

Entered June 15, 1978
[Signature]

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6204
Order No. R-5714

APPLICATION OF PRODUCING ROYALTIES,
INC., FOR AN EXEMPTION FROM THE
NATURAL GAS PRICING ACT, SAN JUAN
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 7, 1978,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of June, 1978, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.
- (2) That the applicant, Producing Royalties, Inc., is
the owner of an oil and gas lease comprising, among other lands,
the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM,
San Juan County, New Mexico.
- (3) That said NW/4 of Section 12 was previously dedicated
to applicant's Carroll-Cornell Well No. 2, located in Unit D
of said Section 12, which well was completed in and produced gas
from the Fulcher Kutz-Pictured Cliffs Pool prior to being dis-
connected from the pipeline April 17, 1971.
- (4) That the applicant plugged and abandoned said well
April 14, 1976, and subsequently drilled its Payne Well No. 2,
located in Unit F of said Section 12, completing the same as a
producing well in the Fulcher Kutz-Pictured Cliffs Pool on
August 14, 1976, with the NW/4 of said Section 12 being dedicated
to the well.

(5) That N.M.S.A. Section 65-15-5, 1953 Comp., 1976-1977 Interim Supplement, being a portion of the New Mexico Natural Gas Pricing Act of 1977, reads in its entirety as follows:

"65-15-5. 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 the applicant herein, Producing Royalties, Inc., seeks a determination as to whether the proration unit comprising the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, San Juan County, New Mexico, on which the aforesaid plugged and abandoned Carroll-Cornell Well No. 2 and the Payne Well No. 2 are located, was producing or capable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool prior to January 1, 1975; if so, applicant seeks exemption from the Natural Gas Pricing Act for the aforesaid Payne Well No. 2 and also for another well applicant proposes to drill on the same proration unit.

(7) That the evidence adduced at the hearing of this case establishes that the Carroll-Cornell Well No. 2 was incapable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool on December 31, 1974.

(8) That inasmuch as the proration unit dedicated to said Carroll-Cornell Well No. 2, namely the NW/4 of Section 12, Township 29 North, Range 12 West, NMPM, was incapable of production from the Fulcher-Kutz Pictured Cliffs Pool on December 31, 1974, the Payne Well No. 2 was not drilled within an established proration unit which was producing or capable of producing natural gas from the same reservoir immediately prior to January 1, 1975, and the Natural Gas Pricing Act would therefore not apply to said Payne Well No. 2.

(9) That inasmuch as the aforesaid Act does not apply to the said Payne Well No. 2, it follows that a replacement well for the Payne Well No. 2 would not be drilled for the purpose of avoiding the application of the Act.

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(10) That the log of the Payne Well No. 2 indicates the presence of a potential gas reservoir in the Fruitland formation in said well, and said Fruitland gas reservoir is not present in other wells in the immediate area.

(11) That the applicant proposes to drill another well to the Pictured Cliffs formation in the NW/4 of Section 12 as a replacement well for the aforesaid Payne Well No. 2, and to dedicate said 160-acre tract to said well, and to plug the Payne Well No. 2 back to the Fruitland formation and recomplete said well as a Fruitland gas well.

(12) That recompletion of said Payne Well No. 2 as a Fruitland gas well, and completion of a new well as a Pictured Cliffs gas well, may result in the production of otherwise unrecoverable gas reserves, thereby preventing waste, will not violate correlative rights, and should be approved.

(13) That the Payne Well No. 2 as well as the replacement well for Payne Well No. 2 should both be exempt from the provisions of the Natural Gas Pricing Act.

IT IS THEREFORE ORDERED:

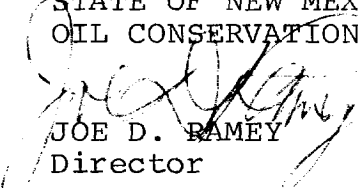
(1) That the Carroll-Cornell Well No. 2, located in Unit D of Section 12, Township 29 North, Range 12 West, NMPM, and the gas proration unit comprising the NW/4 of said Section 12, be and the same hereby are declared non-productive and non-capable of producing natural gas from the Fulcher Kutz-Pictured Cliffs Pool on December 31, 1974.

(2) That the Natural Gas Pricing Act does not apply to the Producing Royalties, Inc. Payne Well No. 2, located in Unit F of the aforesaid Section 12, or to any replacement well for said Payne Well No. 2 drilled and completed in the Pictured Cliffs formation in the NW/4 of said Section 12.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. BAMEY
Director

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