

Case No.

532

Application, Transcript,
Small Exhibits, Etc.

CASE 532: OGC application for revision of
Rule 502 - Rate of producing wills, es-
tablishment of date and monthly tolerance.

Case 532-12

REX G. BAKER
VICE PRESIDENT AND
GENERAL COUNSEL

NELSON JONES
GENERAL ATTORNEY

J. Q. WEATHERLY
ASSOCIATE GENERAL COUNSEL

HERMAN P. PRESSLER
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ROBERT F. FRANKSON
LIZ HILL
CHARLES E. SLAVER
DELLARD W. BAKER
DORIS LAMAR STONE, JR.
WILLIAM J. MARSHALL
FRANK L. HENNE, JR.
KENNETH C. MEYER
WALTER F. WOODRUL, JR.
WALTER B. MORGAN
ROBERT C. MCCARTY
A. E. COLLIER

HUMBLE OIL & REFINING COMPANY
LAW DEPARTMENT
HOUSTON 1, TEXAS

July 24, 1953

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO.
JUL 27 1953

Honorable Edwin L. Mechem, Chairman
Honorable E. S. Walker
Honorable R. R. Spurrier
New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Gentlemen:

At your regular hearing held July 16, 1953, operators were advised that Case 532 would not be continued until the August hearing, but that the Commission would receive written statements relating to the proposed addition to Rule 503 submitted by the Committee appointed by the Commission to consider "Back Allowable."

The record in this case will reflect that Humble, as a member of this Committee, objected to the Committee's proposed addition to Rule 503, under which an operator in case of pipe line proration could make application to the Commission to include in subsequent proration schedules any shortage or underproduction resulting from such proration. The Committee's reason for this proposed addition to Rule 503, as we understand it, is to protect correlative rights during periods of purchaser or pipe line proration. After a careful study of this matter we have concluded that under the proposed addition to Rule 503 correlative rights will not be protected, for the reason that the productive capacity of a majority of the producing wells in New Mexico is not sufficient to make up any such shortage or underproduction. As to the incapable wells the rule would decrease the opportunity of the marginal well owner to produce his fair share of the recoverable reserves.

We believe that under present statutes restriction of production to actual market demand affords the only practical means of protecting correlative rights during such periods.

#2

Restriction of production on a market demand basis is a method which takes from the purchasers the allocation of production within pools and among pools and places it where the responsibility properly belongs, in the hands of the Conservation Commission. Under such procedure purchasers in short supply should purchase from those whose regular outlets are curtailed.

We respectfully urge the Commission to reject the Committee's proposed addition to Rule 503.

Respectfully submitted,

Charles E. Shaver

CHARLES E. SHAVER

CES:B

REX G. BAKER
VICE PRESIDENT AND
GENERAL COUNSEL

NELSON JONES
GENERAL ATTORNEY

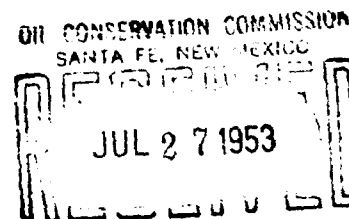
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July 24, 1953



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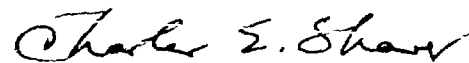
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We respectfully urge the Commission to reject the Committee's proposed addition to Rule 503.

Respectfully submitted,



CHARLES E. SHAVER

CES:B

OIL

OIL CONSERVATION COMMISSION
SANTA FE, N. M.

JUN 4 1956

...and establishment of a daily and
monthly tolerance.

STATE OF NEW MEXICO)
COUNTY OF BERNALILLO)

I HEREBY CERTIFY That the within transcript of
proceedings before the Oil Conservation Commission is
a true record of the same to the best of my knowledge,
skill, and ability.

DONE at Albuquerque, N. M., this 2nd day of
June 1956 3.

E. E. Gresson
E. E. Gresson

Notary - Reporter

My Comm. Ex.:
August 4, 1956

COMMISSIONER SPURRIER: The next case on the docket is Case 532.

(Mr. Graham reads the call of the case.)

MR. MACEY: Mr. Spurrier, before there is any comment on the proposed revision, which I think everyone has a copy of, I would like to read a letter into the record which Mr. Porter, our proration manager, has addressed to the Commission. And I think it quickly sums up what the Commission's staff position is in this matter:

"I have the following suggestions to make concerning the proposed revision of Rule 502:

"In paragraph I, I believe it would be desirable to leave the daily tolerance as it now at 125% of top unit allowable for the pool in which the well is located, or 10 barrels whichever is greater. Instead of limiting the tolerance to 125% of the daily allowable assigned the unit, or 10 barrels above the daily unit allowable whichever is greater. In Committee Meetings leading up to the formulation of this rule there was considerable discussion of this point and it was brought to our attention that many stripper wells are produced only two or three times a week for maximum efficiency in production. Thus, a well with an allowable of 8 barrels might produce 16 barrels every second day.

"I would also add the following paragraph:

"V. All producers and transporters shall be required to maintain legal storage records in such form as may be prescribed by the Commission.

"With the adoption of Commission Order R-98,A which became effective July 1, 1952 it was assumed that all producers would set up legal storage records. A starting point for such records was established by the Commission's Memorandum of July 23, 1952 declaring oil in storage as reported by operator's monthly report (Form C-115) at 7:00 A.M., July 1, 1952 to be legal unrun allowable oil. That such records are not being maintained by many producers, however, is evidenced by the fact that a considerable number of leases were shown to be over-produced as of March 31, 1953, by amounts ranging from a few barrels in excess of the monthly tolerance on some leases to several times the monthly tolerance on others.

"This condition, I think, indicates either misunderstanding or disregard of two key points in our present rules, (1) No provision is made for the making up of under-production, except that production may be balanced from day to day during the current month, and (2) any over-production including the allowed monthly tolerance must be compensated for during the following month.

"A great deal of the above mentioned over-production represents consistent over-production of top allowable wells, but some of it is merely the result of the producer's failure to nominate marginal wells for as much allowable as they are capable of producing.

"Realizing that our records are subject to error, we would welcome a periodic check up by any producer or transporter. Among other advantages, I can think of no better way to get a free audit of our books.

"Yours very truly, Oil Conservation Commission,
A. L. Porter, Jr., Proration Manager."

MR. SHAVER: Mr. Chairman, Charlie Shaver, representing the Humble Oil & Refining Company.

I would like to make a statement in support of this proposed revision of Rule 502.

As I understand the revision, it really makes one material change in the present rules as they are now written. And that is to spell out what is a common practice in the industry and has been a common practice in the industry for the past several years. That practice is that if an operator produces in excess of a monthly allowable assigned to a unit from causes beyond its control, he can cut back the next month and take care of the excess by under-production.

Now, I understand, subject to correction, that the

books of the Commission are kept so as to permit over-production in one month and then make up for this over-production by an under-production in the following month. Now, this rule just actually fits what is actually done today and spelled it out in written form, which we think is very desirable.

The rule also has all the safeguards necessary to prevent the running of hot oil, as you will see there in "IV. GENERAL."

And the only thing in it that I see that might be considered unusual is the fifteen day requirement to report excess production. This seems to me to be an appropriate safeguard against an operator taking advantage of the latitude permitted now under the present practice of making up over-production by under-production in a designated period of time.

And we favor the adoption of the proposed revision of Rule 502, and respectfully urge adoption by the Commission.

COMMISSIONER SPURRIER: Anyone else?

MR. HILL: R. G. Hill, for Stanolind.

I recall we didn't see a copy of the proposed revision until last night, and in order to give our organization, both producing department and pipe line department, time to review it, since it does represent a considerable

change, I would like to recommend the Commission continue this hearing until the June 16th hearing.

COMMISSIONER SPURRIER: Anyone else?

MR. TRIMBLE: George Trimble for Samadan.

I would like to concur in the statement as just made by Mr. Hill.

MR. LYONS: B. T. Lyons with Continental Oil Company.

We concur with Stanolind and Samadan and feel in order for our operators to have a chance to look this thing over, it would be better to continue the matter until June the 16th.

COMMISSIONER SPURRIER: Mr. Holloway.

MR. HOLLOWAY: J. R. Holloway of Tidewater Oil Associated.

Tidewater would like to concur with the recommendation made by Humble, and would like to have the record so show, because we have no one here on the engineering of it.

MR. WILSON: Wilson Oil Company concurs also.

COMMISSIONER SPURRIER: Mr. Foster.

MR. FOSTER: Mr. Chairman, E. H. Foster, representing Phillips Petroleum Company.

We concur with the Humble recommendation.

MR. WALKER: Don Walker with Gulf Oil Corporation.

I would like to concur with Humble's recommendation.

3

MR. CHRISTIE: R. S. Christie with Amerada.

We would also like to concur with Humble's recommendation.

COMMISSIONER SPURRIER: Anyone else?

(Off the record.)

COMMISSIONER SPURRIER: Mr. Hall.

MR. HALL: I would like to concur with Stanolind.

MR. MACEY: I would like to introduce the proposed revision, together with Mr. Porter's letter, and a copy of a form which the Commission uses at the present time in keeping its books balanced.

COMMISSIONER SPURRIER: Is there objection to the introduction of these exhibits? If not, they will be received and the case will be continued to June the 16th.

_____o_____

Test Sheet (1)

CASE 532: PROPOSED REVISION OF RULE 502

RULE 502: Permissible tolerance in production volumes allowed for oil wells.

I. Daily Tolerance

(a) It is recognized that oil wells located on units capable of producing their daily allowable may overproduce one day and underproduce another. No unit, except for the purpose of testing in the process of completing or re-completing a well and for tests made for the purpose of obtaining scientific data, shall produce during any day more than 125 per cent of the daily top unit allowable for the Pool in which the unit is located. (Subject to the foregoing, any underproduction may be made up by production from the same unit within the same month and over-production shall be adjusted by underproduction).

(b) It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125 per cent of the daily top unit allowable for the Pool in which the well is located. The Secretary of the Commission shall have the authority to grant an exception to requirements of paragraph (a) above without notice and hearing where application has been filed in due form outlining the reasons for the request for such an exception. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Commission and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Secretary of the Commission shall wait at least 10 days before approving such exception, and shall approve such exception only in the absence of objection from any ~~offset~~ operator. ^{with the} In the event an ~~offset~~ operator objects to exception, the Commission shall consider the matter only after proper notice and hearing; ^{provided however, if an operator in the pool} OTHER THAN AN OFFSET OPERATOR

Such

objects to such exemptions, the

II. Monthly Tolerance

No unit shall produce in any one month more than its monthly allowable plus a tolerance equal to three day's allowable production. The allowed monthly tolerance of overproduction shall be adjusted during the following month. Over-production within the permitted tolerance shall be considered as oil produced against the allowable assigned to the unit for the following month. ^{PROVIDED, HOWEVER,}
IF AN OPERATOR IN THE POOL

III. Production in excess of monthly allowable plus tolerance

In instances where production in excess of the monthly allowable plus tolerance occurs from error, mechanical failure, testing or other cause reasonably beyond the control of the producer, such excess production shall be reported to the Commission and the transporter in writing within 15 days after occurrence. The report shall contain the number of barrels of excess production, the cause of excess production, and the plan of adjustment. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following month and it may be transported from the lease tanks only as the unit accrues daily allowable to offset such excess production.

IV. General

The tolerance permitted on a daily or monthly basis shall not be construed to increase the allowable of a producing unit or to grant authority to
(over)

Page 2—Case 532:

any producer to market or to any transporter to transport any quantity of oil in excess of the unit's allowable. The possession of a quantity of oil in lease storage at the end of any month in excess of three day's allowable plus any unrun allowable oil shall be construed as a violation of this rule unless reported as provided in III above.

V. Legal Storage Records

All producers and transporters shall be required to maintain legal storage records in such form as may be prescribed by the Commission.

COPY

HUMBLE OIL & REFINING COMPANY

HOUSTON 1, TEXAS
June 11, 1953

File 6-1
New Mexico

Re: Proposed Revision of Rule 502

Mr. A. L. Porter, Jr.
Proration Manager
Oil Conservation Commission
Hobbs, New Mexico

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO.
RECEIVED
JUN 15 1953

Dear Sir:

This letter refers to your letter of May 11 addressed to Mr. Spurrier concerning the proposed revision of Rule 502.

We note that you would like to add the following paragraph:

"All producers and transporters shall be required to maintain regular storage records and such forms as may be prescribed by the Commission."

We suggest that this addition is not necessary, inasmuch as Rule 1102 now requires that appropriate records be kept to support the reports specified in Rule 1103.

We do not believe that a report other than Form C-115 will be necessary under the revision in order that both the operator and the Commission will be able to ascertain the cumulative status of any well at the end of any month. We believe that all the operator need be concerned with is that the monthly current allowable minus the tolerance oil at the beginning of the month and also minus the current production for the month shall not equal more than one day's current allowable. It appears that this could be accomplished by the addition of two columns to Form C-115, one column to show the tolerance oil on hand at the beginning of the month and the other to show the tolerance oil on hand at the end of the month. We believe there is sufficient space on the present form to readily allow for the insertion of the two columns.

Very truly yours,
W. E. Hubbard

WEH-AS
cc - Mr. R. R. Spurrier
New Mexico Oil Cons. Comm., Santa Fe, N.M.

BARNEY COCKBURN

Oil Operator
ARTESIA, NEW MEXICO

June 12, 1953

Oil Conservation Commission
Santa Fe, New Mexico

Attn: Mr. R. R. Spurrier

Re: Case 532 - Proposed Revision
of Rule 502

Gentlemen:

In the forthcoming hearing on the above proposed revision to rule 502 we wish to be put on record as being opposed to this revision.

Our impression is that it has been prepared by persons not well acquainted with field production problems, that it is impractical, and that unnecessary duplication of reports will take place.

If there is a beneficial conservation measure which has escaped us in our reading of the revision and the commission believes it worthy of being approved, then we specifically ask that there be stated in the revision that the commission will consider exceptions to the rule. We ask that no additional reporting form be required inasmuch as form C-11^c already provides information to conform with the revision.

Very truly yours,

BARNEY COCKBURN

By *C. J. Barnes*
C. J. Barnes

Artesia, New Mexico
June 13, 1953

Oil Conservation Commission
Santa Fe, New Mexico

Attention: Mr. R. R. Spurrier

Re: Case 532 - Proposed Revision
of Rule 502

Gentlemen:

As an oil producer, I wish to go on record as being opposed to the above named Proposal. From a practical standpoint I can see no reason for the rule at all, and it appears to be an unnecessary duplication of the reports already being filed.

It is impossible for my wells to be produced within this rule, and if the plan is adopted, I feel it should contain a clause for exemptions.

Yours truly,

George Atkins
George Atkins

H. R. PATON
2225 ROGERS AVE.
FT. WORTH, TEXAS

E. A. PATON
BOX 667
ARTESIA, N. MEX.

PATON BROS.
DRILLING CONTRACTORS

P. O. BOX 667

ARTESIA, N. M.

June 13, 1953

Oil Conservation Commission
Santa Fe, New Mexico

Attention: Mr. R. R. Spurrier

Gentlemen:

Re: Case 532 - Proposed Revision
of Rule 502

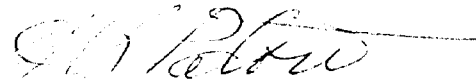
With regard to the above captioned Proposal we wish to make known that it is, in our opinion, impractical and an unnecessary duplication of the reports which are already being filed each month.

It is impossible for us to produce our leases within this rule. If the Commission insists on going through with this plan, then we would like to request that a clause be entered therein, making it possible for exemptions.

Yours truly,

PATON BROTHERS

By



H. R. Paton

CASE 532: PROPOSED REVISION OF RULE 502

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I. Daily Tolerance

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(b) It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125 per cent of the daily top unit allowable for the Pool in which the well is located. The Secretary of the Commission shall have the authority to grant an exception to requirements of paragraph (a) above without notice and hearing where application has been filed in due form outlining the reasons for the request for such an exception. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Commission and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Secretary of the Commission shall wait at least 10 days before approving such exception, and shall approve such exception only in the absence of objection from any offset operator. In the event an offset operator objects to exception, the Commission shall consider the matter only after proper notice and hearing.

II. Monthly Tolerance

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III. Production in excess of monthly allowable plus tolerance

In instances where production in excess of the monthly allowable plus tolerance occurs from error, mechanical failure, testing or other cause reasonably beyond the control of the producer, such excess production shall be reported to the Commission and the transporter in writing within 15 days after occurrence. The report shall contain the number of barrels of excess production, the cause of excess production, and the plan of adjustment. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following month and it may be transported from the lease tanks only as the unit accrues daily allowable to offset such excess production.

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V. Legal Storage Records

All producers and transporters shall be required to maintain legal storage records in such form as may be prescribed by the Commission.

Case 522 KS

[Faint handwritten notes and signatures]

GILBERT, WHITE AND GILBERT
ATTORNEYS AND COUNSELORS AT LAW
BISHOP BUILDING

SANTA FE, NEW MEXICO

July 18, 1953

CARL H. GILBERT
L. C. WHITE
WILLIAM W. GILBERT
SUMNER S. KOCH

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUL 20 1953

Oil Conservation Commission
Santa Fe, New Mexico

Re: Proposed Revision of Rule 502

Gentlemen:

In regard to sub-paragraph (b) I. Daily Tolerance, Proposed Revision of Rule 903, it is my opinion that all interested parties should be notified of any exceptions.

Sub -paragraph B reads in part as follows:

"The Secretary of the Commission shall have the authority to grant an exception to requirements of paragraph (a) above without notice and hearing where application has been filed in due form outlining the reasons for the request for such an exception. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Commission and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Secretary of the Commission shall wait at least 30 days before approving such exception, and shall approve such exception only in the absence of objection from any offset operator. In the event an offset operator objects to exception, the Commission shall consider the matter only after proper notice and hearing."

It is very probable that there are other parties in interest than only the offset operators and should this be the fact, they are entitled by law to have their day in court. It is therefore suggested that the foregoing proposed revision be amended to include all interested parties and not be limited to just the offset operators.

Very truly yours,
L. C. White
L. C. WHITE

LOW-c
cc- Hon. Edwin L. Mechem
Mr. R. R. Spurrer
Mr. Johnny Walker

DOCKET: REGULAR HEARING AUGUST 20, 1953

New Mexico Oil Conservation Commission 9 a. m., Mabry Hall, Santa Fe, N.M.

FIRST: Consideration of the allowable for the month of September, 1953.

CONTINUATIONS:

CASE 330: Concerned with Stanolind's application relating to proration of natural gas in the Blanco-Mesaverde Pool, San Juan County, N. M., this case was postponed when operator appeared at the December 16, 1952 hearing and asked for more time to compile production data.

CASE 377: Under terms of Order R-172 the OCC requested that Benson & Montin appear to show cause why a 160-acre spacing pattern should not be instituted for Pictured Cliffs wells in the Gallegos Unit Area, San Juan County, N. M., to supersede the 320-acre spacing granted for one year after original hearing.

CASE 391: Under terms of Order R-195 the OCC requested Stanolind to appear at this time to show cause why the Fowler Pool should not be placed on a 40-acre spacing pattern with allowable adjustment to supersede the 80-acre spacing granted by the order for a period of one year.

CASE 521: (Consolidated with Case 245) These two cases concerning the denomination of gas pools in SE New Mexico and proration of natural gas in the area have been under study of an industry advisory committee.

A PRE-HEARING MEETING IN THE ABOVE
CASE 521 IS SET FOR 2 P.M., AUGUST 19
AT MABRY HALL.

CASE 529: (Readvertised) OCC application for revision of Rule 1121 of the Rules and Regulations to provide for a Form C-122-B, Initial Potential Test (Pitot Tube) to be used in reporting results of such tests; and for amendment to Order R-333 to provide for testing procedure.

NEW CASES:

CASE 562: John M. Kelly application for approval of unit of 160 acres, SE/4 Section 8, Twp. 19 S. Rge. 37 E. Lea County, down to and including depth of 3835' which includes the Queen gas zone.

CASE 563: Continental Oil Company application for approval of Bell Lake Unit embracing 37,177.86 acres of land in Lea County, in Townships 22, 23 and 24 South, Ranges 33 and 34 East.

CASE 564: Application of Los Nietos Company for permission to drill directionally its Gross No. 2, SW NE 2-12S-32E, the well to be plugged back from TD 11,260 and whipstocked in effort to reach Devonian pay of East Caprock-Devonian Pool at point approximating surface location of 2208.11' from N line and 1811.54' from E line of said Section 2.

-2-
DOCKET

- CASE 565: Gulf's application for permission to deviate its Lillie No. 2 Well, now drilling at surface location 750' S of N line and 560' E of W line, 23-24S-37E; this directional drilling contemplated because of geologic trends established in obtaining production from Gulf's Lillie No. 1 well 241' to the northwest, and to result, if effected, in the well's being bottomed at a point equivalent to a surface location 662.3' S of N line and 329.5' E of W line, 23-24S-37E.
- CASE 566: Blackwood & Nichols' application for order permitting pooling of certain tracts into individual drilling and proration units as specified by the Commission in Order R-110 (for the Blanco Mesaverde Pool); E/2 Section 19, E/2 Section 18, W/2 Section 17, and W/2 Section 20, all being in Twp. 30 N, Rge. 7 W, San Juan and Rio Arriba Counties, N. M.
- CASE 567: Amerada's application for permission to drill its Hamilton A-2 Well, NE SE 34-16S-38E, Lea County, N. M., as exception to Knowles Pool Spacing Order R-40.
- CASE 568: Amerada's application for permission to effect dual completion of its State WE 'A' No. 1 Well, SE NW 12-21S-35E, to permit production of oil from Queen formation (Eunice-Monument Pool) and gas from Seven Rivers.
- CASE 569: Buffalo Oil Co.'s application for approval of secondary-recovery project (by water injection) in the Baish Pool, Secs. 21 and 22, Twp. 17 S, Rge. 32 E, Lea County, N. M.
- CASE 570: Trebol Oil Co.'s application for approval of unorthodox location for its Fed. Danciger Well No. 1-Y as a gas well to Yates formation 890' from N line and 330' from E line of NW Sec. 5, Twp. 23 S, Rge. 36 E, NMPM, Lea County, N. M.
- CASE 571: Southeastern New Mexico nomenclature case, providing for extensions and deletions as follows:
- (a) Extend Gladiola-Wolfcamp Pool to include E/2 Sec. 25, Twp. 12 S, Rge. 37 E, NMPM.
 - (b) Extend Lazy 'J' Pool to include W/2 Sec. 34, Twp. 13 S, Rge. 33 E, NMPM.
 - (c) Extend Lovington-Abo Pool to include NE/4 Sec. 2, Twp. 17 S, Rge 36 E, NMPM.
 - (d) Extend the Lovington-Paddock Pool to include SW/4 Sec. 30, Twp. 16 S, Rge 37 E, NMPM.

-3-
DOCKET

- (e) Extend the Square Lake Pool (Eddy County) to include S/2 NW/4 and NE/4 Sec. 12, Twp. 17S, Rge 30E, NMPM.
- (f) Delete W/2 E/2 of Sec. 19, Twp. 25 S, Rge. 37 E, NMPM, from previous description of the Langlie-Mattix Pool and extend the Cooper-Jal Pool boundary to include same.

CASE 572: Northwestern New Mexico nomenclature case, providing for the following extensions:

- (a) Extend the Blanco-Mesaverde Pool to include:

Twp. 31 N, Rge. 9 W, NMPM
All Sec. 6; all Secs. 20 - 23 incl.

Twp. 32 N, Rge. 9 W, NMPM
All Secs. 30 and 31

Twp. 32 N, Rge. 10 W, NMPM
All Secs. 28, 33 and 36

Twp. 32 N, Rge. 11 W, NMPM
All Secs. 15, 16, 21, 28 and 29

- (b) Extend West Kutz-Pictured Cliffs Pool to include:

All Sec. 9, Twp. 26 N, Rge 10 W

S/2 Sec. 14 and E/2 Sec. 15 in 28 N, 13 W

- (c) Extend the Aztec-Pictured Cliffs Pool to include:

All Sec. 3, Twp. 29 N, Rge. 11 W

All Secs. 27, 28, 29 and 34 in 30 N, 11 W

- (d) Extend the South Blanco-Pictured Cliffs Pool to include:

All Sec. 31 and W/2 Sec. 32, Twp. 27 N, Rge 6 W

- (e) Extend the South Blanco-Tocito Pool to include:

SW/4 Sec. 4, Twp. 26 N, Rge. 6 W, NMPM.

NOTICE OF PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION
SANTA FE - NEW MEXICO

The State of New Mexico by its Oil Conservation Commission hereby gives notice pursuant to law and the rules and regulations of said Commission promulgated thereunder of the following public hearings to be held at 9 o'clock a.m. on July 16, 1953, at Mabry Hall, State Capitol, in the City of Santa Fe, New Mexico.

STATE OF NEW MEXICO TO:

All named parties and persons
having any right, title, interest
or claim in the following cases,
and notice to the public.

CASE 532: (Readvertisement)

In the matter of the revised application of the Oil Conservation Commission of New Mexico upon its own motion for an order authorizing the revision, modification and amendment of variously numbered rules in Sections 'O', 'A', and 'N' of the Rules and Regulations of the Commission (Revised Jan. 1, 1953), with particular reference to Rule 502, relating to Rate of Producing Wells and Daily and Monthly Tolerances, etc.; and Rule 503 relating to Production Authorization, and including therein the matter of so-called 'Back Allowable'; the insertion of a working definition of the term 'Back Allowable' within Section 'A' of said Rules; the addition to Section 'N' relating to forms, of said Rules and Regulations, of such other and ~~additional~~ required forms as ~~may appear necessary~~ or convenient as a result of any revision, modification or amendment of any of the rules aforesaid; the amendment of, deletion from or addition to any conflicting section, definition, phrase or clause in Order R-98-4 or any other order previously issued by the Commission bearing on the foregoing matters.

Handwritten mark

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

May 11, 1953

Mr. R. R. Spurrer
Box 871
Santa Fe, New Mexico

Dear Mr. Spurrer:

I have the following suggestions to make concerning the proposed revision of Rule 502:

In paragraph I, I believe it would be desirable to leave the daily tolerance as it now is at 125% of ~~the~~ unit allowable for the pool in which the well is located, or 10 barrels whichever is greater. Instead of limiting the tolerance to 125% of the daily allowable assigned the unit, or 10 barrels above the daily unit allowable whichever is greater. In Committee Meetings leading up to the formulation of this rule there was considerable discussion of this point and it was brought to our attention that many stripper wells are produced only two or three times a week for maximum efficiency in production. Thus, a well with an allowable of 8 barrels might produce 16 barrels every second day.

I would also add the following paragraph:

V. All producers and transporters shall be required to maintain legal storage records in such form as may be prescribed by the Commission.

With the adoption of Commission Order R-96, A which became effective July 1, 1952, it was assumed that all producers would set up legal storage records. A starting point for such records was established by the Commission's Memorandum of July 23, 1952 declaring oil in storage as reported by operator's monthly report (Form C-115) at 7:00 A. M., July 1, 1952 to be legal unrun allowable oil. That such records are not being maintained by many producers, however, is evidenced by the fact that a considerable number of leases were shown to be over-produced as of March 31, 1953, by amounts ranging from a few barrels in excess of the monthly tolerance on some leases to several times the monthly tolerance on others.

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OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

This condition, I think, indicates either misunderstanding or disregard of two key points in our present rules, (1) No provision is made for the making up of under-production, except that production may be balanced from day to day during the current month, and (2) any over-production including the allowed monthly tolerance must be compensated for during the following month.

A great deal of the above mentioned over-production represents consistent over-production of top allowable wells, but some of it is merely the result of the producer's failure to nominate marginal wells for as much allowable as they are capable of producing.

Realizing that our records are subject to error, we would welcome a periodic check up by any producer or transporter. Among other advantages, I can think of no better way to get a free audit of our books.

Yours very truly,

OIL CONSERVATION COMMISSION

A. L. Porter, Jr.
Production Manager

ALP/cd

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STATEMENT OF SHELL OIL COMPANY IN
CASE 532, NEW MEXICO OIL CONSERVA-
TION COMMISSION.

Shell Oil Company is opposed to subsection (b) of the proposed Revision to Rule 502 for the following reasons:

1. It is based on a false premise that wells in water drive reservoirs must be produced at excessively high rates. Generally the consensus of recognized opinion is that from a conservation viewpoint, water drive reservoirs should be produced at rates low enough to prevent coning and excessive water production; for otherwise there would be an ultimate loss of oil due to the irregular advancing of the water table and the loss of reservoir energy.

2. It would appear that the occasion for the rule is a single pool where some wells produce a large quantity of water. Since this situation is a local one rather than a general one, it should be covered by a field rule rather than by a general rule.

3. It limits the right to receive notice to a proposed exception and to make an objection thereto to offset operators. Since an exception would not be limited to a local drainage problem but would affect reservoir energy and oil, all operators in the pool should be notified thereof and given a chance to object thereto.

Concerning the proposal that Rule 502 be amended so as to change the monthly tolerance of over-production from one day to three days, Shell makes no objection. However, since the oil cannot and will not be run by the pipeline companies until a sufficient number days of the next month have elapsed for such to be legally tendered, it is believed that the flexibility advantage thereof will prove slight and be short-lived.

With reference to the proposed amendment to Rule 503 to allow the running of "back allowable" oil, Shell would call the Commission's attention to the following matters:

1. Such an amendment would, in all probability, be ineffective, for nominations in any particular month represent the purchasers' entire needs during that month, and in all probability only the amount

of oil stated therein will be run during that month from the State whether that which is run is regarded as back allowable oil or as current oil.

2. If such an amendment were effective and caused back allowable oil to be run, it would be difficult, if not impossible, to administer it fairly. We understand that a large percentage, perhaps as many as 80%, of the wells in New Mexico are not only not top allowable wells but are also marginal wells. Marginal wells would be unable to "make up" a back allowable. Therefore, the big part of a back allowable would go to the comparatively few top allowable wells which could make enough more than the current allowable to make up the back allowable. It would seem much fairer to spread the demand of the purchasers to all the wells in the State especially since generally the situation that causes a back allowable is applicable to all wells and not to just the few that would be able to make their back allowable.

3. The clerical burden that would be thrown on the Commission's personnel as the result of a "back allowable" amendment would be considerable - such that it might interfere with their other duties and such as not to be undertaken unless it is clear that a back allowable amendment is fair and will be effective.

4. Such an amendment might jeopardize State regulation of oil and gas conservation and help those who wish to control the oil industry from Washington. If each oil producing state undertook to grab an excessive amount of the current demand by a "back allowable" order, a difficult situation would be presented to the industry and if a chaotic condition should result therefrom those who wish to control the industry from Washington would undoubtedly try to use that condition as a lever to obtain the enactment of legislation designed to give them that control by asserting that regulation by the States had proven ineffective.

To summarize, Shell thinks that a back allowable rule should not be issued because it would probably be ineffective, unfair, difficult to administer, and damaging to the position of the states in their fight against federal encroachment on the field of oil conservation.

CASE 532: PROPOSED ADDITION TO RULE 503

503 F. In the event it becomes necessary for any transporter to commence pipeline proration, such transporter shall within 24 hours prior to such proration becoming effective, notify the Commission of such proration. Upon receipt of such notice the Commission may, upon its own motion, after due notice, hold a hearing to consider appropriate action to be taken to preserve correlative rights.

In case of pipeline proration any operator affected thereby shall have the right to make application to the Commission to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such application shall be made upon a form prescribed by the Commission 30 days after the close of the proration period in which the shortage occurred and shall be limited to wells capable of producing the daily top unit allowable for such period.

In approving any such application the Commission shall determine the period of time during which such shortage shall be made up, and shall include the same in the regularly approved proration schedules.

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CASE 532: PROPOSED REVISION OF RULE 502

RULE 502: PERMISSIBLE TOLERANCE

I. Daily Tolerance

(a) It is recognized that oil wells located on units capable of producing their daily allowable may overproduce one day and underproduce another. No unit, except for the purpose of testing in the process of completing or recompleting a well and for tests made for the purpose of obtaining scientific data, shall produce during any day more than 125 per cent of the daily top unit allowable for the Pool in which the unit is located. (Subject to the foregoing, any underproduction may be made up by production from the same unit within the same month and over-production shall be adjusted by underproduction).

(b) It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125 per cent of the daily top unit allowable for the Pool in which the well is located. The Secretary of the Commission shall have the authority to grant an exception to requirements of paragraph (a) above without notice and hearing where application has been filed in due form outlining the reasons for the request for such an exception. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Commission and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Secretary of the Commission shall wait at least 30 days before approving such exception, and shall approve such exception only in the absence of objection from any offset operator. In the event an offset operator objects to exception, the Commission shall consider the matter only after proper notice and hearing; provided, however, if an operator in the pool other than an offset operator objects to such exemptions, the Commission may, in its discretion, order the matter considered after proper notice and hearing.

II. Monthly Tolerance

No unit shall produce in any one month more than its monthly allowable plus a tolerance equal to 5 day's allowable production. The allowed monthly tolerance of overproduction shall be adjusted during the following month. Over-production within the permitted tolerance shall be considered as oil produced against the allowable assigned to the unit for the following month.

III. Production in excess of monthly allowable plus tolerance

In instances where production in excess of the monthly allowable plus tolerance occurs from error, mechanical failure, testing or other cause reasonably beyond the control of the producer. The cause for such excess and the plan of adjustments thereof shall be set forth on all copies of the operators monthly report C-115 for the month in which the excess production occurs. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following month and it may be transported from the lease tanks only as the unit accrues daily allowable to offset such excess production.

IV. General

The tolerance permitted on a daily or monthly basis shall not be construed

to increase the allowable of a producing unit or to grant authority to any producer to market or to any transporter to transport any quantity of oil in excess of the unit's allowable. The possession of a quantity of oil in lease storage at the end of any month in excess of 5 day's allowable plus any unrun allowable oil not reported as provided in paragraph III above shall be construed a violation of this rule.

V. Storage Records

All producers and transporters shall be required to maintain records showing unrun allowable oil in storage at the end of each proration period. Storage referred to above shall be the amount of oil in tanks from which oil is delivered to the transporter.

CASE 532: PROPOSED REVISION OF RULE 502

RULE 502: Permissible tolerance in production volumes allowed for oil wells.

I. Daily Tolerance

(a) It is recognized that oil wells located on units capable of producing their daily allowable may overproduce one day and underproduce another. No unit, except for the purpose of testing in the process of completing or re-completing a well and for tests made for the purpose of obtaining scientific data, shall produce during any day more than 125 per cent of the daily top unit allowable for the Pool in which the unit is located. (Subject to the foregoing, any underproduction may be made up by production from the same unit within the same month and overproduction shall be adjusted by underproduction).

(b) It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125 per cent of the daily top unit allowable for the Pool in which the well is located. The Secretary of the Commission shall have the authority to grant an exception to requirements of paragraph (a) above without notice and hearing where application has been filed in due form outlining the reasons for the request for such an exception. Applicants shall furnish all operators who offset the lease upon which the subject well is located a copy of the application to the Commission and applicant shall include with his application a written stipulation that all offset operators have been properly notified. The Secretary of the Commission shall wait at least 10 days before approving such exception, and shall approve such exception only in the absence of objection from any offset operator. In the event an offset operator objects to exception, the Commission shall consider the matter only after proper notice and hearing.

II. Monthly Tolerance

No unit shall produce in any one month more than its monthly allowable plus a tolerance equal to three day's allowable production. The allowed monthly tolerance of overproduction shall be adjusted during the following month. Overproduction within the permitted tolerance shall be considered as oil produced against the allowable assigned to the unit for the following month.

III. Production in excess of monthly allowable plus tolerance

In instances where production in excess of the monthly allowable plus tolerance occurs from error, mechanical failure, testing or other cause reasonably beyond the control of the producer, such excess production shall be reported to the Commission and the transporter in writing within 15 days after occurrence. The report shall contain the number of barrels of excess production, the cause of excess production, and the plan of adjustment. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following month and it may be transported from the lease tanks only as the unit accrues daily allowable to offset such excess production.

IV. General

The tolerance permitted on a daily or monthly basis shall not be construed to increase the allowable of a producing unit or to grant authority to
(over)

Page 2—Case 532:

any producer to market or to any transporter to transport any quantity of oil in excess of the unit's allowable. The possession of a quantity of oil in lease storage at the end of any month in excess of three day's allowable plus any unrun allowable oil shall be construed as a violation of this rule unless reported as provided in III above.

V. Legal Storage Records

All producers and transporters shall be required to maintain legal storage records in such form as may be prescribed by the Commission.

CASE 532: PROPOSED REVISION OF RULE 502

RULE 502: Permissible tolerance in production volumes allowed for oil wells.

I. Daily Tolerance

It is recognized that oil wells located on units capable of producing their daily allowable may overproduce one day and underproduce another. No unit, except for the purpose of testing in the process of completing or recompleting a well and for tests made for the purpose of obtaining scientific data, shall produce during any day more than 125 per cent of the daily allowable assigned the unit, or ten (10) barrels above the daily unit allowable, whichever is greater. (Subject to the foregoing, any underproduction may be made up by production from the same unit within the same month and over-production shall be adjusted by underproduction).

II. Monthly Tolerance

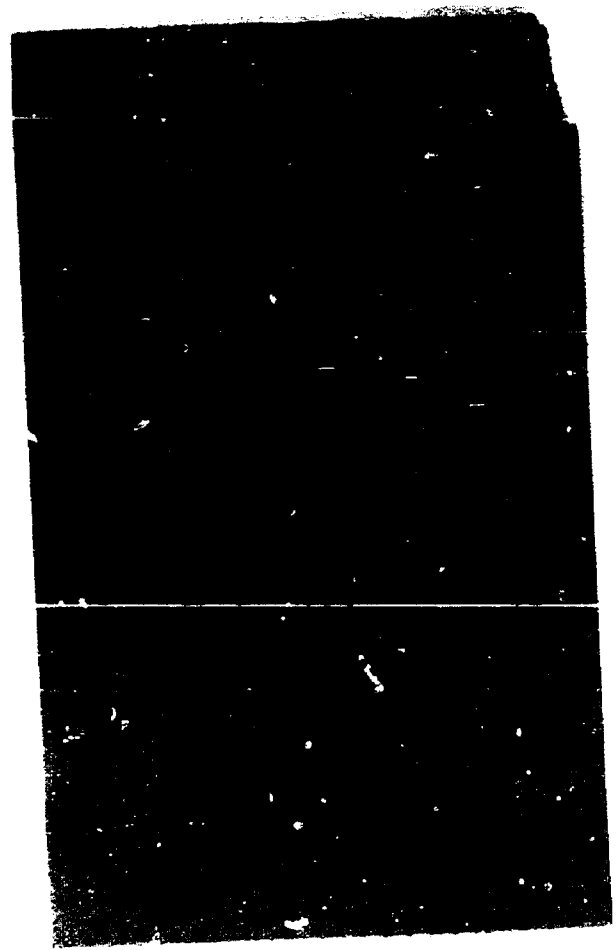
No unit shall produce in any one month more than its monthly allowable plus a tolerance equal to one day's allowable production. The allowed monthly tolerance of overproduction shall be adjusted during the following month. Overproduction within the permitted tolerance shall be considered as oil produced against the allowable assigned to the unit for the following month.

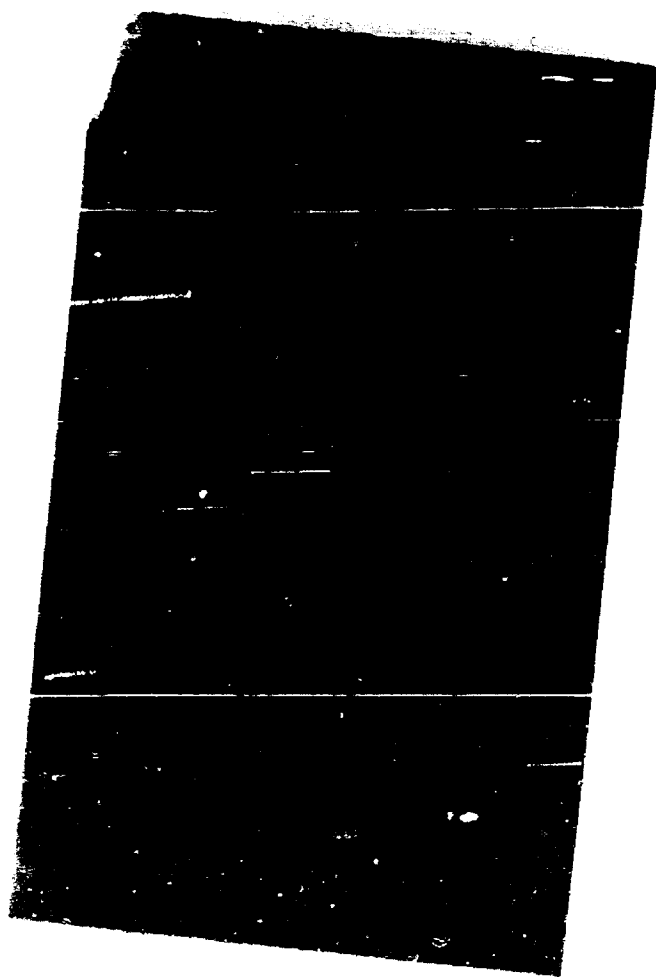
III. Production in excess of monthly allowable plus tolerance

In instances where production in excess of the monthly allowable plus tolerance occurs from error, mechanical failure, testing or other cause reasonably beyond the control of the producer, such excess production shall be reported to the Commission and the transporter in writing within 15 days after occurrence. The report shall contain the number of barrels of excess production, the cause of excess production, and the plan of adjustment. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following month and it may be transported from the lease tanks only as the unit accrues daily allowable to offset such excess production.

IV. General

The tolerance permitted on a daily or monthly basis shall not be construed to increase the allowable of a producing unit or to grant authority to any producer to market or to any transporter to transport any quantity of oil in excess of the unit's allowable. The possession of a quantity of oil in lease storage at the end of any month in excess of one day's allowable plus any unrun allowable oil shall be construed as a violation of this rule unless reported as provided in III above.





BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 532
ORDER NO. R-354

THE MATTER OF THE REVISED APPLICA-
TION OF THE OIL CONSERVATION COMMISSION
OF NEW MEXICO UPON ITS OWN MOTION FOR
AN ORDER AUTHORIZING THE REVISION,
MODIFICATION AND AMENDMENT OF
VARIOUSLY NUMBERED RULES IN SECTIONS
'G', 'A' AND 'M' OF THE RULES AND REGULATIONS
OF THE COMMISSION (REVISED, JAN. 1, 1953) WITH
PARTICULAR REFERENCE TO RULE 502, RELATING
TO RATE OF PRODUCING WELLS AND DAILY AND
MONTHLY TOLERANCES, ETC.; AND RULE 503,
RELATING TO PRODUCTION AUTHORIZATION,
AND INCLUDING THEREIN THE MATTER OF
SO-CALLED 'BACK ALLOWABLE'; THE INSERTION
OF A WORKING DEFINITION OF THE TERM, 'BACK
ALLOWABLE' WITHIN SECTION 'A' OF SAID RULES;
THE ADDITION TO SECTION 'M' RELATING TO FORMS
OF SAID RULES AND REGULATIONS OF SUCH OTHER
AND ADDITIONAL REQUIRED FORMS AS MAY APPEAR
NECESSARY OR CONVENIENT AS A RESULT OF ANY
REVISION, MODIFICATION OR AMENDMENT OF ANY
OF THE RULES AFORESAID; THE AMENDMENT OF,
DELETION FROM OR ADDITION TO ANY CONFLICTING
SECTION, DEFINITION, PHRASE OR CLAUSE IN
ORDER R-98-A, OR ANY OTHER ORDER PREVIOUSLY
ISSUED BY THE COMMISSION BEARING ON THE FORE-
GOING MATTERS.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on regularly for hearing on May 19, 1953, June 16, 1953 and July 16, 1953 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission":

NOW, on this 28th day of August, 1953, the Commission, a quorum being present, having considered the testimony adduced at the hearings and being fully advised in the premises,

FINDS:

(1) That due public notice having been given in compliance with law, the Commission has jurisdiction to change, modify or amend its rules.

(2) That Rules 502 and 503 of the Commission's Rules and Regulations, revised January 1, 1953 should be amended as hereinafter set out, and,

IT IS THEREFORE ORDERED

(1) That Rule 502, be, and the same hereby is amended to read as follows:

"502 Permissible tolerance in production volumes allowed for oil wells.

I. Daily Tolerance

(a) It is recognized that oil wells located on units capable of producing their allowables may overproduce one day and underproduce another. No unit capable of producing its allowable, except for the purpose of testing, in the process of completing or recompleting a well, or for tests made for the purpose of obtaining scientific data, shall produce any day more than 125% of the daily top unit allowable for the pool in which the same is located. (subject to the foregoing, any underproduction may be made up by production from the same unit within the same month, and in like manner any overproduction shall be adjusted or balanced by underproduction from the same unit, within the same proration period.)

(b) It is also recognized that certain wells must, as a matter of practicality, be produced at daily rates in excess of 125% of the daily top unit allowable for the pool in which such wells are located. The Secretary of the Commission is hereby given authority to grant exceptions to the provisions of paragraph (a) above, without formal hearing, where application is filed in due form setting out the reasons for such requested exception; applicants for such exceptions shall, at the time of filing, also furnish each operator in the pool in which the subject well is located, a copy of such application. Included in any application for exception or attached thereto, filed under authority hereof, shall be a formal written statement by the applicant that every operator in the pool in which the subject well is located has been served with a copy of such application. The Secretary of the Commission shall wait at least ten days after receipt, before approving any such application, and shall approve the same only in absence of objection from any operator, interested party, or in his discretion. In event the Secretary, for any reason fails to approve such application, the Commission, after notice, will hear and determine the matter.

II. Monthly Tolerance

No unit shall produce in any one proration period more than its monthly allowable, plus a tolerance of not to exceed 5 days allowable production. This permissive tolerance of overproduction from a unit shall be adjusted or balanced by corresponding underproduction from the same unit during the next succeeding proration period. Overproduction within the permitted tolerance shall be considered as oil produced against the allowable assigned to the unit for the next succeeding proration period.

III. Production in excess of monthly allowable, plus tolerance.

Oil produced from any unit in excess of the assigned monthly allowable plus the permissive proration period tolerance shall be "illegal oil" as defined in the Oil Conservation Law, unless (a) such excess oil be produced as a result of mistake or error; (b) mechanical failure beyond the immediate control of the operator, or, (c) resulting from essential tests of the unit within the purview of Oil Conservation Commission Rules. Whenever production from any unit for a proration period is in excess of the assigned allowable, plus the permitted tolerance authorized herein, and the cause of such excess reasonably falls within (a), (b) or (c) of this paragraph, the producer or operator shall briefly set forth the cause of such excess production together with a proposed plan of adjustment thereof, upon all copies of the operators monthly report (Form C-115) for the month in which such excess production occurs. Such excess production shall be considered as oil produced

against the allowable assigned to the unit for the following proration period, and it may be transported from the lease tanks only as and when the unit accrues daily allowable to offset such excess production.

IV. General

The tolerance permitted on a daily or monthly basis as provided hereinabove shall not be construed to increase the allowable of a producing unit or to grant authority to any operator to market or to any transporter to transport any quantity of oil in excess of the unit's allowable.

The possession of a quantity of oil in lease storage at the end of any proration period in excess of five days allowable plus any unrun allowable oil shall be construed as a violation of this Rule, unless reported in the manner and within the time provided for filing C-115's provided by Section III above.

V. Storage Records.

All producers and all transporters of oil are required to maintain adequate records showing unrun allowable oil in storage at the end of each proration period. Such storage oil shall be the amount of oil in tanks from which oil is measured and delivered to the transporter.

(2) That Rule 503, be, and the same hereby is amended, by adding thereto a paragraph following paragraph (e) thereof, to be known as 503 (f), to read as follows:

"(f) In the event it becomes necessary for any transporter of crude petroleum to resort to pipeline proration in New Mexico, such transporter shall, as soon as possible and not later than 24 hours after the effective date thereof, notify the Commission of its decision to so prorate; upon receipt of such notice from such transporter, the Commission may take such emergency action, as may be deemed proper, and/or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority, to preserve and protect correlative rights.

In case of pipeline proration any operator affected thereby has the right to make application to the Commission for authorization to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such applications shall be made upon a form hereby authorized to be prescribed by the Commission and filed therewith within thirty days after the close of the first proration period in which such pipeline proration shortage occurred, and such authorization shall be limited in any event to wells capable of producing the daily top unit allowable for such period.

In approving any such application the Commission shall determine the period of time during which such shortage shall be made up without injury to the well or pool, and shall include the same in the regularly approved proration schedules following the conclusion of pipeline proration."

(3) That Rules 502 and 503 as set out above supercede any conflicting Rule, Order or parts of Orders.

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

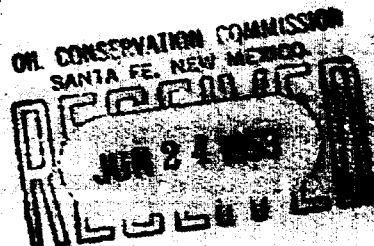
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


Edwin L. Mechem, Chairman


E. S. Walker, Member


R. R. Spurrer, Secretary

**OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO**



CASE 532:

Application of the Commission on its own motion for an order revising Rule 502 of the Rules and Regulations pertaining to the rate of production and establishment of a daily and monthly production.

TRANSCRIPT OF HEARING

June 16, 1956

Date

BEFORE: Honorable ~~W. J. ...~~
Honorable ~~...~~
Honorable R. R. Spurrier, Director, O.C.C.

STATE OF NEW MEXICO)
COUNTY OF BERNALILLO)

ss

I HEREBY CERTIFY that the within transcript of proceedings before the Oil Conservation Commission is a true record of the same to the best of my knowledge, skill, and ability.

DONE at Albuquerque, N. M., this 20th day of
June 1956 3.

Handwritten signature of E. E. Gresson in cursive script.

My Comm. Ex.:
August 4, 1956

E. E. Gresson
Notary - Reporter

COM. SPURRIER: The next case on the docket is Case 532.

(Mr. Graham reads the advertisement.)

MR. MACEY: I believe that everyone has received a copy of the new revision, and there are some changes in the proposed revision which I think should be noted.

It is my recommendation, starting with the Section V entitled "Legal Storage Records," the title be changed to "Storage Records"; and the wording be changed as follows: "All producers and transporters shall be required to maintain records" -- that is, strike the words "legal storage" from the phrase -- "Showing unrun allowable oil in storage at the end of each proration period."

The purpose of the change was that a great many of the transporters maintain legal storage records at the present time on electric accounting machines, such as IBM machines, and it is rather needless to require them to keep a set of records to conform with the Commission's form. There has been a little bit of confusion in regard to storage records. A lot of operators have thought they had to file those records. All that is required of them is to keep a record of their storage at the end of each month showing unrun allowable plus their storage at the end of the proration period.

MR. GRAHAM: What form can it be reported on, Mr.

Macey? Will the 115 take care of that?

MR. MACEY: They don't have to report it. Just a matter of them keeping a record of their unrun allowable oil. No new form to be submitted to the Commission or anything like that. The Proration Office in Hobbs keeps these records. But it was apparent to the Proration Office there wasn't anybody keeping them because there were a great number of deviations from the legal storage figures.

MR. SELINGER: Mr. Macey, would you mind reading that again so that we know the exact wordage there?

MR. MACEY: Surely. The title is "Storage Records."
"All producers and transporters shall be required to maintain records showing unrun allowable oil and (?) storage at the end of each proration period."

The other point which I would like to bring out is that in paragraph (b) under "Daily Tolerance" the way the proposal is written it grants an exception to an operator who for various reasons cannot live within the 125 per cent figure. Under the rule they are allowed to produce 125 per cent of the daily top unit allowable for the particular pool. Now, due to certain technical features, reservoir conditions, there probably ought to be exceptions to that. However, the way the rule is written now the operator, all he has to do, is notify his offset operators and apply to the Commission for an exception. But there has been some comment regarding

the fact that an operator in a pool, or operators in a pool, should have the right to object to the excess of 125 per cent. And, therefore, it is felt that the phrase should probably be re-worded to remove the automatic exception upon notice to offsets, and require a hearing on it.

There may be a number of comments in regard to that. I am just more or less throwing it in in the hope of some comments.

That is all I have.

COM. SPURRIER: Is there anyone else to be heard in this case?

Mr. Cusack.

MR. CUSACK: The purpose of this rule, as I understand it, is to adjust the overproduction over legal allowable, is that correct? For example, if you run over on any lease in the next month or months that shall be adjusted back, is that correct? What will be deducted from the following allowables?

COM. SPURRIER: Are you asking the Commission?

MR. CUSACK: Well, I expected --

MR. MACEY: I think I can answer in part your question, Mr. Cusack. In the first place it isn't a question of overrunning, it is a question of overproducing. Now, it does allow an operator who overproduces, it gives him a leeway by the terms of this written rule in here. He can write

to the Commission and explain his reasons for his overproduction, and what steps he will take to adjust it.

MR. CUSACK: It must be adjusted back?

MR. MACEY: Yes.

MR. CUSACK: Now, suppose you have legal storage oil? For example, allowed 1,500 bbls per well, and the pipe line takes 1,200 bbls, but you have the oil in storage. Can you make it up the following month?

MR. MACEY: The 300 bbls you didn't run is legal oil.

MR. CUSACK: It can be run?

MR. MACEY: Yes, sir, it can be run.

MR. CUSACK: But this rule doesn't set it out.

MR. MACEY: It doesn't set it out in this rule, but it does, I think, in 503. I am not sure. I would have to hunt through the whole thing.

MR. CUSACK: My thought was this rule should be amended to state what they think, that unrun legal oil in storage should be allowed to be run the following month. In other words, you spoke about protecting correlative rights when overrun. Of course, the same thing of protecting correlative rights if underrun. That is correct, I believe, isn't it?

MR. MACEY: We don't restrict runs of legal oil at any time.

MR. CUSACK: You don't state it in here whether or not we are allowed to make it up the following month. I think that should be stated; that any production of legal oil that is in storage shall be allowed to be run the following month. We should be allowed to make that up. Might have 200 bbls over on one lease and have to adjust that back; and might be 200 bbls short on another lease and couldn't make it up. Just as a matter of putting it down where you can understand it.

MR. SELINGER: I think it is carried in your monthly allowable order. I believe that is where it is carried.

MR. MACEY: Let's look at it.

COM. SPURRIER: Are you sure, Mr. Cusack, that doesn't appear in some other rule?

MR. CUSACK: No. I am asking you if it does. And if so, what rule it is. Of course, that would correct the situation without even checking the rules; if you would insert it here in your amendment to Rule 502. Wouldn't have to look the rules up.

MR. MACEY: Well, specifically there is nothing in the rules that says you can run any oil.

MR. CUSACK: You ought to put it in.

MR. MACEY: There is nothing in the rules that specifically says you can run one barrel or any amount of

oil. It is the matter of whether your oil is legal or not; legally produced. That is the question.

MR. CUSACK: Let me put it another way. Is there anything wrong by putting it in this rule?

MR. MACEY: I don't see anything wrong, offhand.

MR. CUSACK: That is the request we have to make on it. So it is clearly understood.

COM. SPURRIER: Do you have something else, Mr. Cusack?

MR. CUSACK: No, sir, that is all.

COM. SPURRIER: Mr. Seth.

MR. SETH: For the Wilson Oil Company. This proposed revision contains a number of variations from the original rule, and we would like to consider the matter further between now and next month's hearing. And we would like to ask the Commission to reconsider the daily, the monthly, tolerance. It provides for three days in the proposal here. And in view of that situation, we would like to move that the case be continued until next month's hearing.

If the Commission please, we would also like for the Commission to consider at that hearing the possibility of reinstating some provision relating to back allowables; a provision perhaps similar to the one that was eliminated during the last revision of the rules. But limited to

situations where oil is not run by the transporter, and limited to that reason only. We believe that reconsideration of reinstating that back allowable feature, and reconsideration of the daily, number of days tolerance here between now and the next hearing would be in the interests of all concerned.

COM. SPURRIER: Anyone else have a comment?

MR. CUSACK: We would like to go on record as seconding Mr. Seth's motion for the Wilson Oil Company. And for the further reasons we believe that the reinstatement of back allowable is necessary for the protection of correlative rights of the operators; particularly the independent operators in the State of New Mexico.

COM. SPURRIER: Anyone else?

MR. CURRY: If it please the Commission, I would like to second Mr. Seth's recommendation, and have the back allowable feature added to the call of the next hearing. If it can't be contained under the present call, to have it amended to include that feature.

COM. SPURRIER: Anyone else?

MR. MACEY: Mr. Spurrier, in view of the recommendations and motions that have been made here, I think it would be in order that we would appoint a committee of both pipe line companies and possibly the gasoline plants and the producers to consider both the motions and the proposed

revision and come up with an answer. This particular section of the rules and regulations has been amended since 1950 -- this will be the third time. And I would kind of like to see it get put in proper order for once and for all.

COM. SPURRIER: Without objection to Wilson's motion, the Commission can continue the case to the regular July hearing. And I think in line with Mr. Macey's suggestion we should appoint a small working committee. I would like to appoint on this committee: Amerada, Humble, Warren, Wilson, and the Cusacks, Jr. and Sr. I would suggest that if those people can get together before we go home today, and try to arrange a meeting so that we can have a recommendation by July 16, I believe it is, the regular July hearing.

The next case on the docket is Case 542.

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(Reporters Note: To be included with the transcript in Case 532)

COM. SPURRIER: Before we recess for lunch, I would like to go back to Case 532 and appoint Wilson Oil Company as Chairman of that Committee on Rule 512.

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO.

AUG 3 1953

OIL CONSERVATION COMMISSION

In the matter of the Petition Application of the Oil Conservation Commission of the State of New Mexico for authority to revise, modify and amend the numbered rules in Sections 'G', 'A', and 'B' of the Rules and Regulations of the Commission (Revised Jan 1, 1953), with particular reference to Rule 502, relating to Hourly, Daily, Monthly and Daily and Monthly Tolerances, etc.; and also relating to Production Authorization, and including therein the matter of so-called 'Back Allowance'; the interpretation of the meaning definition of the term 'Back Allowance'; the deletion of certain of said Rules; the addition of Section 'C' relating to the rules of said Rules and Regulations, of such other and additional requirements as may appear necessary or appropriate in connection with any revision, modification or amendment of the Rules and Regulations; the amendment of, deletion from or addition to any existing section, definition, phrase or clause of the Rules and Regulations or any other previously issued by the Commission bearing on the foregoing matters.

TRANSCRIPT OF HEARING

July 16, 1953

Date:

REPORT: Honorable M. E. Lohan, Governor
Honorable E. S. Walker, Land Commissioner
Honorable R. R. Swarrier, Director, OGC

STATE OF NEW MEXICO)

ss

COUNTY OF BERNALILLO)

I HEREBY CERTIFY That the within transcript of proceedings before the Oil Conservation Commission is a true record of the same to the best of my knowledge, skill, and ability.

DONE at Albuquerque, N. M., this 29th day of July 1953.

E. E. Greeson

E. E. Greeson
Notary - Reporter

My Comm. Ex.:
August 4, 1956

MR. SPURRIER: The next case on the docket is Case 532.

(Mr. Graham reads the advertisement.)

MR. LAMB: If the Commission please, your committee appointed June 16th, 1953, is prepared to report.

MR. SPURRIER: Would you like to sit down, Mr. Lamb?

MR. LAMB: The committee appointed as of that date is prepared to report, and I believe you have copies of our report. We have a couple of minor changes which we might mention at this time.

In Rule 502, Roman Numeral III, a period in the first sentence should be a comma, after the word "producer." And then "the cause" is part of the same sentence. In other words, a continuation of the same sentence and not separate sentences.

(Off the record.)

MR. LAMB: And under the proposal for addition to Rule 503, the fourth line of the second paragraph where it says "by the commission" insert the words "within thirty days."

These revisions of Rule 502 are the report of your committee. And in addition to Rule 503, we suggest Section F as written.

I will say only one member of the committee, which

is Humble, did not concur in this report.

MR. SHAVER: That is only as to 503,F.

MR. LAMB: That is correct.

MR. SPURRIER: 503,F?

MR. SHAVER: Yes.

MR. LAMB: Yes.

MR. SHAVER: We concur as to Rule 502.

MR. LAMB: That is correct.

MR. SPURRIER: Are there any questions now of Mr. Lamb while he is here prepared to elaborate on these changes?

MR. LAMB: I might say, Mr. Spurrier, from the last proposed revision of 502 there are only very slight changes. If you would care, I would briefly outline those.

MR. SPURRIER: I wish you would because it might answer some questions.

MR. LAMB: Under Section I on "Daily Tolerance", Paragraph (b), at the end of that paragraph a sentence was added, or part of a sentence was added, to read "provided, however, if an operator in the pool other than an offset operator objects to such exemptions, the Commission may, in its discretion, order the matter considered after proper notice and hearing."

The "Monthly Tolerance," Paragraph II, the tolerance was increased from three to five days.

And under Section III it was set out that any excess production shall be reported on the C-115, which is the operator's monthly report.

And under Section V a definition for storage was inserted.

Other than that, the report is as was originally submitted last month.

MR. SPURRIER: Does anyone have a question of Mr. Lamb? In case any of you want to make a comment, I think this is the time and we will ask Mr. Lamb to wait until you have spoken your piece.

MR. MADOLE: Ross Madole for Magnolia.

I would like to ask one question. As to Paragraph III of 502. And it provides that the excess production shall be reported to the Commission. I assume that is in excess of five days, isn't it?

MR. LAMB: That is correct.

MR. MADOLE: Then No. IV. it says, the last sentence, "The possession of a quantity of oil in lease storage at the end of any month in excess of five days allowable, plus any unrun allowable oil not reported as provided in Paragraph III" is that phrase "allowable oil" construed as being this excess oil in excess of five days excess?

MR. LAMB: No; your allowable oil is the amount of

oil set up on your schedule. That is your allowable oil. You are permitted a five day tolerance. But if by various reasons stated here, if you run over five days, you have to report on C-115.

MR. MADOLE: And if you reported that oil, then does that last sentence make it illegal oil?

MR. LAMBE: When you report it-- If you do not report it, then it is illegal oil.

MR. MADOLE: That word "allowable," it wouldn't be allowable oil, would it?

MR. LAMB: The possession of a quantity of oil in lease storage at the end of the month in excess of five days tolerance plus any unrun oil.

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MR. MADOLE: And you don't have unrun oil, you have allowable oil. That word "allowable" there.

MR. LAMB: Unrun allowable oil.

MR. MADOLE: That is my question, whether or not it would be -- When you use the word "allowable," shouldn't that be stricken and say just in excess of five days allowable plus any unrun oil not reported as provided in Paragraph III?

MR. LAMB: No; no, your allowable is one thing. Your unrun -- and your five day tolerance is two different amounts.

MR. MADOLE: That's right.

(Off the record discussion.)

MR. SPURRIER: Does anyone else have a question of Mr. Lamb, or does anyone have a comment on the case?

MR. SMITH: Mr. Spurrier, on this 503-F -- do you want to discuss that now?

MR. SPURRIER: Yes; go ahead.

MR. SMITH: I represent Shell Oil Company.

I refer to the second line in 503-F there in which the "transporter shall within twenty-four hours prior to such proration becoming effective, notify the Commission of such proration."

I believe it should be twenty-four hours after, would be more appropriate. Quite frequently we don't know that twenty-four hours beforehand, just when the pipeline proration is going to take effect. I believe if we could limit that to, say, 24 hours after pipeline proration.

MR. LAMB: I think the intent here, Mr. Smith, was for the Commission to be advised at the earliest possible date or time.

MR. SMITH: In this case, pipeline proration, we don't know that until we absolutely have to, and maybe will have some emergency period there. Say it takes effect the tenth of the month and we might not prorate until probably the fifteenth or twentieth. And we don't prorate until, say, our storage is full and it becomes critical. And I think

twenty-four hours afterward, or any period the Commission may elect to use, would be better than twenty-four hours prior.

MR. LAMB: I personally have no objection to it, but I can't speak for the entire committee.

MR. SMITH: I think it would be a little better. I think it would be better on our part from an operational standpoint.

(Off the record discussion.)

MR. SPURRIER: Anyone else?

MR. HILL: My name is R. G. Hill of Stanolind.

I would like to state as far as we are concerned most of these changes appear to be satisfactory but we see no necessity for making a provision in the rule as outlined in Paragraph (b) of Section I on Daily Tolerance, 502.

The operator, of course, at any time has the prerogative of coming in and asking for an exception in the statewide rules. We see no use for getting a provision in the rules which seems to be tailored to fit more or less unique cases. And we have the same statement about 503-F.

To make such a rule, since the operator does have the prerogative at any time of asking for a hearing on any matter which he considers to warrant such a hearing. If an emergency arises where a man feels he is entitled to the provision outlined in 503-F, he should ask for an emergency

hearing.

We would recommend Paragraph (b), Section I, 502, be deleted, and 503-F not be adopted by the Commission.

MR. LAMB: I might state on this 503-F, the intent of the provision was an effort to take care of cases involving correlative rights and discrimination between pools. And that was the intent of writing it before, since there is no statute, and that was the intent of writing it at this time.

MR. HILL: Our point there, Mr. Lamb, is simply you have that prerogative under the present rules and to make a specific provision in the rules is unnecessary.

MR. LAMB: Of course, the basis of 503-F is based on experience from the back allowable provision that was originally in the rules up to, I believe, 1952, a year ago. And it is a reinstating of that provision.

MR. MACEY: Mr. Hill, you referred in 503-F to the fact that an operator has the right to come in and request that, but there is nothing in the rules that requires the transporter to notify the commission of pipeline pro-
ration.

MR. HILL: I will not object to that provision being made in 503. However, to provide for back allowable, our argument still holds.

MR. LAMB: I might say, in regard to this 502, I,

Section B, Mr. Hill refers to, there are a number of producing problems in the southeastern part of the state which are difficult to produce under this 125% tolerance. And it gives the operator the right to file an application for an exemption to this 125%, say, on one well without coming up for a notice and hearing and so forth and so on. In other words, he notifies the offset operators of his intent of filing the application for the exemption. And I believe that if each of the exemptions had to come before a special hearing we would run late every afternoon in the hearings. And it is a matter for the Commission to decide and to decide whether it is reasonable or not.

MR. SPURRIER: Anyone else? Mr. Smith.

MR. SMITH: Mr. Spurrier, referring to 503-F:

Since we have just received these proposed additions to Rule 503 at this hearing here and haven't had an opportunity to study them very closely, I would like to request the Commission to withhold its decision until - and probably discussing it at a future meeting, after we have had time to go over this and formulate our opinions better, say, at the next meeting in August.

MR. SPURRIER: Is there objection to Mr. Smith's motion? Do you?

MR. LAMB: The committee would have no objection.

But I would like to say this. The Committee has done considerable work on this particular project of protecting correlative rights and preventing discrimination between pools, and we certainly would like to hear any other plans anyone might have that might be better than what we are suggesting here.

MR. BARRIER: Very well. Mr. Walker?

MR. WALKER: Don Walker of Gulf.

We certainly have no objection to putting over the consideration of 503-F until a future meeting. But we would like to go on record in saying we favor 502, including Paragraph B as suggested by the committee.

MR. MACEY: Mr. Lamb, in connection with 502, Roman Numeral I, Paragraph B, wasn't it the intention of the committee the Commission isn't giving someone authority to produce a well at wide open capacity? In other words, to remove completely any restrictions.

MR. LAMB: I am sure that wasn't the intention.

MR. MACEY: It seems to me it properly ought to be spelled out the operator making an application should state the approximate volume, either volume or percentage of top unit allowable for the pool he is going to produce, and the Commission granting along those lines rather than a blanket out-and-out complete exception.

MR. LAMB: I think the Commission in the interest

of conservation should do that. You can't set an amount here because you don't know the specific conditions of the application or exemptions.

MR. SPURRIER: Any other comment?

MR. NESTOR: My name is Nestor for the Shell Oil Company.

In your Paragraph B on Daily Tolerance the statement is made "It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125% of the daily top unit allowable for the pool in which the well is located."

I wonder if someone would enlighten me with some discussion on that statement.

MR. LAMB: What is the question, Ed?

MR. NESTOR: The part where it says "It is also recognized that certain wells, notably those producing from water drive reservoirs, must be produced at rates in excess of 125% of the daily top unit allowable for the pool in which the well is located."

MR. LAMB: I think it not only applies to water drive reservoirs, it also applies to gas cap areas, or gas drive reservoirs in which it is more efficient to produce a well every other day than every day. I think maybe it should apply or should not state specifically water drive reservoirs. I think it should apply to any reservoir.

MR. NESTOR: The question arises there, it appears what we are doing, is we are tampering with the 125% daily tolerance rule on a statewide basis. And then the question might arise that possibly if this is - unless you are ready to do away with the 125% tolerance rule - the question arises, should we put this on a statewide basis or maybe a matter for pool hearings where necessary. This does appear to be a fairly lenient tolerance, and I just wonder if that is what we are trying to do there.

MR. LAMB: I don't think it should be put on a pool basis, because conditions over the entire pool are not uniform. In other words, you might have your gas cap area or on your edge production where water is giving you trouble. In other words, it can't be put on a pool basis. Each unit has to stand on its own case as filed with the Commission.

MR. NESTOR: That ties in with my argument. If it is a complex case, shouldn't it be a matter for a special hearing rather than more or less reducing - the relaxation of the 125% tolerance rule? Where you have a special case, there possibly ought to be argument on the merits of the special case.

MR. LAMB: Ed, did I give all the answers you wanted on that?

MR. NESTOR: Yes, I think so; thank you.

MR. SPURRIER: Without objection, I think the Com-

mission will continue this to the next regular hearing on August 20th. And I would urge, Mr. Nestor, in the interest of time, you might get together with Mr. Lamb in the meantime.

MR. SHAVER: Is that as to 503-F only you are continuing the case?

MR. LAMB: I would say since there is to be discussion probably both should be continued under the circumstances.

MR. SPURRIER: I think so, the whole case, the whole recommendation.

MR. MACEY: Mr. Spurrier, I would like to interject a thought in 502.

The exact wording of Paragraph B with the exception of the last sentence has been in your hands for thirty days and I will be darned if I can see why they need another thirty days. Paragraph B, which seems to be the controversial one, and which they are supposedly mooning over, has been in their hands for thirty days with the exception of the last clause of the last sentence. As Mr. Lamb pointed out, there is very little change except for possibly Mr. Madole's argument. I can't see Mr. Nestor's relaxing of the 125% rule on a statewide basis for the simple reason the rule says they have to come up here on a well basis.

MR. SPURRIER: That's right. Mr. Nestor.

MR. NESTOR: Mr. Spurrier, I might attempt to answer the objection there.

Actually, you might say this thing is unchanged, but as long as this committee was meeting - and I understand they were meeting last night - we never knew what would come out until delivered to us.

5b We actually object to some of the wording in the last part, Mr. Macey, on the means of notification. We think it might be worked out in a slightly different manner in order to afford everyone an opportunity to get in rather than offset operators. We think a notification should be extended to all operators in the pool since they are working in a common source of supply. Remember all the operators are not represented in the committee which, of course, is impractical, too, but then we would like to study what they come up with and analyze it for what might be intended.

(Off the record.)

MR. SPURRIER: Mr. Christie.

MR. CHRISTIE: Mr. Christie of Amerada Petroleum.

It was the intention of the committee that all these revisions would be circulated and everybody would know what was going on, and if they had any objections -- That was the reason for the last sentence. Any operator could come in and have a separate hearing if they desire.

We feel this has been revised and considered long enough. And we would like to see its adoption, and so urge.

We approve of the present revision and think it is very workable. I think you could continue this thing indefinitely if you considered all these little changes from month to month.

We urge it be adopted.

MR. SPURRIER: Is there anyone else that wishes to comment? If anyone has any objection to any one of these proposed rules, the Commission would like to have those objections now.

MR. MADOLE: On behalf of Magnolia.

It is suggested that Paragraph IV, the last sentence, be amended to read as follows: "The possession of a quantity of oil in lease storage at the end of any month in excess of five days allowable, plus any unrun allowable oil, shall be construed as a violation of this rule unless reported within the time provided for filing the C-115, as provided in Section III above.

MR. SHAVER: Mr. Spurrier, Charley Shaver with Humble Oil & Refining Company.

We would like to urge the adoption of 502, and if anyone has any objections to 503, which we do. we would like to have the opportunity to submit written comments on 503-F.

I concur in Mr. Madole's amendment.

MR. CHRISTIE: Mr. Spurrier, I would like to concur in the change also.

MR. SPURRIER: Mr. Nestor.

MR. NESTOR: Mr. Spurrier, I would recommend a change. I would like to be notified so that we could render a statement in case 502 isn't continued. But I would like to recommend something I have written here. I am not sure I have taken care of it in the whole paragraph or not. In 502, Roman Numeral I, B, the third sentence: "Applicant shall furnish all operators who operate wells in the pool in which the subject well is located a copy of the application to the Commission. And applicant shall include with his application a written stipulation that all such operators have been properly notified." I might suggest off the record --

(Off the record.)

MR. SPURRIER: The Commission sees no reason to continue the case any further; however, we will be glad to receive written comments within the next few days if you so desire.

To correct the record now, the case will not be continued, in any part or in its entirety, either one.

MR. NESTOR: That is on 502?

MR. SPURRIER: That is on Case 532.

MR. NESTOR: You are going to continue 503-F?

MR. SPURRIER: No.

MR. NESTOR: We would like to have a continuance of 503-F. I think, actually, this 503-F is a new thing. We haven't been apprized of it prior to this -- However, on 502, if it is the consensus, we would be glad to --

MR. SPURRIER: That doesn't keep you from following the Commission's rulings that you will submit your objections in the next few days.

(Off the record.)

MR. NESTOR: Mr. Spurrier, is it in order for us to read our statement now on 502?

MR. SPURRIER: Yes.

MR. NESTOR: I would like to introduce in the record as the statement of the Shell Oil Company in Case 532 the following:

Shell Oil Company is opposed to subsection (b) of the proposed Revision to Rule 502 for the following reasons:

1. It is based on a false premise that wells in water drive reservoirs must be produced at excessively high rates. Generally the consensus of recognized opinion is that from a conservation viewpoint, water drive reservoirs should be produced at rates low enough to prevent coning and excessive water production; for otherwise there would be an ultimate loss of oil due to the irregular advancing of the

water table and the loss of reservoir energy.

2. It would appear that the occasion for the rule is a single pool where some wells produce a large quantity of water. Since this situation is a local one rather than a general one, it should be covered by a field rule rather than by a general rule.

3. It limits the right to receive notice to a proposed exception and to make an objection thereto to offset operators. Since an exception would not be limited to a local drainage problem but would affect reservoir energy and oil, all operators in the pool should be notified thereof and given a chance to object thereto.

Concerning the proposal that Rule 502 be amended so as to change the monthly tolerance of over-production from one day to three days, Shell makes no objection. However, since the oil cannot and will not be run by the pipeline companies until a sufficient number days of the next month have elapsed for such to be legally tendered, it is believed that the flexibility advantage thereof will prove slight and be short-lived.

MR. SPURRIER: We will move on to the next case on the docket. I believe we can consolidate Cases 556 through 559.

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