

BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO
November 17, 1954

IN THE MATTER OF:

CASE NO. 791 - Regular Hearing

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES
COURT REPORTERS
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BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
November 17, 1954

IN THE MATTER OF:

The application of the Oil Conservation Commission upon its own motion for an order revising certain Rules and Regulations.

Applicant, in the above-styled cause, seeks an order revising the following Rules and Regulations of the Commission:

Rule 502, Paragraph II - Monthly Tolerance
Rule 503, Paragraph (a) - Relating to date of Commission hearings;
Rule 505, Paragraph (g) - Oil Proration

Case No. 791

all of which are included in SECTION 'G' - OIL PRORATION AND ALLOCATION, of the Rules and Regulations; and further, for revision of Rule 1114, relating to Operator's Monthly Report (Form C-115), and for adoption of a new rule to be designated as Rule 1126, Nomination Request, and for adoption of a new Form C-127 as nomination form, the latter two rules relating to SECTION 'M' -REPORTS.

BEFORE:

Honorable Edwin L. Mechem
Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: In regard to Case 791, I believe that everyone has received a copy of the proposed Rules Revisions which the Commission staff has recommended, and also I am not too sure as to whether or not you have received a copy of the proposed Form C-127. If you don't have a copy they are back on the desk at the entrance to the room. I would like to point out that these proposals are in the main part proposals of Mr. Porter. If necessary we can

pin him down and find out a little more about it, if you would like.

(Marked Commission's Exhibits Nos.
1 and 2, for identification.)

MR. YOST: If the Commission please, I would like to offer Mr. Foster's proposed Rule Revision in evidence as Commission's Exhibit No. 1. Also, proposed Form No. C-127 as Commission's Exhibit 2.

MR. MACEY: Is there objection to the introduction of these Exhibits? If not they will be received in evidence. Does anyone have a comment in the case?

MR. SELINGER: May I inquire from Mr. Yost, if the proposed Rule Revision includes only 502, Roman numeral II? There are additional Roman numerals which are part of 502 which remain in effect.

MR. YOST: That is true, that is my understanding.

MR. KELLAHIN: Jason Kellahin, representing Continental Oil Company. We have no quarrel whatever, of course, with the proposed changes in Rule 502, but Continental Oil Company is a little bit concerned as to the wording of the proposed change, which could be possibly interpreted as meaning that over-production could be cumulative from month to month. In other words, five days over-production during each proration period. While the provisions of Rule 502, Roman numeral IV would seem to prohibit this, there is a possibility in our mind that a conflict between the two rules, in which event I believe the Rule of Construction usually applied by the Courts is to the affect that a rule adopted at a later date, which is inconsistent with a prior rule, will be held to govern.

We also feel that in order to properly police matters of over-production, there should be some changes in the present Form C-115, and those remarks I would like to, at this time, read into the

record, the proposed change which is submitted by Continental Oil Company covering 502, Roman numeral II, which is as follows:

"No unit shall produce during any one proration period more than the allowable production of such a unit for the production period, plus a tolerance of, not to exceed, five days allowable production. Over production within the permitted tolerance shall be considered oil produced against the allowable assigned to the unit for the next succeeding proration unit.

Said over-production shall be carried as over-production on the Form C-115 for the month during which said over-production occurred, and, also carried as 'over-production carried over' on the Form C-115 for the succeeding proration period. The full amount of said 'over-production carried over' shall be deducted from the deducted schedule allowable and the difference, after such deduction, shall be shown as net allowable to said unit. No unit shall, at the end of any proration period, be over produced in excess of the five days allowable tolerance allowed herein."

We feel that the upper limit of how much over-production can be accumulated should be definitely fixed in any proposed change in this present rule. That is the basic reason for our submitting this language. If such a rule were adopted, it would then call for a change in the present C-115 form to show on the face of it the over-production during during the month in which it occurred and the over-production carried forward from month to month until such time as it is made up. In that manner, the over-production on any one unit would be a matter of public record and it would be far easier for the Commission to police the question of over-production and also any interested operator would more readily be able

to determine what the situation was on any particular unit.

MR. MACEY: Mr. Walker?

MR. WALKER: Don Walker for Gulf. We would like to commend Mr. Porter on the proposals as set out here. I would like to make one suggestion that if we adopt the 13th to 20th as our hearing authorized date that possibly we need to have a deadline for applications for the following month, so that the dockets could get out in sufficient time for us to have a chance to study them.

MR. MACEY: I concur. Anyone else? Mr. Smith?

MR. SMITH: Mr. Smith for Stanolind Oil and Gas Company. We have no objection to the proposed changes, but I would like to advise the Commission that our company has under consideration the possibility of working out some means whereby these reports may be put on International Business Machine tabulating equipment. We are not prepared at this time to make any suggestion. We haven't completed our study or analysis.

We would like to call the Commission's attention to the fact that at some future date we would like to come out and see if it would be possible to eliminate one or two items, or arrange in such a way that it would be satisfactory to the Commission so we could get away from manual preparation of some of the forms.

MR. SHAFFER: Mr. Charles Shaffer, representing Humble Oil and Refining Company. We concur in the provisions proposed by Mr. Porter, Rule 502, 503 and 505. We also concur in the revision of the proposed Rule 1114, except that portion which imposes a penalty of allowable reduction of one day for each day the report is late. It appears to us that the penalty provision may be questionable for several reasons. The first reason being that

the proposed rule may be beyond the power of the Commission, because we see that the Commission's powers are limited to prevention of waste and protection of correlative rights.

We also feel that this penalty might be a little severe, and further evil that it is supposed to remedy. In lieu of the rule proposed, it is our suggestion that the Commission consider a rule which would permit the Commission to sever pipeline connections of an operator who had not filed his report by the 24th of the month.

MR. MACEY: Anyone else?

MR. KELLY: John M. Kelly. I also agree with the statements of the previous companies in commending Mr. Porter in his changes. I would also like to make a comment on Rule 1114 along the lines that the Humble made, and would like to suggest that little change to the Commission.

As the rule is now being presented it states: "Each report for each month shall be filed in time to reach the Commission's Office not later than the 24th of the next succeeding month". I would like to suggest that be changed to read: "Each report for each month shall be filed or postmarked not later than the 24th of the next succeeding month".

As it now stands, our final figures from the purchasing companies sometimes do not reach us operators in New Mexico until after the 20th day of the month. I feel that if we should be called upon to have those figures in the Commission Office by the 24th, it might be a physical impossibility. I feel that we can put them in the U. S. Mail and have them postmarked by at least the 24th.

The other suggestion I have does follow along the lines

of Humble. I would like to change that last sentence, I agree with Humble's interpretation, I believe it is beyond the powers of the Commission to place such a penalty at this time. I would like to suggest that that section read: "Repeated failure of the operator to file Form C-115 in time shall result in the discretion of the Director of the Commission in the removal of the affected well, or wells, from the proration schedule until such time as the regulations are complied with."

I feel this gives a little latitude to the Director and does not make a hard and fast rule as it is now set out. I also want to state, I am probably one of the operators that don't get my reports in on time. It is more of a physical impossibility, it was a complete physical impossibility to meet the 18th deadline, because final figures do not reach us operators in New Mexico until the 20th of the month in most cases.

MR. MACEY: Anyone else?

MR. SELINGER: George Selinger, representing Skelly Oil Company. We concur in the recommendations of Mr. Porter in revising certain rules in 502, 503 and 505, 1114 and 1126. In order to overcome the objections raised by Continental, through Mr. Kellahin, I would suggest that the proposed Rule 502 be written in its entirety so that both roman numeral II and both roman numeral IV will appear at the same time so there wouldn't be any question of the construction that they must be both construed together.

We are also inclined to agree with Humble that the reduction of a day's allowable is rather severe, and experience in other States have indicated that if you will provide in your rule a severance of pipeline, in which the Commission notifies the producer of

the failure of his filing, you will generally find that the producer gets his report in rather quickly. All other States have a provision for enforcement, that is a severance of pipeline. We would suggest that a similar rule be made a part of Rule 1114.

MR. MACEY: Anyone else? Mr. Porter?

MR. PORTER: I just want to say that I have no objection to either the proposal by the Humble or Mr. Kelly. The idea I had in mind was just an axe to hold over the operator's head to get the reports in, with my recommendation for the institution of Form C-127. Of course, the C-115 no longer is for making up the proration schedule. We wouldn't be dependent on C-115 for the making of the proration schedule. Therefore, we would need something to encourage the operator to file the C-115 on or about the filing deadline.

I have no objection to the proposal of using the words "post-marked" by that particular date. We realize sometimes the difficulty that the operator may get into on account of the delay in mailing.

I do feel that if these rules are adopted pretty generally as they are recommended here, it will alleviate some of the pressure that is on my staff in the Hobbs Office, in the matter of making the proration schedule. We receive under our present system, I would say, 80 percent of the Form C-115 between the dates of the 14th and the 18th. We should begin our computations of the allowables by the 20th in order to get the proration schedule published and distributed by the first of the next month. It just doesn't give us enough time.

That proposal would require that Form C-127 be filed by the 15th of the month. That form would include only the wells for which allowables changes are requested. It would be much easier to

than handle, / handling it in the manner in which we are now, on Form C-115.

Another reason for recommending it is that ever since the nomination column has been included in C-115, we have had a difficult time in educating the personnel of the operators in the use of that column. That is all the way through, a dual purpose form.

Your C-115 reports the production for one month and requests allowable assignments for another. We are often, the operator uses that nomination column to just record his current allowable rather than using it as an allowable request column. I think by the adoption of Form C-127 we will eliminate a very bad situation in that respect.

The matter of moving up our hearing dates from the 15th to 20th to the 13th and 20th, we will post the allowable, ordinarily, about two days earlier in the month. It is generally known that a number of the people here, especially those representing the crude oil purchasers, also attend the allowable hearings in Texas. That would give us time to coordinate our hearing dates with theirs.

MR. HOWARD: Dan Howard with Warren Petroleum Corporation. We would like to concur in the recommendations of Mr. Porter and the Conservation Commission's staff with due consideration given the remarks made from other members of the industry from the floor, and I think it would be, if possible, a very good idea to put this explanation of that five days tolerance, either in the rule or in an attached memo to the rule when it is changed. I think it has been our source of confusion, not only in this State, but in other States.

MR. MACEY: Anyone else? If not we will take the case under advisement and adjourn until 1:15

