

Case 330 A

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# Three States Natural Gas Company

SEVENTEENTH FLOOR CORRIGAN TOWER

DALLAS 1, TEXAS

July 9th, 1954

The Oil Conservation Commission  
State of New Mexico  
State Capitol Building  
Santa Fe, New Mexico

Re: Recommended Order, Case 330,  
Proration - Blanco Mesa Verde  
Field, New Mexico

Gentlemen:

Three States Natural Gas Company does not operate in the Blanco Mesa Verde Field, but has overriding royalty interests of  $8\frac{1}{2}\%$  in more than 54 net Mesa Verde wells, also overriding royalty interests from 5% to 20% in at least 6 additional wells. Probably 40 additional Mesa Verde wells will be drilled under similar farmout agreements. Revenue is received by this Company from an average net volume of 500 million cubic feet of gas per month.

From the above figures you can determine that we are vitally interested in an equitable solution to the proration problem. We believe that allocation of 75% of withdrawals based on deliverability times acreage and 25% of withdrawals based on acreage will protect the correlative rights of both marginal and non-marginal wells.

The Three States Natural Gas Company urges the adoption of the attached Order for the allocation of gas withdrawals from the Blanco Mesa Verde Gas Field of San Juan and Rio Arriba Counties, New Mexico.

Very truly yours,

THREE STATES NATURAL GAS COMPANY

By: John C. Williams  
President

JCG:LH

THREE STATES NATURAL GAS COMPANY

PROPOSED RULES AND REGULATIONS  
FOR THE BLANCO MESAVERDE GAS POOL  
SAN JUAN AND RIO ARRIBA COUNTIES, NEW MEXICO

WELL SPACING AND ACREAGE REQUIREMENTS FOR DRILLING TRACTS.

RULE 1. Any well drilled a distance of one mile or more from the outer boundary of the Blanco Mesaverde Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of the Blanco Mesaverde Gas Pool shall be spaced, drilled, operated and prorated in accordance with the Regulations in effect in the Blanco Mesaverde Gas Pool.

RULE 2. Each well drilled or recompleted within the Blanco Mesaverde Gas Pool shall be located on a tract consisting of not less than a half section of approximately 320 surface contiguous acres substantially in the form of a rectangle which shall be a legal subdivision (half section) of the U. S. Public Land Surveys.

RULE 3. Each well drilled within the Blanco Mesaverde Gas Pool shall be located in the northeast or southwest quarter of the section but shall not be drilled closer than 660 feet to any outer boundary line of such quarter section nor closer than 330 feet to a quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to a well drilling to or capable of producing from the same pool.

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

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

RULE 5. The provision of Statewide Rule 104 Paragraph (k), shall not apply to the Blanco Mesaverde Gas Pool.

RULE 6. The Commission after notice and hearing, shall consider the nominations of gas purchasers from the Blanco Mesaverde Gas Pool and other relevant data and shall

fix the allowable production of the Blanco Mesaverde Gas Pool, and shall allocate production among the gas wells in the Blanco Mesaverde Gas Pool upon a reasonable basis with due regard to correlative rights.

RULE 7. A. For the purpose of gas allocation in the Blanco Mesaverde Gas Pool a standard proration unit shall consist of approximately 320 contiguous surface acres consisting of the North, South, East or West half of a section and being a legal subdivision of the U. S. Public Land Surveys; provided, however, that a gas proration unit other than a legal half section may be formed after notice and hearing by the Commission, or as outlined in paragraph B. Any standard proration unit consisting of between 315 and 325 contiguous surface acres shall be considered as containing 320 acres for the purpose of gas allocation.

B. The Secretary of the Commission shall have authority to grant an exception to Rule 7 A without notice and hearing:

1. Where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys; or

2. Where application has been filed in due form and where the following facts exist and the following provisions are complied with:

a. The acreage assigned the non-standard unit lies wholly within a legal section.

b. The acreage assigned the non-standard unit is adjacent to or contiguous with the acreage containing said well.

c. The operator making application for such exception to Rule 7 A includes with such application:

(1) waivers from (a) all operators owning interests in the half section in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit; and (b) all operators owning interests in acreage offsetting the non-standard proration unit; or

(2) a list of names and addresses of all operators outlined in paragraph (1), together with a stipulation that proper notice has been given said operators at the addresses given and no objection is received by the Commission from such operators within 20 days after the Commission receives such application.

d. The entire non-standard proration unit may reasonably be presumed to be productive of gas.

e. The length or width of the non-standard gas proration unit does not exceed 5280 feet.

C. The Secretary of the Commission shall have authority to grant an exception to Rule 7 A after notice and hearing, when the operator is unable to comply with the provisions of Rule 7 B.

## GAS ALLOCATION

RULE 8. At least 30 days prior to the beginning of each gas proration period the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser its nominations of the amount of gas which each in good faith actually desires to purchase within the ensuing proration period, by months, from the Blanco Mesaverde Gas Pool.

When a purchaser of gas, after filing its nominations for the proration period shall find that its requirements for gas have increased or decreased from the amount nominated for any month during the proration period, such purchaser shall indicate its revised estimated requirements during such month by filing supplemental nominations with the Commission at least three days prior to the regular hearing of the Commission for the month preceding such changed requirements.

All nominations shall be filed on a form prescribed by the Commission.

RULE 9. The Commission shall hold a public hearing between the 15th and 20th days of each month to determine the reasonable market demand for gas for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. Included in the monthly proration schedule shall be a tabulation of allowable and production for the second preceding month, together with an adjusted allowable computation for the second preceding month, said adjusted allowable shall be computed by comparing the actual allowable assigned with the actual production. In the event the allowable assigned is greater than the actual production, the allowable assigned the non-marginal units shall be reduced proportionately; and in the event the allowable assigned is less than the production, then the allowable assigned the top allowable units shall be increased proportionately.

The Commission shall include in the proration schedule the gas wells in the Blanco Mesaverde Gas Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of the Blanco Mesaverde Gas Pool any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to the pool each month shall be equal to the sum of the nominations together with any adjustment which the Commission deems advisable. The allocation to a pool remaining after subtracting the capacities of marginal units shall be divided and allocated among the non-marginal units in the following manner: seventy-five per cent (75%) of such remaining allocation shall be divided among the non-marginal wells in the proportion that the product of each individual well's calculated deliverability and acreage bears to the sum of such products for all the non-marginal wells. The other twenty-five per cent (25%) of such remaining allocation shall be divided among the non-marginal wells in the proportion that the acreage assigned the proration unit of each well is to the sum of the acreage assigned the proration units of all non-marginal wells. The calculated deliverability mentioned above shall be that deliverability as determined by a test taken in accordance with the provisions of Order No. R-333 or Order No. R-333A of the New Mexico Oil Conservation Commission.

## BALANCING OF PRODUCTION

RULE 10. Underproduction: The dates 7:00 A. M., March 1, and 7:00 A. M., September 1, shall be known as balancing dates and the periods of time bounded by these dates shall be known as gas proration periods. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the first succeeding proration period in addition to the normal gas allowable for such succeeding period. That portion of such cumulative underproduction carried forward into the first succeeding proration period, which is not made up during said period shall be deducted from the total underproduction at the end of the period, resulting in only that volume of underproduction accrued during said period being carried forward as cumulative underproduction into the next succeeding proration period.

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

RULE 11. Overproduction: An operator will be allowed to overproduce a well during a proration period and to accumulate and carry over such overproduction into the first succeeding proration period in an amount not in excess of the total allowable assignable to the well based on nominations for the first succeeding proration period. Should the allowable so calculated be less than the accumulated overproduction at the beginning of the first succeeding proration period, the well must be shut-in until the overproduction has been reduced to such allowable. Should the well's cumulative status not be brought in balance during the first succeeding proration period, that overproduction accumulated at the end of the first succeeding proration period must be brought in balance during the second succeeding proration period or the well must be shut-in at the end of the second succeeding proration period until its cumulative status is in balance.

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

## GRANTING OF ALLOWABLES

RULE 12. No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed together with a plat showing acreage attributed to said well and the locations of all wells on the lease.

RULE 13. Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 697, Aztec, New Mexico) by the purchaser, or the date of filing of Form C-104 and Form C-110 and the plat described above, whichever date is the later.

## REPORTING OF PRODUCTION

RULE 14. The monthly gas production from each gas proration unit shall be metered separately and the gas production therefrom shall be reported to the Commission by the

operator so as to reach the Commission on or before the twentieth day of the month next succeeding the month in which the gas was produced. The operator shall show on such report what disposition has been made of the gas produced. The full production of gas from each well shall be charged against the well's allowable regardless of what disposition has been made of the gas; provided, however, that gas used on the lease for consumption in lease houses, heaters, treaters, combustion engines and other similar lease equipment shall not be charged against the well's allowable.

Copies of Form C-115, Monthly Production Report, submitted in compliance with Rule 14, shall be distributed by the operator as follows: Original to Oil Conservation Commission, Box 871, Santa Fe; two copies to Oil Conservation Commission, Box 697, Aztec, New Mexico.