

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION COMMISSION OF  
NEW MEXICO ON ITS OWN MOTION FOR THE  
PURPOSE OF CONSIDERING THE ESTABLISHMENT  
OF AN ADMINISTRATIVE PROCEDURE FOR EXEMPTING  
JUSTIFIED INFILL GAS WELLS FROM THE PROVISIONS  
OF SECTION 6 OF THE NATURAL GAS PRICING ACT.

BEFORE EXAMINER STODOLSKA

Oil Conservation Division

GCNM Exhibit No. 1

Case No. 9703

CASE NO. 5900

Order No. R-5436

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 19, 1977, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 8th day of June, 1977, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the 33rd Legislature of the State of New Mexico passed the Natural Gas Pricing Act (being Laws 1977, Chapter 73).
- (3) That said Act was signed into law and became effective on March 18, 1977.
- (4) That said Act controls the price producers may charge for gas produced from wells, the drilling or first intrastate sale of which commenced prior to January 1, 1975.
- (5) That Section 6 of the Act reads in its entirety as follows:

"Section 6. EXCLUSIONS.--The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas in intrastate commerce from a well the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the

Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir unless the oil conservation commission exempts such well upon a finding that such new well was justified for reasons other than avoiding the application of the Natural Gas Pricing Act."

(6) That when a well on an established proration unit is lost due to irreparable mechanical failure of the casing, tubing, packer, cement, or down-hole equipment; damage to the producing formation such as to render the well non-productible or non-commercial; or when production has declined to non-commercial levels, the drilling of a replacement well on such proration unit to re-establish production or commercial production thereon is a justifiable reason for drilling such well.

(7) That if a Commission order has been issued finding that "infill" drilling in a particular gas pool will increase the recoverable reserves under the various proration units in such pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, then drilling of infill wells in such pool is justifiable.

(8) That because of the nature of many of the producing formations in the State, an operator may not be able to protect an established gas proration unit from uncompensated drainage or protect his correlative rights unless he is permitted to drill an additional well at a more geologically advantageous location within such proration unit.

(9) That the drilling of an infill well to protect a gas proration unit from drainage or to protect correlative rights, because of geological reasons, is justifiable.

(10) That some replacement wells or infill wells may have been commenced on established gas proration units after January 1, 1975, and before the commencement of the First Session of the 33rd New Mexico Legislature on January 18, 1977.

(11) That such replacement wells or infill wells, having been commenced prior to the introduction of the Natural Gas Pricing Act, or its predecessors in said legislature, could not have been drilled to avoid the pricing provisions of said Act.

(12) That an administrative procedure should be established by which replacement wells and infill wells, as set out in Findings No. (6) through (10) above, drilled on or after January 1, 1975, within established proration units which were producing or capable of producing natural gas from the same reservoir prior to January 1, 1975, may be exempted from the provisions of Section 6 of said Act.

(13) That such administrative procedure should require that any existing well to be replaced be plugged and abandoned within 60 days following the connection of the replacement well.

(14) That such administrative procedure should be applicable to no more than one infill well on any gas proration unit.

(15) That such administrative procedure should not result in waste nor violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That an administrative procedure with Special Rules and Regulations, as set out below, is hereby established whereby gas wells drilled on or after January 1, 1975, within established proration units which were producing or capable of producing natural gas from the same reservoir prior to January 1, 1975, may be exempted from the provisions of Section 6 of the Natural Gas Pricing Act (being Laws of 1977, Chapter 73).

SPECIAL RULES AND REGULATIONS  
NATURAL GAS PRICING ACT SECTION 6  
ADMINISTRATIVE EXEMPTION PROCEDURE

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure, the following definitions are adopted:

- (a) A Replacement Well is defined as a well drilled on an established gas proration unit as a substitute for a former producing well, thereon, which well has been lost for effective or commercial production purposes.
- (b) An Infill Well is defined as an additional producing well completed on an established gas proration unit.

B. JUSTIFICATION OF WELLS

RULE 2. The Secretary-Director of the Commission may find that a replacement well is justified for reasons other than avoiding the pricing provisions of the Natural Gas Pricing Act upon a showing by the operator that:

- (a) The well was necessary to replace a well lost due to economically irreparable down-hole mechanical failure or formation damage, or that;
- (b) the well was necessary to replace a well producing at non-commercial rates, or that;
- (c) the drilling of the well commenced prior to January 18, 1977.

RULE 3. The Secretary-Director of the Commission may find that an infill well is justified for reasons other than avoiding the pricing provisions of the Natural Gas Pricing Act upon a showing by the operator that:

- (a) the well was drilled in a pool where the Commission, after notice and hearing, has issued an order finding that infill drilling in such pool will increase the recoverable reserves under the various proration units in such pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, or that;
- (b) the well is necessary to protect the proration unit from uncompensated drainage or to protect correlative rights, or that;
- (c) the drilling of the well commenced prior to January 18, 1977.

RULE 4. The Secretary-Director may set any application for well justification for hearing before the Commission or one of its examiners.

C. FILING REQUIREMENTS

RULE 5. Each applicant for well justification under this procedure shall file a plat of the area showing the proration unit in question, the location of all wells thereon, and the ownership and location of all wells on direct or diagonally offsetting proration units.

RULE 6. In addition to the data required under Rule 5, the applicant for justification of a replacement well shall supply the following information:

- (a) A copy of the AFE (Authorization for Expenditure) or a complete tabulation of actual well costs for the well for which justification is sought;
- (b) If the replacement well results from mechanical failure or formation damage, the application shall contain a complete description of the nature and cause of such failure or damage, how the same was determined, a history of attempted repair work and results, an evaluation of the potential for success of any additional repairs, and a tabulation of well repair costs both expended and projected.
- (c) If the replacement well results from non-commercial production from an existing well on the proration unit, the application shall contain a monthly production summary for such well for the last 24 months of production, wellhead or bottom hole pressures, and a tabulation of monthly gross revenues, operating expenses, and royalties and taxes paid during the last 24 months of production.
- (d) Proof that the well to be replaced has been plugged and abandoned or certification that the same will be accomplished within 60 days following the date of connection of the replacement well shall accompany each application. Failure to accomplish such plugging within the specified time will result in rescission of justification.

RULE 7. In addition to the data required under Rule 5, the applicant for justification of an infill well shall supply the following information:

- (a) If the infill well is in a pool where the Commission, after notice and hearing, has found that infill drilling will substantially increase recoverable reserves under the various proration units in the pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, the applicant shall cite the number of the order containing such findings.
- (b) If the infill well is drilled to protect the proration unit from drainage or to protect correlative rights, the applicant shall submit a report fully describing the causative conditions, geologic maps, logs, cross-sections, pressure data, or other information supporting the application.
- (c) A certification that the existing well on the proration unit shall not have its ability to produce into the pipeline restricted in any manner shall accompany each application for justification of an infill well. Any such restriction shall be cause for rescission of justification.

RULE 8. In addition to the data required under Rule 5, the applicant for justification of a replacement or infill well the drilling or first intrastate sale of which commenced between January 1, 1975, and January 18, 1977, shall furnish certified documentation sufficient to prove the date such drilling or sale commenced.

RULE 9. Applications for well justification shall be filed in duplicate with one copy to be forwarded to the Santa Fe office of the Commission and the second to the appropriate Commission district office.

#### D. LIMITATIONS

RULE 10. No more than one well on any proration unit may be approved as a justified infill well.

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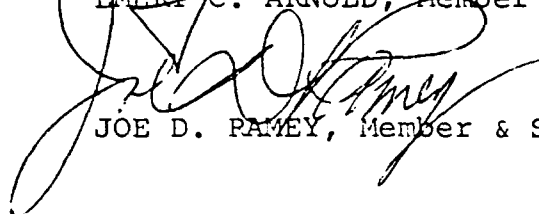
(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
PHIL R. LUCERO, Chairman

  
EMERY C. ARNOLD, Member

  
JOE D. RAMEY, Member & Secretary

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