

CASE 532: PROPOSED ADDITION TO RULE 503

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

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

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

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

#### V. Storage Records

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

CASE 532: PROPOSED REVISION OF RULE 502

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

I. Daily Tolerance

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

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

II. Monthly Tolerance

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

III. Production in excess of monthly allowable plus tolerance

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

IV. General

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

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

V. Legal Storage Records

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

CASE 532: PROPOSED REVISION OF RULE 502

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

I. Daily Tolerance

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

II. Monthly Tolerance

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

III. Production in excess of monthly allowable plus tolerance

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

IV. General

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

Case 537

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

May 11, 1953

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

Dear Mr. Spurrier:

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

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

I would also add the following paragraph:

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

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

C  
O  
P  
Y

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

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

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

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

Yours very truly,

OIL CONSERVATION COMMISSION

A. L. Porter, Jr.  
Proration Manager

ALP/cd

C  
O  
P  
Y

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

---

July 16, 53

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

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

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

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

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

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

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

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

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

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

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

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

*Case 532 RS*

**GILBERT, WHITE AND GILBERT**  
ATTORNEYS AND COUNSELORS AT LAW  
BISHOP BUILDING  
SANTA FE, NEW MEXICO

July 18, 1953



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

*How on the ...  
you're going ...  
hated to ...  
we amend ...  
operator ...  
L.C. White ...  
all ...  
could ...  
suffer ...*

Oil Conservation Commission  
Santa Fe, New Mexico

Re: Proposed Revision of Rule 502

Gentlemen:

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

Sub -paragraph B reads in part as follows:

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

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

Very truly yours,

*L. C. White*  
L. C. WHITE

LCW-c  
cc- Hon. Edwin L. Mechem  
Mr. R. R. Spurrier  
Mr. Johnny Walker

*Case 532*

COPY

**HUMBLE OIL & REFINING COMPANY**

**HOUSTON 1, TEXAS  
June 11, 1953**

**File 6-1  
New Mexico**

**Re: Proposed Revision of Rule 502**

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

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

**Dear Sir:**

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

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

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

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

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

Very truly yours,  
*W. E. Hubbard*

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

BARNEY COCKBURN

Oil Operator  
ARTESIA, NEW MEXICO

June 12, 1953

Oil Conservation Commission  
Santa Fe, New Mexico

Attn: Mr. R. R. Spurrier

Re: Case 532 - Proposed Revision  
of Rule 502

Gentlemen:

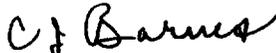
In the forthcoming hearing on the above proposed revision to rule 502 we wish to be put on record as being opposed to this revision.

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

If there is a beneficial conservation measure which has escaped us in our reading of the revision and the commission believes it worthy of being approved, then we specifically ask that there be stated in the revision that the commission will consider exceptions to the rule. We ask that no additional reporting form be required inasmuch as form C-115 already provides information to conform with the revision.

Very truly yours,

BARNEY COCKBURN

By   
C. J. Barnes

Artesia, New Mexico  
June 13, 1953

Oil Conservation Commission  
Santa Fe, New Mexico

Attention: Mr. R. R. Spurrier

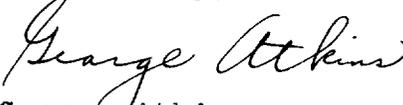
Re: Case 532 - Proposed Revision  
of Rule 502

Gentlemen:

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

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

Yours truly,

  
George Atkins

H. R. PATON  
3225 ROGERS AVE.  
FT. WORTH, TEXAS

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

**PATON BROS.**

DRILLING CONTRACTORS

P. O. BOX 667

**ARTESIA, N. M.**

June 13, 1953

Oil Conservation Commission  
Santa Fe, New Mexico

Attention: Mr. R. R. Spurrier

Gentlemen:

Re: Case 532 - Proposed Revision  
of Rule 502

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

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

Yours truly,

PATON BROTHERS

By   
H. R. Paton

REX G. BAKER  
VICE PRESIDENT AND  
GENERAL COUNSEL

NELSON JONES  
GENERAL ATTORNEY

J. Q. WEATHERLY  
ASSOCIATE GENERAL COUNSEL

HERMAN P. PRESSLER  
ASSOCIATE GENERAL COUNSEL

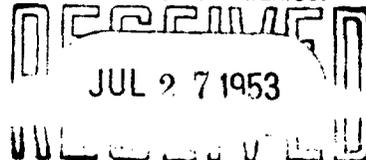
Case 532 K6

**HUMBLE OIL & REFINING COMPANY**  
LAW DEPARTMENT  
HOUSTON 1, TEXAS

July 24, 1953

H. O. YOUNG  
JOHN R. ANTHONY  
LEE M. SHARRAR  
FELIX A. RAYMER  
CARL ILLIG  
R. CHESTER DAY  
ALLAN S. KEY  
DAVID BALL  
D. H. GREGG  
MOODY P. PEARSON  
LEE HILL  
CHARLES E. SHAVER  
DILLARD W. BAKER  
HUGH LAMAR STONE, JR.  
WILLIAM J. MERRILL  
FRANK L. HEARD, JR.  
KENNETH C. MINTER  
WALTER F. WOODUL, JR.  
WALTER B. MORGAN  
ROBERT C. MCCARTY  
A. E. COLLIER

OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO.



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

Gentlemen:

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

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

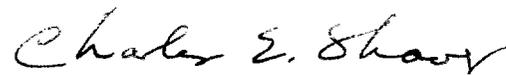
We believe that under present statutes restriction of production to actual market demand affords the only practical means of protecting correlative rights during such periods.

#2

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

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

Respectfully submitted,



CHARLES E. SHAVER

CES:B