

EXAMPLE SUPPORTING REMOVAL OF WORD "COMPENSATION"
FROM PROPOSED WORDING OF RULE 711-A.1

Companies A, B and C have joint working interests under a group of wells operated by Company A. The amount of the interests in each well differs:

	<u>Co. A</u> (%)	<u>Co. B</u> (%)	<u>Co. C</u> (%)
Well #1	25	50	25
Well #2	50	25	25
Well #3	25	25	50

The companies agree to pay 1/3 each of the cost of constructing and operating an evaporation pond. Not knowing in advance how much water each of the wells will make - or change from time to time - they elect that the operator should make charge to each well of \$1.00 per barrel for disposal: this charge to be on the monthly joint interest billing; and the sum of these charges be credited 1/3 to each of the participants.

In one month, the following activity takes place:

Well #1 disposes 1,000 barrels
 Well #2 disposes 2,000 barrels
 Well #3 disposes 3,000 barrels

The following disposal charges to wells result:

	<u>Co. A</u> (\$)	<u>Co. B</u> (\$)	<u>Co. C</u> (\$)	<u>Total</u> (\$)
Well #1	250	500	250	1,000
Well #2	1,000	500	500	2,000
Well #3	<u>750</u>	<u>750</u>	<u>1,500</u>	<u>3,000</u>
Totals	2,000	1,750	2,250	6,000

and the following credits result from the \$6,000 total disposal charges:

<u>Co. A</u> (\$)	<u>Co. B</u> (\$)	<u>Co. C</u> (\$)
2,000	2,000	2,000

Net difference in
charges and credits

-0-	+250	-250
-----	------	------

Although Company A's charges and credits balance out, B's and C's do not. It can be interpreted that Company B received "compensation" from Company C; and this would disqualify the pond from being a "centralized facility". We think this is not the intent of the committee proposing the rule changes.

Before the
 OIL CONSERVATION COMMISSION
 Santa Fe, New Mexico
 Case No. 11142 Exhibit No. 2
 Submitted By: _____
 Hearing Date: _____