

CASE NO.

7030

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

CASE NO. 6851
Order No. R-5878-B

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION ON ITS OWN MOTION TO
CONSIDER AMENDMENTS TO ITS
"SPECIAL RULES FOR APPLICATIONS
FOR WELLHEAD PRICE CEILING CATEGORY
DETERMINATIONS" AS PROMULGATED BY
ORDERS NOS. R-5878 AND R-5878-A

ORDER OF THE DIVISION

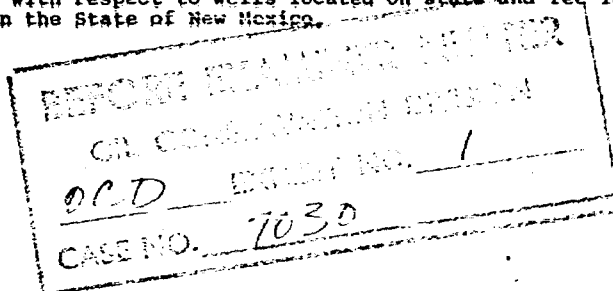
BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 9, 1980,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 7th day of July, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.
- (2) That the 95th Congress of the United States passed the
Natural Gas Policy Act of 1978 (NGPA), P.L. 95-621, 92 Stat. L
3350.
- (3) That said Act was enacted on November 9, 1978, and
went into effect on December 1, 1978.
- (4) That pursuant to said Act, the Federal Energy Regulatory
Commission (FERC) promulgated interim regulations establishing
minimum filing requirements for applications for wellhead price
ceiling determinations under Sections 102, 103, 107, and 108 of
the Act.
- (5) That said regulations also established the Oil Conser-
vation Division as the jurisdictional agency for such determina-
tions with respect to wells located on state and fee lands
within the State of New Mexico.



(6) That pursuant to the aforesaid Natural Gas Policy Act of 1978 and FERC interim regulations, the Division has heretofore adopted "Special Rules For Applications For Wellhead Price Ceiling Category Determinations" as promulgated by Division Order No. R-5878, dated December 14, 1978, and as amended by Division Order No. R-5878-A on February 8, 1980, and Forms C-132 and C-132-A, for use in filing for such determinations.

(7) That effective February 4, 1980, the FERC, by its Order No. 55, issued its "Final Regulations Implementing Filing Requirements of the Natural Gas Policy Act of 1978."

(8) That this case was called to consider the amendment of the Division's rules and forms governing the filing of applications for wellhead price ceiling category determinations in order to update them and to make them compatible with the aforesaid FERC final regulations.

(9) That said rules should be amended to be in the form and content prescribed in Exhibit A, attached hereto and made a part hereof.

(10) That Division Form C-132, "Application For Wellhead Price Ceiling Category Determination," should be revised to be in the form and content prescribed in Exhibit B, attached hereto and made a part hereof.

(11) That Division Form C-132-A, "Application For Continued Stripper Classification," should be revised to be in the form and content prescribed in Exhibit C, attached hereto and made a part hereof.

(12) That Division Orders Nos. R-5878 and R-5878-A should be superseded.

(13) That this order should be made effective July 15, 1980.

(14) That an order embodying the above findings is in the public interest, will promote conservation, will not cause but will prevent waste, will not impair but will protect correlative rights, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the "Special Rules For Applications For Wellhead Price Ceiling Category Determinations," as prescribed by Exhibit A attached hereto and made a part hereof, are hereby adopted and made applicable.

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(2) That Division Form C-132, "Application For Wellhead Price Ceiling Category Determination," is hereby revised to conform to Exhibit B attached hereto and made a part hereof.

(3) That Division Form C-132-A, "Application For Continued Stripper Classification," is hereby revised to conform to Exhibit C attached hereto and made a part hereof.

(4) That Division Orders Nos. R-5878 and R-5878-A are hereby superseded.

(5) That the effective date of this order shall be July 15, 1980.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

S E A L

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SPECIAL RULES FOR APPLICATIONS
FOR WELLHEAD PRICE CEILING
CATEGORY DETERMINATIONS

Adopted July 15, 1980

DEFINITIONS

FERC: The Federal Energy Regulatory Commission.

Division: The Oil Conservation Division of the Energy and Minerals Department.

USGS: United States Geological Survey.

Applicant: The person making the application for a wellhead price ceiling determination. This person shall usually be the operator of the well but under some circumstances could be a non-operating working interest owner.

Director: The Director of the Oil Conservation Division.

NGPA: The Natural Gas Policy Act of 1978.

MCF: Thousand cubic feet of gas reported at a pressure base of 14.73 psia.

GENERAL

Rule 1. An application for Wellhead Price Ceiling Category Determination shall include affidavits of mailing or delivery of the Form C-132 or C-132-A and FERC Form No. 121 to all working interest owners and to all parties to the gas purchase contract, if any.

Rule 2. The application shall be signed by the applicant or his authorized representative or agent.

Rule 3. If a well is located on a State or fee lease, the application shall be filed with the Division. If a well is located on a federal or Indian lease, the application shall be filed with the USGS. If the well is located on a communitized lease, the application shall be filed with the agency having jurisdiction over the lands on which the well is situated.

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- Rule 4. Two complete copies of the application shall be filed with the Division's Santa Fe office, and a copy of the C-132 or C-132-A with the appropriate district office.
- Rule 5. If written objection to the application is filed with the Division's Santa Fe office by any interested party within 15 days after the complete application is filed, or if a hearing is required by the Director, the application shall be set for hearing in accordance with Rules 1201 through 1223 of the Division's general statewide rules and regulations.
- Rule 6. If no written objection is received within the time period set out in Rule 5, and no hearing is required, the application may be approved administratively by a Division examiner or the Director.
- Rule 7. If a hearing is required, a determination shall not become final until the applicant or other interested party has exhausted his administrative remedies before the Division. If a hearing is not required, a determination shall be final on the date the application is either approved or disapproved.
- Rule 8. Within 10 days after making a final determination, notice shall be sent to the applicant, the transporter and, if a hearing was held, to each party who has entered his appearance of record at the hearing.
- Rule 9. Within 15 days after making a final determination, notice shall be sent to the FERC.
- Rule 10. An examiner or the Director, on a case-by-case basis, may require the filing of additional information other than that required to be submitted by FERC or Division regulations.
- Rule 11. The Director may set any application for hearing at his discretion or at the request of an applicant.
- Rule 12. The date of application shall be the date on which a complete application is filed with the Division's Santa Fe office. Incomplete applications shall either be returned to the applicant or held, but not docketed for processing.

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Rule 13. A proration unit for a given pool shall automatically expire upon the plugging and abandonment or the recompletion in another pool of the last well on the proration unit dedicated to said unit in that pool and the filing with and approval by the Division of Division Form C-103 evidencing such plugging and abandonment or recompletion.

FILING REQUIREMENTS

Section 102 New Natural Gas

Rule 14. An application for a new onshore well [NGPA Section 102(c)(1)(b)] shall include either subpart (1) or (2) or both:

1. 2.5 mile test

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a location plat which locates and identifies the well for which the determination is sought and any other well which produced natural gas after January 1, 1970, and before April 20, 1977, and is within the 2.5 mile radius drawn from the well for which a determination is sought;
- d. a statement by the applicant under oath:
 - (1) that he has made, or has caused to be made, pursuant to his instructions, a diligent search of all records (including but not limited to production, severance tax, and royalty payment records) which are reasonably available and contain information relevant to the determination of eligibility;
 - (2) describing the search made, the records reviewed, the location of such records, and a description of any records which

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he believes may contain information relevant to the determination but which he has determined are not reasonably available to him;

- (3) that on the basis of the results of this search and examination, he has concluded that to the best of his information, knowledge and belief, there is no marker well within 2.5 miles of the well for which he seeks a determination; and
- (4) that he has no knowledge of any other information not described in the application which is inconsistent with his conclusion.

2. 1,000 feet deeper test

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a location plat which locates and identifies the well for which the determination is sought and all wells which produced natural gas after January 1, 1970, and before April 20, 1977, within the 2.5 mile radius drawn from the well for which a determination is sought; including specific identification of all marker wells within the 2.5 mile radius drawn from the well for which a determination is sought;
- d. a list of the deepest completion locations for all marker wells identified on the location plat; and
- e. a statement by the applicant, under oath:
 - (1) that he has made, or has caused to be made pursuant to his instructions, a diligent search of all records (including

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but not limited to production, State severance tax, and royalty payment records) which are reasonably available and contain information relevant to the determination of eligibility;

- (2) describing the search made, the records reviewed, the location of such records, and a description of any records which he believes may contain information relevant to the determination but which he has determined are not reasonably available to him;
- (3) that on the basis of the results of this search and examination, he has concluded that to the best of his information, knowledge and belief, there is no marker well within 2.5 miles of the well for which he seeks a determination which has a completion location less than 1,000 feet above the completion location of the new well; and
- (4) that he has no knowledge of any other information which is inconsistent with his conclusion.

Rule 15. An application for a new onshore reservoir [NGPA Section 102(c)(1)(C)] shall include:

1. FERC Form No. 121
2. Division Form C-132 and the required attachments
3. geological information sufficient to support a determination that the reservoir is a new onshore reservoir. Such information shall include to the extent reasonably available to the applicant at the time the application is filed:

(a) well logs;

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- (b) bottom hole or surface pressure surveys;
- (c) well potential tests;
- (d) formation structure maps;
- (e) a subsurface cross-section chart;
- (f) a gas analysis; and
- (g) a copy of the Division order and hearing transcript resulting from the hearing to establish a new onshore reservoir if such a hearing was held by the Division; also a copy of any exhibits presented at the hearing which were not attachments to the original application.

4. a statement by the applicant, under oath:

- (a) that he has made, or has caused to be made pursuant to his instructions, a diligent search of all records (including but not limited to production, State severance tax, and royalty payment records) which are reasonably available and contain information relevant to the determination of eligibility;
- (b) describing the search made; the records reviewed; the location of such records, and a description of any records which are described in (a) (or which he believes may otherwise contain information relevant to the determination) but which he has determined are not reasonably available to him;
- (c) that on the basis of the results of this search and examination, he has concluded that to the best of his information, knowledge and belief the gas to be produced and for which he seeks a determination is from a new onshore reservoir; and

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- (d) that he has no knowledge of any other information not described in the application which is inconsistent with his conclusion.
5. The applicant in his statement under oath shall also answer, to the best of his information, knowledge and belief and on the basis of the results of his search and examination, the following questions:
- a. Was natural gas produced in commercial quantities from the reservoir prior to April 20, 1977?
 - b. If the question in Subparagraph (a) is answered in the negative, was the reservoir penetrated before April 20, 1977, by an old well from which natural gas or crude oil was produced in commercial quantities from any reservoir?
 - c. If the question in Subparagraph (b) is answered in the affirmative, could natural gas have been produced in commercial quantities from the reservoir before April 20, 1977, from any such old well described in Subparagraph (b)?
 - d. If the question in Subparagraph (c) is answered in the negative, were any sales and deliveries of natural gas made from any other reservoir through any such old well described in Subparagraph (b) prior to April 20, 1977, and were any sales and deliveries of natural gas made from the subject reservoir through such old well on or after April 20, 1977, and before November 9, 1978?
 - e. If the natural gas is to be produced through such old well, were suitable facilities for the production and delivery to a pipeline of such natural gas in existence on April 20, 1977?

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- f. If the question in Subparagraph (c) is answered in the affirmative, were such suitable facilities installed to carry out sales and deliveries of natural gas under section 6 of the Emergency Natural Gas Act of 1977 or under the emergency sale authority pursuant to Opinion 699-B issued by the Federal Power Commission?
6. If the applicant is unable to answer both questions in Subparagraph (d) above in the negative, he must demonstrate that the Behind-the-Pipe Exclusion in Section 102(c)(1)(C)(ii) of the NGPA does not apply by submitting the following:
- a. Proof that a final eligibility determination has been made that the subject reservoir is a new onshore reservoir by identifying a prior determination made by the Division together with the FERC Docket number and the API well number(s), if available, or,
 - b. Evidence clearly demonstrating that the sale of production from the subject reservoir (net of royalty) through any well described in Subparagraph 5 b at the market price reasonably available as of April 20, 1977 could not have generated revenues sufficient to equal or exceed the sum of (1) 1.6 times the minimum incremental costs properly allocable to such production of installing cost-efficient facilities not in existence as of April 20, 1977, reasonably required to market such production, plus (2) the minimum incremental expenses properly allocable to such production reasonably required to operate such facilities. (All costs, expenses and revenues shall be determined as of April 20, 1977. The applicant shall also provide an explanation of the basis of all estimates accompanied by substantiating workpapers and such other evidence necessary to substantiate fully the conclusion that the Behind-the-Pipe Exclusion does not apply.)

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Section 103 New Onshore Production Well

Rule 16 A. An application for a new onshore production well [NGPA Section 103] shall include:

1. FERC Form No. 121
2. Division Form C-132 and the required attachments
3. Copy of Division order authorizing an infill well drilling program on a poolwide basis, if any, or authorizing the drilling of an infill well under Section 271.305 of the FERC NGPA Regulations. (For infill wells in the Blanco Mesaverde or Basin-Dakota Pools, see Rule 16 B.)
4. The C-102 attached to Form C-132 shall locate and identify the well for which a determination is sought and all other wells within the proration unit in which the well for which a determination is sought is located, giving for each well which has or is producing from the same pool or reservoir as the subject well the spud date, cumulative production, and date of plug and abandonment, if any.
5. A statement by the applicant, under oath:
 - (a) that the surface drilling of the well for which he seeks a determination was begun on or after February 19, 1977;
 - (b) that the well satisfies any applicable federal or state well-spacing requirements; and that the well is not within a proration unit:
 - (1) which was in existence at the time the surface drilling of the well began;
 - (2) which was applicable to the reservoir from which such natural gas is produced; and

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- (3) which applied to any other well which either produced natural gas in commercial quantities or the surface drilling of which was begun before February 19, 1977, and was thereafter capable of producing natural gas in commercial quantities;
 - (c) that he has concluded that to the best of his information, knowledge and belief, the natural gas for which he seeks a determination is produced from a new, onshore production well and the basis for such conclusion;
 - (d) that he has no knowledge of any other information not described in the application which is inconsistent with his conclusions.
6. If the applicant is seeking a determination with respect to a new well drilled into an existing proration unit (except in the Blanco Mesaverde or Basin-Dakota Pools) pursuant to Sections 271.304 and 271.305 of the FERC NGPA regulations, the applicant must, in addition to the filing requirements listed in Sections 1 through 4 of Rule 16 A, file:
- (a) copies of those pages of any Division transcript or other documentation demonstrating by appropriate geological and engineering evidence that the new well is necessary to effectively and efficiently drain a portion of the reservoir covered by the proration unit which cannot be effectively and efficiently drained by any existing well within the proration unit, and
 - (b) a statement by the applicant under oath:
 - (1) that the surface drilling of the well for which he seeks a determination was begun on or after February 19, 1977;

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- (2) That the Division has altered or granted a waiver of any applicable well-spacing requirements;
- (3) That he has concluded that to the best of his information, knowledge and belief, the natural gas for which he seeks a determination is produced from a new, onshore production well and the basis for such conclusion;
- (4) that he has no knowledge of any other information not described in the application which is inconsistent with his conclusions.

Rule 16 B. An application for a new onshore production well [NGPA Section 103] for an infill well in the Blanco Mesaverde Pool or the Basin-Dakota Pool, San Juan, Rio Arriba, and Sandoval Counties, drilled pursuant to Division Order No. R-1670-T or R-1670-V, respectively, shall include:

1. FERC Form No. 121
2. Division Form C-132 and the required attachments
3. The Form C-102 attached to Form C-132 shall locate and identify the proration unit dedicated to the well in accordance with the appropriate Division rules and shall also give the location and identification of all wells within such proration unit and the name of the pool from which each well produces.
4. A statement by the applicant, under oath:
 - a. That the surface drilling of the well for which he seeks a determination was begun on or after February 19, 1977;

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- b. that the well satisfies any applicable Federal or State well spacing requirements;
 - c. that the applicant has concluded that to the best of his information, knowledge and belief, the natural gas for which he seeks a determination is produced from a new, onshore production well; and
 - d. that the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusion.
5. A statement referencing the New Mexico Oil Conservation Division order under which the infill well was drilled: Order No. R-1670-T if the well is located in the Blanco Mesaverde Pool, or Order No. R-1670-V if the well is located in the Basin-Dakota Pool.

Section 107 Deep, High-Cost Natural Gas and Tight Formation Gas

Rule 17. Applications for deep, high-cost natural gas and new tight formation gas [NGPA Section 107] shall include:

- 1. Deep, High-cost Natural Gas
 - a. FERC Form No. 121
 - b. Division Form C-132 and the required attachments
 - c. all well completion reports for the well for which a determination is sought;
 - d. well logs or well servicing company reports or such other information which will corroborate the depth of the completion location reported in the well completion report;
 - e. directional drilling surveys if available; and
 - f. a statement by the applicant, under oath, that the surface drilling of the well for which he

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seeks a determination began on or after February 19, 1977, and that the well completion location is below a true vertical depth of 15,000 feet; and that he has no knowledge of any information which is inconsistent with his conclusions.

2. New Tight Formation Gas
(Submit either (a) or (b) below)

- a. If the gas is produced from a well which qualifies as a new, onshore, production well, an applicant shall submit:
- (1) all information required under Rules 16 A or 16 B, except that, with respect to oath statements, subparagraphs 5(a), or 6(b)(1) of Rule 16 A, or subparagraph 4(a) of Rule 16 B, shall be omitted.
- b. If the gas qualifies as new natural gas under NGPA Section 102, an applicant shall submit:
- (1) all information required under Rule 14(1) or (2) or Rule 15, whichever is applicable.
- c. The heading and pertinent portions of the well log or a drilling report identifying the designated tight formation.
- d. A reference identifying the Division and FERC orders which recommended and designated, respectively, the tight formation in which the well is completed.
- e. A statement under oath, that:
- (1) the surface drilling of the well for which a determination is sought was begun on or after July 16, 1979;
 - (2) the gas is being produced from a designated tight formation; and
 - (3) the applicant has no knowledge of any other information not described in the

*Rules
new
17(2)(a)*

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application which is inconsistent with his conclusion.

Section 108 Stripper Well Natural Gas

Rule 18.

1. Initial Determinations

- a. An application for an initial determination that a well qualifies as a stripper gas well shall include:
- (1) FERC Form No. 121
 - (2) Division Form C-132 and the required attachments.
 - (3) A copy of Division Form C-116 (Gas-Oil Ratio test form). If unavailable, indicate reason.
 - (4) A summary or tabulation of production records which indicates the following:
 - (a) the total crude oil (if any) and natural gas production for the 90-day period upon which the application is based, together with the average daily production of crude oil and natural gas for the 90-day period.
 - (b) the total amount of gas production for a 12-month production period ending concurrently with the 90-day production period, together with the daily average production for the 12-month period.
 - (c) the number of days natural gas was not produced during the 90-day production period.
 - (d) the number of days natural gas was produced during the 90-day production period.

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- (5) If necessary, a statement or description of the state law or conservation practice, or other explanation, stating the reason why the well did not produce during any day(s) applicable to the 90-day production period.
- (6) Results of any tests which establish maximum efficient rate of flow under Section 271.807(a) of the FERC rules and regulations applicable to NGPA may be submitted in lieu of 12 months of production data to establish maximum efficient rate of flow for a well. (However, the Division shall accept this alternate information only where unusual circumstances are exhibited and 12 months of production are unavailable.)
- (7) Copies of production records, tax records, or verified copies of billing statements may be submitted in support of an application.
- (8) A statement under oath:
 - (a) that the applicant has made, or has caused to be made pursuant to his instructions, a diligent search of all records which are reasonably available and contain information relevant to the determination describing the search made, the records reviewed, and the results of this search and examination upon which he has concluded that to the best of his information, knowledge and belief, the well qualifies as a stripper; and
 - (b) that the summary or tabulation of production or other records relied upon in the application are correct; and
 - (c) that the applicant has no knowledge of any other information which is inconsistent with his conclusion that the

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well qualifies as a stripper well.

2. Deferred Determinations

- a. The same information required for Section 108 initial determination applications shall be filed for deferred determinations except to the extent that prior production data to establish a maximum efficient rate of flow is not available or is insufficient, or deferral is necessary pursuant to Section 271.807(b)(1) (ii) of the FERC rules and regulations applicable to NGPA (12 month production data submitted did not exceed an average of 70 mcf per day).
- b. Production data to complete twelve months of production shall be submitted to the Division within 90 days after the end of the 12-month period designated by the Division.

Rule 19. An application for determination of increased production resulting from the use of enhanced recovery techniques shall include:

1. Division Form C-132-A and an approved copy of Form C-132
2. A copy of the purchaser's notice, if any, that the average daily production for any 90-day production period has exceeded 60 Mcf.
3. Copy of Form C-105, "Well Completion or Completion Report and Log."
4. A description of all processes used or equipment installed together with all dates of use or installation which constitute enhanced recovery techniques.
5. An inventory of the lease and production equipment used such as compression facilities, pumps, chokes, and intermitters for the well for the past 24 months or, if less, the period the well has been in production prior to the institution of an enhanced recovery technique.

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6. A statement, under oath, that to the best of the applicant's information, knowledge and belief, the information supplied and the conclusions drawn are true; that the operator has no knowledge of any information not described in the application which is inconsistent with any of his conclusions; and that the notice has been served on the appropriate entities specified in Section 271.804 of the FERC NGPA regulations.

Rule 20. An application for a designation that a well is seasonally affected shall include:

1. Division Form C-132-A and an approved copy of Form C-132, if an initial stripper well determination has been made under Rule 18.
2. FERC Form No. 121 and Division Form C-132 if an initial stripper determination has not previously been made under Rule 18.
3. A copy of the purchaser's notice, if any, that the average daily production for any 90-day production period has exceeded 60 Mcf, or that the well which has been designated a seasonally affected well produces at an average rate in excess of 60 Mcf per day for a 12-month production period.
4. A summary or tabulation of production records for a period of 24 months, including the 90-day or 12-month production period which is the subject of the notice by the operator or the purchaser;
5. A 24-month production curve;
6. A description of the nature of the seasonal fluctuations as inferred from the data supplied; and

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7. A statement, under oath, that the summary or tabulation of production records is correct; that the operator has no knowledge of any information contrary to any conclusions drawn by him; and that the notice has been served on the appropriate entities specified in Section 271.805 of the FERC NGPA regulations.

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501
APPLICATION FOR WELLHEAD
PRICE CEILING CATEGORY DETERMINATION

Form O-132
Revised 7-15-88

FOR DIVISION USE ONLY:	
DATE COMPLETE APPLICATION FILED _____	
DATE DETERMINATION MADE _____	
WAS APPLICATION CONTESTED? YES _____ NO _____	
NAME(S) OF INTERVENOR(S), IF ANY: _____	
1. Name of Operator _____	
2. Address of Operator _____	
3. Location of Well _____	
4. Name and Address of Purchaser(s) _____	
5. State Oil & Gas Lease No. _____	
6. Unit Agreement Name _____	
7. Farm or Lease Name _____	
8. Well No. _____	
9. Field and Pool, or Wellcut _____	
10. County _____	

WELL CATEGORY INFORMATION

Check appropriate box for category sought and information submitted.

1. Category(ies) Sought (By NHPA Section No.) _____
2. All Applications must contain:
 - ☐ a. C-101 APPLICATION FOR PERMIT TO DRILL, DEEPEN OR PLUG BACK
 - ☐ b. C-105 WELL COMPLETION OR RECOMPLETION REPORT
 - ☐ c. DIRECTIONAL DRILLING SURVEY, IF REQUIRED UNDER RULE 111
 - ☐ d. AFFIDAVITS OF MAILING OR DELIVERY
3. In addition to the above, all applications must contain the items required by the applicable rule of the Division's "Special Rules for Applications For Wellhead Price Ceiling Category Determinations" as follows:
 - A. NEW NATURAL GAS UNDER SEC. 102(c)(1)(B) (using 2.5 Mile or 1000 Foot Deeper Test)
☐ All items required by Rule 14(1) and/or Rule 14(2)
 - B. NEW NATURAL GAS UNDER SEC. 102(c)(1)(C) (new onshore reservoir)
☐ All items required by Rule 15
 - C. NEW ONSHORE PRODUCTION WELL
☐ All items required by Rule 16A or Rule 16B
 - D. DEEP, HIGH-COST NATURAL GAS and TIGHT FORMATION NATURAL GAS
☐ All items required by Rule 17(1) or Rule 17(2)
 - E. STRIPPER WELL NATURAL GAS
☐ All items required by Rule 18

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED
HEREIN IS TRUE AND COMPLETE TO THE BEST OF MY
KNOWLEDGE AND BELIEF.

NAME OF APPLICANT (Type or Print) _____
SIGNATURE OF APPLICANT _____
Title _____
Date _____

FOR DIVISION USE ONLY

- ☐ Approved
☐ Disapproved

The information contained herein includes all
of the information required to be filed by the
applicant under Subpart B of Part 274 of the
FERC regulations.

EXAMINER _____

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

P. O. BOX 3088
SANTA FE, NEW MEXICO 87501

Form C-12a
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APPLICATION FOR CONTINUED
STRIPPER CLASSIFICATION

FOR DIVISION USE ONLY:	
DATE COMPLETE APPLICATION FILED _____	
DATE DETERMINATION MADE _____	
WAS APPLICATION CONTESTED? YES _____ NO _____	
NAME(S) OF INTERVENOR(S), IF ANY: _____	
1. Name of Operator _____	
2. Address of Operator _____	
3. Location of Well _____	
4. Name and Address of Purchaser(s) _____	
5A. Indicate Type of Lease STATE <input type="checkbox"/> PER <input type="checkbox"/>	
5. State Oil & Gas Lease No. _____	
6. Unit Agreement Name _____	
7. Farm or Lease Name _____	
8. Well No. _____	
9. Field and Pool, or Widened _____	
10. County _____	

CLASSIFICATION

1. Check appropriate box for category sought and information submitted.
2. All applications must contain the items required by the applicable rule of the Division's "Special Rules For Applications For Wellhead Price Ceiling Category Determinations" as follows:
 - A. Increased production resulting from recognized enhanced recovery techniques
☐ All items required by Rule 19
 - B. Well is seasonally affected
☐ All items required by Rule 20

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED
HEREIN IS TRUE AND COMPLETE TO THE BEST OF MY
KNOWLEDGE AND BELIEF.

NAME OF APPLICANT (Type or Print) _____
SIGNATURE OF APPLICANT _____
Title _____
Date _____

FOR DIVISION USE ONLY

- ☐ Approved
☐ Disapproved

The information contained herein includes all
of the information required to be filed by the
applicant under Subpart B of Part 274 of the
FERC regulations.

EXAMINER _____

Exhibit C
Order No. R-5878-B

AMENDMENTS TO SPECIAL RULES FOR
APPLICATIONS FOR WELLHEAD PRICE
CEILING CATEGORY DETERMINATIONS.

Section 107 Deep, High-Cost Natural Gas and Tight Formation Gas:

1. Delete 17(2)(d) in its entirety and insert in lieu thereof:

d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

2. Add a new subsection 3 as follows:

3. Recompletion Tight Formation Gas

a. FERC Form No. 121

b. Division Form C-132 and the required attachments

c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation.

d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation

e. a statement by the applicant, under oath, that:

(1) the gas is being produced from a designated tight formation;

(2) the well was not completed for production in the designated tight formation prior to July 16, 1979, and

BEFORE EXAMINER MUTTER	
OIL CONSERVATION DIVISION	
ced	EXHIBIT NO. 2
CASE NO.	7030

(3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions.

SANTA FE, NEW MEXICO 87501
APPLICATION FOR WELLHEAD
PRICE CEILING CATEGORY DETERMINATION

1. FOR DIVISION USE ONLY: DATE COMPLETE APPLICATION FILED _____ DATE DETERMINATION MADE _____ WAS APPLICATION CONTESTED? YES _____ NO _____ NAME(S) OF INTERVENOR(S), IF ANY: _____		5A. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/>
2. Name of Operator _____		5. State Oil & Gas Lease No. _____
3. Address of Operator _____		7. Unit Agreement Name _____
4. Location of Well UNIT LOCATED _____ LOCATED _____ FEET FROM THE _____ LINE AND _____ FEET FROM THE _____ LINE OF SEC. _____ TWP. _____ RMPM _____		8. Farm or Lease Name _____
11. Name and Address of Purchaser(s) _____		9. Well No. _____
		10. Field and Pool, or Wildcat _____
		12. County _____

WELL CATEGORY INFORMATION

Check appropriate box for category sought and information submitted.

1. Category(ies) Sought (By NGPA Section No.) _____
2. All Applications must contain:
 - ☐ a. C-101 APPLICATION FOR PERMIT TO DRILL, DEEPEN OR PLUG BACK
 - ☐ b. C-105 WELL COMPLETION OR RECOMPLETION REPORT
 - ☐ c. DIRECTIONAL DRILLING SURVEY, IF REQUIRED UNDER RULE 111
 - ☐ d. AFFIDAVITS OF MAILING OR DELIVERY
3. In addition to the above, all applications must contain the items required by the applicable rule of the Division's "Special Rules for Applications For Wellhead Price Ceiling Category Determinations" as follows:
 - A. NEW NATURAL GAS UNDER SEC. 102(c)(1)(B) (using 2.5 Mile or 1000 Feet Buffer Test)
 - ☐ All items required by Rule 14(1) and/or Rule 14(2)
 - B. NEW NATURAL GAS UNDER SEC. 102(c)(1)(C) (new onshore reservoir)
 - ☐ All items required by Rule 15
 - C. NEW ONSHORE PRODUCTION WELL
 - ☐ All items required by Rule 16A or Rule 16B
 - D. DEEP, HIGH-COST NATURAL GAS and TIGHT FORMATION NATURAL GAS
 - ☐ All items required by Rule 17(1) or Rule 17(2) or 17(3)
 - E. STRIPPER WELL NATURAL GAS
 - ☐ All items required by Rule 18

BEFORE EXAMINER NOTAR
OIL CONSERVATION DIVISION
CASE NO. 730
EXHIBIT NO. 3

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED
HEREIN IS TRUE AND COMPLETE TO THE BEST OF MY
KNOWLEDGE AND BELIEF.

NAME OF APPLICANT (Type or Print) _____
SIGNATURE OF APPLICANT _____
Title _____
Date _____

FOR DIVISION USE ONLY

- ☐ Approved
☐ Disapproved

The information contained herein includes all
of the information required to be filed by the
applicant under Subpart B of Part 274 of the
FERC regulations.

EXAMINER _____

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION ON
ITS OWN MOTION TO CONSIDER AMENDMENTS
TO ITS SPECIAL RULES FOR APPLICATIONS
FOR WELLHEAD PRICE CEILING CATEGORY
DETERMINATIONS AS PROMULGATED BY
DIVISION ORDER NO. R-5878, AS AMENDED.

CASE NO. 7030
Order No. R-5878-B-1

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 1, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 23rd day of February, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That by its Order No. R-5878-B, effective July 15, 1980, the New Mexico Oil Conservation Division promulgated its "Special Rules For Applications For Wellhead Price Ceiling Category Determinations" pursuant to the Natural Gas Policy Act of 1978 and to the Federal Energy Regulatory Commission (FERC) "Final Regulations Implementing Filing Requirements of the Natural Gas Policy Act of 1978," as promulgated by FERC Order No. 65 effective February 4, 1980.

(3) That subsequent to the issuance of the above-described Rules and Regulations, the FERC on August 15, 1980, entered its "Final Rules, High Cost Natural Gas Produced From Tight Formation" effective September 22, 1980, and the New Mexico Oil Conservation Division by Order No. R-6388-A dated February 10, 1981, amended and re-promulgated its "Special Rules and Procedures For Tight Formation Designations Under Section 107 of the Natural Gas Policy Act of 1978."

(4) That the amendment and re-promulgation by the Division of said Special Rules and Procedures makes necessary certain amendments to the Division's "Special Rules For Applications For Wellhead Price Ceiling Category Determinations," as promulgated by Division Order No. R-5878-B, to wit:

(5) That subsection d of Section 2, "New Tight Formation Gas" in Rule 17 should be amended to read in its entirety as follows:

"d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

(6) That a new Section 3, "Recompletion Tight Formation Gas," should be added to Rule 17, reading in its entirety as follows:

"3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation
- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
 - (1) the gas is being produced from a designated tight formation,
 - (2) the well was commenced but not completed for production in the designated tight formation prior to July 16, 1979, and
 - (3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions."

-3-

Case No. 7030

Order No. R-5878-B-1

(7) That Form C-132, "Application For Wellhead Price Ceiling Category Determination," Revised 7-15-80, should be further revised as depicted on Exhibit A attached hereto and made a part hereof.

(8) That this order should become effective March 1, 1981.

IT IS THEREFORE ORDERED:

(1) That the New Mexico Oil Conservation Division "Special Rules For Applications For Wellhead Price Ceiling Category Determinations," promulgated by Division Order No. R-5878-B effective July 15, 1980, are hereby amended as follows:

- (a) Subsection d of Section 2, "New Tight Formation Gas: in Rule 17 is hereby amended to read in its entirety as follows:

"d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

- (b) A new Section 3, "Recompletion Tight Formation Gas," is hereby added to Rule 17, reading in its entirety as follows:

"3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation
- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
 - (1) the gas is being produced from a designated tight formation,

-4-

Case No. 7030

Order No. R-5878-B-1

- (2) The well was commenced but not completed for production in the designated tight formation prior to July 16, 1979, and
- (3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions."

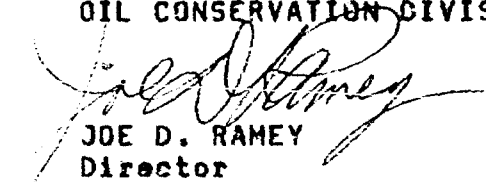
(2) That Division Form C-132, "Application For Wellhead Price Ceiling Category Determination," Revised 7-15-80, is hereby further revised as depicted on Exhibit A attached hereto and made a part hereof.

(3) That this order and the additions, amendments, and revisions contained herein shall become effective March 1, 1981.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director


S E A L

fd/

AMENDMENTS TO SPECIAL RULES FOR
APPLICATIONS FOR WELLHEAD PRICE
CEILING CATEGORY DETERMINATIONS.

Section 107 Deep, High-Cost Natural Gas and Tight Formation Gas:

1. Delete 17(2)(d) in its entirety and insert in lieu thereof:

d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

2. Add a new subsection 3 as follows:

3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation.
- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
 - (1) the gas is being produced from a designated tight formation;
 - (2) the well was not completed for production in the designated tight formation prior to July 16, 1979, and

BEFORE EXAMINER LETTER	
OIL CONSERVATION DIVISION	
<u>0CD</u>	EXPIRY NO. <u>2</u>
CASE NO. <u>7030</u>	

(3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions.

AMENDMENTS TO SPECIAL RULES FOR
APPLICATIONS FOR WELLHEAD PRICE
CEILING CATEGORY DETERMINATIONS.

Section 107 Deep, High-Cost Natural Gas and Tight Formation Gas:

1. Delete 17(2)(d) in its entirety and insert in lieu thereof:

d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

2. Add a new subsection 3 as follows:

3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation.
- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
 - (1) the gas is being produced from a designated tight formation;
 - (2) the well was not completed for production in the designated tight formation prior to July 16, 1979, and

BEFORE EXAMINER MUTTER	
OIL CONSERVATION DIVISION	
000	EXHIBIT NO. 2
CASE NO.	7030

(3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions.

Dockets Nos. 31-80 and 32-80 are tentatively set for October 15 and 29, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 1, 1980

**9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO**

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

- CASE 7029:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider amendments to its special rules and procedures for the designation of "tight formation", promulgated by Division Order No. R-6388, to comply with FERC Order No. 99, issued August 15, 1980, promulgating final regulations with respect to Section 107 of the NGPA.
- CASE 7030:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider amendments to its SPECIAL RULES FOR APPLICATIONS FOR WELLHEAD PRICE CEILING CATEGORY DETERMINATIONS as promulgated by Division Order No. R-5878, as amended. The proposed amendments relate to individual well filings for price category determination as "tight formation" gas under Section 107 of the NGPA.
- CASE 7031:** Application of Coronado Exploration Corp. for a unit agreement, Guadalupe County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Mesa Leon Unit Area, comprising 15,680 acres, more or less, of State, Federal, and fee lands in Township 6 North, Range 17 East.
- CASE 7007:** (Continued from September 3, 1980, Examiner Hearing)
Application of Harvey E. Yates Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Morrow and Atoka production in the wellbore of its North Travis 12 Deep Well No. 1 located in Unit O of Section 12, Township 18 South, Range 28 East.
- CASE 7023:** (Continued from September 17, 1980, Examiner Hearing)
Application of Shell Oil Company for pool creation and temporary special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Pennsylvanian oil pool for its Askew Well No. 1 located in Unit L of Section 2, Township 5 South, Range 33 East, and the promulgation of special pool rules therefor, including a provision for 80-acre spacing.
- CASE 7019:** (Continued from September 17, 1980, Examiner Hearing)
Application of Amoco Production 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 W/2 of Section 30, Township 23 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7032:** Application of Dalport Oil Corporation for an exception to Order No. R-3221, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located between Units L and M of Section 9, Township 15 South, Range 30 East.
- CASE 7033:** Application of Adams Exploration Inc. for three non-standard proration units, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of three 80-acre non-standard proration units in the Vada-Pennsylvanian Pool, comprising the following acreage: SE/4 NE/4 and NE/4 SE/4 of Section 12, N/2 NE/4 of Section 12, and S/2 SE/4 of Section 2, all in Township 9 South, Range 34 East.
- CASE 6940:** (Continued from August 20, 1980, Examiner Hearing)
Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Wolfcamp formation underlying the NW/4 SE/4 for oil and the SE/4 for gas, Section 23, Township 20 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6996: (Continued from September 3, 1980, Examiner Hearing)

Application of John E. Schalk for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Blanco Mesaverde Pool underlying the NE/4 of Section 8, Township 25 North, Range 3 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7034: Application of Merrion & Bayless for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of South Blanco-Pictured Cliffs and Otero-Chacra production in the wellbore of its Atlantic Well No. 1 located in Unit O of Section 32, Township 26 North, Range 6 West.

CASE 7035: Application of Merrion & Bayless for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallegos-Gallup and Basin-Dakota production in the wellbore of its Delhi Taylor Well No. 1 located in Unit M of Section 4, Township 26 North, Range 11 West.

CASE 7036: Application of J. Gregory Merrion for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SE/4 of Section 34, Township 25 North, Range 6 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7037: Application of Mesa Petroleum Co. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Chacra and Mesaverde production in the wellbore of its State Com AF Well No. 28 located in Unit I of Section 36, Township 29 North, Range 10 West.

CASE 7020: (Continued from September 3, 1980, Examiner Hearing)

Application of Mesa Petroleum Co. for pool creation, special pool rules and an oil discovery allowable, Rio Arriba and San Juan Counties, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup oil pool for its South Blanco Federal Well No. 1-6 located in Unit A of Section 6, Township 23 North, Range 7 West, and special rules therefor, including a provision for 80-acre spacing units. Applicant further seeks a discovery allowable for the aforesaid well.

CASE 6822: (Continued from September 17, 1980, Examiner Hearing)

In the matter of Case 6822 being reopened pursuant to the provisions of Order No. R-6293 which order created the West Double X-Wolfcamp Gas Pool as a retrograde gas condensate pool and set special production limitations therein. Operator(s) may appear and present evidence to establish the true nature of the reservoir and proper rates of withdrawal therefrom.

CASE 7038: Application of Natura Energy Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the NE/4 NE/4 of Section 6, Township 19 South, Range 39 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7039: Application of Red Mountain & Associates for a waterflood project, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Chaco Wash-Mesaverde Oil Pool by the injection of water into the Chaco Wash Sand formation through eight wells at various orthodox and unorthodox locations in Section 28 of Township 20 North, Range 9 West.

CASE 7040: Application of Belco Petroleum Corporation for reclassification or a new gas pool and a non-standard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of the Wilson Strawn Pool as a gas pool or, in the alternative, the creation of a new gas pool for its State 12 Well No. 1 located in Unit C of Section 12, Township 21 South, Range 34 East; applicant further seeks approval of a standard gas proration unit for said well comprising the E/2 of said Section 12, or in the alternative, a non-standard unit comprising the NE/4, N/2 SE/4 and SE/4 SE/4 of said Section 12.

CASE 6618: (Reopened and Readvertised)

In the matter of Case 6618 being reopened pursuant to the provisions of Order No. R-6103 which order created the Travis-Yates Gas Pool in Eddy County, New Mexico, with temporary special rules and regulations including a provision for 80-acre spacing units. Operators in said pool may appear and show cause why the pool should not be developed on 160-acre spacing units.

CASE 6648: (Reopened and Readvertised)

In the matter of Case 6648 being reopened pursuant to the provisions of Order No. R-6124 which order promulgated temporary special rules and regulations for the North Caprock-Mississippian Pool in Lea County, New Mexico, including a provision for 160-acre spacing and a 4000 to one gas-oil ratio limitation. Operators in said pool may appear and show cause why the pool should not be developed on 40-acre spacing with a 2000 to one GOR.



" 3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation.
- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
 - (1) the gas is being produced from a designated tight formation;
 - (2) the well was not completed for production in the designated tight formation prior to July 16, 1979, and
 - (3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions."

*Spudded
but not
Completed*

(7) That Form C-132, "Application for Wellhead Price Ceiling Category Determination," Revised 7-15-80, should be further revised as depicted on Exhibit A attached hereto and made a part hereof

In the matter of the hearing
called by the Oil Conservation ~~E~~ Division
on its own motion to consider
amendments to its SPECIAL Rules For
Applications FOR WELLHEAD PRICE CEILING
CATEGORY DETERMINATIONS as promulgated
by Division Order No. R-5878, as
amended. The proposed amendments
related to ~~Section 107~~ of the
relate to ~~Section~~ filings for ~~wellhead~~ price
~~category~~ category determination for
"tight formation" gas under Section
107 of the NGA.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION ON
ITS OWN MOTION TO CONSIDER AMENDMENTS TO
ITS SPECIAL RULES FOR APPLICATIONS FOR
WELLHEAD PRICE CEILING CATEGORY DETERMINATIONS
AS PROMULGATED BY DIVISION ORDER NO. R-5878,
AS AMENDED.

CASE NO. 7030

Order No. R-5878-B-1

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 1, 1980,
19 80, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of January, 1981, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That by its Order No. R-5878-B, effective July 15,
1980, the New Mexico Oil Conservation Division promulgated its
"Special Rules for Applications For Wellhead Price Ceiling
Category Determinations" pursuant to the Natural Gas Policy Act
of 1978 and to the Federal Energy Regulatory Commission (FERC)
"Final Regulations Implementing Filing Requirements of the
Natural Gas Policy Act of 1978," as promulgated by ~~the~~ FERC
Order No. 65 effective February 4, 1980.

(3) That subsequent to the issuance of the above-described Rules and Regulations, the FERC on August 15, 1980, entered its "Final Rules, High Cost Natural Gas Produced From Tight Formation" effective September 22, 1980, and the New Mexico Oil Conservation Division by Order No. R-6388-A dated February 10, 1981, amended and re-promulgated its "Special Rules and Procedures For Tight Formation Designations Under Section 107 of the Natural Gas Policy Act of 1978."

(4) That the amendment and re-promulgation by the Division of said Special Rules and Procedures makes necessary certain amendments to the Division's "Special Rules For Applications For Wellhead Price Ceiling Category Determinations," as promulgated by Division Order No. R-5878-B, to wit:

(5) That subsection d of Section 2, "New Tight Formation Gas" in Rule 17 should be amended to read in its entirety as follows:

"d. map which locates and identifies the well
for which the determination is sought as
being within the designated tight formation."

(6) That a new Section 3, "Recompletion Tight Formation Gas," should be added to Rule 17, reading in its entirety as follows:

"3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well
for which the determination is sought as
being within the designated tight formation.
- d. the heading and pertinent portions of the
well log, or a drilling report identifying
the designated tight formation

e. a statement by the applicant, under oath, that:

- (1) the gas is being produced from a designated tight formation;
- (2) the well was ^{commenced but} not completed for production in the designated tight formation prior to July 16, 1979, and
- (3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions."

(7) That Form C-132, "Application For Wellhead Price Ceiling Category Determination," Revised 7-15-80, should be further revised as depicted on Exhibit A attached hereto and made a part hereof.

(8) That this order should become effective March 1, 1981.
IT IS THEREFORE ORDERED:

(1) That the New Mexico Oil Conservation Division "Special Rules For Applications For Wellhead Price Ceiling Category Determinations," promulgated by Division Order No. R-5878-B effective July 15, 1980, are hereby amended as follows:

- (a) Subsection d of Section 2, "New Tight Formation Gas" in Rule 17 is hereby amended to read in its entirety as follows:
- "d. map which locates and identifies the well for which the determination is sought as being within the designated tight formation."

- (b) A new Section 3, "Recompletion Tight Formation Gas," is hereby added to Rule 17, reading in its entirety as follows:

"3. Recompletion Tight Formation Gas

- a. FERC Form No. 121
- b. Division Form C-132 and the required attachments
- c. a map which locates and identifies the well for which the determination is sought as being within the designated tight formation

- d. the heading and pertinent portions of the well log, or a drilling report identifying the designated tight formation
- e. a statement by the applicant, under oath, that:
- (1) the gas is being produced from a designated tight formation
 - (2) the well was ^{commenced but} not completed for production in the designated tight formation prior to July 16, 1979, and
 - (3) the applicant has no knowledge of any other information not described in the application which is inconsistent with his conclusions."

(2) That Division Form C-132, "Application For Wellhead Price Ceiling Category Determination," Revised 7-15-80, is hereby further revised as depicted on Exhibit A attached hereto and made a part hereof.

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

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

(3) That this order and the ^{additions,} amendments, and revisions contained herein shall become effective March 1, 1981.

SANTA FE, NEW MEXICO 87501

APPLICATION FOR WELLHEAD
PRICE CEILING CATEGORY DETERMINATION

1. FOR DIVISION USE ONLY:	
DATE COMPLETE APPLICATION FILED	_____
DATE DETERMINATION MADE	_____
WAS APPLICATION CONTESTED?	YES _____ NO _____
NAME(S) OF INTERVENOR(S), IF ANY:	

2. Name of Operator	5A. indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/>
3. Address of Operator	5. State Oil & Gas Lease No.
4. Location of Well UNIT LETTER _____ LOCATED _____ FEET FROM THE _____ LINE	7. Unit Agreement Name
AND FEET FROM THE _____ LINE OF SEC. _____ TWP. _____ RGE. _____ NMPM	8. Farm or Lease Name
11. Name and Address of Purchaser(s)	9. Well No.
	10. Field and Pool, or Wildcat
	12. County

WELL CATEGORY INFORMATION

Check appropriate box for category sought and information submitted.

1. Category(ies) Sought (By NGPA Section No.) _____
2. All Applications must contain:
 - ☐ a. C-101 APPLICATION FOR PERMIT TO DRILL, DEEPEN OR PLUG BACK
 - ☐ b. C-105 WELL COMPLETION OR RECOMPLETION REPORT
 - ☐ c. DIRECTIONAL DRILLING SURVEY, IF REQUIRED UNDER RULE 111
 - ☐ d. AFFIDAVITS OF MAILING OR DELIVERY
3. In addition to the above, all applications must contain the items required by the applicable rule of the Division's "Special Rules for Applications For Wellhead Price Ceiling Category Determinations" as follows:
 - A. NEW NATURAL GAS UNDER SEC. 102(c)(1)(B) (using 2.5 Mile or 1000 Feet Deeper Test)
 - ☐ All items required by Rule 14(1) and/or Rule 14(2)
 - B. NEW NATURAL GAS UNDER SEC. 102(c)(1)(C) (new onshore reservoir)
 - ☐ All items required by Rule 15
 - C. NEW ONSHORE PRODUCTION WELL
 - ☐ All items required by Rule 16A or Rule 16B
 - D. DEEP, HIGH-COST NATURAL GAS and TIGHT FORMATION NATURAL GAS
 - ☐ All items required by Rule 17(1), Rule 17(2), or Rule 17(3)
 - E. STRIPPER WELL NATURAL GAS
 - ☐ All items required by Rule 18

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED
HEREIN IS TRUE AND COMPLETE TO THE BEST OF MY
KNOWLEDGE AND BELIEF.

NAME OF APPLICANT (Type or Print)

SIGNATURE OF APPLICANT

Title _____

Date _____

FOR DIVISION USE ONLY	
<input type="checkbox"/> Approved	The information contained herein includes all of the information required to be filed by the applicant under Subpart B of Part 274 of the FERC regulations.
<input type="checkbox"/> Disapproved	
EXAMINER _____	

Exhibit A - Order No. R-5878-B-1

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
1 October 1980

EXAMINER HEARING

IN THE MATTER OF:

The hearing called by the Oil Conser-
vation Division on its own motion to
consider amendments to its special
rules and procedures for the desig-
nation of "tight formation", pro-
mulgated by Division Order No. R-6388
to comply with FERC Order No. 99, is-
sued August 15, 1980, promulgating
final regulations with respect to
Section 107 of the NGPA.

CASE
7029

and

The hearing called by the Oil Conser-
vation Division on its own motion to
consider amendments to its SPECIAL
RULES FOR APPLICATIONS FOR WELLHEAD
PRICE CEILING CATEGORY DETERMINATIONS
as promulgated by Division Order
R-5878, as amended.

CASE
7030

BEFORE: Daniel S. Nutter

*Hearing Requested
in this
Transcript*

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

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NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 1, 1980 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
William L. Fall	Campbell + Black, P.A.	Santa Fe
Pam Bacon	Coronado Exploration	
John T. Anderson	Consolidated Oil & Gas	Denver
John Kellorin	Kellorin Kellorin	Santa Fe
B. Blumley	Arco Oil & Gas Co	Denver
Bob Thompson	Amoco Production	Denver
Russ Schrooten	" "	"
Bob Coolin	" "	"
James Reno	Southern Union Exploration	Dallas
Bob McCrory	Gas Co New Mex	Dallas
MARICIO GORDON	SELF	VAUGHN, N.M.
DON BALMER	EPNG	EL PASO, TX
DAVID T. BURLESON	FPNG	EL PASO, TX
Joe Lara	USGS	Albuquerque
Bob Huber	Byram	Santa Fe
Carry Van Ryan	Southland Lloydy Co	Farmington
S.K. ARORA	SUPRON Energy	Dallas
BILL MAYHEW	El Paso Inc.	Albany

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date

OCTOBER 1, 1980

Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
B. J. MAHONY Dennis Merriam R h Bayler	Southland Royalty Co. Merriam & Bayless — — —	Farmington Farmington —
Mary J. Kendall RM Anderson	ARCO Oil & Gas Co. ✓ — — —	Dallas —
Richard Tully Wm R. Speer	James B. Cooney, P.A. Consulting Geologist	Farmington Farmington
Awen Lopez Walter D. Boyle	Montgomery & Andrews Shell Oil Co	Santa Fe Houston, TX
Mike TAVAKOL Alvie J. FOLEY Warren Carter	Shell Oil Co. Shell Oil Northwest Pipeline	HOUSTON, TX Houston TX Salt Lake City Utah
Tommy Roberts Curtis Little	Dugan Production Corp. Self	Farmington, NM " "
E. R. Mannum James T. Jennings Leon Langford Bob Strand	El Paso Natural Gas Jennings & Christy Doiport Oil Corp Harvey E. Yates Co.	El Paso, TX Roswell NM Carpas Christi TX Roswell

I N D E X

PRESENTATION BY MR. PADILLA

5

Questions by Mr. Nutter

11

Questions by Mr. Stamets

13

Questions by Mr. Nutter

13

Questions by Mr. Thompson

17

Questions by Mr. Little

19

Questions by Ms. Teschendorf

20

Questions by Mr. Strand

21

Questions by Mr. Balmer

22

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1 MR. NUTTER: The hearing will come to
2 order, please.

3 The first case we'll call this morning
4 will be Case Number 7029, which is in the matter of the
5 hearing called by the OCD on its own motion to consider
6 amendments to its special rules and procedures for the design-
7 nation of tight formation promulgated by Order No. R-6388,
8 complying with FERC Order No. 99, issued August 15th, 1980,
9 promulgating final regulations with respect to Section 107
10 of the NGPA.

11 I'll call for appearances in this case.

12 MR. PADILLA: Mr. Examiner, Ernest L.
13 Padilla on behalf of the Oil Conservation Division, and I
14 suppose that I'll be the witness today, as well.

15 MR. NUTTER: Are there other appearances?

16 MS. TESCHENDORF: Lynn Teschendorf for
17 Consolidated Oil and Gas. I've just got some comments.

18 MR. THOMPSON: Bob Thompson, Amoco
19 Production Company, and I may have some comments, also.

20 MR. BURLESON: David Burleson with El
21 Paso Natural Gas Company.

22 MR. NUTTER: Ernie, are the subject
23 matter of Cases 7029 and 7030 similar enough that we could
24 consolidate them for testimony, or would you rather have
25 them conducted separately?

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1 MR. PADILLA: I would prefer that they be
2 consolidated. I think that I will, however, speak to each
3 one individually -- separately.

4 MR. NUTTER: But you can handle them
5 consolidated.

6 MR. PADILLA: Yes.

7 MR. NUTTER: We'll call now Case Number
8 7030, which is in the matter of the hearing called by the
9 OCD on its own motion to consider amendments to its special
10 rules for applications for wellhead price ceiling category
11 determinations, as promulgated by Division Order No. R-5878,
12 as amended.

13 For purpose of testimony we will conso-
14 lidate Case Number 7029 with Case 7030, although separate
15 orders will be issued.

16 Would you proceed, Mr. Padilla.

17 MR. PADILLA: Mr. Examiner, initially I
18 believe everyone has -- there are some amendments in the back
19 of the room and anyone that didn't get any, we can make some
20 more, but there should be sufficient forms.

21 If anyone didn't get any, I think maybe
22 I should tell my secretary to start rolling the presses right
23 now.

24 MR. NUTTER: Were there sufficient
25 copies that everyone that's interested in having a copy of

1 these proposed amendments has one, or do we need some more
2 copies?

3 Anyone that needs extra copies, raise
4 their hand, please.

5 Mr. Padilla, would you proceed? Please
6 start by stating your position for the record and what the
7 purpose of the amendment is?

8 MR. PADILLA: Mr. Examiner, my name is
9 Ernest L. Padilla. I'm the attorney for the Oil Conservation
10 Division.

11 The purpose for this hearing is to make
12 certain amendments by virtue of FERC Order No. 99 that was
13 issued by the FERC relative to tight formation designations
14 under the Natural Gas Policy Act of 1978.

15 Mr. Examiner, you may recall that on the
16 30th day of June, 1980, the Division issued special rules
17 for designating tight formations in the State of New Mexico.
18 And those rules provide for guide -- or provide guidelines
19 and the procedures whereby producers may come to the Division
20 and apply for tight formation designation.

21 MR. NUTTER: And those were promulgated
22 by Order No. R-6388.

23 MR. PADILLA: That's correct.

24 MR. NUTTER: And were based on the in-
25 terim regulations for tight sands, which had been promulgated

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1 by the FERC.

2 MR. PADILLA: Correct.

3 MR. NUTTER: And now final regs have been
4 promulgated by FERC, so you want to update R-6388 rules to
5 comply with the final regs of the FERC.

6 MR. PADILLA: Yes, sir.

7 MR. NUTTER: Okay.

8 MR. PADILLA: Let me go through what I
9 have proposed to the Division in the way of admendments.

10 First of all, as far as definitions are
11 concerned, I have added a new definition, and that is the
12 definition for infill drilling.

13 Basically what I have done is copied al-
14 most verbatim the rule -- the definition that the FERC has
15 given to infill drilling. That would, of course, be added
16 to the definition section of Order No. 6388.

17 The next thing, as far as evidence is
18 concerned, I have deleted what is now subparagraph D (1) (c)
19 in that a requirement is made for submittal of a map or a
20 list showing all wells that are currently producing from that
21 formation or a portion of the formation. Previously the rule,
22 I believe, stated that -- something to the effect that the
23 map or list would list all wells that have produced from the
24 formation.

25 That has been changed to say that only

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1 wells that are currently producing need to be shown.

2 The next rule change, and that would be
3 on page two, which is not shown as page two, but nevertheless,
4 it's the second page, I delete subparagraph D (1) (d) in its
5 entirety and insert in lieu thereof a report concerning
6 potential impact to fresh water aquifers through development
7 of the tight formation.

8 The only thing that has been added to that
9 is new language that the FERC has inserted in their require-
10 ments indicating that this impact would only -- is limited
11 during hydraulic fracturing and waste disposal operations.
12 I think that diminishes to some extent the impact of the in-
13 terim rule.

14 MR. NUTTER: Well, you don't mean to imply
15 that it's all right to impair fresh water other times than
16 when you're hydraulically fracturing or disposing of the --

17 MR. PADILLA: No, but I think what --
18 what the FERC -- what that means is that the FERC recognizes
19 that generally any contamination would occur basically during
20 salt water disposal operations or during injection of --

21 MR. NUTTER: These are times when you have
22 to be especially careful.

23 MR. PADILLA: Yes.

24 MR. NUTTER: Okay.

25 MR. PADILLA: I have deleted, also, sub-

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1 paragraph D (1) (e) and added in lieu thereof a paragraph
2 concerning -- or where we would request information or data
3 demonstrating that the formation cannot be commercially de-
4 veloped without the incentive price and, of course, this goes
5 back to the definition of infill drilling and also to a new
6 guideline which has been added in the FERC regulations. I
7 believe we may have comments on that, but let's hold that till
8 later.

9 Essentially what this says, though, is that
10 where that formation is being substantially developed under
11 the 103 price, or under any other price, we would like in-
12 formation demonstrating that, say, the Section 103 price of
13 the NGPA is not adequate and therefor you need the 107 price
14 as an incentive or an inducement to produce that portion of
15 the formation.

16 I've renumbered the -- or going on to
17 number 4, I've renumbered former subsection (e) as (f) and
18 that is just a catchall. Any other information which the
19 Division may require, and that would generally occur at a
20 hearing concerning an application for tight formation desig-
21 nation or recommendation where it occurs at the hearing that
22 we would want to have some other information, not only to
23 help the Division, but probably to help the FERC understand
24 what -- what the proceedings before the Division had been.

25 In number 5 I've deleted where it was

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1 formerly subparagraph D (2) (c) in its entirety, and inserted
2 there in lieu -- in lieu thereof, no well drilled into the
3 recommended tight formation is expected to produce without
4 stimulation more than five barrels of crude oil per day.

5 All this is is a -- is different language
6 meaning the same thing, so I've essentially copied the new
7 FERC language and I've added probably the most important ad-
8 dition here, other than the definition of tight -- or infill
9 drilling, is the item numbered number 6, which is -- which is
10 now D (2) (e), and I'll read that in its entirety.

11 It says, where a formation has been
12 authorized to be developed by infill drilling prior to the
13 date of recommendation -- I've left out the "of" -- of recom-
14 mendation, the Division shall exclude from its recommendation
15 any portion of such formation which in its judgment can be
16 developed without the incentive price specified in 18 CFR
17 Section 271.703(a).

18 This addition goes to the essence of the
19 new guideline essentially. What I think it means is that
20 formation is currently being developed under the Section 103
21 price, then the Division shall exclude from its recommenda-
22 tion that portion of the formation.

23 And that is basically all I have on Case
24 Number 7029.

25 Let me go on now to Case 7030 and this

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1 is a much simpler thing. This again concerns Section 107 of
2 the Natural Gas Policy Act and it applies to the filing re-
3 quirements for Section 107.

4 Now, going to rule 17, which concerns
5 Section 107, I've deleted paragraph 17 (2) (a) in its entirety
6 and inserted in lieu thereof --

7 MR. NUTTER: Mr. Padilla, do you have an
8 exhibit on this?

9 MR. PADILLA: It should be sitting right --
10 right there.

11 MR. NUTTER: Okay, thank you.

12 MR. PADILLA: Originally I -- we had in
13 there a reference identifying the Division and FERC orders
14 which recommended and designated respectively the tight forma-
15 tion in which the well is completed. The FERC has changed
16 that, or I think originally we added this thing because we
17 thought it was necessary. Now the FERC has required a map
18 which locates and identifies the well for which the determina-
19 tion is sought as being within the designated tight formation.
20 I think it's basically the same thing, so I've just changed
21 that to add the FERC language, and I think probably it may be
22 easier to show -- to show the map rather than try to remember
23 what the order number identifying the tight formation was.

24 And item number two there is I've got an
25 entirely new subsection to take care of the recompletion

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1 tight formation gas. Essentially this is nothing but what the
2 FERC requires now under its rule -- its filing requirements
3 in Section 274.205, I believe that's (e)(2), which applies to
4 recompletion tight formation. The only thing that we've really
5 added there is from what is in the FERC rules as Subsection B,
6 which is the Division Form 132 and the required attachments.

7 And that, also, that means also that we
8 would have to change our Form C-132 to include this new Rule
9 17 (3) for recompletion tight gas.

10 And I -- that's about all I have on this
11 case, and I'll answer any questions, that you may have, or
12 anyone else may have, or attempt to answer the questions.

13 MR. NUTTER: Are there any questions of
14 Mr. Padilla?

15
16 QUESTIONS BY MR. NUTTER:

17 Q. Mr. Padilla, in eliminating Section 17 --
18 17 (2)(d) would we have any idea which order designated that
19 formation if you just substituted a map there? Shouldn't
20 there be some identification as to the formation and the order
21 number authorizing it?

22 A. I think it might be beneficial but I
23 don't know that there'd be that many tight formations where
24 we'd be that concerned about which formation it's going to be
25 in.

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1 Q We have to know that it has been a design-
2 nated tight formation, though, don't we?

3 A Yes.

4 Q Is that included in any of the other
5 data that is submitted?

6 A Not really, I don't think. Not that I
7 can recall.

8 Q I would think we could keep 17(2)(d) and
9 add this requirement for the map.

10 A The map.

11 Q To locate the specific well we're talking
12 about. We have to know that it is in an approved designated
13 tight formation, I believe.

14 A Well, the thing, I think after the FERC
15 publishes the Division's recommendation on any new -- on any
16 tight formation, that recommendation or that designation will
17 eventually become an FERC rule, so concerning that particular
18 formation and the limits of the formation. In that respect
19 I think maybe it may not be necessary; it would be a matter
20 of FERC rule.

21 Q It's not possible to get an individual
22 well approved as a tight formation well without having that
23 formation previously designated and approved, is it?

24 A Yes, that's correct.

25 Q It can't be done. Okay. Are there any

1 further questions of Mr. Padilla? Mr. Stamets.

2
3 QUESTIONS BY MR. STAMETS:

4 Q Mr. Padilla, on a replacement well in an
5 area that has been designated as tight formation, is that well
6 eligible for the tight sand incentive price?

7 A I believe it would be because if all
8 that's required in tight formations is whether it's been --
9 the spud date for new tight formation gas; the spud date would
10 be July 16th, 1979; recompletion tight gas would -- this --
11 the spudding would occur prior to July 16th, 1979, but not
12 completed for production prior to July 16th, 1979.

13 Q Would there be any requirement that the
14 operator justify why the original well was plugged?

15 A Possibly under Section 103 but not under
16 tight formation, once that formation had been designated a
17 tight formation.

18 MR. STAMETS: That's all.

19
20 QUESTIONS BY MR. NUTTER:

21 Q Referring to your proposed Section -- new
22 subsection D(2)(e) for R-6388, how would the Division be able
23 to determine in its judgment that a portion of the formation
24 could be developed without the incentive price? You're
25 talking about the infill drilling program.

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1 A Yes. That's why I've added this item
2 number three on the second page, which is D(1)(e), and that
3 requires an applicant to give the Division information or data
4 demonstrating that, where infill drilling has been authorized.
5 That requires the applicant to demonstrate that the formation
6 could not be developed under the 103 price, or absent, with-
7 out the incentive price.

8 Q So if the formation --

9 A In other words, part of the evidence, or
10 part of the submittal for where infill drilling is occurring
11 has to include information and data concerning the necessity
12 of the incentive price.

13 Q So really this D(1)(e) is saying that if
14 the formation has been authorized to be developed by infill
15 drilling prior to the date of recommendation, they would sub-
16 mit information and data demonstrating that the portion of
17 the formation where they're going -- where the well is that
18 they are seeking this determination, cannot be developed with-
19 out the incentive price.

20 A Well, no. I think that this concerns the
21 formation that is being applied for for designation. It
22 doesn't concern any one particular well. It concerns the
23 subject matter which would be the formation that the applicant
24 is seeking to have designated a tight formation.

25 Q Okay. This is for the formation.

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1 A Right. It doesn't apply to the individual
2 well filing under the filing requirements, simply because we
3 would have already decided, or the FERC would have already
4 approved our recommendations on --

5 Q Okay, so Section D(2)(e), then, is for a
6 given area of that formation and if that -- if that area is
7 deleted from the tight sand provision, then there wouldn't
8 be any point in anyone applying for a well in that portion
9 that's been deleted.

10 A Right.

11 Q Say we've got the infill program approved
12 for, let's just take as an example, the Blanco-Mesaverde,
13 and we had a tight formation hearing and designated all except
14 the Fairway to be a tight formation, then no one would apply
15 for a tight formation designation for an individual well in
16 the Fairway.

17 A Correct.

18 Q But on the outskirts, where it was desig-
19 nated a tight formation, they could apply.

20 A Right.

21 Q And there would be no further proof, then
22 for an individual well required.

23 A No. Well, they couldn't apply under 107
24 if that portion was excluded from our recommendation.

25 Now, I didn't mean that we may be -- that

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1 they may -- that the FERC would agree with us, either. We
2 may exclude something and I think the FERC could say, now,
3 you shouldn't have deleted that portion of that.

4 Q And is there any implication in the FERC
5 regs that once a tight formation, or a portion -- once a form-
6 ation or a portion of a formation is designated as a tight
7 formation, that that couldn't be amended later by another
8 recommendation and designation? Is any implication in FERC
9 that that can't be done?

10 A I don't know. It seems to me that once
11 it's designated, I think that the only way that it could be
12 altered is to include it in as a tight formation, but I
13 don't think you, once it's designated a tight formation that
14 you could come back and say, no, that shouldn't be a tight
15 formation. But you could go the other way and say someone
16 may apply for a portion of the formation that has been excluded
17 and say this should have been included in tight --

18 Q This should have been included.

19 A -- formation.

20 Q So it could be amended and expanded, pos-
21 sibly.

22 A Expanded.

23 Q Okay.

24 MR. NUTTER: Are there any further ques-
25 tions? Yes, sir.

1
2 QUESTIONS BY MR. THOMPSON:

3 Q Bob Thompson, Amoco Production Company.
4 Again referring to this D(1)(e), I'm concerned that it's much
5 broader than it needs to be to accomplish the objectives out-
6 lined in Order 99 of the FERC.

7 It appears to me that an operator who wants
8 an area designated would have to show the entire formation,
9 the incentive price would be needed for the entire formation,
10 and the order itself only would require that type of showing
11 for areas of the formation, or portions of the formation,
12 which have not been substantially developed, and correlate,
13 for example, in Basin Dakota, where you have 320 units, which
14 had not been drilled as of June, 1979, those should be excluded
15 from the necessary showing.

16 So I think based on this D(1)(e) and
17 D(2)(e), those considerations should be taken into account,
18 as far as the definition goes, and as far as Mr. Padilla's
19 interpretation that he felt like the infill drilling program
20 would only apply to areas within the various formations which
21 were being developed at the 103 price, I think that should --
22 or some language indicating that intent, should also be in-
23 cluded in there because of the way it's currently written,
24 every well in the entire formation would have to be justified
25 on an economic basis.

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1 A That's a comment or --

2 Q That's a comment.

3 A Okay. If you, if I may ask, if you have
4 any language or anyway of saying this the way you would like
5 for it to read --

6 Q I could certainly send you a letter in
7 writing indicating how we might be able to refine the rules
8 to at least not -- so they won't be overly broad, would more
9 closely comport with the Order 99. Certainly it would have
10 to be FERC's intent that we only have to show that the incentive
11 price is necessary in areas that were substantially developed,
12 and it's going to be -- it's going to be impossible, a burden,
13 to show the entire formation that we need the incentive price,
14 and I also acknowledge some of the areas in the Basin Dakota
15 can be developed at least than the incentive price, but many
16 of the other areas, we would have to have the incentive price
17 in order to develop them, so that needs to be recognized, I
18 thought, in this definition of infill drilling, and also the
19 requirements that the producer has to show in order to get a
20 formation designated.

21 MR. PADILLA: Mr. Examiner, if I may make
22 a suggestion, I think that it would be appropriate to leave
23 the record open for a period of time so that people who are
24 present here would have an opportunity to comment on this --
25 on these rules and possibly suggest other language. I'm not

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1 tied to this language. This is just a proposal.

2 MR. NUTTER: I was just thinking of leaving
3 the record open.

4 Are there any other questions of Mr.
5 Padilla? Now's your chance to ask questions. If you have
6 comments, you can send them in by mail; we're going to leave
7 the record open. If you have any questions of him, though,
8 now's the time.

9 Yes, sir, Mr. Little.

10
11 QUESTIONS BY MR. LITTLE:

12 Q Are these applications supposed to be prior
13 or after a well is drilled?

14 A Well, I think if you've already drilled
15 wells that have been spudded that qualify for either tight
16 formation, new tight formation gas, in other words, the well
17 was spudded after July 16th, 1979, or if it qualifies for re-
18 completion type gas with a spud date prior to July 16th, 1979,
19 but not completed for production prior to July 16th, 1979,
20 you could still qualify the well.

21 So you don't have to -- if the well meets
22 that requirement I don't see why you couldn't collect where
23 there is a provision for retroactive collection back to that
24 time. So it's not necessary that you designate the formation
25 prior to drilling the well. If the well qualifies under the

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1 spud date requirement.

2 MR. NUTTER: Ms. Teschendorf?

3

4 QUESTIONS BY MS. TESCHENDORF:

5 Q Mr. Padilla, I believe you said in effect
6 that if the formation is currently being developed at the
7 Section 103 price, then the Division would not want to qualify
8 it as a tight formation, but I think you might want to include
9 something in your rules, and though I'll acknowledge, as Mr.
10 Thompson has, that a large portion of the Basin Dakota is
11 being developed with Section 103 prices, but I think the sec-
12 tions that are being developed are the high grade sections,
13 the ones that have the highest success ratios, the ones that
14 are most likely to succeed.

15 As time goes on, inflation is going up,
16 costs are going up, the fringe areas are going to be developed,
17 and we're going to be looking at economics for a formation,
18 and I think we should be looking at forecasts, too, future
19 forecasts, too, an estimate of what it's going to cost in
20 these areas, taking into account inflation and higher costs
21 in the poorer areas.

22 A I can't disagree with that. I think that
23 it's -- the problem is going to be deciding what is being
24 substantially developed now under Section 103 prices; prices
25 which are the highest prices available for -- other than the

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1 107 price.

2 Q What I'm saying is, you know, a drilling
3 program might stop next month because right now the wells
4 that are currently being drilled are economical as Section
5 103's. Next month they might not be, and I think somewhere
6 in your rules you need to take that into account.

7 A Well, I think that item number three allows
8 you to do that, and demonstrate that -- that -- on the second
9 page, that the formation cannot be developed; that doesn't
10 restrict it to now. I think that you can say that in the
11 future the formation cannot be developed without the incentive
12 price.

13 MR. THOMPSON: While you're on that phrase,
14 wouldn't it be better to say the formation, or a portion of
15 the formation, cannot be developed?

16 MR. PADILLA: I've defined formation as
17 including a portion of the formation, so that's why I left it
18 as formation. The formation, I believe Ms. Teschendorf caught
19 that the last time around, and she suggested that we have my
20 definition of formation not include or a portion thereof.

21 MR. NUTTER: Are there any other questions
22 of Mr. Padilla? Yes, sir, Mr. Strand.

23
24 QUESTIONS BY MR. STRAND:
25

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1 Q Bob Strand, Harvey E. Yates Company,
2 Ernie, I got here a little late so we may have to go back
3 over this, but you're talking about the Division making a
4 judgment as to whether the incentive price should be allowed
5 where -- where an area is being adequately developed under the
6 103 price. Now you're talking solely about infill areas, are
7 you not?

8 A That's correct.

9 Q And you do not intend to make any economic
10 judgment as to other areas that may be applied for for
11 the tight formation status?

12 A I don't think that fourth guideline, that
13 new guideline, would price anything but infill drilling.

14 MR. NUTTER: Any other questions? Yes,
15 sir.

16 MR. BALMER: Don Balmer, El Paso Natural
17 Gas Company.

18
19 QUESTIONS BY MR. BALMER:

20 Q Ernie, are you speaking for the USGS also,
21 or does the OCD, will they designate tight formations with
22 regard to Federal lands, also, or will the USGS make that designation themselves?
23

24 A The way we're currently doing that is all
25 hearings for tight formation designation come through the

1 Division and they will then -- later on they will ratify our
2 order or -- well, ratify or disagree with our order, depending
3 on how -- but from the standpoint of uniform application of
4 the rules, the FERC rules, the USGS and the Division have
5 agreed that all designations -- or all hearings will be held
6 by the Division, so we wouldn't be applying different inter-
7 pretations to the FERC guidelines.

8 Q. They would merely ratify them or disagree
9 with them and then later on if you had an individual well det-
10 ermination, it would go to the appropriate hearing.

11 A. Right. The current one that we now have
12 is in order to submit everything to the FERC, we are waiting
13 for the USGS' ratification and if they -- or whatever action
14 they want to take on that, on our order, and then to save time,
15 we'll just submit their ratification together with all the
16 information and data that we have in the file.

17 Q. Thank you.

18 MR. NUTTER: Are there other questions?
19 We'll take the Case Number 7030 under advisement. We will
20 leave the record open in Case Number 7029 for written comments
21 on the amendments of Order Number R-6388. It will be left
22 open until October 15th, 1980.

23
24 (Hearing concluded.)
25

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd C.S.R.

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I do hereby certify that the foregoing is
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