

Casa No.

238

Application, Transcript,
Small Exhibits, Etc.

Case 238 In the matter of the app. - Shell
Pipeline Co. to amend Rule 503 (e) and (f),
for purposes of clarification.

238



SHELL OIL COMPANY

MIDLAND AREA

MAILING ADDRESS
P. O. BOX 1509
MIDLAND, TEXAS

GENERAL OFFICES
PETROLEUM BUILDING
MIDLAND, TEXAS

December 14, 1950

Mr. George Graham
Attorney
Oil Conservation Commission
Santa Fe, New Mexico

Dear George:

On my last trip to Santa Fe you will recall that I told you that I would write you suggesting a provision that could be placed in the monthly proration Order that would, in my opinion, provide against difficulties that might result from a late issuance of the schedule.

The questions arising by reason of the schedule coming out after the first of the month to which it is applicable could, of course, be handled by an earlier holding of the state-wide hearing such as is contemplated by the hearing on December 22 fixing the dates for the hearings next year. The reaction that I have had from a number of parties as to the proposed dates for next year's hearings is that it would be fine to have the hearings earlier in the month such as proposed, except for one thing. I think it is generally true that the company representatives of a number of the operators in New Mexico also have West Texas under their jurisdiction and it is necessary for them to make both the New Mexico and the Texas state-wide hearings. I know that is true of our Mr. Smith as well as the representatives of several other companies.

The date as proposed for the hearing on the 22nd would fall during the same general period during which the Texas hearings are held, and it is the thought of a number of people that conflicts would inevitably occur between the dates of the two hearings. In such case the folks who are supposed to make both hearings would be able to make only one of them. It is my thought that if possible an effort should be made to avoid such conflict.

As I suggested to you in Santa Fe, the matter could be handled by keeping the New Mexico hearings in the approximate date range of this year and by adding to the State-wide Oil Proration Order a provision to take care of the situation.

Numbered paragraph 3 of the State-wide Oil Proration Order form reads as follows:

"3. A proration schedule shall be prepared in accordance herewith and shall become a part of this Order."

It is my thought that the problem presented could be taken care of by adding to the above quoted sentence the following:

Mr. George Graham
Santa Fe, New Mexico

-2-

December 14, 1950

"Until such time as such schedule is issued and distributors, producers and transporters are authorized, respectively, to produce and transport during the month covered by this Order on the per unit allowable basis set forth in the official proration schedule for the month previous thereto. Upon the issuance and distribution of the official proration schedule for the month covered by this Order, however, production and transportation for such month shall be adjusted to conform for such entire month to such schedule, subject to the rules and regulations of the Commission."

It is my thought that the inclusion of the above provision in the State-wide Order would, in the event of a late schedule, give a written authorization for a procedure that is at this time recognized as proper.

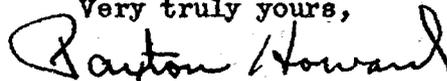
An alternative to the above suggestion would be to incorporate in the rules and regulations of the Commission a rule to the same effect.

At the present time Rule 503(c) provides for the issuance of the schedule. A second paragraph could be added to such subsection (c) which could read as follows:

"Until such time as the official proration schedule for a given month is issued and distributed, producers and transporters are authorized, respectively, to produce and transport during such month on the per unit allowable basis set forth in the official proration schedule for the month previous thereto. Upon the issuance and distribution of the official proration schedule for such given month, however, production and transportation for such given month shall be adjusted to conform for such entire given month to such schedule, subject to the rules and regulations of the Commission."

I am not planning to be present at the hearing on December 22, but I hope that the suggestions herein contained may be of some benefit.

Very truly yours,



Paxton Howard, General Attorney

PH:AW



SHELL PIPE LINE CORPORATION

~~XXXXXXXXXXXXXXXXXXXX~~
Petroleum Building
~~XXXXXXXXXXXXXXXXXXXX~~
Midland, Texas

TELEPHONE "CRATOR 4181"

December 8, 1950

238
Mr. R. R. Spurrier
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Dick:

I have a copy of Don McCormick's letter to you dated December 5 in which he asks me to pass on to you my comment on the proposed Order in Case #238, dealing with the clarification of certain rules.

I feel that Don's paragraph arrangement is better than the one submitted by me in that it will not necessitate a rearrangement of definition rules.

There is, however, a mistake in the proposed Order dealing with the amendment of Definition #56. Under that definition the term "under production" is correctly defined, but the term "under runs" is given the definition applicable to "over runs". The definition of "under runs" as submitted by me was as follows:

"Under runs shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to have run an amount equal to that authorized on the proration schedule."

I think it is apparent that in preparing the Order the definitions have just been confused and that the intent is to include the definition of "under runs" as I have above quoted.

With this change, it is my thought that the amendment of definitions and the proposed change in Rule 503(e) will accomplish the desired purpose.

You will also recall that at the hearing I suggested that it was my understanding that there was some feeling on the part of those preparing the schedule that "back allowable" should not be published in the schedule and that it would considerably simplify the handling of back allowable and the preparation on monthly schedules if "back allowable" could be dropped from the schedule and handled either by a letter or Order of the Commission applicable to each allowance of back allowable.

I did not urge such a change in procedure, but merely brought it up because it was considered in a number of sources as being desirable and,

Mr. R. R. Spurrier
Santa Fe, New Mexico

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December 8, 1950

as a matter of fact, it is my personal opinion that the handling of "back allowable", from the standpoint of preparing the schedule, probably would be simplified if the suggestion were adopted.

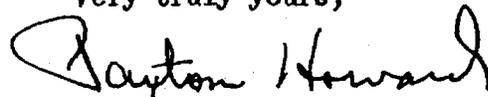
At the hearing I did call attention to the fact, however, that if the proposed procedure on "back allowable" was adopted it would be necessary to change the first sentence of Rule 503(f) to read as follows: (necessary additions underscored).

"All legal and authorized back allowable available for purchase will be published in the monthly proration schedule or shall be authorized by letter or Order of the Commission."

I merely call attention to this in the event that the Commission plans on adopting a new procedure on "back allowable" and desires to incorporate in this Order amending rules a provision to take care of the situation.

I want to thank you and the Commission for your consideration of my proposals and it is my belief that a clarification of the rules as suggested will take care of several questions that have been troublesome.

Very truly yours,



Paxton Howard, General Attorney

PH:AW

cc: Mr. Don G. McCormick
c/o Reese & McCormick
Attorneys at Law
Bujac Building
Carlsbad, New Mexico.

file

GEORGE L. REESE, JR.
DON G. MCCORMICK
S. M. RUTHERFORD, III

REESE AND MCGORMICK
ATTORNEYS AT LAW
BUJAC BUILDING
CARLSBAD, NEW MEXICO

December 5, 1950

238



Mr. R. R. Spurrier
New Mexico Oil Conservation Commission
Post Office Box 871
Santa Fe, New Mexico

Dear Dick:

I have your letter of 4 December 1950. As requested, I have prepared Orders in Cases No. 238, No. 239, and No. 241, and the same are enclosed herewith. Also, I am returning to you the files which you sent with your letter.

As to Case No. 238, I am sending a copy of this proposed Order to Mr. Paxton Howard, with the Shell Pipeline Corporation in Midland, Texas, and by a copy of this letter, I am requesting him to advise you if the proposed Order meets with his approval. If he answers favorably, I suggest you go ahead and sign the order. If he has objections to it, he should so advise you, and we will conclude further about an Order in this case.

Very truly yours,

A handwritten signature in cursive script that reads 'Don G. McCormick'.

DON G. MCCORMICK

DGM/arv
Encls

cc Mr. Paxton Howard
Shell Pipeline Corporation
Midland, Texas

airmail
Spec. del.

December 4, 1950

Case 238
1 - copy of letter from
Patton Howard
2 - mimeo form

Case 239
1 - mimeo app.

Case 241
1 - woman letter

Mr. Don McCormick
Bujac Building
Carlsbad, New Mexico

Dear Don:

Enclosed please find applications in connection with Cases 238,
239 and 241, heard in Santa Fe on November 21, 1950.

Cases 239 and 241 are self-explanatory. In regard to Case 238, the
Commission is favorably impressed with this, and although the record
shows that it was taken under advisement, it has now been determined
that this is OK to go.

Very truly yours,

R. R. Spurrer
Secretary-Director

RRS:bw
encls.

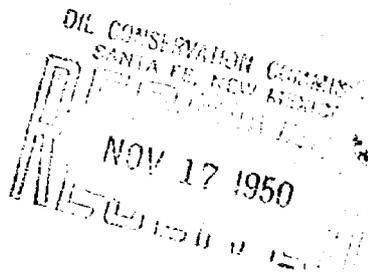
P.S. Please return these enclosures, when you have the
orders written up.

New Mexico
OIL CONSERVATION COMMISSION



GOVERNOR THOMAS J. MABRY
CHAIRMAN
LAND COMMISSIONER GUY SHEPARD
MEMBER
STATE GEOLOGIST R. R. SPURRIER
SECRETARY AND DIRECTOR

P. O. BOX 1545
HOBBS, NEW MEXICO
November 14, 1950



file Case 238

Mr. R. R. Spurrier
New Mexico Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Dear Mr. Spurrier:

Since the matters of current shortage under Rule 503 (e) and back allowable under Rule 503 (f) are coming up for hearing on November 21, I'm transmitting herewith some thoughts on both matters which I think might help to simplify them.

Rule 503 (e) states that "Current oil shortages may be made up or unavoidable overages compensated for during the second proration period next following the proration period in which such shortages occurred." I believe this would be better understood if stated as follows: "Current oil shortages may be made up or unavoidable overages compensated for during the next proration period following the proration period in which the shortages or overages occurred without further authorization by the Commission."

It seems to me that if the transporters would abide strictly by such a regulation it would largely eliminate the necessity for back allowable.

According to Rule 503 (f) all back allowable is to be published in the proration schedule for three consecutive months or until it has been made up. I believe this to be impractical for the following reasons:

1. Back allowable is not a part of the state daily allocation.
2. To list back allowable on the proration schedule for three months would be useless repetition.
3. Production reports are necessarily a month late in reaching this office and it is reasonable to expect that we would still be authorizing back allowable after it had been made up.

To simplify this matter I suggest the following procedure:

Upon receipt of the operator's application we will verify the amount of the shortage by our records and authorize it by letter as legal back allowable. The transporter, of course, in running back allowable will be governed by the regulations as to the rate and time for making

Mr. R. R. Spurrier

- 2 -

November 14, 1950

it up. In my opinion no further authorization should be necessary.

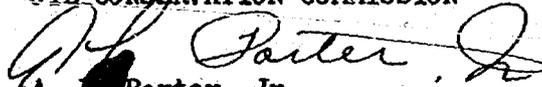
It occurs to me also that the regulations should establish the daily rate at which back allowable should be made up. I believe too that eligibility for back allowable should be limited to top allowable wells and that no well should be granted back allowable if the records indicate an accumulative overage, even though a shortage is shown for the last three months.

*125 708
likely all-inclusive*

I offer these suggestions in the hope that they may be of use to you in formulating revisions of the above mentioned regulations.

Yours very truly,

OIL CONSERVATION COMMISSION



A. Porter, Jr.
Proration Manager

ALP/cd

October 27, 1950

GALLUP INDEPENDENT

Gallup, New Mexico

Re: Notice of Publication
Case 238

Gentlemen:

Please publish the enclosed notice once, immediately. Please proof read the notice carefully and send a copy of the paper carrying such notice to this office.

UPON COMPLETION OF THE PUBLICATION SEND PUBLISHER'S AFFIDAVIT IN DUPLICATE.

For payment, please submit statement in duplicate, and sign and return the enclosed voucher.

PLEASE PUBLISH NOT LATER THAN NOVEMBER 7, 1950.

Very truly yours,

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. R. Spurrier
Secretary-Director

RRS:bw
encl.

October 27, 1950

ROSWELL DISPATCH

Roswell, New Mexico

Re: Notice of Publication
Case 238

Gentlemen:

Please publish the enclosed notice once, immediately. Please proof read the notice carefully and send a copy of the paper carrying such notice to this office.

UPON COMPLETION OF THE PUBLICATION SEND PUBLISHER'S AFFIDAVIT IN DUPLICATE.

For payment, please submit statement in duplicate, and sign and return the enclosed voucher.

PLEASE PUBLISH NOT LATER THAN NOVEMBER 7, 1950.

Very truly yours,

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. R. Spurrier
Secretary-Director

RRS:bw
encl.

October 27, 1950

CARLSBAD CURRENT ARGUS
Carlsbad, New Mexico

Re: Notice of Publication
Cases 238, 241 and 242.

Gentlemen:

Please publish the enclosed notice once, immediately. Please proof read the notice carefully and send a copy of the paper carrying such notice to this office.

UPON COMPLETION OF THE PUBLICATION SEND PUBLISHER'S AFFIDAVIT IN DUPLICATES.

For payment, please submit statement in duplicate, and sign and return the enclosed voucher.

PLEASE PUBLISH NOT LATER THAN NOVEMBER 7, 1950.

Very truly yours,

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. R. Spurrer
Secretary-Director

RRS:hw
encl.

AFFIDAVIT OF PUBLICATION

County of Chaves }
State of New Mexico, }

I, Lynn W. Croissant
Bookkeeper

Of the Roswell Daily Record, a daily newspaper published at Roswell, New Mexico, do solemnly swear that the clipping attached hereto was published once a week in the regular and entire issue of said paper, and not in a supplement thereof for a period of.....

.....

One weeks

beginning with the issue dated

31 October, 19 50

and ending with the issue dated.....

31 October 19 50

Lynn W. Croissant
Bookkeeper

Sworn and subscribed to before me

this 31 day of.....

October, 19 50

Annie Lee Wise
Notary Public.

My commission expires Feb.

9, 19 52

(Seal)

Run 31 Oct.
NOTICE OF PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

The Commission hereby gives notice to law and the Rules and Regulations of said Commission promulgated hereunder, of the following public hearing to be held November 21, 1950, beginning at 10:00 o'clock A.M. on that day in the City of Santa Fe, New Mexico, in the Capitol (Hall of Representatives).

STATE OF NEW MEXICO TO:
All named parties in the following cases and notice to the public:

Case 239
In the matter of the application of Shell Pipeline Corporation to amend for the purpose of clarification, Rule 503 (e) and Rule 503 (f) of Order No. 850, being the Rules and Regulations of the New Mexico Oil Conservation Commission, in order that the same may be construed as covering underflows and overflows, etc.

GIVEN under the seal of the Oil Conservation Commission of New Mexico, at Santa Fe, New Mexico, on October 27, 1950.

STATE OF NEW MEXICO
OIL CONSERVATION
COMMISSION
R. B. SPURRIER,
Secretary



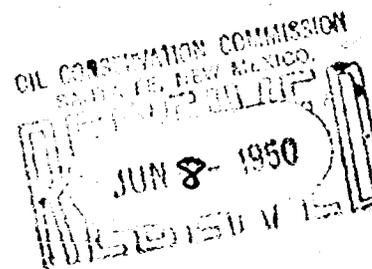
SHELL PIPE LINE CORPORATION

Petroleum
~~SMEXX~~ BUILDING
Midland
HOUSTON, TEXAS

TELEPHONE CAPITOL 1181

June 6, 1950

Hearing Nov. 21?
Graham & RS



Oil Conservation Commission of New Mexico
Santa Fe, New Mexico

Attention: Mr. Spurrier

Gentlemen:

Subject: Amendments to Rules

I understand that on June 22 the Commission will hold a hearing for the purpose of considering amendments or clarifications of the new rules.

There is a matter that has been causing Shell Pipe some concern and I believe it has also bothered some of the other pipe line companies. It is my intention to bring the matter up at the June 22 hearing but I wish at this time to advise you of the question so that it may be considered by you and by your attorneys.

I attach hereto a copy of a letter addressed to me from the Houston office of Shell Pipe which I think rather thoroughly covers the questions involved. I also attach copy of my reply in which I have attempted to answer these questions.

As you can see, there is uncertainty as to the meaning of rules 503 (e) and (f) when construed in connection with the definitions of "back allowable", "overage, or overproduction", and "shortage, or underproduction".

To specifically state the problem suppose that a certain lease had an allowable of 1,000 barrels for the month of May. The last run from the lease is made on May 26, at which time the accumulated runs during May total 900 barrels. The lease therefor is entitled to another 100 barrels for the month of May. Another run is not made from the lease, however, until June 3. Can the pipe line company consider that the first 100 barrels run during the month of June was legally produced during May and that it is entitled to run such one hundred (100) barrels of oil in June without a special order or authorization from the Commission?

As one who worked on the Legal Committee in preparing the new rules, I know that it was my thought, and I believe it was the thought of the Committee, that the 100 barrels underrun in the above example was a "current oil shortage" as provided in rule 503 (e) and that said rules authorized the pipe line company to run such shortage during the next two proration periods without any further order or authorization from the Commission. I think I

Page 2 - Oil Conservation Commission of New Mexico
Amendments to Rules

am also right in saying that that is the interpretation that your Commission gives to the rule.

The monthly schedules formerly carried "over" and "short" columns, which columns gave a specific authority for making up underruns such as above described. Since such columns have been discontinued in the schedule, I think the question has arisen by reason of the fact that the three definitions of the above stated terms are limited in their wording to actual production and do not specifically refer to runs.

It is my opinion that it would be well to clarify this situation in the rules either by amending or adding definitions to cover "underruns" and "overruns" and by broadening rule 503 (e), or by an interpretive ruling of the Commission. I am doing some work on the subject and at the June 22 hearing hope to have something definite to present.

In the meantime, I would appreciate it if you and your attorneys would give some consideration to the questions raised to the end that we may work out some proper clarification.

Very truly yours,

Paxton Howard

Paxton Howard,
Attorney

PH:MK

SHELL PIPE LINE CORPORATION

Shell Building
Houston 2, Tex.

C O P Y

May 5, 1950

In Re: Rule 503, New Mexico
Conservation Commission
Rules and Regulations

Mr. Paxton Howard
c/o Shell Oil Company
Midland, Texas

Dear Mr. Howard:

This will confirm your phone conversation April 28th.

In your opinion, (1) does paragraph (e) of captioned rule permit connected pipe lines to make up (run) shortages or compensate for (under-run) overages, resulting from runs versus allowable? And in consideration of the fact that Shell Pipe Line Corporation is an interstate carrier, (2) does such action on its part comply with State and Federal regulations? In the event that all of the shortage is not run or all of the overages is not compensated for, during the second proration period, (3) does remaining shortage then become an item subject to publication on proration schedule at the request of the producer? (4) And is remaining overage automatically held back by pipe line until entirely liquidated?

Or (5) does this paragraph (e) apply only to production and does the word shortage mean underproduction and overage mean overproduction. (See definitions 4, 41 and 56; throughout the definitions and regulations back allowable, shortage and underproduction appear to be synonymous.)

(6) Is the back allowable published in the proration schedule the result of runs versus allowable with overproduction deducted and with the same consideration being given to over-runs?

(7) Does this back allowable figure represent the amount that may be produced and/or run and how will the producer and transporter know to distinguish between them?

(8) Where the operator does not apply for back allowable and/or shortage how does the Commission take care of any accumulated overproduction?

(9) In paragraph (c) of Rule 503, reading in part "the production of oil from the various units in strict accordance with the schedule and the purchase and transportation of oil so produced." Does not this quote conflict with and contradict paragraph (e) insofar as shortages are concerned? And should not paragraph (e) apply only to overages (overruns and overproduction)?

(10) In paragraph (f), relative to back allowable is it not incumbent upon the producer to prove that: (a) oil was produced legally and for one or more of the three justifiable reasons was not run by pipe line; and (b) if such proof is shown and so accepted and published on the following proration schedule by the Commission, does not this comply with the quoted part in question nine above and further substantiate our query in the same question regarding paragraph (e) as applicable only to overages?

(11) Does the wording in paragraph (e): "Current oil shortages may be ****" mean the next month (proration period) after the shortage or overage occurs? And (12) does the wording, same paragraph second line: "during the second proration period next following****" mean 60 days after shortage or overage occurred and is it applicable to published shortages and overages on proration schedules prior to April 1? Since shortages and overages are left off of April schedule, it would seem that this rule should be clarified or rewritten.

May we thank you in advance for your help in this matter.

Yours very truly,

SHELL PIPE LINE CORPORATION

By _____

FCB:nb

SHAPIRO
COPY

Midland
XXXXXXXXXX

June 6, 1950

Graham

Oil Conservation Commission of New Mexico
Santa Fe, New Mexico

Attention: Mr. Spurrier

Gentlemen:

Subject: Amendments to Rules

I understand that on June 22 the Commission will hold a hearing for the purpose of considering amendments or clarifications of the new rules.

There is a matter that has been causing Shell Pipe some concern and I believe it has also bothered some of the other pipe line companies. It is my intention to bring the matter up at the June 22 hearing but I wish at this time to advise you of the question so that it may be considered by you and by your attorneys.

I attach hereto a copy of a letter addressed to me from the Houston office of Shell Pipe which I think rather thoroughly covers the questions involved. I also attach copy of my reply in which I have attempted to answer these questions.

As you can see, there is uncertainty as to the meaning of rules 503 (e) and (f) when construed in connection with the definitions of "back allowable", "overage, or overproduction", and "shortage, or underproduction".

To specifically state the problem suppose that a certain lease had an allowable of 1,000 barrels for the month of May. The last run from the lease is made on May 26, at which time the accumulated runs during May total 900 barrels. The lease therefor is entitled to another 100 barrels for the month of May. Another run is not made from the lease, however, until June 3. Can the pipe line company consider that the first 100 barrels run during the month of June was legally produced during May and that it is entitled to run such one hundred (100) barrels of oil in June without a special order or authorization from the Commission?

As one who worked on the Legal Committee in preparing the new rules, I know that it was my thought, and I believe it was the thought of the Committee, that the 100 barrels underrun in the above example was a "current oil shortage" as provided in rule 503 (e) and that said rules authorized the pipe line company to run such shortage during the next two proration periods without any further order or authorization from the Commission. I think I

Page 2 - Oil Conservation Commission of New Mexico
Amendments to Rules

am also right in saying that that is the interpretation that your Commission gives to the rule.

The monthly schedules formerly carried "over" and "short" columns, which columns gave a specific authority for making up underruns such as above described. Since such columns have been discontinued in the schedule, I think the question has arisen by reason of the fact that the three definitions of the above stated terms are limited in their wording to actual production and do not specifically refer to runs.

It is my opinion that it would be well to clarify this situation in the rules either by amending or adding definitions to cover "underruns" and "overruns" and by broadening rule 503 (e), or by an interpretive ruling of the Commission. I am doing some work on the subject and at the June 22 hearing hope to have something definite to present.

In the meantime, I would appreciate it if you and your attorneys would give some consideration to the questions raised to the end that we may work out some proper clarification.

Very truly yours,

Original Signed By
Paxton Howard

Paxton Howard,
Attorney

PH:MK

Midland
XXXXXXXXXXXX

June 6, 1950

Case
238

Mr. R. Chas. Nicholson
Shell Pipe Line Corporation
Shell Building
Houston 2, Texas

Dear Mr. Nicholson:

In Re: Rule 503, New Mexico Conservation
Commission Rules and Regulations

I have been studying the inquiries contained in your letter of May 5 regarding the above subject and give you herewith my conclusions:

It is my opinion that subparagraphs (e) and (f), considered in connection with definitions 4, 41 and 56, do not give a clear answer to your questions (1) and (2). This is by reason of the fact that the term "shortage" in definition 56 does refer to actual underproduction during a proration period and does not specifically cover underruns. At the time the rules were rewritten the proration schedule contained underage and overage columns and the matter of runs versus allowable was taken care of by such columns. Since however these columns have been eliminated on the schedule there probably is some need for clarification.

Take an example in which, on the May schedule, a certain lease is shown as having an allowable of 1000 barrels. The pipe line makes its last run from the lease on May 25, which brings the total May runs from the lease up to 900 barrels. Thereafter, and during the month of May, the lease produces its other 100 barrels of allowable, but another run is not made from the lease until June 3. Therefore, during June, 100 barrels of May allowable is run. Your inquiry is whether under the rules you have authority to run such 100 barrels of May oil and to assume that it was legally produced during May and if you are protected if you do run it.

Although the definition of "shortage" does not specifically cover this situation, it is my opinion that "current oil shortages" as used in paragraph 503 (e) is intended to cover this situation and that such underruns may be made up during the next 60 days without any special order from the Commission.

To further support this conclusion, you have the fact that the May schedule authorized the production and transportation of 1000 barrels of oil and there is no requirement that such 1000 barrels must be run from the lease during the month of May.

SHALL

COPY

Page 2 - Mr. R. Chas. Nicholson
Rule 503, New Mexico Conservation
Commission Rules and Regulations

I have checked the interpretation given to this matter by the Commission and am advised that the Commission interprets the rules in the manner above set forth. Since the "underage" and "overage" columns have been eliminated from the schedule I think it would be well either to have some amendment to the rules or some interpretative statement of the Commission clarifying this matter, although it is my opinion that even before such clarification you are acting legally in making runs as above set forth, and that you should continue to make such runs.

My answer, then, is "yes" to both your paragraphs (1) and (2).

My answer is also "yes" to both your question (3) and your question (4). It is my opinion that if such shortage is not made up during the second proration period, the underage would be subject to the back allowable rule. Such situation, however, would arise only where the failure of the purchaser to take current allowable had resulted in an actual shutdown of the lease and the underage was actually "backallowable" or "underproduction" as defined in the rules. Under normal operating conditions underruns of oil actually produced would be made up during the succeeding month.

Answering your question (5), the strict wording of the definitions would indicate that 503 (e) refers only to actual underproduction or overproduction, although I have set out above my belief as to the intent and the interpretation placed thereon by the Conservation Commission. I have also stated the need of clarification.

Answering your question (6), it is my opinion that the back allowable published in the proration schedule takes into consideration runs versus allowable with overproduction deducted and with the same consideration being given to overruns if the overage has not been made up during the second proration period following its occurrence. This is particularly true if the failure of purchaser to take is the cause of the backallowable.

Answering your question (7), it is my opinion that the back allowable figure represents the amount that may be produced and run, and that there is no need for distinguishing between them.

I do not quite understand your question (8). It is my opinion, however, that any shortage, whether caused by underproduction or by underruns, becomes back allowable unless it is made up during the second proration period following the shortage, and that such underage would have to be applied for by the operator and placed on the back allowable schedule.

Answering your question (9), I do not think that the two conflict when read together. Subparagraph (c) is the general authorization for

SHELL

Page 3 - Mr. R. Chas. Nicholson
 Rule 503, New Mexico Conservation
 Commission Rules and Regulations

production, purchase and transportation, and subparagraph (e) affords a flexibility to make the rules workable. Neither do I feel that subparagraph (e) should apply only to overages.

Answering your question (10) (a), you will note that the failure of the pipe line to run the oil is only one of the three justifiable reasons for back allowable. One of the three reasons for back allowable is failure of the purchaser to run the oil, but the other two reasons are in connection with production. As regards your question (10) (b), my answer would be "no".

Answering your question (11), it is my opinion that the shortage or overage may be made up during the two proration periods following the proration period in which the shortage or overage occurred, and that such period is applicable to published shortages and overages on proration schedules prior to April 1.

Summing up, the basic principle is this. The Schedule fixes the allowable of each well for each month. To allow for flexibility, there is an adjustment period of two proration periods during which overages or underages, whether caused by runs or production, may be balanced without special Commission order. If not balanced during that period, underages can be established only by application to the Commission and a back allowable order. Overages must be balanced during such period.

The basic principle of this problem has been discussed several times with the proper parties and is correct. In answering some of your specific questions as to actual calculations, my answers have been based on my own belief as to how the calculation would be made.

I have advised the Oil Conservation Commission of this question and that I will bring it up at the June 22 hearing for clarification. I feel that it is important that one of your representatives meet me in Santa Fe at the hearing.

Very truly yours,

Original Signed By
 Paxton Howard

 Paxton Howard, Attorney

PH:MK

SHELL
COPY

Midland
XXXXXXXXXX

June 6, 1950

Mr. R. Chas. Nicholson
Shell Pipe Line Corporation
Shell Building
Houston 2, Texas

Dear Mr. Nicholson:

In Re: Rule 503, New Mexico Conservation
Commission Rules and Regulations

I have been studying the inquiries contained in your letter of May 5 regarding the above subject and give you herewith my conclusions:

It is my opinion that subparagraphs (e) and (f), considered in connection with definitions 4, 41 and 56, do not give a clear answer to your questions (1) and (2). This is by reason of the fact that the term "shortage" in definition 56 does ~~refer~~ to actual underproduction during a proration period and does not specifically cover underruns. At the time the rules were rewritten the proration schedule contained underage and overage columns and the matter of runs versus allowable was taken care of by such columns. Since however these columns have been eliminated on the schedule there probably is some need for clarification.

Take an example in which, on the May schedule, a certain lease is shown as having an allowable of 1000 barrels. The pipe line makes its last run from the lease on May 25, which brings the total May runs from the lease up to 900 barrels. Thereafter, and during the month of May, the lease produces its other 100 barrels of allowable, but another run is not made from the lease until June 3. Therefore, during June, 100 barrels of May allowable is run. Your inquiry is whether under the rules you have authority to run such 100 barrels of May oil and to assume that it was legally produced during May and if you are protected if you do run it.

Although the definition of "shortage" does not specifically cover this situation, it is my opinion that "current oil shortages" as used in paragraph 503 (e) is intended to cover this situation and that such underruns may be made up during the next 60 days without any special order from the Commission.

To further support this conclusion, you have the fact that the May schedule authorized the production and transportation of 1000 barrels of oil and there is no requirement that such 1000 barrels must be run from the lease during the month of May.

Page 2 - Mr. R. Chas. Nicholson
Rule 503, New Mexico Conservation
Commission Rules and Regulations

I have checked the interpretation given to this matter by the Commission and am advised that the Commission interprets the rules in the manner above set forth. Since the "underage" and "overage" columns have been eliminated from the schedule I think it would be well either to have some amendment to the rules or some interpretative statement of the Commission clarifying this matter, although it is my opinion that even before such clarification you are acting legally in making runs as above set forth, and that you should continue to make such runs.

My answer, then, is "yes" to both your paragraphs (1) and (2).

My answer is also "yes" to both your question (3) and your question (4). It is my opinion that if such shortage is not made up during the second proration period, the underage would be subject to the back allowable rule. Such situation, however, would arise only where the failure of the purchaser to take current allowable had resulted in an actual shutdown of the lease and the underage was actually "backallowable" or "underproduction" as defined in the rules. Under normal operating conditions underruns of oil actually produced would be made up during the succeeding month.

Answering your question (5), the strict wording of the definitions would indicate that 503 (e) refers only to actual underproduction or overproduction, although I have set out above my belief as to the intent and the interpretation placed thereon by the Conservation Commission. I have also stated the need of clarification.

Answering your question (6), it is my opinion that the back allowable published in the proration schedule takes into consideration runs versus allowable with overproduction deducted and with the same consideration being given to overruns if the overage has not been made up during the second proration period following its occurrence. This is particularly true if the failure of purchaser to take is the cause of the backallowable.

Answering your question (7), it is my opinion that the back allowable figure represents the amount that may be produced and run, and that there is no need for distinguishing between them.

I do not quite understand your question (8). It is my opinion, however, that any shortage, whether caused by underproduction or by underruns, becomes back allowable unless it is made up during the second proration period following the shortage, and that such underage would have to be applied for by the operator and placed on the back allowable schedule.

Answering your question (9), I do not think that the two conflict when read together. Subparagraph (c) is the general authorization for

Page 3 - Mr. R. Chas. Nicholson
Rule 503, New Mexico Conservation
Commission Rules and Regulations

production, purchase and transportation, and subparagraph (e) affords a flexibility to make the rules workable. Neither do I feel that subparagraph (e) should apply only to overages.

Answering your question (10) (a), you will note that the failure of the pipe line to run the oil is only one of the three justifiable reasons for back allowable. One of the three reasons for back allowable is failure of the purchaser to run the oil, but the other two reasons are in connection with production. As regards your question (10) (b), my answer would be "no".

Answering your question (11), it is my opinion that the shortage or overage may be made up during the two proration periods following the proration period in which the shortage or overage occurred, and that such period is applicable to published shortages and overages on proration schedules prior to April 1.

Summing up, the basic principle is this. The Schedule fixes the allowable of each well for each month. To allow for flexibility, there is an adjustment period of two proration periods during which overages or underages, whether caused by runs or production, may be balanced without special Commission order. If not balanced during that period, underages can be established only by application to the Commission and a back allowable order. Overages must be balanced during such period.

The basic principle of this problem has been discussed several times with the proper parties and is correct. In answering some of your specific questions as to actual calculations, my answers have been based on my own belief as to how the calculation would be made.

I have advised the Oil Conservation Commission of this question and that I will bring it up at the June 22 hearing for clarification. I feel that it is important that one of your representatives meet me in Santa Fe at the hearing.

Very truly yours,

Original Signed By
Paxton Howard

Paxton Howard, Attorney

PH:MK

SHELL PIPE LINE CORPORATION

Shell Building
Houston 2, Tex.

C O P Y

May 5, 1950

In Re: Rule 503, New Mexico
Conservation Commission
Rules and Regulations

Mr. Paxton Howard
c/o Shell Oil Company
Midland, Texas

Dear Mr. Howard:

This will confirm your phone conversation April 28th.

In your opinion, (1) does paragraph (e) of captioned rule permit connected pipe lines to make up (run) shortages or compensate for (under-run) overages, resulting from runs versus allowable? And in consideration of the fact that Shell Pipe Line Corporation is an interstate carrier, (2) does such action on its part comply with State and Federal regulations? In the event that all of the shortage is not run or all of the overages is not compensated for, during the second proration period, (3) does remaining shortage then become an item subject to publication on proration schedule at the request of the producer? (4) And is remaining overage automatically held back by pipe line until entirely liquidated?

Or (5) does this paragraph (e) apply only to production and does the word shortage mean underproduction and overage mean overproduction. (See definitions 4, 41 and 56; throughout the definitions and regulations back allowable, shortage and underproduction appear to be synonymous.)

(6) Is the back allowable published in the proration schedule the result of runs versus allowable with overproduction deducted and with the same consideration being given to over-runs?

(7) Does this back allowable figure represent the amount that may be produced and/or run and how will the producer and transporter know to distinguish between them?

(8) Where the operator does not apply for back allowable and/or shortage how does the Commission take care of any accumulated overproduction?

Page 2 - Rule 503, New Mexico Conservation
Commission Rules and Regulations

(9) In paragraph (c) of Rule 503, reading in part "the production of oil from the various units in strict accordance with the schedule and the purchase and transportation of oil so produced." Does not this quote conflict with and contradict paragraph (e) insofar as shortages are concerned? And should not paragraph (e) apply only to overages (overruns and overproduction)?

(10) In paragraph (f), relative to back allowable is it not incumbent upon the producer to prove that: (a) oil was produced legally and for one or more of the three justifiable reasons was not run by pipe line; and (b) if such proof is shown and so accepted and published on the following proration schedule by the Commission, does not this comply with the quoted part in question nine above and further substantiate our query in the same question regarding paragraph (e) as applicable only to overages?

(11) Does the wording in paragraph (e): "Current oil shortages may be ****" mean the next month (proration period) after the shortage or overage occurs? And (12) does the wording, same paragraph second line: "during the second proration period next following****" mean 60 days after shortage or overage occurred and is it applicable to published shortages and overages on proration schedules prior to April 1? Since shortages and overages are left off of April schedule, it would seem that this rule should be clarified or rewritten.

May we thank you in advance for your help in this matter.

Yours very truly,

SHELL PIPE LINE CORPORATION

By _____

FCB:nb

NOTICE OF PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

The State of New Mexico by its Oil Conservation Commission hereby gives notice pursuant to law and the Rules and Regulations of said Commission promulgated thereunder, of the following public hearing to be held November 21, 1950, beginning at 10:00 o'clock A.M. on that day in the City of Santa Fe, New Mexico, in the Capitol (Hall of Representatives).

STATE OF NEW MEXICO TO:

All named parties in the following cases and notice to the public:

Case 237

In the matter of the application of the New Mexico Oil Conservation Commission upon its own motion to establish a well spacing pattern for each of the presently designated gas pools in the Counties of San Juan and Rio Arriba, State of New Mexico, producing or capable of producing from the following formations:

1. Pictured Cliffs sandstone (except Kutz Canyon-Fulcher Basin)
2. Mesaverde formation (except Blanco)
3. Any of the Pennsylvanian formations.

Case 238

In the matter of the application of Shell Pipe Line Corporation to amend for the purpose of clarification, Rule 503 (e) and Rule 503 (f) of Order No. 850, being the Rules and Regulations of the New Mexico Oil Conservation Commission, in order that the same may be construed as covering underruns and overruns, etc.

Case 239

In the matter of the application of Humble Oil and Refining Company and Magnolia Petroleum Company for permission to inject water for secondary recovery of oil from certain marginal wells in the Grayburg reservoir, Penrose-Skelly pool on the Humble Oil and Refining Company's J. L. Greenwood Lease and the Brunson-Argo lease of Magnolia Petroleum Company, in said pool, located as follows:

- J. L. Greenwood Lease: S/2 Sec. 9, Twp. 22S, R. 37E, Lea County, New Mexico
Brunson-Argo Lease: NE/4 Sec. 9, Twp. 22S, R. 37E, and NW/4 Sec. 10, Twp. 22S, R. 37E, Lea County, New Mexico.

Case 240

In the matter of the application of Resler and Sheldon for authority to dually complete a well located 2310 feet south of the north line and 990 feet east of the west line of Sec. 33, Twp. 23S, R. 37E., Lea County, New Mexico.

Case 241

In the matter of the New Mexico Oil Conservation Commission upon its own motion upon the recommendation of the Southeastern New Mexico Nomenclature Committee

Delete
J. L. Greenwood Lease: S/2 Sec. 9, Twp. 22S, R. 37E, Lea County,
New Mexico,
Brunson-Argo Lease: NE/4 Sec. 9, Twp. 22S, R. 37E, and NW/4 Sec. 10,
Twp. 22S, R. 37E, Lea County, New Mexico.

Case 240

In the matter of the application of Resler and Sheldon for authority to dually complete a well located 2310 feet south of the north line and 990 feet east of the west line of Sec. 33, Twp. 23S, R. 37E., Lea County, New Mexico.

Case 241

In the matter of the New Mexico Oil Conservation Commission upon its own motion upon the recommendation of the Southeastern New Mexico Nomenclature Committee for the creation of new pools, as follows:

Twp. 21S, R. 37E, N.M.P.M.

SW/4 Section 2
SE/4 Section 3
NE/4 Section 10
NW/4 Section 11

the same to be classified as an oil pool and named NORTH BRUNSON (Ellenburger).

Twp. 12S, R. 37E, N.M.P.M.

S/2 Section 13
N/2 Section 24

the same to be classified as an oil pool and named GLADIOLA (Devonian),

and for the extension of certain heretofore created pools as follows:

Extend the Grayburg-Jackson pool, Eddy County, New Mexico, by changing the present boundaries to include the N/2 Section 7, Twp. 17S, R. 31E, N.M.P.M.

Extend the boundaries of the Watkins Pool, Eddy County, New Mexico so as to include the E/2 of Sec. 36, Twp. 18S, R. 31E for Queen production.

Extend the boundaries of the Turkey Track-Seven Rivers pool in Eddy County, New Mexico, so as to include the SE/4 Sec. 9, S/2 Sec. 10, N/2 Sec. 15, NE/4 Sec. 16, all in Twp. 19S, R. 29E, N.M.P.M.

Extend the boundaries of the Maljamar-Paddock pool in Lea County, New Mexico, so as to include therein S/2 Sec. 17, NE/4 Sec. 20, in Twp. 17S, R. 32E, N.M.P.M.

Extend the existing boundaries of the Corbin pool in Lea County, to include therein the SE/4 Sec. 33, and the SW/4 Sec. 34, in Twp. 17S, R. 33E, N.M.P.M.

Extend the boundaries of the Nadine pool in Lea County, New Mexico, so as to include therein the S/2 Sec. 14, Twp. 19S, R. 38E, N.M.P.M.

Extend the North Drinkard pool in Lea County, New Mexico, so as to include therein the NE/4 Sec. 10, Twp. 21S, R. 37E, N.M.P.M.

Extend the Drinkard pool in Lea County, New Mexico, so as to include therein the E/2 Sec. 23, Twp. 21S, R. 37E, N.M.P.M.

Extend the South Leonard pool in Lea County, New Mexico so as to include therein the E/2 of Sec. 23, Twp. 26S, R. 37E, N.M.P.M.

Extend the boundary of the Langlie-Mattix pool in Lea County, New Mexico, so as to include therein the SW/4 Sec. 25 and NW/4 Sec. 36 of Twp. 24S, R. 37E, N.M.P.M.

Case 242

In the matter of the application of Continental Oil Company for an order approving the unit agreement of the Texas Hill Unit Area, Eddy County, New Mexico, comprising 13,800.43 acres more or less, situated in Townships 21, 22 and 23 south, Range 31 east, N.M.P.M. and in accordance with plat attached to said application.

GIVEN under the seal of the Oil Conservation Commission of New Mexico, at Santa Fe, New Mexico, on October 27, 1950.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. R. Spurrer
R. R. SPURRER, SECRETARY

SEAL

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SHELL PIPELINE CORPORATION TO
AMEND RULE 503 (e) OF THE RULES
OF THIS COMMISSION RELATING TO
OVER-PRODUCTION, BACK ALLOWABLE,
ETC.

CASE NO. 238
ORDER NO. R-39

ORDER OF THE COMMISSION

This matter came on for hearing at Santa Fe, New Mexico, on 21 November 1950, on the application of Shell Pipeline Corporation, and the Commission having considered the statements and arguments of counsel and having taken the matter under advisement finds:

1. That it has jurisdiction of this cause, due public notice of this hearing having been given.
2. That certain rules and regulations of the Commission should be amended so as to promote uniform interpretation of the same and to prevent waste.

IT IS THEREFORE ORDERED:

That the rules and regulations of this Commission adopted by Order No. 850, which became effective on 1 January 1950, be amended only in the following particulars:

1. Definition No. 4 is hereby amended to read as follows:

"4. Back Allowable shall mean the authorized accumulative Under-Production or Under-Runs for a given proration unit that has not been made up during the two proration periods immediately following the occurrence thereof."

2. Definition No. 41 is hereby amended to read as follows:

"41. Over-Production shall mean the amount of oil or the amount of natural gas produced from a proration unit during a proration period in excess of the amount authorized on the proration schedule. Over-Runs shall mean the amount of oil or the amount of natural gas run from a proration unit during a proration period in excess of the amount authorized on the proration schedule."

3. Definition No. 56 is hereby amended to read as follows:

"56. Under-Production shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to produce an amount equal to that authorized on the proration schedule. Under-Runs shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to have run an amount equal to that authorized on the proration schedule."

4. Rule 503(e) is hereby amended to read as follows:

"503(e) Current oil "Under-Production" or "Under-Runs" may be made up, or current and unavoidable and lawful "Over-Production" or "Over-Runs" shall be compensated for, at any time or times during the two proration periods next following the proration period in which such occurred. This may be done without any special authorization therefor from the Commission, and the volumes thereof

will not appear in the Proration Schedule. Such current "Under-Production" or "Under Runs" are not to be confused with "Back Allowable."

DONE at Santa Fe, New Mexico, this 15th day of December, 1950.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

THOMAS J. MABRY, CHAIRMAN
Guy Shepard
GUY SHEPARD, MEMBER
R. R. Spurrer
R. R. SPURRER, SECRETARY

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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IN THE MATTER OF THE APPLICATION
OF SHELL PIPELINE CORPORATION TO
AMEND RULE 503(e) OF THE RULES
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on 21 November 1950, on the application of Shell Pipeline Corpora-
tion, and the Commission having considered the statements and
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finds:

1. That it has jurisdiction of this cause, due public notice of this hearing having been given.
2. That certain rules and regulations of the Commission should be amended so as to promote uniform interpretation of the same and to prevent waste.

IT IS THEREFORE ORDERED:

That the rules and regulations of this Commission adopted by Order No. 850, which became effective on 1 January 1950, be amended only in the following particulars:

1. Definition No. 4 is hereby amended to read as follows:

"4. Back Allowable shall mean the authorized accumulative Under-Production or Under-Runs for a given proration unit that has not been made up during the two proration periods immediately following the occurrence thereof."

2. Definition No. 41 is hereby amended to read as follows:

"41. Over-Production shall mean the amount of oil or the amount of natural gas produced from a proration unit during a proration period in excess of the amount authorized on the proration schedule. Over-Runs shall mean the amount of oil or the amount of natural gas run from a proration unit during a proration period in excess of the amount authorized on the proration schedule."

3. Definition No. 56 is hereby amended to read as follows:

"56. Under-Production shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to produce an amount equal to that authorized on the proration schedule. Under-Runs shall mean the amount of oil or the amount of natural gas run from a proration unit during a proration period in excess of the amount authorized on the proration schedule."

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4. Rule 503(e) is hereby amended to read as follows:

"503(e) Current oil "Under-Production" or "Under-Runs" may be made up, or current and unavoidable and lawful "Over-Production" or "Over-Runs" shall be compensated for, at any time or times during the two proration periods next following the proration period in which such occurred. This may be done without any special authorization therefor from the Commission, and the volumes thereof will not appear in the Proration Schedule. Such current "Under-Production" or "Under Runs" are not to be confused with "Back Allowable."

Done at Santa Fe, New Mexico, this _____ day of December, 1950.

STATE OF NEW MEXICO OIL CONSERVATION
COMMISSION

By Thomas J. Mabry, Chairman
Guy Shepard, Member
R. R. Spurrier, Secretary

PROPOSED CHANGES IN RULES
SUGGESTION A.

The definition (4) of "Back Allowable" will be changed to read as follows:

"4. Back Allowable shall mean the authorized accumulative Under-Production or Under-Runs for a given proration unit that has not been made up during the two proration periods immediately following the occurrence thereof."

The definition (41) of "Over-Production" will be changed to read as follows:

"41. Over-Production shall mean the amount of oil or the amount of natural gas produced from a proration unit during a proration period in excess of the amount authorized on the proration schedule."

Present definition (56) of "Under-Production" will become definition 42 and will be changed to read as follows:

"42. Under-Production shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to produce an amount equal to that authorized on the proration schedule."

A new definition of "Over-Runs" will be added and will become Definition 43 as follows:

"43. Over-Runs shall mean the amount of oil or the amount of natural gas run from a proration unit during a proration period in excess of the amount authorized on the proration schedule."

A new definition of "Under-Runs" will be added and will become Definition 44 as follows:

"44. Under-Runs shall mean the amount of oil or the amount of natural gas during a proration period by which a proration unit failed to have run an amount equal to that authorized on the proration schedule."

Rule 503 (e) will be changed to read as follows:

"503(e) Current oil "Under-Production" or "Under-Runs" may be made up, or current and unavoidable and lawful "Over-Production" or "Over-Runs" shall be compensated for, at any time or times during the two proration periods next following the proration period in which such occurred. This may be done without any special authorization therefor from the Commission, and the volumes thereof will not appear in the Schedule. Such current "Under-Production" or "Under Runs" are not to be confused with "Back Allowable."

PROPOSED CHANGES IN RULES
SUGGESTION B

The definition (4) of "Back Allowable" will be changed to read as follows:

"4. Back Allowable shall mean the authorized accumulative Under-Production for a given proration unit that has not been made up during the two proration periods immediately following the occurrence thereof."

The definition (41) of "Over-Production" will be changed to read as follows:

"41. Over-Production shall mean the amount of oil or the amount of natural gas produced or run during a proration period in excess of the amount authorized on the proration schedule."

The definition (56) of "Under-Production" will be changed to read as follows:

"56. Under-Production shall mean the amount of oil or the amount of natural gas during a proration period by which a given proration unit failed to produce or to have run an amount equal to that authorized on the proration schedule."

Rule 503(e) will be changed to read as follows:

"503(e) Current oil "Under-Production" may be made up, or current and unavoidable and lawful "Over-Production" shall be compensated for, at any time or times during the two proration periods next following the proration period in which such occurred. This may be done without any special authorization therefor from the Commission, and the volumes thereof will not appear in the Schedule. Such current "Under-Production" is not to be confused with "Back Allowable."