

(G-OIL PRORATION AND ALLOCATION - Cont'd.)

application. The Division Director shall wait at least ten (10) days after receipt before approving any such application, and shall approve the same only in absence of objection from any operator or interested party, or in his discretion. In the event the Director for any reason fails to approve such application, the Division after notice will hear and determine the matter.

II. Monthly Tolerance.

(As Amended by Order No. R-552, November 22, 1954.) No unit shall produce during any one proration period more than the allowable production of such unit for the proration period plus a tolerance of not to exceed five (5) days allowable production. This permissive tolerance of overproduction from a unit shall be subject to all other provisions of Rule 502 and particularly to the provisions of Paragraph IV. This permissive tolerance of overproduction from a unit shall be adjusted or balanced by subsequent corresponding underproduction from the same unit. Overproduction within the permitted tolerance shall be considered as oil produced against the allowable production assigned to the unit for the proration period during which such overproduction is adjusted or balanced by underproduction.

III. Production in Excess of Monthly Allowable, Plus Tolerance.

Oil produced from any unit in excess of the assigned monthly allowable plus the permissive proration period tolerance shall be "illegal oil" as defined in the Oil and Gas Act, unless (a) such excess oil be produced as a result of mistake or error, (b) mechanical failure beyond the immediate control of the operator, or, (c) resulting from essential tests of the unit within the purview of Oil Conservation Rules. Whenever production from any unit for a proration period is in excess of the assigned allowable, plus the permitted tolerance authorized herein and the cause of such excess reasonably falls within (a), (b) or (c) of this paragraph, the producer or operator shall briefly set forth the cause of such excess production together with a proposed plan of adjustment thereof, upon all copies of the operator's monthly report (Form C-115) for the month in which such excess production occurs. Such excess production shall be considered as oil produced against the allowable assigned to the unit for the following proration period, and it may be transported from the lease tanks only as and when the unit accrues daily allowable to offset such excess production.

IV. General.

The tolerance permitted on a daily or monthly basis as provided hereinabove shall not be construed to increase the allowable of a producing unit or to grant authority to any operator to market or to any transporter to transport any quantity of oil in excess of the unit's allowable.

The possession of a quantity of oil in lease storage at the end of any proration period in excess of five days allowable plus any rerun allowable oil shall be construed as a violation of this Rule, unless reported in the manner and within the time provided for filing C-115 provided by Section III above.

V. Storage Records.

All producers and all transporters of oil are required to maintain adequate records showing unrun allowable oil in storage at the end of each proration period. Such storage oil shall be the amount of oil in tanks from which oil is measured and delivered to the transporter.

RULE 503. AUTHORIZATION FOR PRODUCTION OF OIL (As Amended by Order No. R-39, December 15, 1950; Order No. R-43, December 29, 1950; Order No. R-98-A, July 1, 1952; Order No. R-354, August 28, 1953; Order No. R-552, November 22, 1954; Rules Revision, July 1, 1965; Order No. R-3933, June 1, 1970; and Order No. R-4348, September 1, 1972.)

(a) (As Adopted in Order No. R-4348, September 1, 1972.) Except as provided below, the daily top unit allowable for any oil pool shall be 100 percent of the depth bracket allowable for the pool determined pursuant to the provisions of Rule 505.

(b) (As Adopted in Order No. R-4348, September 1, 1972.) Every other month the Division shall, within five days prior to the end of the month, make a determination as to the likelihood of the total producing capacity of all oil wells in the state being in excess of anticipated reasonable market demand for crude petroleum oil from this state.

If the Division determines that such capacity may be in excess of the anticipated reasonable market demand, and that a market demand factor of less than 100 percent may be necessary to prevent waste, then it shall immediately institute proper proceedings for a hearing to be held before the 20th day of the following month to determine actual reasonable market demand for the next two succeeding months.

(c) (As Adopted in Order No. R-4348, September 1, 1972.) At said hearing the Division shall consider all evidence of market demand for crude petroleum oil from this state, and if it is determined that the market demand percentage factor should be less than 100 percent, an order shall be issued establishing the market demand factor for the ensuing two-month period and setting a date for the next market demand hearing.

(d) (As Adopted in Order No. R-4348, September 1, 1972.) The market demand factor thus established shall be multiplied by the applicable depth bracket allowable for each well and each pool to determine its top unit allowable. Any fraction of a barrel shall be regarded as a full barrel in determining top unit allowable.

Upon initial establishment of a market demand factor, and from time to time thereafter, the Division shall issue a proration schedule authorizing the production of oil from the various proration units in the various pools in the state. Any well completed or recompleted after the issuance of said schedule and for which Form C-104 has been approved, shall, by supplement to the schedule, be authorized a daily allowable equal to the ability of the well to produce up to and including the top unit allowable in effect. The allowable for such well shall become effective at 7:00 a. m. on the date of completion, provided Form C-104 is submitted and approved within ten days following date of completion; otherwise the allowable shall be effective on the date the C-104 is approved. (As provided in Rule 1104, "date of completion" is the date when new oil is delivered into the stock tanks.)

(e) (As Adopted in Order No. R-4348, September 1, 1972.) A non-marginal unit is defined as being a proration unit which is capable of producing top unit allowable for the pool in which it is located and to which has been assigned a top unit allowable. Any such non-marginal unit shall be permitted to produce said top unit allowable without waste and subject to the provisions of Rules 301, 502, and 506, and all other applicable rules. Top unit allowable will be assigned only to those units which by tests have demonstrated their ability to produce top unit allowable.

A marginal unit is defined as being a proration unit which is incapable of producing top unit allowable for the pool in which it is located as evidenced by well test, production history, or other report or form filed by the operator with the Division. Any such marginal unit shall be permitted to produce any amount of oil which it is capable of producing without waste up to top unit allowable for the pool, subject to the provisions of Rules 301, 502, and 506, and all other applicable rules, provided that an allowable has been assigned to the unit to authorize such production.

A penalized unit is defined as being a proration unit to which, because of an excessive gas-oil ratio, an allowable has been assigned which is less than top unit allowable for the pool and also less than the ability of the well(s) on the unit to produce. Such penalized allowable shall be determined in accordance with the procedure set forth in Rule 506. In calculating a penalized allowable, any fraction of a barrel shall be regarded as a full barrel.

(f) (As Adopted in Order No. R-4348, September 1, 1972.) Any change in the allowable assigned to any unit-non-marginal, marginal, or penalized, shall be accomplished through issuance of a new proration schedule or by supplement to a previously issued proration schedule. A periodic tabulation of all supplements to the current proration schedule shall be made and distributed by the Division.

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(g) (As Adopted in Order No. R-4348, September 1, 1972.) The provisions of Rule 104(h) et seq. shall be adhered to in fixing top unit allowables.

(h) (As Adopted in Order No. R-4348, September 1, 1972.) In the event it becomes necessary for any transporter of crude petroleum to resort to pipeline proration in New Mexico, such transporter shall, as soon as possible and not later than 24 hours after the effective date thereof, notify the Division of its decision to so prorate; upon receipt of such notice from such transporter, the Division may take such emergency action, as may be deemed proper, and/or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority, to preserve and protect correlative rights.

In case of pipeline proration any operator affected thereby has the right to make application to the Division for authorization to have any shortage or underproduction resulting therefrom included in subsequent proration schedules. Such applications shall be made upon a form hereby authorized to be prescribed by the Division and filed therewith within thirty days after the close of the first proration period in which such pipeline proration shortage occurred, and such authorization shall be limited in any event to wells capable of producing the daily top unit allowable for such period.

In approving any such application the Division shall determine the period of time during which such shortage shall be made up without injury to the well or pool, and shall include the same in the regularly approved proration schedules following the conclusion of pipeline proration.

RULE 504. AUTHORIZATION FOR PRODUCTION OF OIL WHILE COMPLETING, RECOMPLETING, OR TESTING AN OIL WELL (As Amended by Order No. R-98-A, July 1, 1952; Order No. R-2761, January 1, 1965.)

(a) In the event an operator does not have sufficient lease storage to hold oil produced from a well during the process of its drilling, completing, recompleting, or testing, the operator of said well shall be permitted to produce and sell from said well an amount of oil as may be necessary to drill, complete, re-complete, or test said well; provided however, that the operator of said well shall file with the Division a written application stating the circumstances at said well and setting forth therein the estimated amount of oil to be produced during the aforementioned process of operations, and provided further that said application is approved by the Division. Oil produced during the process of drilling, completion or recompletion, or testing a well shall be charged against the allowable production of said well.

(b) (As Amended by Order No. R-2761, January 1, 1965.) No well shall be placed on the proration schedule until Form C-104 has been filed with and approved by the Division.

RULE 505. DEPTH BRACKET ALLOWABLES (As Amended by Order No. R-98-A, July 1, 1952; Order No. R-160, June 12, 1952; Order No. R-1756, August 23, 1960; Revised by O.C.C. June 1, 1968; and Amended by Order No. R-3933, June 1, 1970; and Order No. R-4348, September 1, 1972.)

(a) (As Adopted in Order No. R-4348, September 1, 1972.) Subject to the market demand percentage factor determined pursuant to the provisions of Rule 503, the daily oil allowable for each oil pool in the state shall be equal to the appropriate depth bracket allowable below. The depth of the casing shoe or the top perforation in the casing, whichever is higher, in the first well completed in the pool shall determine the depth classification for the pool. Daily oil allowables for each of the several ranges of depth and spacing patterns shall be as follows:

POOL DEPTH RANGE	DEPTH BRACKET ALLOWABLE		
	40 Acres	80 Acres	160 Acres
0 to 4,999 feet	80 bbls.	160 bbls.	- -
5,000 to 5,999 feet	107 bbls.	187 bbls.	347 bbls.
6,000 to 6,999 feet	142 bbls.	222 bbls.	382 bbls.
7,000 to 7,999 feet	187 bbls.	267 bbls.	427 bbls.
8,000 to 8,999 feet	230 bbls.	310 bbls.	470 bbls.
9,000 to 9,999 feet	275 bbls.	355 bbls.	515 bbls.
10,000 to 10,999 feet	320 bbls.	400 bbls.	560 bbls.
11,000 to 11,999 feet	365 bbls.	445 bbls.	605 bbls.
12,000 to 12,999 feet	410 bbls.	490 bbls.	650 bbls.
13,000 to 13,999 feet	455 bbls.	535 bbls.	695 bbls.
14,000 to 14,999 feet	500 bbls.	580 bbls.	740 bbls.
15,000 to 15,999 feet	545 bbls.	625 bbls.	785 bbls.
16,000 to 16,999 feet	590 bbls.	670 bbls.	830 bbls.
17,000 to 17,999 feet	635 bbls.	715 bbls.	875 bbls.

(b) (As Adopted in Order No. R-4348, September 1, 1972.) The 40-acre depth bracket allowables shall apply to all undesignated wells not governed by special pool rules and to all pools developed on the normal 40-acre statewide spacing unit.

(c) (As Adopted in Order No. R-4348, September 1, 1972.) The 80-acre and 160-acre depth bracket allowables shall apply to wells governed by applicable special pool rules promulgated by the Division as an exception to the normal 40-acre statewide spacing unit.

(d) (As Adopted in Order No. R-4348, September 1, 1972.) The Division may, where the same is deemed advisable, assign to a given pool a special depth bracket allowable at variance to the depth bracket allowable normally assigned to a pool of similar depth and spacing. Such special allowable may be more or less than the regular depth bracket allowable and shall be assigned only after notice and hearing.

In assigning a lesser than regular depth bracket allowable, the Division may consider, among other pertinent factors, reservoir damage, casinghead gas production and disposition, water production and disposition, transportation facilities, the prevention of surface or underground waste, and the protection of correlative rights.

Assignment of a greater than regular depth bracket allowable shall be made only after sufficient reservoir information is available to ensure that said allowable can be produced without damage to the reservoir and without causing surface or underground waste. The Division shall also consider the availability of crude oil transportation and marketing facilities, casinghead gas transportation, processing, and marketing facilities, water disposal facilities, the protection of correlative rights, and other pertinent factors.

RULE 506. GAS-OIL RATIO LIMITATION (As Amended by Order No. R-98-A, July 1, 1952; Revised by O.C.C. June 1, 1968, and Amended by Order No. R-4159-A, November 1, 1971.)

(a) In allocated pools containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit oil allowable for the pool. In the event the Division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2000 cubic feet of gas for each

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barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule.

(b) (Revised by O.C.C. June 1, 1968) Unless heretofore or hereafter specifically exempted by order of the Division issued after hearing, a gas-oil ratio limitation shall be placed on all allocated oil pools, and all proration units having a gas-oil ratio exceeding the limit for the pool shall be penalized in accordance with the following formula:

(1) Any proration unit which, on the basis of the latest official gas-oil ratio test, has a gas-oil ratio in excess of the limiting gas-oil ratio for the pool in which it is located shall be permitted to produce daily that number of barrels of oil which shall be determined by multiplying the current top unit allowable by a fraction, the numerator of which shall be the limiting gas-oil ratio for the pool and the denominator of which shall be the official gas-oil ratio test of the well.

(2) Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool.

(3) A marginal unit shall be permitted to produce the same volume of gas which it would be permitted to produce if it were a non-marginal unit.

(4) (Deleted by Order No. R-4159-A, November 1, 1971.) All gas produced with the current oil allowable determined in accordance with this rule shall be deemed to have been lawfully produced.

(c) All proration units to which gas-oil ratio adjustments are applied shall be so indicated in the proration schedule with adjusted allowables stated.

(d) In cases of new pools, the limit shall be 2000 cubic feet per barrel until such time as changed by order of the Division issued after a hearing. Upon petition and after notice and hearing according to law, the Division will determine or redetermine the specific gas-oil ratio limit which is applicable to a particular allocated oil pool.

RULE 507. UNITIZED AREAS (As Amended by Order No. R-98-A, July 1, 1952.)

After petition and notice and hearing, the Division may grant approval for the combining of contiguous developed proration units into a unitized area.

RULE 508. RECOVERED LOAD OIL (As Added by Order No. R-422, April 15, 1954.)

Recovered load oil may be run from the lease on which it is recovered, provided Division approval is obtained by means of Form C-126. Form C-126 must be filed in quadruplicate with the appropriate District Office of the Division. Upon approval, one copy will be returned to the operator and one copy will be sent to the designated transporter as authority to transport the oil.

This rule applies only to oil which has been obtained from a source other than the lease on which it is used.

Recovered load oil as used herein is any oil or liquid hydrocarbon which has been used in any operation in an oil or gas well, and which has been recovered as a merchantable product.

RULE 509. OIL DISCOVERY ALLOWABLE (As Added by Order No. R-3105, September 1, 1966, and Amended by Order No. R-3380, May 1, 1968.)

In addition to the normally assigned allowable, an oil discovery allowable may be assigned to a well completed as a bona fide discovery well in a new common source of supply. Said oil discovery allowable shall be in the amount of 5 barrels for each foot of depth of said well from the surface of the ground to the top of the perforations in the new pool or the depth of the casing shoe, whichever is higher. In counties where there is no other current oil production, and in any county when the discovery is the deepest oil production in the county, the oil discovery allowable shall be 10 barrels per foot of depth.

(Deleted by Order No. R-3380, May 1, 1968) A multiply completed well shall be eligible to receive an oil discovery allowable for each new oil pool discovered, provided that the discovery allowable for the uppermost pool shall be based on the depth from the surface of the ground to the top of the perforations, and the discovery allowable for each lower pool shall be based on the distance from the bottom of the perforations in the next higher newly discovered oil pool to the top of the perforations in said lower pool or to the casing shoe, if applicable.

(Deleted by Order No. R-3380, May 1, 1968) Oil discoveries made in old producing wells drilled deeper or previously abandoned dry holes shall receive discovery allowables in accordance with the above, except that the depth measurement shall be from the point actual formation drilling was commenced rather than from the surface of the ground. However, any abandoned dry hole which is re-entered and drilled deeper and a discovery allowable made within one year from the date of abandonment, may receive a discovery allowable based on the depth as measured from the surface of the ground.

Date of discovery to determine the well which should properly receive the oil discovery allowable for any new pool shall be the date the well is completed and new oil is run into stock tanks, provided however, any operator drilling through and discovering a new oil pool in the course of drilling to a lower horizon may file an affidavit of such discovery within seven days after drill stem tests were made of said pool, accompanying said affidavit with all available pool data. If, prior to completion of said well, another operator claims discovery of a similar pool and there are reasonable grounds to believe the pools are one and the same, no discovery allowable will be assigned to either well until after the initial well for which the affidavit was filed has been completed. If at that time the operator of the initial well makes formal application for the discovery allowable in said pool, it will be determined after hearing which well shall receive the discovery allowable.

To obtain an oil discovery allowable, the owner of a discovery well shall file two copies of Division Form C-109, Application for Discovery Allowable and Creation of a New Pool, with the appropriate District Office of the Division and one with the Santa Fe office. Each copy of said form shall be accompanied by the following:

1. A map depicting all wells within a two-mile radius of the discovery well. All producing oil and gas wells and the formations from which they are producing or have produced are to be clearly shown as well as all dry holes and the depths to which they were drilled. Maps shall be on a scale one inch equals 1000 feet and shall also indicate the names of all lessees of record in the depicted area.

2. A complete electrical log of the subject well with the tops and bottoms of producing formations in the subject well and in nearby wells identified thereon.

3. If application is based on horizontal separation, a subsurface structural map of the producing formation(s) for which the discovery allowable is sought, showing seismic or geological interpretation of the subject structure and any troughs, faults, pinch-outs, etc., which separate the subject well from nearby wells producing from the same formation(s).

4. A geological cross-section prepared from electrical logs of the subject well and nearby wells establishing horizontal as well as vertical separation from other wells depicted on the plat which are producing or have produced from the discovery formation(s).

5. A summary of all available reservoir data including bottom hole pressure data, fluid levels, core analyses, reservoir liquid characteristics and any other pertinent data on the subject reservoir as well as other nearby reservoirs which may help establish whether the subject well is in fact a discovery.

(As Amended by Order No. R-3380, May 1, 1968) If, in the opinion of the Division staff, good cause exists to bring the pool on for hearing as a discovery, and no objection has been received from any other operator, the pool will be placed on the first available hearing docket for inclusion by the staff in its regular pool nomenclature case. If the staff is not in agreement with the applicant's contention that a new pool has been discovered, or if, within ten days after receiving a copy of the

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 9015 Exhibit No. 4
Submitted by Hartman
Hearing Date March 5, 1987