

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

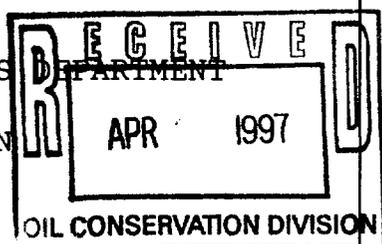
Hearing Date

MARCH 19, 1997

Time: 9:00 A.M.

| NAME | REPRESENTING | LOCATION |
|---|---|--------------------------------------|
| W. Kellahin JAMES STRICKLER CHIP LANE | Kellahin & Kellahin BURLINGTON Burlington | Santa Fe Farmington Farmington |
| Gregg Bradfield GREGG CLARK | Burlington BURLINGTON | Farmington FARMINGTON |
| Pam Staley Rick Wymer | Amoco BLM | DENVER SANTA FE |
| F. Chavez | OCID | Aztec |
| J. E. Busch | " | " |
| William F. Gray Frank Gray | Langford, San Jose + Landin Texaco | Santa Fe Midland, TX |
| John McKay | Santa Fe NMOGA | Santa Fe |

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



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:)
)
APPLICATION OF THE OIL CONSERVATION)
DIVISION TO AMEND RULE 103 OF ITS RULES)
TO CHANGE, ADD OR DELETE CERTAIN)
INFORMATION ON WELL SIGNS)
)

CASE NO. 11,720

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

March 19th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Wednesday, March 19th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

March 19th, 1997
 Commission Hearing
 CASE NO. 11,720

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| APPEARANCES | 3 |
| APPLICANT'S WITNESS: | |
| <u>FRANK CHAVEZ</u> | |
| (District Supervisor, Aztec District, NMOCD) | |
| Direct Examination by Mr. Carroll | 4 |
| Examination by Chairman LeMay | 11 |
| REPORTER'S CERTIFICATE | 12 |

* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 6 | - |

* * *

A P P E A R A N C E S

FOR THE COMMISSION:

LYN S. HEBERT
Deputy General Counsel
Energy, Minerals and Natural Resources Department
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE OIL CONSERVATION DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 9:06 a.m.:

3 CHAIRMAN LEMAY: We will now call Case Number
4 11,720, which is the Application of the Oil Conservation
5 Division to amend Rule 103 of its Rules to change, add or
6 delete certain information on well signs.

7 I'll call for appearances in Case Number 11,720.

8 MR. CARROLL: May it please the Commission, my
9 name is Rand Carroll, appearing on behalf of the Oil
10 Conservation Division, and I have one witness to be sworn.

11 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

12 Any additional appearances in Case 11,720?

13 If not, will that witness please stand and raise
14 your right hand?

15 (Thereupon, the witness was sworn.)

16 MR. CARROLL: I'm going to put copies of this
17 exhibit back on the table for anybody who's interested.

18 CHAIRMAN LEMAY: Mr. Carroll, you may continue.

19 FRANK CHAVEZ,

20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARROLL:

24 Q. Mr. Chavez, will you please state your name and
25 residence for the record?

1 A. My name is Frank Chavez, and I reside in Aztec,
2 New Mexico.

3 Q. And what is your job title and your
4 responsibilities?

5 A. I'm District Supervisor of the Aztec District of
6 the Oil Conservation Division.

7 Q. And do your responsibilities include enforcing
8 what is OCD Rule 103?

9 A. Yes, it is.

10 Q. What is OCD Rule 103?

11 A. OCD Rule 103 requires a sign at a well site,
12 identifying the well that's there.

13 Q. And what information has to be on that sign under
14 Rule 103?

15 A. Under the current rules and regulations, the well
16 sign requires that the well be identified by a name, a well
17 number and location and operator name and that the sign be
18 legible at a certain distance from the well.

19 Q. And has the Division determined that this rule
20 needs to be changed to require the addition or deletion of
21 information on that sign and a change in the location?

22 A. Yes, the sign, now, we want to contain also the
23 API number, the well and the location, instead of by
24 quarter quarter section, by unit letter as is commonly used
25 to identify well locations in OCD records.

1 Q. And is the proposed amended Rule 103 included on
2 what has been marked as the first page of OCD Exhibit
3 Number 1?

4 A. Yes, it is.

5 Q. And does the first page there show the old rule
6 with the deleted language and the added language?

7 A. Yes, it does. The deleted language is stricken
8 and the added language is shown highlighted.

9 Q. And is the second page of Exhibit Number 1, is
10 that the current Rule 103?

11 A. Yes, it is.

12 Q. And turning to page 3, have you received comments
13 from operators regarding our proposed amended Rule 103?

14 A. Yes, I have. The wording of our proposed rule
15 seemed a bit ambiguous to some operators in certain ways.

16 For example, the language says "sign posted", and
17 the word itself, "posted", was sometimes unclear. So we've
18 changed to that "install", the proposal be changed to
19 "install".

20 Also, there was some concern about changes that
21 might be made to a well sign, versus a new sign that's
22 installed at a well.

23 A common practice now is, when there's an
24 operator change, for the operator to purchase some adhesive
25 stickers that have the new operator name and just put that

1 over the old operator name on the well sign. And that is
2 not the installation of a new sign, and we wouldn't expect
3 the operator to put up a brand-new sign with the API
4 number, and that would be acceptable if they just want to
5 place a sticker on it, and it would be in compliance.

6 Also, a question came up about well signs at
7 drilling locations where an API number may not have been
8 assigned to the well at the time the drilling commences and
9 therefore is not available to the operator when they make
10 their sign for the drilling location.

11 And the wording which I propose there on page 3
12 changes the wording to address these issues so we would say
13 that "each permanent, new or replacement sign installed",
14 and I think that language will take care of the issues that
15 were brought up by the operators.

16 Q. And Mr. Chavez, does the OCD have a grandfather
17 clause included in its proposed rule. When will this rule
18 be effective and as to what wells will it apply to?

19 A. It will apply to not necessarily wells but apply
20 to new signs that are installed after June 30th of 1997, so
21 existing signs will not require changes on them.

22 Q. Okay. And will amendment of Rule 103 as proposed
23 by the Division and as set forth on page 1 of Exhibit 1 aid
24 the OCD in performing its regulatory function?

25 A. Yes, it will.

1 Q. And do you think it will aid industry?

2 A. It may if they are out in the field and they want
3 to identify a particular well location that they're on, it
4 will, yes.

5 MR. CARROLL: That's all I have.

6 CHAIRMAN LEMAY: Thank you.

7 Are there questions of Mr. Chavez?

8 Commissioner Bailey?

9 COMMISSIONER BAILEY: I think Frank has --

10 CHAIRMAN LEMAY: I'm sorry, go ahead, Frank. I
11 didn't see you, I'm sorry. Excuse me.

12 MR. GRAY: Yeah, I got in here late. Frank Gray
13 from Texaco Exploration and Production, from Midland,
14 Texas.

15 I would like to ask if there might be
16 consideration given to a small process change as it
17 particularly relates to federal wells. I don't think it
18 will require any change in the rule. I think the rule
19 would facilitate the sign installation fine.

20 But Texaco and many other operators are able to
21 install a permanent sign at the time the well is spudded.
22 You kind of related to that.

23 We would like, hopefully, to be able to continue
24 to do that, but on federal wells it's a little bit of a
25 problem, because we can spud as soon as the BLM approves

1 the APD, and then the paperwork comes in to the OCD where
2 an API number is assigned, so there might be a two- to
3 seven-day delay.

4 Rather than start a process of having to install
5 a temporary sign, which could result in failure to get the
6 proper sign on, on time, or errors and so forth, we would
7 hopefully be able to get an API number early enough to have
8 a permanent sign ready when we spud the well.

9 So as a suggestion, I would suggest that maybe we
10 could see if we could assign a block of API well numbers
11 for the BLM to put them on the APD when they approve it, or
12 if they could contact the OCD in advance and get an API
13 well number such that when the approved APD comes to the
14 operator, an API well number is there and we could have the
15 permanent sign available at the time of spudding, rather
16 than starting a process of putting temporary signs.

17 Would that be something you think the OCD could
18 work with?

19 MR. CHAVEZ: I think we could work with it if the
20 wording were such that if the API number is not available
21 at the time that the well is spud, it doesn't have to be on
22 the sign, because if certain information isn't available
23 you can't be required to show it.

24 MR. GRAY: My concern, of course, would be that
25 we could put the permanent sign up, and then we'd have to

1 have some process of going back and putting the API well
2 number on that sign, and that always leads to potential
3 errors or failures to get out in time or forgetting to do
4 it.

5 If we could just have that early enough in the
6 process, we could have the permanent sign earlier. We
7 don't want to have to buy an extra sign and then put the
8 official sign later or anything like that.

9 And it's not very professional to paint a sign on
10 a piece of cardboard and stick it out there until you get
11 your permanent sign, so we don't want to start that.

12 That's just a process change that I'd like
13 considered. I don't think there would be a need to change
14 the rule associated with that.

15 MR. CHAVEZ: I don't know exactly how that would
16 be worked out, but we can certainly look at it.

17 CHAIRMAN LEMAY: Any other questions or comments?
18 The rule-making is a little bit informal.

19 That may be obsolete there, Frank, in a couple of
20 years, when we start assigning API numbers, because we're
21 approving the APDs on federal wells, but we'll see.

22 Commissioner Bailey?

23 COMMISSIONER BAILEY: I don't have any questions.

24 CHAIRMAN LEMAY: Commissioner Weiss?

25 COMMISSIONER WEISS: No questions.

EXAMINATION

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BY CHAIRMAN LEMAY:

Q. Frank, is there any cost estimates on this? Will it increase the cost to operators, reduce the costs or be about the same?

A. The operators I've talked to, so far the comments were that it will not increase any costs, as long as they can grandfather in the old, existing signs, because this rule is intended to apply only to newly created and installed signs, not to old signs that would require any changes.

CHAIRMAN LEMAY: That's the only question I had. That's it, thank you, Mr. Chavez, appreciate your testimony.

MR. CARROLL: Thank you.

CHAIRMAN LEMAY: Is there anything else in Case Number 11,720, comments or statements?

If not, can you give the Commission a draft order, Mr. Carroll? Appreciate it.

We shall take the case under advisement.

(Thereupon, these proceedings were concluded at 9:21 a.m.)

* * *

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 21st, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

103 SIGN ON WELLS

All wells subject to these regulations, ~~including drilling, production, and injection wells,~~ shall be identified by a sign, ~~posted on the derrick or~~ not more than 20 50 feet from such well, and such sign shall be of durable construction and the lettering thereon shall be kept in legible condition and shall be large enough to be legible under normal conditions at a distance of 50 feet. ~~The wells on each lease or property shall be numbered in non-repetitive, logical and distinctive sequence.~~ Each sign shall show the number of the well, the name of the lease property ~~(which shall be different or distinctive for each lease),~~ the name of the lessee, ~~owner or~~ operator, and the location by quarter section unit letter, section, township and range. ~~The location, for each sign posted after March 1, 1968, shall indicate the quarter-quarter section, township, and range. [1-1-50...2-1-96]~~ Each sign posted after June 30, 1997, shall show the API number of the well with the state code, the county code, and the next five digits of the API number. An operator will have 60 days from the effective date of an operator name change to change the operator name on the well sign unless an extension of time is granted by the District Supervisor upon submission of a schedule for the changes.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 11720 Exhibit No. 1
Submitted by OCD
Filing Date 3/19/97

101.L. All bonds required by these rules shall be conditioned for well plugging and location cleanup only, and not to secure payment for damages to livestock, range, water, crops, tangible improvements, nor any other purpose. [1-1-50...2-1-96]

101.M. Upon failure of the operator to properly plug and abandon the well(s) covered by a bond, the Division shall give notice to the operator and surety, if applicable, and hold a hearing as to whether the well(s) should be plugged in accordance with a Division-approved plugging program. If, at the hearing, it is determined that the operator has failed to plug the well as provided for in the bond conditions and Division Rules, the Division Director shall issue an order directing the well(s) to be plugged in a time certain. Such an order may also direct the forfeiture of the bond upon the failure or refusal of the operator, surety, or other responsible party to properly plug the well(s). If the proceeds of the bond(s) are not sufficient to cover all of the costs incurred by the Division in plugging the well(s) covered by the bond, the Division shall take such legal action as is necessary to recover such additional costs. Any monies recovered through bond forfeiture or legal actions shall be placed in the Oil & Gas Reclamation Fund. [6-5-86...2-1-96]

102 NOTICE OF INTENTION TO DRILL

102.A. Prior to the commencement of operations, notice shall be delivered to the Division of intention to drill any well for oil or gas or for injection purposes and approval obtained on Form C-101. A copy of the approved Form C-101 must be kept at the well site during drilling operations. [1-1-50...2-1-96]

102.B. No permit shall be approved for the drilling of any well within the corporate limits of any city, town, or village of this state unless notice of intention to drill such well has been given to the duly constituted governing body of such city, town or village or its duly authorized agent. Evidence of such notification shall accompany the application for a permit to drill (Form C-101). [5-22-73...2-1-96]

102.C. When filing a permit to drill in any quarter-quarter section containing an existing well or wells, the applicant shall concurrently file a plat or other acceptable document locating and identifying such well(s) and a statement that the operator(s) of such well(s) have been furnished a copy of the permit. [5-22-73...2-1-96]

103 SIGN ON WELLS

All wells subject to these regulations, including drilling, production, and injection wells, shall be identified by a sign, posted on the derrick or not more than 20 feet from such well, and such sign shall be of durable construction and the lettering thereon shall be kept in legible condition and shall be large enough to be legible under normal conditions at a distance of 50 feet. The wells on each lease or property shall be numbered in non-repetitive, logical and distinctive sequence. Each sign shall show the number of the well, the name of the lease (which shall be different or distinctive for each lease), the name of the lessee, owner or operator, and the location by quarter section, township and range. The location, for each sign posted after March 1, 1968, shall indicate the quarter-quarter section, township, and range. [1-1-50...2-1-96]

104. - WELL SPACING

ACREAGE REQUIREMENTS FOR DRILLING TRACTS

104.A. CLASSIFICATION OF WELLS: WILDCAT WELLS AND DEVELOPMENT WELLS

Rand Carroll

From: Frank Chavez
To: Rand Carroll
Subject: Rule 103
Date: Tuesday, March 11, 1997 9:30AM

After talking to some operators the following changes should be considered:

Instead of "Each sign posted after. . .", say "Each permanent new or replacement sign installed after . . ."