

AUG 3 1953

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

CASE 532: In the matter of the revised application of the Oil Conservation Commission of New Mexico upon its own motion for an order authorizing the revision, modification and amendment of variously numbered rules in Sections 'G', 'A', and 'M' of the Rules and Regulations of the Commission (Revised Jan 1, 1953), with particular reference to Rule 502, relating to Rate of Producing Wells and Daily and Monthly Tolerances, etc.; and Rule 503 relating to Production Authorization, and including therein the matter of so-called 'Back Allowable'; the insertion of a working definition of the term 'Back Allowable' within Section 'A' of said Rules; the addition of Section 'M' relating to forms, of said Rules and Regulations, of such other and additional required forms as may appear necessary or convenient as a result of any revision, modification or amendment of any of the rules aforesaid; the amendment of, deletion from or addition to any conflicting section, definition, phrase or clause in Order R-98-A or any other previously issued by the Commission bearing on the foregoing matters.

TRANSCRIPT OF HEARING

July 16, 1953

Date

BEFORE: Honorable Ed. L. Mechem, Governor
Honorable E. S. Walker, Land Commissioner
Honorable R. R. Spurrier, Director, OCC

STATE OF NEW MEXICO)

ss

COUNTY OF BERNALILLO)

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

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



E. E. Greeson
Notary - Reporter

My Comm. Ex.:
August 4, 1956

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

(Mr. Graham reads the advertisement.)

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

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

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

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

(Off the record.)

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

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

I will say only one member of the committee, which

is Humble, did not concur in this report.

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

MR. LAMB: That is correct.

MR. SPURRIER: 503,F?

MR. SHAVER: Yes.

MR. LAMB: Yes.

MR. SHAVER: We concur as to Rule 502.

MR. LAMB: That is correct.

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

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

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

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

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

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

And under Section V a definition for storage was inserted.

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

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

MR. MADOLE: Ross Madole for Magnolia.

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

MR. LAMB: That is correct.

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

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

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

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

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

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

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

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

MR. LAMB: Unrun allowable oil.

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

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

MR. MADOLE: That's right.

(Off the record discussion.)

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

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

MR. SPURRIER: Yes; go ahead.

MR. SMITH: I represent Shell Oil Company.

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

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

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

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

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

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

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

(Off the record discussion.)

MR. SPURRIER: Anyone else?

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

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

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

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

hearing.

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

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

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

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

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

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

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

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

MR. SPURRIER: Anyone else? Mr. Smith.

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

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

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

MR. LAMB: The committee would have no objection.

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

MR. SPURRIER: Very well. Mr. Walker?

MR. WALKER: Don Walker of Gulf.

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

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

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

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

MR. LAMB: I think the Commission in the interest

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

MR. SPURRIER: Any other comment?

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

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

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

MR. LAMB: What is the question, Ed?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Off the record.)

MR. SPURRIER: Mr. Christie.

MR. CHRISTIE: Mr. Christie of Amerada Petroleum.

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

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

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

We urge it be adopted.

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

MR. MADOLE: On behalf of Magnolia.

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

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

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

I concur in Mr. Madole's amendment.

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

MR. SPURRIER: Mr. Nestor.

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

(Off the record.)

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

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

MR. NESTOR: That is on 502?

MR. SPURRIER: That is on Case 532.

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

MR. SPURRIER: No.

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

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

(Off the record.)

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

MR. SPURRIER: Yes.

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

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

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