

OIL CONSERVATION DIVISION

Pre-hearing Statement

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Exhibits

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CASE 14744

Before the Oil Conservation Commission

October 20, 2011

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION FOR THE AMENDMENTS OF 19.15.14.8 AND 19.15.16 NMAC.

CASE NO. 14744

OIL CONSERVATION DIVISION PRE-HEARING STATEMENT

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The Oil Conservation Division (OCD) submits this pre-hearing statement pursuant to 19.15.3.11 NMAC.

1. The OCD requests the Commission adopt amendments to Parts 14 and 16 of Title 19, Chapter 15 of the New Mexico Administrative Code, revising provisions relating principally to horizontal wells, as follows:
2. Require an operator proposing to drill a well to obtain the consent of at least one owner of a lease or unleased interest in each tract that the well will penetrate prior to filing an APD or spudding a well. (Refer to 19.15.14.8.B; 19.15.16.14.B; 19.15.16.15.A and 19.15.16.15.C(2) of OCD application Exhibit B.)
3. Limit the portion of a wellbore that must be within the prescribed setbacks from spacing unit or project area boundaries to the “completed interval” with associated definitions. (Refer to 19.15.16.7.B, 19.15.16.7.H, 19.15.16.7.I, and 19.15.16.15.C(2) of OCD application Exhibit B.)
4. Provide that a wellbore with multiple laterals in the same or different target zones or formations constitutes one well. (Refer to 19.15.16.7.E of OCD application Exhibit B.)
5. Define “standard” and “non-standard” project areas for horizontal wells; prescribing the configuration, but not the size, of a “standard project area,” and requiring notice to offsetting operators or owners before an operator designates a “non-standard project area.” (Refer to 19.15.16.7.K, L & M and 19.15.16.15.G of OCD application Exhibit B.)
6. Adopt a tolerance provision that will dispense with the necessity of obtaining a “non-standard location” exception for a well designed to be located within the setbacks if it strays by less than 50 feet from its intended location. (Refer to 19.15.16.14.B(2) of the OCD application Exhibit B.)
7. Limit the allowable for a horizontal well to the sum of the allowables for the spacing units that the well penetrates, and prescribe how the allowable for the horizontal well will be computed if its project area includes existing vertical wells. (Refer to 19.15.16.14.B(3) of the OCD application Exhibit B.)

8. Require the filing of two C-102s with an Application for Permit to Drill (APD) for a horizontal well if the project area includes spacing units that the wellbore will not penetrate – one C-102 to show the outer boundaries of the project area, and another to show only the spacing units that the wellbore will penetrate. (Refer to 19.15.16.15.B of the OCD application Exhibit B.)
9. Authorize the surface location of a horizontal well to be outside the prescribed setbacks, or outside of the well’s designated project area. (Refer to 19.15.16.15.C(4) of the OCD application Exhibit B.)
10. Provide that existing vertical wells located in a newly designated project area remain dedicated to their original spacing unit, not to the project area, and existing horizontal wells remain dedicated to their original project area even if the new project area is larger or differently configured. (Refer to 19.15.16.15.D of the OCD application Exhibit B.)
11. Provide that existing rules limiting the number of wells that may be simultaneously produced from a spacing unit do not apply to horizontal wells. (Refer to 19.15.16.15.E of the OCD application Exhibit B.)
12. Require an operator of a horizontal well that is dedicated to a project area to consolidate ownership by either voluntary or compulsory pooling prior to producing the well. (Refer to 19.15.16.15.H of the OCD application Exhibit B.)

Witnesses

1. Richard Ezeanyim, Registered Petroleum Engineer

Qualifications and Experience:

M.S. in Petroleum Engineering, University of Wyoming
Master of Business Administration (MBA), University of Wyoming
B.S. in Chemical Engineering (with honors), Texas A & I University
B.S. in Natural Gas Engineering (with honors), Texas A & I University
Chief Petroleum Engineer/Bureau Chief, Oil Conservation Division for 10 ½ years
Engineering Manager, Air Quality Bureau, State of New Mexico
Reservoir Engineering Manager, Agip Oil Company
Registered Professional Petroleum Engineer (PE) in New Mexico
Registered Professional Petroleum Engineer (PE) in Colorado
Thirty (30) years Experience in Engineering and Management

Concise statement of testimony

Mr. Ezeanyim will describe the process by which the Division formulated the proposed amendments, including describing the formation of the workgroup and the qualifications of its members. He will testify that after extensive discussion the workgroup reached consensus on all of the proposals.

Mr. Ezeanyim will testify about how correlative rights are protected by requiring that the “completed interval” of a wellbore be confined within the setbacks from the outer boundaries of the project area. In addition, Mr. Ezeanyim will address why the current limitations on the number of wells that may be produced within a spacing unit or portion of a spacing unit are not an effective regulatory tool for protecting correlative rights, as applied to horizontal wells, particularly if a well with multiple laterals is defined as one well. Finally, he will testify as to why limitations on acceleration of production are not necessary to prevent waste or protect correlative rights in most New Mexico reservoirs, and in those reservoirs where such limitations are appropriate, the Division has other tools (setbacks to protect correlative rights, and proration and gas-oil ratio limitations to prevent waste) that are more appropriate tools to accomplish these objectives.

Finally, Mr. Ezeanyim will testify about the advantages of horizontal drilling compared to traditional vertical drilling in regards to surface usage.

Approximate time of testimony: 1 ½ hours

2. David K. Brooks, Attorney

Qualifications and Experience:

J.D. degree (with high honors) from University of Texas at Austin, 1973.

Practiced oil and gas law with private law firms for 15 years in Texas, Colorado and New Mexico.

Employed by the Division for 10 ½ years as attorney and hearing examiner.

Co-Chair of the Division’s task force on horizontal well rules.

Concise statement of testimony

Mr. Brooks will describe the Division’s existing rules regarding horizontal wells, go through each of the provisions of the proposed amendments and describe specifically how each amendatory provision is intended to change the existing rules. Mr. Brooks will testify as to the reasons why each change is proposed. Mr. Brooks will also discuss why provisions concerning compulsory pooling of project areas are not included in the proposals.

Approximate time of testimony: 2 hours

3. Ed Martin, Oil and Gas Inspector, District IV Supervisor

Qualifications and Experience:

Bachelor of Science in Economics from University of New Mexico, 1980.

Oilfield experience with a geophysical service company in Houston from 1981 to 1993

New Mexico Oil Conservation Division (18 years):

ONGARD project manager - 8 years

Environmental Bureau - 4 years
District IV Supervisor - 6 years

Concise statement of testimony

Mr. Martin will explain why the proposed amendments include an Operator providing well dedication and acreage plats on form C-102. Mr. Martin can further explain how the drilling of horizontal wells will not preclude development of adjacent tracts.

Approximate time of testimony: Mr. Martin will only be called if necessary. If he does testify his testimony will take ½ an hour.

Respectfully Submitted,



Gabrielle Gerholt
Assistant General Counsel
Energy, Minerals and Natural
Resources Department
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EXHIBIT LIST

1. Affidavit of Notice
 - A. Albuquerque Journal Published Notice
 - B. Oil Conservation Commission Docket
 - C. Notice of Rulemaking
 - D. New Mexico Register Published Notice
 - E. Oil Conservation Division website Notice
 - F. Letter sent to Small Business Regulatory Advisory Commission
2. Horizontal Well Rule Power Point
3. Proposed Amendment 19.15.14.8
4. Proposed Amendment 19.15.16
5. Producing Interval versus Completed Interval
6. Standard Project Areas
7. Non-standard Project Area 1
8. Non-standard Project Area 2
9. Project Area Requiring Two C-102s
10. Effect of Applying Simultaneous Dedication Rules – Basin Fruitland Coal
11. Effect of Applying Simultaneous Dedication Rules – Dakota, Mesaverde and Mancos Pools (1 existing well)
12. Effect of Applying Simultaneous Dedication Rules – Dakota, Mesaverde and Mancos Pools (2 existing wells)
13. Technical Power Point