

SOUTHERN UNION GAS COMPANY

BURT BUILDING
DALLAS 1, TEXAS

LEGAL DEPARTMENT

WILLIS L. LEA, JR.
GENERAL ATTORNEY

A. S. GRENIER
MILLARD F. CARR
JACK HERTZ
WM. S. JAMESON
JAS. R. WETHERBEE

June 26, 1958

AIR MAIL

Mr. A. L. Porter, Jr., Secretary
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Sir:

Enclosed herewith for filing with the Commission are four copies of an application of Southern Union Gas Company for a rehearing with respect to Order No. R-1193, entered by the Commission in Case No. 1439 on June 10, 1958.

Yours very truly,



ASG/mg

Enc.

cc: Mr. Jason W. Kellahin/w-enc.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

·IN THE MATTER OF THE APPLICATION OF)
THE OIL CONSERVATION COMMISSION UPON)
ITS OWN MOTION FOR AN ORDER INSTITUT-)
ING GAS PRORATIONING AND PROMULGATING)
RULES AND REGULATIONS FOR THE TAPACITO-)
PICTURED CLIFFS GAS POOL IN RIO ARRIBA)
COUNTY, NEW MEXICO)

CASE NO. 1439
Order No. R-1193

APPLICATION FOR REHEARING

Comes now Southern Union Gas Company, one of the parties of record in the above entitled and numbered case (herein referred to as "Applicant"), and hereby applies for a rehearing therein. In support of such request for rehearing Applicant respectfully states that the New Mexico Oil Conservation Commission, in entering its Order No. R-1193 dated June 10, 1958, erred in the various respects hereinafter set forth.

1.

Said order is erroneous and contrary to the evidence in that the finding is made therein (incorporated by reference to finding No. 3 of Order No. R-794-E) that the Tapacito-Pictured Cliffs Gas Pool cannot be efficiently drained and developed on a 320-acre spacing pattern, whereas the evidence included in the record of this proceeding clearly indicates that throughout the great majority of the area of said pool, as defined in Exhibit "A" to Order No. R-1193, a well will efficiently drain a tract of substantially more than 320 acres.

The only portion of the pool in which it was indicated by the evidence that a well might not be able to drain efficiently at least as much as 320 acres consists of a relatively minor area along the pool's outer fringes. It thus is apparent that the Commission, in making its finding that a well in the Tapacito Pool cannot efficiently drain a 320-acre tract, has failed to give consideration to conditions as they exist on the average in the pool as a whole and has given consideration instead only to conditions prevailing in the fringe areas just mentioned. The evidence introduced indicates that these fringe areas, besides representing only a small fraction of the pool's total acreage, contain an even smaller fraction of its total recoverable gas reserves. Indeed, the testimony is uncontradicted that hardly any of the wells drilled in the fringe area to date are capable of producing gas in sufficient quantities

to pay for the cost of their drilling within a reasonable period of time. Plainly, such areas as these cannot provide a valid criterion for an order covering and affecting the pool's entire area.

The statutes of New Mexico nowhere require or even intimate that the Commission, in fixing the size of proration units for a gas pool, may validly give consideration only to the least productive portions thereof. In no gas pool will all of the wells ever be wholly identical either with respect to their productive capacities or the areas which they can efficiently and economically drain. The characteristics of an average well in a pool plainly are entitled to greater consideration than those of the few wells with the very poorest productive capacity. It is respectfully submitted that Order No. R-1193, insofar as it disregards the drainage capabilities of the wells constituting the overwhelming preponderance of the commercially productive wells in the pool, is arbitrary, capricious, unsupported by the evidence and, therefore, invalid and void.

2.

Said order is contrary to the evidence and invalid in that the finding is made therein (incorporated by reference to finding No. 3 of Order No. R-794-E) that establishment of a 320-acre spacing pattern in the Tapacito-Pictured Cliffs Gas Pool would appreciably reduce the ultimate recovery from the pool as a result of the drilling of too few wells, thereby causing underground waste. The evidence introduced clearly indicates that, even though the Commission's finding might possibly be correct if applied only to the minor fringe areas where productive and drainage conditions are the poorest, 160-acre spacing will not produce materially more gas than 320-acre spacing in the case of the great majority of the pool's total area. In this connection, the evidence indicates that in the central and most representative portion of the pool, the additional volumes of gas which could be produced from the drilling of two wells instead of one on a 320-acre tract would be substantially less in value than the probable cost of drilling the second well.

As indicated by Section 65-3-14(b) of the New Mexico Statutes Annotated, 1953, prevention of reduced recoveries which might result from the drilling of too few wells is merely one of numerous factors which the Commission is required to consider in determining the proper size of proration unit for any particular pool. Also required to be considered under the provisions of Sec-

tion 65-3-14(b) are economic losses caused by the drilling of unnecessary wells, the proper protection of correlative rights, and the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells.

If 160-acre proration units are established in the Tapacito-Pictured Cliffs Gas Pool, it is clear that tremendous economic loss will result since, as indicated by the testimony, at least 50 additional wells at a cost of \$40,000 each, or a total cost of approximately \$2,000,000, will be needed in order for the pool to be fully developed on a 160-acre spacing pattern. It is no answer to say that no operator is required to drill more than one well per 320 acres unless he so desires. If any of the operators offsetting him drills on a 160-acre basis, or if a sufficient number of wells are drilled in the pool on a 160-acre spacing pattern to have a material adverse effect on his own allowables, he is presented with but two choices: either he can refrain from drilling the extra well or wells needed to prevent his acreage from being drained and to give him his fair share of the pool's total allowable, or he can stave off further injury to his correlative rights by drilling a well or wells which in most portions of the pool will not add sufficiently to his total ultimate recovery of gas to pay for the cost of their drilling. Plainly, also, if in self-protection the operator elects to follow the essentially wasteful course of doubling the number of wells on his land, a substantial augmentation of risks of the type contemplated by Section 65-3-14(b) will be unavoidable.

For the reasons stated above, it is respectfully submitted that, in addition to there being no proper foundation in the evidence for the Commission's finding that establishment of 320-acre spacing pattern would appreciably reduce the ultimate recovery of gas from the pool and thereby cause underground waste, the Commission's order, insofar as it purports to establish 160-acre proration units for the entire pool, is invalid and void because it fails to give proper recognition to principles of conservation which the Commission by law is required to consider and observe.

3.

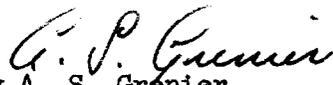
Said order is unsupported by the evidence in that the finding is made therein (incorporated by reference to finding No. 4 of Order No. R-794-E) that the Tapacito-Pictured Cliffs Gas Pool can be efficiently and economically drained on a 160-acre spacing pattern and that such a pattern should

be established for said pool. No evidence was adduced at the hearing tending to indicate that any significant portion of the pool could be efficiently and economically drained and developed on a 160-acre spacing pattern which could not also be so drained and developed on a 320-acre basis. In the absence of such evidence it is clear that the Commission's establishment of 160-acre proration units for the entire pool is arbitrary, invalid and void.

WHEREFORE, Applicant prays that this application for rehearing be granted for the purpose of reconsidering Order No. R-1193, and that after notice as required by law, and upon rehearing, the Commission modify such order so as to prescribe 320 acres as the standard proration unit for the entire Tapacito-Pictured Cliffs Gas Pool or for such portion of the pool as the evidence indicates can be efficiently and economically drained and developed by one well per 320-acre tract.

Respectfully submitted,

SOUTHERN UNION GAS COMPANY


By A. S. Grenier
A. S. Grenier, Attorney

June 26, 1958