilbert E. Miller,
Conservation Supervisor

GEM:mhn

Atts:

cc: Addressee List Attached

ADDRESSEE LIST

Peter Hanagan
New Mexico Oil & Gas Association
Post Office Box 1864
Santa Fe, New Mexico 87501

Raymond Lamb, Geological Engineer
Artesia, New Mexico 88210

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Kellahin & Fox
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Santa Fe, New Mexico 87501

Tom Kellahin
Kellahin & Fox
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Santa Fe, New Mexico 87501

Clyde Brown
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Petroleum Center Building
Farmington, New Mexico 87401

E. F. Motter
Cities Service Oil Company
400 West Texas Street
Midland, Texas 79701

*Wrote
sent 5/23/74*

PROPOSAL BY AMERADA HESS CORPORATION FOR REVISION OF
NEW MEXICO OIL CONSERVATION COMMISSION RULE 202

PROPOSED RULE

RULE 202. PLUGGING AND TEMPORARY ABANDONMENT

(a) Any drilling well on which no approved drilling operations have taken place for more than 60 days shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained for the well in accordance with Section (c) of this Rule.

(b) Any completed well on which no approved production, injection, storage, observation, recompletion or workover operations have taken place for more than six months shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained in accordance with Section (c) of this Rule. This requirement shall not apply with respect to inactive zones in multiply completed wells where one or more other zones are being utilized as described herein.

(c) A permit for the temporary abandonment of a well may be requested from the District Supervisor of the appropriate District Office of the Commission by filing Form C-103 in triplicate, accompanied by evidence that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

A permit for temporary abandonment shall be for a period not exceeding one year, but may be extended by the District Supervisor from time to time, with each extension not exceeding one year. Extensions shall be requested in the same manner as the original permit, and shall be accompanied by evidence that the continued condition of the well is as described above.

Upon expiration of a permit or any extension thereof, or within 60 days after a request for a permit or extension has been disapproved by the District Supervisor, the well shall be permanently plugged and abandoned in accordance with Section (d) of this Rule. Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101.

(d) Same as present Section (a).

COMMENTS

Proposed Section (a) deals with drilling wells and, in substance, is the same as Section (c) in the present Rule. Proposed Section (b) is new and deals with wells other than drilling wells. Together, the proposed sections eliminate the necessity of defining "temporary abandonment" and, instead, establish a requirement that all wells must either be actively in use, or be granted a temporary abandonment permit, or be permanently plugged and abandoned.

The provision in Section (b) relating to multiple completions is patterned after the proposal made by Mobil on April 23.

Proposed Section (c) is patterned after Section B proposed by the Commission Staff on April 23, except that permits and extensions are both for one year, and extensions may be granted more than once, and there is no bonding requirement other than the one already contained in Rule 101. Note the last sentence of proposed Section (c) which states: "Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101." Thus, if a party fails to plug an inactive well and fails to get a permit to temporarily abandon it, he can be called upon (probably in a "show cause" hearing) to forfeit his regular plugging bond under Rule 101.

The Commission can avoid the abuse of repeated requests for extensions simply by disapproving them. This, of course, will depend on whether the reasons given in the request are plausible or not. When a request is disapproved, the operator will be forced to either plug the well or ask the Commission for an exception to the Rule—which would require notice and hearing.

PROPOSAL BY AMERADA HESS CORPORATION FOR REVISION OF
NEW MEXICO OIL CONSERVATION COMMISSION RULE 202

PROPOSED TITLE

COMMENTS

RULE 202. PLUGGING AND TEMPORARY ABANDONMENT

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(d) Same as present Section (c).

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Proposed Section (c) deals with drilling wells and, in substance, is the same as Section (c) in the present Rule. Proposed Section (b) is new and deals with wells other than drilling wells. Together, the proposed sections eliminate the necessity of defining "temporary abandonment" and, instead, establish a requirement that all wells must either be actively in use, or be granted a temporary abandonment permit, or be permanently plugged and abandoned.

The provision in Section (b) relating to multiple completions is patterned after the proposal made by Mobil on April 23.

Proposed Section (c) is patterned after Section 8 proposed by the Commission Staff on April 23, except that permits and extensions are both for one year, and extensions may be granted more than once, and there is no bonding requirement other than the one already contained in Rule 101. Note the last sentence of proposed Section (c) which states: "Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101." Thus, if a party fails to plug an inactive well and fails to get a permit to temporarily abandon it, he can be called upon (probably in a "show cause" hearing) to forfeit his regular plugging bond under Rule 101.

The Commission can avoid the abuse of repeated requests for extensions simply by disapproving them. This, of course, will depend on whether the reasons given in the request are plausible or not. When a request is disapproved, the operator will be forced to either plug the well or ask the Commission for an exception to the Rule—which would require notice and hearing.

PROPOSAL BY AMERADA HESS CORPORATION FOR REVISION OF
NEW MEXICO OIL CONSERVATION COMMISSION RULE 202

PROPOSED RULE

RULE 202. PLUGGING AND TEMPORARY ABANDONMENT

(a) Any drilling well on which no approved drilling operations have taken place for more than 60 days shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained for the well in accordance with Section (c) of this Rule.

(b) Any completed well on which no approved production, injection, storage, observation, recompletion or workover operations have taken place for more than six months shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained in accordance with Section (c) of this Rule. This requirement shall not apply with respect to inactive zones in multiply completed wells where one or more other zones are being utilized as described herein.

(c) A permit for the temporary abandonment of a well may be requested from the District Supervisor of the appropriate District Office of the Commission by filing Form C-103 in triplicate, accompanied by evidence that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

A permit for temporary abandonment shall be for a period not exceeding one year, but may be extended by the District Supervisor from time to time, with each extension not exceeding one year. Extensions shall be requested in the same manner as the original permit, and shall be accompanied by evidence that the continued condition of the well is as described above.

Upon expiration of a permit or any extension thereof, or within 60 days after a request for a permit or extension has been disapproved by the District Supervisor, the well shall be permanently plugged and abandoned in accordance with Section (d) of this Rule. Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101.

(d) Same as present Section (a).

COMMENTS

Proposed Section (a) deals with drilling wells and, in substance, is the same as Section (c) in the present Rule. Proposed Section (b) is new and deals with wells other than drilling wells. Together, the proposed sections eliminate the necessity of defining "temporary abandonment" and, instead, establish a requirement that all wells must either be actively in use, or be granted a temporary abandonment permit, or be permanently plugged and abandoned.

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(d) Same as present Section (a).

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Proposed Section (a) deals with drilling wells and, in substance, is the same as Section (c) in the present Rule. Proposed Section (b) is new and deals with wells other than drilling wells. Together, the proposed sections eliminate the necessity of defining "temporary abandonment" and, instead, establish a requirement that all wells must either be actively in use, or be granted a temporary abandonment permit, or be permanently plugged and abandoned.

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The Commission can avoid the cause of repeated requests for extensions simply by disapproving them. This, of course, will depend on whether the reasons given in the request are plausible or not. When a request is disapproved, the operator will be forced to either plug the well or ask the Commission for an exception to the Rule—which would require notice and hearing.

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Telegram Eastern Union

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NEW MEXICO OIL CONSERVATION COMMISSION, DLR EARLY AS
POSSIBLE PO BOX 2088 BUT DLR TO OFC ADS

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SANTA FE NM 87501

ATTN MR A L PORTER JR

MOBIL OIL CORPORATION RESPECTFULLY SUBMITS THE FOLLOWING RECOMMENDATIONS FOR THE COMMISSION'S CONSIDERATION IN CASE #5217 ON THE APRIL 23 1974 EXAMINER DOCKET REGARDING CHANGES TO RULE 202.

1. MOBIL RECOMMENDS THAT THE THIRD PARAGRAPH OF THE COMMISSIONS PROPOSAL, WHICH BEGINS "UPON EXPIRATION--" BE CHANGED TO READ AS

FOLLOWS: "UPON EXPIRATION OF THE PERMIT FOR TEMPORARY ABANDONMENT AND ANY EXTENSION THEREOF AS ABOVE PROVIDED, THE WELL SHALL BE PUT TO

BENEFICIAL USE OR SHALL BE PERMANENTLY PLUGGED AND ABANDONED; UNLESS IT CAN BE SHOWN TO THE SECRETARY-DIRECTOR OF THE COMMISSION THAT GOOD CAUSE EXISTS WHY THE WELL SHOULD NOT BE PLUGGED AND

ABANDONED, AND A PERMIT FOR FURTHER TEMPORARY ABANDONMENT SHOULD BE ISSUED

THE SECRETARY-DIRECTOR MAY REQUIRE NOTICE AND HEARING BEFORE THE SECRETARY-DIRECTOR MAY REQUIRE NOTICE AND HEARING BEFORE

BEFORE ISSUANCE OF THE PERMIT FOR FURTHER TEMPORARY ABANDONMENT IF HE DEEMS IT NECESSARY

NO SUCH PERMIT FOR FURTHER TEMPORARY ABANDONMENT BEFORE ISSUANCE OF THE PERMIT FOR FURTHER TEMPORARY ABANDONMENT IF HE DEEMS IT NECESSARY

ABANDONMENT SHALL BE APPROVED UNLESS A BLANKET BOND IN AN AMOUNT SATISFACTORY TO THE SECRETARY-DIRECTOR IS ON FILE OR A ONE-WELL

PLUGGING BOND FOR THE WELL IN AN AMOUNT SATISFACTORY TO THE SECRETARY-DIRECTOR IS FILED WITH THE COMMISSION TO ENSURE FUTURE

PLUGGING OF THE WELL. SECRETARY-DIRECTOR BE ADDED TO THE

2. MOBIL RECOMMENDS THAT AN ADDITIONAL PARAGRAPH BE ADDED TO THE PROPOSED CHANGES, TO READ AS FOLLOWS: "PROPOSED ABANDONMENT WILL BE NECESSARY FOR

D. NO PERMIT FOR TEMPORARY ABANDONMENT WILL BE NECESSARY FOR MORE INACTIVE ZONES IN MULTIPLE COMPLETED WELLS AS LONG AS ONE OR MORE ZONES ARE ACTIVELY BEING UTILIZED

L A DAVIS MOBIL OIL CORPORATION

MIDLAND PRODUCING AREA

* MGR SANA

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Western Union Telegram

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PMS MR A L PORTER JR

NEW MEXICO OIL CONSERVATION COMMISSION P O BOX 2088

SANTA FE NM 87501

NEWMONT OIL COMPANY OPPOSES THE PROPOSED CHANGE IN RULE 202,
CASE NO. 5217. PRESENTLY, MANY WELLS ARE TEMPORARILY AGANDONED
BECAUSE

THEY ARE UNECONOMICAL TO OPERATE. AND INCREASE IN CRUDE PRICES WOULD
MAKE THESE WELLS ECONOMICAL AGAIN AND RECOVER OIL THAT OULD
PROBABLY BE LOST FOREVER. IN MANY WATERFLOOD AREAS LARGE NUMBER OF
WELLS

HAVE BEEN WATERED OUT AND ARE TEMPORARILY ABANDONED. UNDER TERTIARY
FLOOD RECOVERY METHODS THES WELLS WILL BECOME ACTIVE PRODUCERS AGAIN.
HOWEVER, IF THESE WELLS ARE PLUGGED TERTIARY FLOODING MIGHT NOT BE

NEW MEXICO OIL CONSERVATION COMMISSION

APR 23 1974

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ECONOMICALLY FEASIBLE. THUS A LARGE FUTURE POTENTIAL RESERVES COULD
BE

LOST WHICH ARE GREATLY NEEDED DUE TO THE ENERGY SHORTAGE THROUGHOUT
THE U.S.A. AND OTHER PARTS OF THE WORLD.

CHARLES C JOY, DISTRICT SUPERINTENDENT

WU AGENCY SANA

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PMS A L PORTER JR DLR

P O BOX 2088 NEW MEXICO OIL CONSERVATION COMP

SANTA FE NM 875011

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MANY SECONDARY TERTIARY TECHNIQUES ARE YET TO BE DEVELOPED AND

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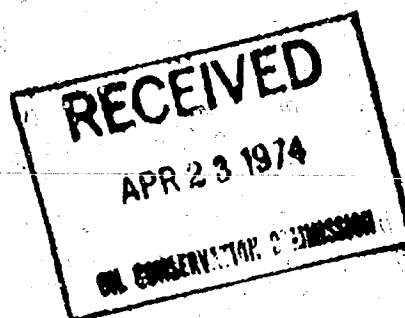
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YATES PEROLEUM CORP 207 SOUTH FOURTH ARTESIA NM 88210

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PMS A L PORTER JR DLR

P O BOX 2083 NEW MEXICO OIL CONSERVATION COM

SANTA FE NM 87501

REF PROPOSED CHANGED TEMPORARY ABANDONMENT PROCEDURE. STRICT TA RULE

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PERCENT. THE VALUE OF AN UNPLUGGED WELL HAS INCREASED TREMENDOUSLY.

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APR 23 1974

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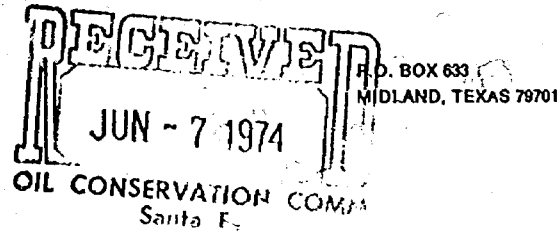
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PERMITTED TO RETAIN FLEXIBILITY FOR FUTURE INDUSTRY TECHNOLOGICAL
ADVANCEMENT AND ECONOMIC CHANGES

WILSON OIL CO BOOKER BLDG ARTESIA NM 88210

Mobil Oil Corporation



June 5, 1974

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

Mobil Oil Corporation concurs with the recommendations of the New Mexico Oil and Gas Association in Case 5217 on the June 11, 1974 Docket regarding the proposed changes to Rule 202.

It is our intention that this statement of support to the New Mexico Oil and Gas Association recommendations should supersede the recommendations submitted by Mobil at the April 23, 1974 hearing on the same subject.

Yours very truly,

A handwritten signature in dark ink, appearing to read "L. A. Davis".

L. A. Davis
Area Operations Engineer

JHSeerey/cs



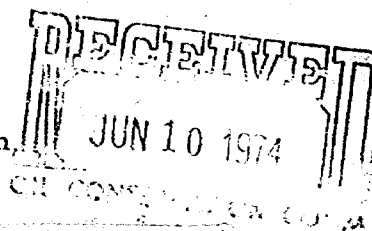
NORTH AMERICAN EXPLORATION AND PRODUCTION GROUP
Dallas Production Region

SUN OIL COMPANY

HILLCREST 635 OFFICE PARK, 12850 HILLCREST ROAD, DALLAS, TEXAS 75230 (214) 744-4411

June 7, 1974

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501



Attention: Mr. A. L. Porter, Jr.
Secretary-Director

Re: Case No. 5217

Gentlemen:

We have studied the Commission's proposed revisions to Rule 202 regarding Plugging and Temporary Abandonment of Wells and generally agree that such changes are necessary to prevent unused wellbores from being potential sources of surface and sub-surface contamination.

It is our opinion that the Commission has done an excellent job of drafting the proposed revisions. However, in order for the Rule to be more practical from an administrative and operating standpoint, Sun Oil Company would recommend that the Commission accept the recommendations made by the New Mexico Oil and Gas Association at the Hearing on April 23, 1974.

Yours very truly,

SUN OIL COMPANY

H. R. Huey

HRH/cs

cc: Peter Hanagan
Jason W. Kellahin

Docket No. 16-74

Dockets Nos. 19-74 and 20-74 are tentatively set for hearing on July 16 and July 24. Application for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - JUNE 11, 1974

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

ALLOWABLE: (1) Consideration of the allowable production of gas from seventeen prorated pools in Lea, Eddy, Roosevelt, and Chaves County, New Mexico, for July, 1974;

(2) Consideration of the allowable production of gas from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for July, 1974.

CASE 5217: (Continued from the April 23, 1974, Commission Hearing)

In the matter of the hearing called by the Oil Conservation Commission upon its own motion to consider the adoption of a Commission definition for "Temporary Abandonment" of wells, and further to consider the amendment of Rule 202 of the Commission Rules and Regulations to adopt an administrative procedure for abandonment of wells in this state for a limited period of time only, and for the adoption of a requirement for an individual one-well plugging bond for the continued temporary abandonment of any well after the expiration of the administrative period of time in which such well could be temporarily abandoned.

CASE 5255: In the matter of the hearing called by the Oil Conservation Commission of New Mexico upon its own motion to consider the adoption of general rules and regulations governing the drilling for and production of geothermal resources in the State of New Mexico.

701
June
N.M. OIL CONSERVATION COMMISSION HEARING, MAY 11, 1974 SANTA FE (CASE 52-17)

STATEMENT OF PETER HANAGAN, EXECUTIVE VICE PRESIDENT, NEW MEXICO OIL & GAS ASSOCIATION,
CONCERNING PROPOSED REVISION OF RULE 202 - PLUGGING AND TEMPORARY ABANDONMENT OF WELLS.

AS A RESULT OF THE CONTINUATION OF THIS CASE ON APRIL 23, THERE HAS BEEN CONSIDERABLE DISCUSSION WITHIN THE INDUSTRY OF THE PROPOSED CHANGES IN RULE 202. MY STATEMENT REPRESENTS A CONSENSUS OF THE PRINCIPAL POINTS RAISED BY MEMBERS OF THE ASSOCIATION.

THE CHANGES WE RECOMMEND TO RULE 202 AS PROPOSED BY THE COMMISSION WILL NOT DO VIOLENCE TO THE OVERALL OBJECTIVES SOUGHT TO BE OBTAINED BY THE COMMISSION. THE CHANGES WE PROPOSE WILL (1) HELP PREVENT PREMATURE PERMANENT PLUGGING AND ABANDONMENT, AND (2) WILL PERMIT THE NECESSARY FLEXIBILITY IN MATTERS OF BONDING AND FORMAL HEARING.

WITH RESPECT TO PROVISIONS CONTAINED IN THE 3RD PARAGRAPH OF PROPOSED RULE 202B, WE RECOMMEND:

(1) BLANKET OR ONE-WELL PLUGGING BOND OPTIONAL:

WE WOULD REPEAT OUR REQUEST THAT THE COMMISSION ACCEPT A BLANKET BOND AS AN ALTERNATIVE TO A ONE-WELL PLUGGING BOND AS A CONDITION FOR THE GRANTING OF A PERMIT FOR A FURTHER TEMPORARY ABANDONMENT. THIS COULD BE ACCOMPLISHED QUITE EASILY BY TYING THE BONDING REQUEST BACK TO THE PROVISIONS OF EXISTING RULE 101 CONCERNING PLUGGING BONDS. RULE 101 PERMITS A ONE-WELL PLUGGING BOND OR A BLANKET BOND WITH THE COMMISSION APPROVAL.

IF THE COMMISSION FEELS THE \$10,000 BOND LIMIT PROVIDES INSUFFICIENT PROTECTION, WE RECOMMEND THAT THE COMMISSION INITIATE ACTION IN THE NEXT LEGISLATIVE SESSION TO INCREASE THE BOND LIMIT TO AN AMOUNT WHICH WILL BE PROTECTIVE OF THE COMMISSION'S OBLIGATION TO THE PUBLIC.

(2) INDEFINITE NUMBER OF PERMIT EXTENSIONS FOR GOOD CAUSE:

THE INDUSTRY AGAIN REQUESTS THAT AT ADDITIONAL EXTENSIONS FOR TEMPORARY ABANDONMENT BE GRANTABLE BY THE DISTRICT SUPERVISOR WITHOUT NOTICE AND FORMAL HEARING BEFORE THE COMMISSION FOR GOOD CAUSE SHOWN AND UPON THE FURNISHING OF EVIDENCE THAT THE CONDITION OF THE WELL IS AS DESCRIBED IN THE 1ST PARAGRAPH OF PROPOSED RULE 202B.

WHEN A REQUEST IS DISAPPROVED BY THE DISTRICT SUPERVISOR, THE OPERATOR WILL BE FORCED TO EITHER PLUG THE WELL OR ASK THE COMMISSION FOR AN EXEMPTION TO THE RULE -- WHICH WOULD REQUIRE NOTICE AND HEARING.

(3) EX. IN
INCLUDE ACTIVE ZONE IN MULTIPLE COMPLETION:

WE RECOMMEND THE ADDITION OF THE FOLLOWING LANGUAGE AS A SECTION D TO RULE 202:

"D. NO PERMIT FOR TEMPORARY ABANDONMENT WILL BE NECESSARY FOR INACTIVE ZONES IN MULTIPLE COMPLETED WELLS AS LONG AS ONE OR MORE ZONES ARE ACTIVELY BEING UTILIZED."

(4) EXCLUDE CERTAIN SHUT-IN GAS WELLS:

WE RECOMMEND THAT THE PROPOSED DEFINITION OF TEMPORARY ABANDONMENT BE AMENDED TO EXCLUDE SHUT-IN GAS WELLS WHICH ARE CAPABLE OF PRODUCING BUT ARE EITHER PENDING A PIPELINE CONNECTION OR ARE SHUT-IN BY ORDER OF THE COMMISSION.

N.M. OIL CONSERVATION COMMISSION HEARING, APRIL 23, 1974, SANTA FE

Statement of Peter Hanagan, Executive Vice President, New Mexico Oil & Gas Association, Concerning Proposed Revision of Rule 202 - Plugging and Temporary Abandonment of Wells.

The industry is concerned with certain provisions contained in the third paragraph of proposed Rule 202B:

(1) Notice and Hearing: The proposed rule calls for notice and hearing to extend temporary abandonment granted by the district supervisor for a maximum period of 1 1/2 years. The industry requests that additional extensions be granted without notice and formal hearing before the Commission for good cause shown and upon the furnishing of evidence that the condition of the well is as described in the first paragraph of proposed Rule 202B.

In the event of special circumstances the Commission may require notice and hearing before the issuance of a permit for further temporary abandonment.

(2) One-Well Plugging Bond: We would request the Commission to accept a blanket bond as an alternative to a one well plugging bond as a condition for the granting of a permit for further temporary abandonment. Moreover, the bond should be in an amount not to exceed a sum certain rather than, as proposed, "in an amount satisfactory to the Commission".

If the Commission were to adopt the requests made above with respect to Rule 202B, that section might read as follows:

"B. Upon expiration of the permit for temporary abandonment and any extension thereto as above provided, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown that good cause exists why the well should not be plugged and abandoned, and a permit for further temporary abandonment should be issued in the same manner as the original permit. The Commission may require notice and hearing before issuance of the permit for further temporary abandonment if special circumstances appear to warrant. No such permit for further temporary abandonment shall be approved unless a blanket bond in an amount not to exceed \$ _____ is on file or, at the option of the applicant, a one-well plugging bond for the well in an amount not to exceed \$ _____ is filed with the Commission to insure future plugging of the well."

Rule 202D: We recommend the addition of the following language.

"D. No permit for temporary abandonment will be necessary for inactive zones in multiply completed wells as long as one or more zones are actively being utilized."

Proposed Definition of Temporary Abandonment should be amended to exclude shut-in gas wells that are capable of producing but are pending a pipeline connection.

The recommended changes will not do violence to the overall objectives sought to be obtained by the Commission, but will reduce unnecessary expenses and administrative burdens within the Commission and the industry. The recommended changes will also permit continued flexibility so necessary to industry operations. We are concerned with any rule change which might precipitate the premature permanent plugging and abandonment of wells.

DOCKET: COMMISSION HEARING - TUESDAY - APRIL 23, 1974

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

CASE 5216: In the matter of the hearing called by the Oil Conservation Commission upon its own motion to consider the amendment of Rule 1203 of the Commission Rules and Regulations to simplify the method of initiating a hearing before the Commission or its examiners, and to include a provision for the acceptance of verbal applications for hearing when such is necessary to permit the meeting of deadlines for publication of legal notice, provided that a subsequent written application would be required.

CASE 5217: In the matter of the hearing called by the Oil Conservation Commission upon its own motion to consider the adoption of a Commission definition for "Temporary Abandonment" of wells, and further to consider the amendment of Rule 202 of the Commission Rules and Regulations to adopt an administrative procedure for abandonment of wells in this state for a limited period of time only, and for the adoption of a requirement for an individual one-well plugging bond for the continued temporary abandonment of any well after the expiration of the administrative period of time in which such well could be temporarily abandoned.

CASE 5158: (De Novo)

Application of Cities Service Oil 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 29, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to its Simpson Well No. 1 to be drilled at an orthodox location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Upon application of Michael P. Grace and Corinne Grace, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 5167: (De Novo)

Application of Fluid Power Pump Company and Petro-Lewis Corporation for compulsory pooling, Sandoval County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests underlying two non-standard proration units in Township 19 North,

(Case 5167 continued from Page 1)

Range 3 West, Media-Entrada Oil Pool, Sandoval County, New Mexico, described as follows:

Unit No. 1, the S/2 SW/4 of Section 14 and N/2 NW/4 of Section 23, dedicated to applicants' Media Well No. 1 located in Unit M of said Section 14; and

Unit No. 2, the S/2 SE/4 of Section 15 and N/2 NE/4 of Section 22, to be dedicated to applicants' Media Well No. 2 located in Unit P of said Section 15.

Upon application of John K. Reimer and R. E. McKenzie, Jr., this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 5218: Application of John K. Reimer and R. E. McKenzie, Jr. for 40-acre spacing, revocation of non-standard proration units, and re-establishment of 40-acre allowables, Sandoval County, New Mexico. Applicants, in the above-styled cause, seek an order rescinding that portion of Order No. R-4277 which established 160-acre spacing units for the Media-Entrada Oil Pool, Sandoval County, New Mexico, alleging the existence of reservoir information now available, but not available at the time of the spacing hearing. Applicants further seek the revocation of orders numbers R-4274 and R-4287 which established four 160-acre non-standard oil proration units in said pool, and the revocation of Order No. R-4713 which established a special depth bracket allowable of 750 barrels of oil per day for said pool.

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PROPOSED RULE AMENDMENT - TEMPORARY ABANDONMENT

CONSERVATION COMM.
SANTA FE

RULE 202.

Section B. If a well is to be abandoned temporarily with no casing pulled, Form C-103 must be filed in TRIPLICATE, indicating the intention to do so and the Commission will specify temporary abandonment procedures. The Commission may require that casing tests be conducted to determine condition of the casing or may require bottom hole plugs to be set to protect the producing zone if it is determined that such protection is necessary to prevent damage to the producing zone or to prevent migration of oil, gas or water. No temporary abandonment permit shall be issued for a period exceeding one year. At the end of the permit period it shall be the responsibility of the operator of the well to either put the well to producing or plug and abandon the well according to Commission specifications or call a hearing to show cause why the well should not be plugged and abandoned. The Commission will require that sufficient evidence be presented to demonstrate that the casing is in good repair and that continued abandonment without plugging will not cause waste of oil or gas or communication between zones.

Memo

From
EMERY ARNOLD

To Pete,

I have written the proposed amendment to provide a starting point for our conversations next week. I am sure some changes may be in order and I am also sure such an amendment would be highly controversial - Nevertheless I am convinced that this or something similar is needed.

Emery

Memo

mailed to Districts

3/22

From

D. S. NUTTER
CHIEF ENGINEER

To All District Supervisors
(w/ amendments)

Attached is proposed
definition of "Temporary
Abandonment" for our
Rule Book and proposed
revision of Rule 202.

As we hope to put
this on the docket for
the Commission's April 23 hearing,
we would appreciate any
comments you may have
as soon as possible.

Thanks - Jsec

Rule 202
Case file

PROPOSED DEFINITION

TEMPORARY ABANDONMENT shall mean a state or period of suspended operations during which no continuous drilling, production, injection, storage, or work-over procedures have taken place. Such period shall be 60 days for drilling wells and six months for all other classes of wells.

PROPOSED RULE REVISION

RULE 202. PLUGGING AND TEMPORARY ABANDONMENT.

A. PLUGGING No change

B. TEMPORARY ABANDONMENT

No well shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. Such permit shall be for a period not to exceed six months and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

good cause therefor is shown, and
The District Supervisor of the appropriate District Office of the Commission shall have authority to grant one extension to the permit for temporary abandonment. Such extension shall not exceed one year and shall be requested in the same manner as the original permit for temporary abandonment. No extension shall be approved unless evidence is furnished that the continued condition of the well is as described above.

in an amount satisfactory to the Commission,

Upon expiration of the permit for temporary abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned, and a permit for further temporary abandonment should be issued. No such permit for further temporary abandonment shall be approved by the Commission unless a one-well plugging bond for the well is on file with the Commission to ensure future plugging of the well.

NEW MEXICO OIL CONSERVATION COMMISSION
Post Office Box 2088
Santa Fe, New Mexico 87501

CASE 5217: THIS MATTER WILL BE HEARD BY THE COMMISSION AT 9 A.M., APRIL 23, 1974,
AT MORGAN HALL, STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

PROPOSED DEFINITION

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- B. TEMPORARY ABANDONMENT

No well shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. Such permit shall be for a period not to exceed six months and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

The District Supervisor of the appropriate District Office of the Commission shall have authority to grant one extension to the permit for temporary abandonment. Such extension shall not exceed one year and shall be requested in the same manner as the original permit for temporary abandonment. No extension shall be approved unless good cause therefor is shown, and evidence is furnished that the continued condition of the well is as described above.

Upon expiration of the permit for temporary abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned, and a permit for further temporary abandonment should be issued. No such permit for further temporary abandonment shall be approved by the Commission unless a one-well plugging bond for the well, in an amount satisfactory to the Commission, is on file with the Commission to ensure future plugging of the well.

C. DRILLING WELLS

When drilling operations on a well have been suspended for 60 days, the well shall be plugged and abandoned unless a permit for temporary abandonment has been obtained for the well in accordance with Section B above.

PROPOSED DEFINITION

TEMPORARY ABANDONMENT shall mean a state or period of suspended operations during which no continuous drilling, production, injection, storage, or work-over procedures have taken place. Such period shall be 60 days for drilling wells and six months for all other classes of wells.

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A. PLUGGING No change

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No well shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. Such permit shall be for a period not to exceed six months and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

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Upon expiration of the permit for temporary abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned, and a permit for further temporary abandonment should be issued. No such permit for further temporary abandonment shall be approved by the Commission unless a one-well plugging bond for the well, is on file with the Commission to ensure future plugging of the well.

C. DRILLING WELLS

When drilling operations on a well have been suspended for 60 days, the well shall be plugged and abandoned unless a permit for temporary abandonment has been obtained for the well in accordance with Section B above.

INACTIVE WELLS IN STATE OF NEW MEXICO COMPARED TO ACTIVE WELLS

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Total Oil Wells	19,353	20,001	19,842	19,891	20,035	20,050
Inactive Oil Wells	2,356	2,421	3,180	3,768	3,885	3,938
% Inactive	12.2	12.1	16.5	18.9	19.4	19.6
	<i>1/8</i>					<i>1/5</i>
Total Gas Wells	8,841	9,160	9,236	9,394	9,690	10,136
Inactive Gas Wells	302	328	338	369	367	351
% Inactive	3.4	3.6	3.7	3.9	3.8	3.5
Total Wells	28,194	29,161	29,078	29,285	29,725	30,186
Total Inactive	2,658	2,749	3,618	4,137	4,252	4,289
% Inactive	9.4	9.4	12.4	14.1	14.3	14.2

NOTE: "Active wells" includes producing wells at end of year and authorized injection wells but does not include water supply or disposal wells nor drilling wells.

"Inactive wells" includes former producing wells not producing at the end of each year but does not include wells converted to water supply or disposal wells nor water injection wells even though not on active injection at end of year. Also does not include inactive drilling wells.

Injection wells incl any well which ever had reportable prod. Any oil well can prod Any gas well cannot.

VARIAION EXPLANATION: Active oil wells incl authorized inj wells.

PROPOSAL BY AMERADA HESS CORPORATION FOR REVISION OF
NEW MEXICO OIL CONSERVATION COMMISSION RULE 202

Withdrewn (a) May June 11

PROPOSED RULE

RULE 202. PLUGGING AND TEMPORARY ABANDONMENT

(a) Any drilling well on which no approved drilling operations have taken place for more than 60 days shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained for the well in accordance with Section (c) of this Rule.

(b) Any completed well on which no approved production, injection, storage, observation, recompletion or workover operations have taken place for more than six months shall be plugged and abandoned in accordance with Section (d) of this Rule, unless a permit for temporary abandonment has been obtained in accordance with Section (c) of this Rule. This requirement shall not apply with respect to inactive zones in multiply completed wells where one or more other zones are being utilized as described herein.

(c) A permit for the temporary abandonment of a well may be requested from the District Supervisor of the appropriate District Office of the Commission by filing Form C-103 in triplicate, accompanied by evidence that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

A permit for temporary abandonment shall be for a period not exceeding one year, but may be extended by the District Supervisor from time to time, with each extension not exceeding one year. Extensions shall be requested in the same manner as the original permit, and shall be accompanied by evidence that the continued condition of the well is as described above.

Upon expiration of a permit or any extension thereof, or within 60 days after a request for a permit or extension has been disapproved by the District Supervisor, the well shall be permanently plugged and abandoned in accordance with Section (d) of this Rule. Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101.

(d) Same as present Section (c).

COMMENTS

Proposed Section (a) deals with drilling wells and, in substance, is the same as Section (c) in the present Rule. Proposed Section (b) is new and deals with wells other than drilling wells. Together, the proposed sections eliminate the necessity of defining "temporary abandonment" and, instead, establish a requirement that all wells must either be actively in use, or be granted a temporary abandonment permit, or be permanently plugged and abandoned.

The provision in Section (b) relating to multiple completions is patterned after the proposal made by Mobil on April 23.

Proposed Section (c) is patterned after Section B proposed by the Commission Staff on April 23, except that permits and extensions are both for one year, and extensions may be granted more than once, and there is no bonding requirement other than the one already contained in Rule 101. Note the last sentence of proposed Section (c) which states: "Failure to comply with any provisions of this Rule shall be considered a breach of the plugging condition in the bond required by Rule 101." Thus, if a party fails to plug an inactive well and fails to get a permit to temporarily abandon it, he can be called upon (probably in a "show cause" hearing) to forfeit his regular plugging bond under Rule 101.

The Commission can avoid the abuse of repeated requests for extensions simply by disapproving them. This, of course, will depend on whether the reasons given in the request are plausible or not. When a request is disapproved, the operator will be forced to either plug the well or ask the Commission for an exception to the Rule--which would require notice and hearing.

Rule 202

DRAFT

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

CASE NO. 5217
Order No. R-5019

In the matter of the hearing called by the Oil Conservation Commission upon its own motion to consider the adoption of a Commission definition for "Temporary Abandonment" of wells, and further to consider the amendment of Rule 202 of the Commission Rules and Regulations to adopt an administrative procedure for abandonment of wells in this state for a limited period of time only, and for the adoption of a requirement for an individual one-well plugging bond for the continued temporary abandonment of any well after the expiration of the administrative period of time in which such well could be temporarily abandoned.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 23, 1974, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this day of May, 1975, 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.)

and June 11, 1974,

(2) That this case was called to consider the problem of growing numbers of inactive oil and gas wells in the state of New Mexico.

(3) That as a state gets older in the production of oil and gas, more and more wells reach their economic limit each year and are placed on an inactive status.

(4) That the state of New Mexico is arriving at approximately "middle-age" in oil and gas production.

(5) That the number of "inactive" oil wells increased from 2,356 or 12.2 percent of the total oil wells at the end of 1968 to 3,938 or 19.6 percent of the total oil wells at the end of 1973.

(6) That while not so large as the increase in the number of inactive oil wells, there was also a substantial increase in the number of inactive gas wells in the state during the same period of time.

(7) That unless firm steps are taken to ensure that wells will be properly plugged and abandoned when they are no longer useful, the number of inactive wells in this state will continue to increase.

(8) That such wells constitute a potential underground hazard and a threat to the inviolability of ground waters, and they must eventually be properly plugged and abandoned.

(9) That the Commission is charged with the responsibility "To require dry or abandoned wells to be plugged in such a way as to confine the crude petroleum oil, natural gas, or water in the strata in which they are found, and to prevent them from escaping into other strata;" *Section* ~~§~~ 65-3-11(1) NMSA 1953 *Comp.*

(10) That in accordance with said mandate, the Commission ^{should} ~~must~~ act to cause ~~more of the~~ inactive wells to be properly plugged and abandoned ^{on a current basis rather} ~~rather~~ than to accumulate over the years.

(11) That some of the older oil and gas producing states have found it necessary to resort to the use of public funds for the plugging and abandonment of old wells which had accumulated over the years.

(12) That unless firm steps are taken to ensure that wells are properly plugged and abandoned when they are no longer useful, it is likely that public funds will eventually have to be used to plug and abandon wells in this state.

(13) That it is the Commission's view that a more propitious approach to the problem than the use of public funds to plug wells is to adopt regulations that will tend to encourage the owners of inactive wells to properly plug and abandon said wells.

(14) That such regulations should apply to all wells drilled in the state of New Mexico inasmuch as said regulations will prevent waste of crude petroleum oil, natural gas, and ground waters and are therefore in the public interest.

(15) That such regulations should provide that any inactive well should be plugged and abandoned unless it can be shown that such well has a genuine potential for further use in the reasonably foreseeable future, and that it should be permitted to remain unplugged in a temporarily abandoned state.

(16) That there is need for the adoption of a definition for "temporary abandonment" and that such definition should provide that temporary abandonment is a state or period of suspended operations upon a well during which continuous drilling, production, injection, storage, or work-over operations have not taken place; that the time period for determining whether a well is temporarily abandoned should be 60 days for drilling wells and six months for all other classes of wells.

(17) That any well which, after 60 days or six months, which ever is applicable, meets the definition of, and is, ^{therefore,} a temporarily abandoned well, should be put to beneficial use or should be properly plugged and abandoned unless a permit for such temporary abandonment ^{for such well} has been obtained from the Commission.

(18) That a procedure should be adopted whereby the operator of such a temporarily abandoned well could obtain from the appropriate District Office of the Commission a permit for temporary abandonment where it can be shown that the well has a valid potential for further usefulness and should be left unplugged.

(19) That such a permit for temporary abandonment should be approved only upon a showing of satisfactory evidence that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water from one zone to another, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface, or will not in any other way cause waste or damage.

(20) That such a permit for temporary abandonment should be issued for some limited duration of time only, and one year is a reasonable duration ^{of time} for this purpose.

(21) That provision should be made whereby the District Office of the Commission could grant one extension to an expiring permit for temporary abandonment, provided conditions in the well are shown to still be as described in Finding No. (19) above, and provided that the extension should be ^{issued for some} ~~limited to a~~ limited duration of time only, and one year is a reasonable duration of time for this purpose.

(22) That ~~a reasonable duration of time for limiting such an extension is one year, that~~ in the case of a drilling well, ^{thus} ~~this could make a total period of time~~ **of two years and two months of inactive status** [60 days, Finding No.

(16); one year, Finding No. (20); and one year, Finding No. (21)]. ~~of two years and two months of inactive status, That in the case of any other class of well, this could make a total period of time~~ ^{thus} **of two and one-half years of inactive status** [six months, Finding No. (16); one year, Finding No. (20); and one year, Finding No. (21)]. ~~of two and one-half years of inactive status.~~

(23) That two years and two months, for drilling wells, and two and one-half years, for other classes of wells, to remain on an inactive status without necessity of coming before the Commission at a hearing appears to the Commission to be a reasonable maximum of time.

(24) That upon expiration of the permit for temporary abandonment and one extension thereto, any inactive well should be put to beneficial use or should be plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned and that further extension of the temporary abandonment is warranted.

(25) That provision should be made whereby the Commission could require a one-well plugging bond for any well receiving such "further extension" of temporary abandonment, such bond being in an amount satisfactory to the Commission to meet the particular requirements of the well.

(26) That provision should be made whereby the Secretary-Director of the Commission could grant administrative relief to the aforesaid requirements for notice and hearing to obtain "further extension" under certain limited circumstances; that

said circumstances should include only the following cases:

- (a) a remote and unconnected commercial gas well
or a presently non-commercial gas well which
may reasonably be expected to be commercial within
the foreseeable future;
- (b) a well in an oil pool ~~or within a portion~~
~~of an oil pool~~ in which secondary recovery
operations have, by actual performance, been
shown to be commercially feasible, and which
well may, with reasonable certainty, be expected
to be included in a bona fide secondary recovery
project within the foreseeable future.

(27) That provision should be made whereby the Secretary-Director could require a one-well plugging bond for any well receiving such "further extension" of temporary abandonment, such bond being in an amount satisfactory to the Secretary-Director to meet the particular requirements of the well.

(28) That no such "further extension," whether issued by the Commission after notice and hearing, or by the Secretary-Director *without notice and hearing,* should have a duration of more than two years, but should be eligible for renewal if circumstances so warrant.

(29) That the adoption of a definition of "Temporary Abandonment" consonant to Finding No. (16) above, and the amendment of Rule 202 of the Commission Rules and Regulations to embody the provisions of Findings (17) through (28) above, is in the public interest and will prevent waste without impairing correlative rights, and should be approved, effective July 1, 1975.

IT IS THEREFORE ORDERED:

(1) That SECTION A, "DEFINITIONS," of the New Mexico Oil Conservation Commission Rules and Regulations is hereby amended by the addition of the following definition:

"TEMPORARY ABANDONMENT shall mean a state or period of suspended operations during which continuous drilling, production, injection, storage, or work-over operations have not taken place. Such period shall be 60 days for drilling wells and six months for all other classes of wells."

(2) That Rule 202 of the Commission Rules and Regulations is hereby amended to read in its entirety as follows:

" RULE 202. PLUGGING AND ABANDONMENT.

A. PLUGGING

Before any well is abandoned, it shall be plugged in a manner which will permanently confine all oil, gas, and water in the separate strata originally containing them. This operation shall be accomplished by the use of mud-laden fluid, cement and plugs, used singly or in combination as may be approved by the Commission. The exact location of abandoned wells shall be shown by a steel marker at least four inches in diameter set in concrete, and extending at least four feet above mean ground level. The name and number of the well and its location (unit letter, section, township, and range) shall be welded, stamped, or otherwise permanently engraved into the metal of the marker. Seismic, core or other exploratory holes drilled to or below sands containing fresh water shall be plugged and abandoned in accordance with the applicable provisions recited above. Permanent markers are not required on seismic holes.

Within thirty days following the completion of plugging operations on any well, a record of the work done shall be filed with the Commission in TRIPLICATE, on Form C-103. Such report shall be filed by the owner of the well and shall include the date the plugging operations were begun along with the date the work was completed; a detailed account of the manner in which the work was performed; the depths and lengths of the various plugs set; the nature and quantities of materials employed in plugging operations; the amount, size and depth of all casing left in the hole and the weight of mud employed in plugging the well and any other pertinent information. No plugging report submitted on Form C-103 shall be approved by the Commission unless such report specifically states that pits have been filled and the location levelled and cleared of junk. The filing of Form C-105, Well Completion or Recompletion Report and Log is also necessary to obtain Commission approval of a plugging report.

It shall be the responsibility of the owner of the plugged well to contact the appropriate District Office of the Commission to arrange for an inspection of the plugged well and the location by a Commission representative.

B. TEMPORARY ABANDONMENT

in this state
No well shall be temporarily abandoned for a period in excess of six months unless a permit for such temporary abandonment has been approved by the Commission. Such permit shall be for a period not to exceed *one year* and shall be requested from the appropriate District Office of the Commission by filing Form C-103 in triplicate. No such permit shall be approved unless evidence is furnished that the condition of the well is such as to prevent damage to the producing zone, migration of hydrocarbons or water, the contamination of fresh water or other natural resources, or the leakage of any substance at the surface.

The District Supervisor of the appropriate District Office of the Commission shall have authority to grant one extension to the permit for temporary abandonment. Such extension shall not exceed one year and shall be requested in the same manner as the original permit for temporary abandonment. No extension shall be approved unless good cause therefor is shown, and evidence is furnished that the continued condition of the well is as described above.

Upon expiration of the permit for temporary abandonment and any extension thereto, the well shall be put to beneficial use or shall be permanently plugged and abandoned, unless it can be shown to the Commission after notice and hearing that good cause exists why the well should not be plugged and abandoned, and a *further extension to the temporary permit* should be issued. *Prior to issuing such "further extension,"*

the Commission may at its option require the operator of the well to post with the Commission a one-well plugging bond for the well, in an amount determined by the Commission to be satisfactory to meet the particular requirements of the well.

The Secretary-Director of the Commission shall have the authority to waive the above requirement for notice and hearing and grant further extension to a permit for temporary abandonment in the case of

- (1) a remote and unconnected commercial gas well or a presently non-commercial*

gas well which may reasonably be expected to be commercial within the foreseeable future; or

(2) a well in an oil pool in which secondary recovery operations have, by actual performance, been shown to be commercially feasible, and which well may, with reasonable certainty, be expected to be included in a bonafide secondary recovery project within the foreseeable future.

Prior to issuing such further extension, the Secretary-Director may at his option require the operator of the well to post with the Commission a one-well plugging bond for the well, in an amount determined by the Secretary-Director to be satisfactory to meet the particular requirements of the well.

No "further extension," whether issued by the Commission or by the Secretary-Director, shall be of more than two years duration, but may be renewed if circumstances warrant.

C. DRILLING WELLS

When drilling operations on a well have been suspended for 60 days, the well shall be plugged and abandoned unless a permit for temporary abandonment has been obtained for the well in accordance with Section B above.

(3) That the effective date of this order shall be July 1, 1975.

(4) That jurisdiction
DONE at

CASE, file 5217
MISSISS