BEFORE THE

Oil Conservation Commission

SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1002

TRANSCRIPT OF PROCEEDINGS

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BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 15, 1956

IN THE MATTER OF:

CASE 1002 Application of the Oil Conservation Commission upon its own motion for an order revising the provisions of Rule 1 (a) of Section 15: "Gas Proration and Allocation" of the Special Pool Rules for the Blanco - Mesaverde Gas Pool, San Juan and Rio Arriba Counties, New Mexico, contained in Order No. R-128-D. Applicant, in the above-styled cause, seeks to amend the existing provisions of Rule 1 (a) of Section 15: "Gas Proration and Allocation" of the Blanco - Mesaverde Gas Pool Rules, to provide that any legal half section of the U. S. Public Land Surveys shall be considered a standard gas proration unit regardless of the amount of acreage contained within the proration unit.

BEFORE:

Mr. E. S. (Johnny) Walker,
Mr. William B. Macey.

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case No. 1002.

MR. KITTS: Mr. Secretary, we don't have any testimony in this case. I have a statement I would like to read into the record on behalf of the Commission Staff. I would like, first of all, to point out that the Commission Staff is aware that certain confusion has arisen from the wording of the advertisement in this case.

Specifically, I am referring to those words which read "to provide that any legal half section of the U. S. Public Land Surveys shall be considered a standard gas proration unit regardless of the amount of acreage contained within the proration unit." On its face, this language might be construed to mean that any legal half section, no matter what its acreage would receive an acreage factor

of, one, in the proration formula, I do not believe that such construction was ever intended. What was intended, what was conceived was that any legal one half section is containing less than 136 acres or more than 324 acres, the acre factor should be tabulated in proportion that said acreage bears to 320 acres. The Commission Staff has studied this proposed amendment and its implications and as a result of this study, finds itself unable and unwilling to recommend to the Commission that that rule 1 (a) of Section 15, order R-128-D, be amended as advertised.

However, we do feel that the matter is open to further study and in this connection we recommend that the Commission should hear the views and recommendations, if any there be, of representatives of the industry who have interest in the area involved. As we see it, there are several concepts which must be resolved and other matters which must be taken into account before this recommendation should be seriously considered by the Commission.

In the first place, although reference is made to the term "legal half section of the U. S. Public Land Surveys," we find that we have no definition of this term, and, among the people with whom we have discussed the question, including representatives of the industry, there seems to be no agreement as to what the term means or should mean. Suffice it to say the term "legal half section of the U. S. Public Land Surveys," is not a term defined in any legal dictionary or glossary of petroleum industry terms sofar as we are able to determine.

Therefore, before consideration can be given to this proposed amendment, we must define this term and, in this connection, it would be desirable to hear views from representatives of the industry.

One definition would be that such a legal half section as half section fairly designated as such by the survey plat of the U. S. Public Land Surveys, or as an alternative definition, that a legal half section is a half section designated as such on the survey plat of the U. S. Public Land Surveys by the notation of placing of the quarter markings. If such a definition, or similar one is presumed, we still have several problems in matter of policy which would have to be seriously considered by the Commission. To cite some examples which are, by no means, exclusive of other charts, along the western boundary lines of certain Townships in the Blanco - Mesaverde, there are what I will call tiers of half sections containing from 240 acres down to approximately 200 acres. I am referring particularly to T29N 7W; 29N 8W, 29N 9W; 30N 7W; 30N 8W, and some of these sections or half section units have already been formed, but others there has not been developed.

An amendment such as proposed is tatamount to a recognition or even establishment of such 200-acre half sections as standard proration units, with adjustments, of course, as to acreage factors, but standard proration units, nontheless.

Section 65-3-14, of our Statutes, provides that a proration unit -- and that means standard proration units -- established for each pool shall be that area which can be efficiently and economically drained by one well. In this pool, a determination has heretofore been made in the establishment of the standard proration unit of 320 acres, that one well can drain 320 acres.

We feel that, such being the case, it would be unwise, if not of doubtful legality, to recognize a 200 plus acre half section as a standard proration unit.

In Section 65-13-14, there is also the provision that in establishing a proration unit, the Commission shall consider the economic loss caused by the drilling of unnecessary wells. In our tier of 200 acre western half sections along a range line, if any or all of the operators chose to drill on such units, I don't believe there is any question but that an unnecessary number of wells would result, it being established that a well will drain 320 acres.

This could result in a real disadvantage to an operator in some cases. Suppose Operator "A" had a 200 acre west half section lease offset on the north by Operator "B", and on the south by Operator "C", with similar acreage, all recognized as standard proration units. Suppose, farther, that Operator "B" and Operator "C" desire to drill, and did drill, wells on their standard 200-acre units; Operator "A" would then be forced to drill on his acreage whether he thought a well with a 200-acreage factor a good economic risk or not. He could not urge, strictly speaking, a deprivation of correlative rights, because he would already have had a standard unit; he could not force pool either "B" or "C", but he would be forced to drill, if he drilled at all, what would, or could, amount to an unnecessary well.

I mention this by way of suggesting that the Commission might wish to consider this problem of unnecessary wells in the area mentioned, and,to meet such a problem in the future, might wish to encourage the establishment of unorthodox units, even cross section lines in order to cut down the number of wells.

In any event, we believe that the matter should be left flexible. We realize that in most every case, if the rule is left as it is, and application for an unorthodox unit consisting of a legal half

section containing 200 acres, for instance, would receive favorable consideration by the Commission. Very probably the Commission would take a view that it would be preferable to have one well on the east half of the section containing 320 acres and another well on the west half of the section containing 200 acres, rather than it would have a well to attempt to drain a 520 acre tract.

However, the question, in summary, is whether to lessen the administrative burden on the Commission and lessen paper work and trouble on the part of the operators in applying for an unorthodox unit justifies the establishment, and recognization, of any legal half section as a standard proration unit.

In view of some of the problems and complications suggested, if the Commission should feel that convenience and lessened burden justifies making a special case of these half sections, then we would still suggest that Rule 1 (a) be left unchanged. What we would suggest is an alternative, that the requirements of securing administrative approval for this type of unorthodox units be liberalized under Rule 1 (b), or that perhaps a further rule, 1 (c), be added to take care of this particular case, but that, in any event, they still be denominated "unorthodox units," and we would further recommend taking a somewhat arbitrary figure, perhaps, that such lessened requirements for administrative approval of unorthodox units be limited to those wells which contain between 300 and 316 and 356 acres, the reason being the drilling of unnecessary wells.

That is all.

MR. MACEY: Does anyone else have a statement in this case?

MR. WOODWARD: I am appearing for El Paso Natural Gas Company; El Paso favors the proposed amendment of Order R-128-D, with the

following qualifications:--I would like to explain that these qualifications would apply whether the amendment is made through modification of the existing Rule 1 (a), or through the addition of a new provision entitled Rule 1 (c) -- first, that any legal half section containing not less than 200 acres be considered a standard gas proration unit. As a practical matter, this will take care of most if not all short sections within the area limits of the Blanco - Mesaverde which have not yet been dedicated to any well or units without an unreasonable increase in the average well density of the field. Secondly, in computing the allowability of a standard gas proration unit containing less than 316 acres, the acreage factor shall be based upon the actual acreage content of the unit. This would permit the Commission to ignore certain minor or deminimize variations in acreage content as it has done in the past, while preventing the damage to correlative rights that must otherwise result when the deficiency is substantial. Third, after notice of hearing, the Commission may establish non-standard gas proration units containing not more than approximately 320 acres and consisting of two or more legal half sections or portions thereof. Now, this recommendation will permit development of a range of short half sections to a density of approximately 320 acres at the election of the owners thereof. No operator should be required to drill on a short half section if he can put together an acceptable unit containing not more than approximately 320 acres.

Fourth, that the proposed amendment operate prospectively only and to the extent of any conflict therewith; all standard and non-standard units heretofore recognized or established by the Commission be recognized as exceptions thereto. Now, the desirability of that,

I don't think requires any comment.

We feel that this is a problem that can be handled in a number of ways. We think it could be handled by an amendment of Rule 1 (a), or by an addition of a new Rule 1 (c); as the order now reads, 1 (b) is devoted to administrative approval of non-standard units, which might consist of considerable less than a legal half section, and, of course, those administrative approvals obtained upon a proper notice and waivers from the offset operators -- if the Commission sets up a method for administratively approving these short half sections, we do not think it necessary to have the notice of waiver required of Section (b), otherwise, there would be no point in making any change at all; (b) would cover the situation.

Mr. Kitts, in his statement, has pointed out several problems and has listed views of the members of the industry on those problems, and we would like to express ourselves as to some of them. One of them being the definition of a legal half section. I think, basically, our problem is, of course, the definition of a standard gas proration unit.

I realize that in arriving at a satisfactory definition, it may be necessary to define certain other terms. If, as Mr. Kitts has stated, the term is not a word of art, and cannot be found in books or otherwise, I think it is appropriate that the Commission find what it means.

I think, for the Commission's purpose, or all practical purposes, it might define a legal half section as a half section of land which is a legal subdivision of the United States Public Land Survey, containing two quarter sections or lots equivalent thereto.

Now, just as a practical matter, I think the Commission can take

notice that logically there is two half sections in each section, and where there is a half section containing two quarter sections of 160 acres, no one would doubt that you have a legal half section; whatever acreage is in the rest of the section, I think, is the other half, and I think that as a practical matter, the Commission can so designate in its order.

Now, there is a problem of a modification resulting in the drilling of unnecessary wells. Let me point out that under the present rules, it is possible to drill probably as many unnecessary wells through a slightly different procedure under Section (b). The crux of the problem here, I think, is the administrative burden involved describing whether you want to have a notice, a hearing in every one of these short section cases. I don't think there is any greater risk involved whether the Commission amends the present rule or not, upon obtaining the necessary waivers an operator can still go in and drill on something less than 320 acres. I think, also, as a practical matter, you have gotten down to a question of average well density for the field.

If certain sections contain less than 640 acres, the question arises as to whether you are going to permit two wells on that section or one. In some instances the finding of the Commission is that one well will drain 320 acres; by putting two wells on a section containing 540 acres, the average well density would be in the neighborhood of 270 acres, which would be somewhat under the 320 acre density; if you permit only one well on some of them, the density would be in the neighborhood of one well to 540 acres.

This, admittedly, an exceptional situation, and it is a matter of which way the Commission turns in permitting the most reasonable

situation from the ideal development of 320 acre pools.

Now, as to the problems that arise in connection with communitization. It has, I realize, been suggested to this Commission at various times that its power to compulsorily pool is limited to standard units; there has also been the view extended that it would apply to any unit established by the Commission. Without expressing an opinion on that point, which I think undoubtedly requires some further study, I would like to point out that if these short sections are recognized as standard units and they are separately owned tracts within the 200 acres, they have been established to the point at least that an application can be made for compulsory pooling.

As it stands now, the only standard unit which you could compulsorily pool without a further establishment of the units is a half section containing not more than 324 acres and not less than 316 acres. We feel that we have a matter of some concern to the Commission; we don't know whether they intend to continue the case or readvertise, but in the event that any further notice is given in the matter, we would suggest that it is a very desirable feature, if not necessary, that the new notice contain the proposed text of the amendment.

In other words, its exact text be set out. That would not only give exact notice of what the Commission is supposed to do, but give the operators a chance to study it and give recommendations they have. We feel, apart from any necessity, that that would be a very desirable practice in this particular situation.

MR. MACEY: Anyone else have a statement to make in this case? I think, in view of the statements made by Mr. Kitts and Mr. Woodward, we probably should dismiss the case 1002 and take up the

question of whether we readvertise it later and let it go at that.

Personally, we didn't realize, when we were suggesting that, that we were getting into quite the problem that is involved. It has been solely to ease the operator's administrative burden and it is not much effort on our part to take care of things like this.

Do you have anything further?

MR. KITTS: No, that is all.

MR. MACEY: If there is nothing further in case 1002, we will dismiss the case.

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STATE OF NEW MEXICO)
ss
COUNTY OF BERNALILLO)

I, THURMAN J. MOODY, Court Reporter, do hereby certify that the above and foregoing Transcript of Proceedings had before the New Mexico Oil Conservation Commission is a true and correct transcript to the best of my knowledge, skill and ability.

Thurman J. Moody
Court Reporter.