

DOCKET: EXAMINER HEARING - THURSDAY – MAY 13, 1999

8:15 A.M. - 2040 South Pacheco

Santa Fe, New Mexico

Dockets Nos. 16-99 and 17-99 are tentatively set for May 27 and June 10, 1999. Applications for hearing must be filed at least 23 days in advance of hearing date. The following cases will be heard by an Examiner:

CASE 12178: **Application of Santa Fe Energy Resources, Inc. for an unorthodox oil well location, Lea County, New Mexico.** Applicant seeks an exception to the well location requirements provided within the "*Special Rules and Regulations for the Baish-Wolfcamp Pool*" set forth in Division Order No. R-2765 for an unorthodox oil well location in a standard 80-acre gas spacing unit for the Undesignated Baish-Wolfcamp Pool comprising the E/2 NE/4 of Section 15, Township 17 South, Range 32 East, which is located approximately 1.25 miles southeast of Maljamar, New Mexico. The existing Maljamar "15" Federal Well No. 1 (API No. 30-025-34549), to be recompleted uphole from the deeper Devonian formation into the Wolfcamp formation, is located at a previously approved unorthodox oil well location in the Undesignated Maljamar-Devonian Pool (approved by Division Administrative Order NSL-4150, dated October 15, 1998) 1310 feet from the North and East lines (Unit A) of Section 15. IN THE ABSENCE OF OBJECTION THIS MATTER WILL BE TAKEN UNDER ADVISEMENT.

CASE 12104: **Reopened and Advertised**

Application of Harvard Petroleum Corporation for compulsory pooling and an unorthodox oil well location, Roosevelt County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the San Andres formation underlying the following described acreage in Section 5, Township 8 South, Range 37 East, and in the following manner: Lots 3 and 4, the S/2 NW/4, and the SW/4 (W/2 equivalent) thereby forming a standard 319.09-acre gas spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent which presently includes only the Bluit-San Andres Associated Pool; the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; the E/2 SW/4 to form a standard 80-acre oil spacing and proration unit for any and all pools developed on 80-acre spacing within said vertical extent which presently includes only the Bluit-San Andres Associated Pool; and, the SE/4 SW/4 (Unit N) to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent. All four of these units are to be dedicated to the applicant's proposed Williams Well No. 1 to be drilled 990 feet from the South line and 1650 feet from the West line (Unit N) of Section 5 being a standard location for the proposed 319.09, 160, and 40-acre spacing and proration units but an unorthodox oil well location for the proposed 80-acre oil spacing and proration unit. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. The proposed well location is approximately one mile north by east of Bluit, New Mexico.

CASE 12157: **Readvertised**

Application of Chi Energy, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 19, Township 20 South, Range 34 East, to form a standard 320-acre spacing and proration unit for any formations and/or pools developed on 320-acre gas spacing within that vertical extent, including the Undesignated Quail Ridge-Morrow Gas Pool. The unit is to be dedicated to the Greenstone Fed. Com. Well No. 1, located at an unorthodox surface/bottomhole location 480 feet from the South line and 1650 feet from the East line (Unit O), or in the alternative, directionally drilled from the above surface location to an unorthodox gas well bottomhole location 760 feet from the South line and 1650 feet from the East line (Unit O). Also to be considered will be the cost of drilling and completing this well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of Louis Dreyfus Natural Gas Corp. as operator of the well and unit, and a charge for risk involved in drilling and completing the well. This unit is located approximately 20 miles west-southwest of Monument, New Mexico

CASE 12179: **Application of Enerquest Resources, L.L.C. to amend special pool rules for the East Hobbs-San Andres Pool, Lea County, New Mexico.** Applicant seeks to amend the special rules for the East Hobbs-San Andres Pool, as promulgated by Division Order No. R-7511, to include the assignment at a special depth bracket allowable, pursuant to Division Rule 505.D, of 160 barrels of oil per day. The East Hobbs-San Andres Pool comprises portions of Section 25 of Township 18 South, Range 38 East, and Sections 29, 30, 31 and 32, of Township 18 South, Range 39 East, which is located approximately 2 miles northeast of Hobbs, New Mexico.

CASE 12180: **Application David H. Arrington Oil & Gas, Inc. for a unit agreement, Lea County, New Mexico.** Applicant seeks approval of the Brassy Deep Exploratory Unit Agreement for an area encompassing 640 acres, more or less, of state and fee lands in Sections 33 and 34 of Township 16 South, Range 36 East, which is located approximately 5 miles south of Lovington, New Mexico.

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CASE 12181: **Application of David H. Arrington Oil and Gas, Inc. for an unorthodox location and for an exception to Division Rule 104.D(3), Lea County, New Mexico.** Applicant seeks an exception to all applicable well location set-back requirements governing any and all formations and/or pools from the surface to the base of the Mississippian formation for its Mayfly "14" State Com. Well No. 1 to be drilled 330 feet from the North and West lines (Unit D) of Section 19, Township 17 South, Range 34 East, to be dedicated to the following described spacing and proration units: (i) the W/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, which presently includes but not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool, Undesignated Shoe Bar-Atoka Gas Pool, Townsend-Morrow Gas Pool, and Undesignated North Townsend-Mississippian Gas Pool; and (ii) the NW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing, which presently includes but not necessarily limited to the Undesignated North Shoe Bar-Wolfcamp Pool and the Undesignated Shoe Bar-Strawn Pool. The applicant further seeks an exception to Division Rule 104.D(3) to continuously and concurrently produce gas from the Townsend-Morrow Gas Pool from its above-described Mayfly "14" State Com. Well No. 1 and from the existing Mark L. Shidler, Inc. operated Monsanto State Com. Well No. 1 (API No. 30-025-24895), located at a standard gas well location 1980 feet from the South and West lines (Unit K) of Section 14, and for the simultaneous dedication of both wells to the existing 320-acre gas spacing and proration unit comprising the W/2 of Section 14. **Further, the applicant at the time of the hearing shall designate a common operator for both of these Morrow gas wells and this 320-acre unit within the Townsend-Morrow Gas Pool.** The proposed well location is approximately five miles south of Lovington, New Mexico.

CASE 12120: **Readvertised**

Application of Universal Resources Corporation for surface commingling, Sandoval and San Juan Counties, New Mexico. Applicant seeks an exception to Division Rules 303-A and 309-A to permit surface commingling of Alamito-Gallup Oil Pool and Lybrook-Gallup Oil Pool production from the following Federal Leases NMNM6682, NMNM6681, NMNM16586, NMNM58878, NMNM10087, NMNM048989A, and State Lease: 00016172 and 00016174, covering parts of Sections 21, 22, 23, 27, 28, 31, 32, 34, Township 23 North, Range 7 West, Sandoval County, New Mexico, Section 2, Township 22 North, Range 8 West, and Section 26, Township 23 North, Range 8 West, San Juan County, New Mexico. These leases are located approximately 50 miles southeast of Farmington, New Mexico.

CASE 12182: **Application of Conoco, Inc. for pool creation, special pool rules and the assignment of a special depth bracket allowable, Lea County, New Mexico.** Applicant seeks the creation of a new pool for the production of oil from the Strawn formation comprising the NE/4 of Section 36, Township 20 South, Range 37 East (being approximately eight miles south-southeast of Monument, New Mexico), the promulgation of special pool rules therefor including provisions for 160-acre spacing and proration units and designated well location requirements, and for the assignment of a special depth bracket oil allowable, pursuant to Division Rule 505.D of 600 barrels of oil per day.

CASE 12183: **Application of McKay Oil Corporation for an unorthodox infill gas well location, Chaves County, New Mexico.** Applicant seeks an exception to the well location requirements provided within the "Special Rules and Regulations for the West Pecos Slope-Abo Gas Pool" set forth in Division Order No. R-9976-C for an unorthodox Abo infill gas well location in an existing standard 160-acre gas spacing unit for the West Pecos Slope-Abo Gas Pool comprising the NE/4 of Section 24, Township 6 South, Range 22 East, which is located approximately 14 miles south of Mesa, New Mexico. The South Four Mile Draw Federal "B" Com. Well No. 12 (API No. 30-005-63175) is to be drilled 600 feet from the North line and 1958 feet from the East line (Unit B) of Section 24. This unit is currently dedicated to McKay Oil Corporation's Remmele Federal Com. Well No. 8 (API No. 30-005-62328), located at an unorthodox gas well location (approved by Division Administrative Order NSL-2285, dated September 2, 1986) 1905 feet from the North line and 585 feet from the East line (Unit H) of Section 24.

CASE 12166: **Continued from April 15, 1999, Examiner Hearing.**

Application of Energen Resources Corporation for compulsory pooling, Rio Arriba County, New Mexico. Applicant seeks an order pooling all mineral interests in the Mesaverde and Dakota formations in the W/2 of Section 19, Township 10 North, Range 4 West, forming standard 320-acre spacing and proration units respectively. These units are to be dedicated to its Carson Well No. 4 which is to be located in Unit E of Section 19. Applicant also seeks approval to dedicate the pooled units to its Carbon No. 4-M infill well to be drilled at an orthodox infill location in Unit L of Section 19, following the completion of the Carson Well No. 4. Also to be considered will be the cost of drilling and completing the wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for the risk involved in drilling the wells. These wells are located approximately 6 miles northeast of Gobernador, New Mexico.

CASE 12167: Continued from April 15, 1999, Examiner Hearing.

Application of Energen Resources Corporation for compulsory pooling and an unorthodox well location, Rio Arriba County, New Mexico. Applicant seeks an order pooling all mineral interests in the Mesaverde and Dakota formations in the E/2 of Section 30, Township 30 North, Range 4 West, forming standard 320-acre spacing and proration units respectively. These units are to be dedicated to its Carson Well No. 5 which is to be drilled at an unorthodox well location in Unit B of Section 30. Applicant also seeks approval to dedicate the pooled units to its Carson No. 5-M infill well to be drilled at an orthodox infill location in Unit P of Section 30, following the completion of the Carson Well No. 5. Also to be considered will be the cost of drilling and completing the wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for the risk involved in drilling the wells. These wells are located approximately 6 miles northeast of Gobernador, New Mexico

CASE 12168: Continued from April 15, 1999, Examiner Hearing.

Application of Energen Resources Corporation for compulsory pooling and an unorthodox well location, Rio Arriba County, New Mexico. Applicant seeks an order pooling all mineral interests in the Mesaverde and Dakota formations in the W/2 of Section 29, Township 30 North, Range 4 West, forming standard 320-acre spacing and proration units respectively. These units are to be dedicated to its Carson Well No. 6 which is to be drilled at an unorthodox well location in Unit M of Section 29. Applicant also seeks approval to dedicate these pooled units to its Carson No. 6-M infill well to be drilled at an orthodox infill location in Unit C of Section 29, following the completion of the Carson Well No. 6. Also to be considered will be the cost of drilling and completing the wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for the risk involved in drilling the wells. These wells are located approximately 6 miles northeast of Gobernador, New Mexico.

CASE 12008: Continued from March 18, 1999, Examiner Hearing.

Application of Robert E. Landreth for a determination of reasonable well costs, Lea County, New Mexico Applicant, as a mineral interest owner in the standard 320-acre gas spacing and proration unit comprising the S/2 of Section 29, Township 22 South, Range 34 East, seeks an order ascertaining the reasonableness of actual well costs for: (i) the Santa Fe Energy Resources, Inc. Gaucho Unit Well No. 2-Y (API No. 30-025-34026), located 1650 feet from the South line and 1725 feet from the West line (Unit K) of Section 29; and (ii) the plugged and abandoned Gaucho Unit Well No. 2 (API No. 30-025-33682), located 1650 feet from the South and West lines (Unit K) of Section 29. This 320-acre unit was the subject of compulsory pooling Order No. R-10764, dated February 14, 1997. This area is located approximately 20 miles west by south of Eunice, New Mexico.

CASE 12184: In the matter of the hearing called by the Oil Conservation Division for an order creating, contracting vertical limits, redesignating, and extending certain pools in Lea County, New Mexico.

- (a) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Strawn production and designated as the South Hardy-Strawn Pool. The discovery well is the Conoco Inc. Hardy 36 State Well No. 26 located in Unit B of Section 36, Township 20 South, Range 37 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 36: NE/4

Further, ASSIGN a discovery allowable of 37,825 barrels of oil to the discovery well to be produced over a two-year period.

- (b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the West Johnson Ranch-Wolfcamp Gas Pool. The discovery well is the Cobra Oil & Gas Corporation State 19 Well No. 1 located in Unit G of Section 19, Township 24 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 19: N/2

- (c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the Querecho Plains-Atoka Gas Pool. The discovery well is the Mewbourne Oil Company Querecho 28 Federal Well No. 1 located in Unit I of Section 28, Township 18 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 28: E/2

- (d) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Strawn production and designated as the South San Simon-Strawn Pool. The discovery well is the Yates Petroleum Corporation Trick ARK State Well No. 1 located in Unit B of Section 18, Township 22 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 35 EAST, NMPM
Section 18: NE/4

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- (e) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Devonian production and designated as the Sioux-Devonian Gas Pool. The discovery well is the Vista Resources of Texas, Inc. South Lea Federal Well No. 1 located in Unit K of Section 17, Township 26 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 36 EAST, NMPM

Section 17: W/2

- (f) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Abo production and designated as the West Wantz-Abo Pool. The discovery well is the Titan Resources I Inc. State DC Well No. 3 located in Unit F of Section 19, Township 21 South, Range 37 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Section 19: N/2 and SE/4

- (g) CONTRACT the vertical limits of the Anderson Ranch-Pennsylvanian Pool in Lea County, New Mexico, to include only the Cisco and Canyon formations and redesignate the pool as the Anderson Ranch-Cisco Canyon Pool.

- (h) CONTRACT the vertical limits of the High Plains-Permo Pennsylvanian Pool in Lea County, New Mexico, to include only the Wolfcamp, Cisco, Canyon and Strawn formations and redesignate the pool as the High Plains-Permo Upper Pennsylvanian Pool.

- (i) EXTEND the Anderson Ranch-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 32 EAST, NMPM

Section 14: N/2

- (j) EXTEND the Antelope Ridge-Atoka Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 24 SOUTH, RANGE 34 EAST, NMPM

Section 9: N/2

Section 10: NW/4

- (k) EXTEND the Baish-Cisco Pool in Lea County, New Mexico, to include:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM

Section 20: N/2

Section 21: W/2

- (l) EXTEND the Blinebry Oil and Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM

Section 14: NE/4

Section 24: E/2

TOWNSHIP 20 SOUTH, RANGE 39 EAST, NMPM

Section 19: SW/4

- (m) EXTEND the South Corbin-Morrow Gas Pool in Lea County, New Mexico, to include;

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 31: N/2

- (n) EXTEND the DK-Abo Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM

Section 13: SE/4

- (o) EXTEND the EK-Yates-Seven Rivers-Queen Pool in Lea County, New Mexico, to include:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM

Section 13: NE/4

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- (p) EXTEND the Eumont-Yates-Seven Rivers-Queen Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 13: SW/4

- (q) EXTEND the East Gem-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 34: S/2

- (r) EXTEND the East Gem-Strawn Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM
Section 30: E/2

- (s) EXTEND the Goodwin-Abo Pool in Lea County, New Mexico, to include:

TOWNSHIP 18 SOUTH, RANGE 36 EAST, NMPM
Section 36: SE/4

TOWNSHIP 18 SOUTH, RANGE 37 EAST, NMPM
Section 31: SW/4

TOWNSHIP 19 SOUTH, RANGE 36 EAST, NMPM
Section 1: NE/4

- (t) EXTEND the East Grama Ridge-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 21 SOUTH, RANGE 35 EAST, NMPM
Section 33: SW/4

TOWNSHIP 22 SOUTH, RANGE 35 EAST, NMPM
Section 4: N/2

- (u) EXTEND the Hardy-Tubb-Drinkard Pool in Lea County, New Mexico, to include:

TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM
Section 4: SE/4

- (v) EXTEND the Johnson Ranch-Wolfcamp Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 3: S/2
Section 4: S/2
Section 9: N/2
Section 10: N/2
Section 26: S/2
Section 27: S/2
Section 34: E/2

- (w) EXTEND the Kemnitz-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM
Section 12: S/2

- (x) EXTEND the West La Rica-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 32: E/2

- (y) EXTEND the Northeast Lea-Delaware Pool in Lea County, New Mexico, to include:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM
Section 33: SW/4

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(z) EXTEND the Littman-Seven Rivers Pool in Lea County, New Mexico, to include:

TOWNSHIP 21 SOUTH, RANGE 38 EAST, NMPM
Section 17: NW/4

(aa) EXTEND the Northeast Lovington-Pennsylvanian Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM
Section 10: NE/4
Section 11: NW/4

(bb) EXTEND the North Lusk-Strawn Pool in Lea County, New Mexico, to include:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 28: SW/4

(cc) EXTEND the South McCormack-Silurian Pool in Lea County, New Mexico, to include:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 22: S/2

(dd) EXTEND the Monument-Abo Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 7: NE/4

(ee) EXTEND the North Monument-Abo Pool in Lea County, New Mexico, to include:

TOWNSHIP 19 SOUTH, RANGE 36 EAST, NMPM
Section 14: SW4

(ff) EXTEND the Southeast Monument-Abo Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 9: NW/4

(gg) EXTEND the Monument-Paddock Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 10: SW/4

(hh) EXTEND the Ojo Chiso-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 26: S/2

(ii) EXTEND the West Ojo Chiso-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 21: W/2

(jj) EXTEND the West Osudo-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 35: SE/4

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 1: Lots 1, 2, 3, 4, 5, 6, 7, and 8

(kk) EXTEND the Pearl-Bone Spring Pool in Lea County, New Mexico, to include:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM
Section 26: NW/4

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(ll) EXTEND the Quail Ridge-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM
Section 19: W/2

(mm) EXTEND the Querecho Plains-Queen Associated Pool in Lea County, New Mexico, to include:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 15: SE/4
Section 22: NE/4

(nn) EXTEND the West Red Tank-Delaware Pool in Lea County, New Mexico, to include:

TOWNSHIP 22 SOUTH, RANGE 33 EAST, NMPM
Section 31: W/2

(oo) EXTEND the Sanmal-Pennsylvanian Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 33: NE/4

(pp) EXTEND the West Sawyer-San Andres Pool in Lea County, New Mexico, to include:

TOWNSHIP 10 SOUTH, RANGE 37 EAST, NMPM
Section 2: NW/4
Section 3: NE/4

(qq) EXTEND the Shoebar-Atoka Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
Section 23: W/2

(rr) EXTEND the Northeast Shoebar-Strawn Pool in Lea County, New Mexico, to include:

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM
Section 7: S/2

(ss) EXTEND the Tatum-Upper Pennsylvanian Pool in Lea County, New Mexico, to include:

TOWNSHIP 13 SOUTH, RANGE 36 EAST, NMPM
Section 8: NW/4

(tt) EXTEND the Teague-Ellenburger Pool in Lea County, New Mexico, to include:

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
Section 23: SW/4

(uu) EXTEND the Tres Papalotes-Atoka Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 14 SOUTH, RANGE 34 EAST, NMPM
Section 27: S/2

(vv) EXTEND the North Vacuum-Atoka-Morrow Gas Pool in Lea County, New Mexico, to include:

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 15: N/2
Section 19: S/2

(ww) EXTEND the East Warren-Drinkard Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 26: SE/4

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(xx) EXTEND the East Warren-Tubb Pool in Lea County, New Mexico, to include:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM

Section 24: E/2

TOWNSHIP 20 SOUTH, RANGE 39 EAST, NMPM

Section 18: SW/4

Section 19: NW/4

IN THE ABSENCE OF OBJECTION, THIS CASE WILL BE TAKEN UNDER ADVISEMENT.

DOCKET: COMMISSION HEARING - WEDNESDAY – MAY 19, 1999

9:00 A.M. - 2040 South Pacheco

Santa Fe, New Mexico

The Land Commissioner's designee for this hearing will be Jami Bailey or Gary Carlson

The minutes of the April 22, 1999, Commission hearing will be adopted.

CASE 12119: Continued from April 22, 1999, Commission Hearing.

Application of the Oil Conservation Division to amend Rule 104 (19 NMAC 15.C.104) pertaining to well spacing. The proposed amendments may be accessed on the internet on the Division homepage at: www.emnrd.state.nm.us/ocd.

CASE 12169: Continued from April 22, 1999, Commission Hearing.

Application of the Oil Conservation Division to amend and adopt tax incentive rules. Applicant seeks the amendment and renumbering of Division Rules 712 and 713 (to be renumbered as 31 and 32) and the adoption of new Rules 33 and 34 to implement new laws amending the production restoration and well workover tax incentives and granting new tax incentives for stripper wells and new wells. The Division also seeks to adopt as Rule 30 the current rule governing the enhanced oil recovery project tax incentive. A copy of the proposed new rules and rule amendments is attached.

CASE 12177: Readvertised

Application of the Oil Conservation Division to amend the notice requirements throughout Division rules and also amendments to the procedural rules found in Part N (19 NMAC 15.N) and amendments to Rules 11 and 12 (19 NMAC 15.A.11 and 12). The proposed amendments may be accessed on the internet on the Division homepage at: www.emnrd.state.nm.us/ocd.

30 ENHANCED OIL RECOVERY PROJECT TAX INCENTIVE

30.A. General

Applications for qualification of enhanced oil recovery projects or expansions of existing enhanced oil recovery projects for the recovered oil tax rate pursuant to the New Mexico "Enhanced Oil Recovery Act" (Sections 7-29A-1 through 7-29A-5 NMSA 1978) will be accepted by the Division after March 6, 1992.

30.B. Applicability

These rules apply to:

- (1) enhanced oil recovery (EOR) projects;
- (2) expansions of existing EOR projects;
- (3) the expanded use of enhanced oil recovery technology in existing EOR projects; and
- (4) the change from a secondary recovery project to a tertiary recovery project.

30.C. Definitions

- (1) "Crude oil" means oil and other liquid hydrocarbons removed from natural gas at or near the wellhead.
- (2) "Enhanced Oil Recovery (EOR) Project" means the use or the expanded use of any process for the displacement of crude oil from an oil well or Division-designated pool other than a primary recovery process, including but not limited to the use of a pressure maintenance process, a waterflooding process, an immiscible, miscible, chemical, thermal or biological process or any other related process.
- (3) "Expansion or Expanded Use" means a significant change or modification as determined by the Division in (a) the technology or process used for the displacement of crude oil from an oil well or Division-designated pool; or (b) the expansion, extension or increase in size of the geologic area or adjacent geologic area that could reasonably be determined to represent a new or unique area of activity.
- (4) "Operator" means the person responsible for the actual physical operation of an enhanced recovery project.

- (5) "Positive Production Response" means that the rate of oil production from the wells or pools affected by an enhanced recovery project is greater than the rate that would have occurred without the project.
- (6) "Primary Recovery" means the displacement of crude oil from an oil well or Division-designated pool into the well bore by means of the natural pressure of the oil well or pool, including but not limited to artificial lift.
- (7) "Recovered Oil Tax Rate" means the tax rate set forth in Section 7-29-4 NMSA 1978, on crude oil produced from an enhanced recovery project.
- (8) "Secondary Recovery Project" means an enhanced oil recovery project that: (a) occurs subsequent to the completion of primary recovery and is not a tertiary recovery project; (b) involves the application, in accordance with sound engineering principles of carbon dioxide miscible fluid displacement, pressure maintenance, waterflooding or any other secondary recovery method accepted and approved by the Division that can reasonably be expected to result in an increase, determined in light of all facts and circumstances, in the amount of crude oil that may ultimately be recovered; and (c) encompasses a pool or portion of a pool the boundaries of which can be adequately defined and controlled.
- (9) "Termination" means the discontinuance of an enhanced recovery project by the operator.
- (10) "Tertiary Recovery Project" means an enhanced recovery project that: (a) occurs subsequent to the completion of a secondary recovery project; (b) involves the application, in accordance with sound engineering principles, of carbon dioxide miscible fluid displacement, pressure maintenance, water flooding or any other tertiary recovery method accepted and approved by the Division that can reasonably be expected to result in an increase, determined in light of all facts and circumstances, in the amount of crude oil that may ultimately be recovered; and (c) encompasses a pool or portion of a pool the boundaries of which can be adequately defined and controlled.

30.D. Procedure

- (1) The Division's general rules of procedure shall apply unless altered or amended by these rules.
- (2) To be eligible for the tax rate the operator must apply for and receive Division approval. No project or expansion approved by the Division prior to March 6, 1992 shall qualify.

- (3) All applications shall be filed in triplicate with the Division's Santa Fe office. One copy of the application and all attachments shall also be filed with the appropriate Division district office.
- (4) All applications shall be executed and certified by the operator or its authorized representative having knowledge of the facts therein and shall contain:
 - (a) operator's name and address;
 - (b) description of the project area including:
 - (i) a plat outlining the project area;
 - (ii) description of the project area by section, township and range;
 - (iii) total acres; and
 - (iv) name of the subject pool and formation;
 - (c) status of operations in the project area:
 - (i) if unitized, the name of the unit and the date and number of the Division order approving the unit plan of operation;
 - (ii) if an application for approval of a unit plan has been made, the date the application was filed with the Division; and
 - (iii) if not unitized, identify each lease in the project area by lessor, lessee and legal description;
 - (d) method of recovery to be used:
 - (i) identify fluids to be injected;
 - (ii) if the Division has approved the project, provide the date and number of the Division order; and
 - (iii) if the project has not been approved by the Division, provide the date the application for approval was filed with the Division on Form C-108;
 - (e) description of the project:
 - (i) a list of producing wells;

- (ii) a list of injection wells;
 - (iii) capital costs of additional facilities;
 - (iv) total project cost;
 - (v) estimated total value of the additional production that will be recovered as a result of the project;
 - (vi) anticipated date for commencement of injection;
 - (vii) the type of fluid to be injected and the anticipated volumes; and
 - (viii) if application is made for an expansion of an existing project, explain what changes in technology will be used or what additional geographic area will be added to the project area; and
- (f) production data: Provide graphs, charts and other supporting data to show the production history and production forecast of oil, gas, casinghead gas and water from the project area.

30.E. Approval and Certification

- (1) Project Approval: An EOR project will be approved and the project area designated for the recovered oil tax rate when the operator proves that:
 - (a) the application of the proposed enhanced recovery techniques to the reservoir should result in an increase in the amount of crude oil that may be ultimately recovered;
 - (b) the project area has been so depleted that it is prudent to apply enhanced recovery techniques to maximize the ultimate recovery of crude oil; and
 - (c) the application is economically and technically reasonable and has not been prematurely filed.
- (2) Positive Production Response Certification:
 - (a) for the recovered oil tax rate to apply to oil produced from an approved qualified EOR project, the operator must demonstrate a positive production response to the Division. Applications for

certification of a positive production response shall be filed with the Division's Santa Fe office and shall include:

- (i) a copy of the Division's approval of the enhanced recovery project or expansion;
 - (ii) a plat of the affected area showing all injection and producing wells with completion dates; and
 - (iii) production graphs and supporting data demonstrating a positive production response and showing the volumes of water or other substances that have been injected on the lease or unit since initiation of the enhanced recovery project;
- (b) the Division Director shall have authority to administratively approve an application and certify a positive production response or, at the Director's discretion or at the request of the applicant, may set the application for hearing; and
- (c) the Division shall certify that a positive production response occurred and notify the Secretary of Taxation and Revenue. This certification and notice shall set forth the date the certification was made and the date the positive production response occurred provided however:
- (i) for a secondary recovery project, the application for certification of a positive production response must occur not later than five (5) years from the date the Division issued the certification of approval for the enhanced oil recovery project or expansion; and
 - (ii) for a tertiary recovery project, the application for certification of a positive production response must occur not later than seven (7) years from the date the Division issues the certification of approval for the enhanced recovery project or expansion.

30.F. Reporting Requirements

- (1) The operator of an approved EOR project shall report annually on the status of the project and confirm that the project is still a viable EOR project as approved. The report will be for the year ending May 31 and shall be filed with the Division's Santa Fe office. The report shall contain:

- (a) the date and number of the Division's certification order for the project;
 - (b) production graphs showing oil, gas and water production ;
 - (c) a graph showing the volumes of fluid injected and the average injection pressures; and
 - (d) any additional data the Director deems necessary for continued approval;
- (2) the Director may set for hearing the continued approval of any EOR project.

30.G. Termination

When active operation of an approved enhanced recovery project or expansion is terminated, the operator shall notify the Division and the Secretary of Taxation and Revenue in writing not later than the thirtieth (30) day after the termination of the enhanced recovery project or expansion.

[__ - __ -99]

31 PRODUCTION RESTORATION PROJECT TAX INCENTIVE

31.A General

Applications for qualification of production restoration projects for the production restoration incentive tax exemption pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Sections 7-29B-1 through 7-29B-6 NMSA 1978) shall be accepted by the Division after November 9, 1995. [12-30-95, 2-1-96; Rn. _____ - ___-___-99]

31.B. Applicability

These rules apply to any natural gas or oil well Division records show had thirty (30) days or less production in any period of twenty-four consecutive months beginning on or after January 1, 1993 upon which the operator commenced operations to restore production after June 16, 1995. [12-30-95, 2-1-96; Rn. _____ - ___-___-99]

31.C. Definitions

- (1) "Operator" means the person responsible for the actual physical operation of a natural gas or oil well
- (2) "Production Restoration Incentive Tax Exemption" means the severance tax exemption for natural gas and/or oil produced from an approved production restoration project found in Section 7-29-4 NMSA 1978.
- (3) "Production Restoration Project" means returning to production any natural gas or oil well, including but not limited to any injection well which has previously produced, which had no more than (30) days of production in any period of twenty-four consecutive months beginning on or after January 1, 1993 as approved and certified by the Division;
- (4) "Well" means a wellbore with single or multiple completions, including all horizons and producing formations from the surface to total depth.

[12-30-95, 2-1-96; Rn. _____ - ___-___-99]

31.D. Procedure

- (1) The Division's general rules of procedure shall apply unless altered or amended by these rules.
[12-30-95, 2-1-96; Rn. _____ - ___-___-99]
- (2) To be eligible for the exemption, the operator must apply for and receive Division approval. No production restoration project commenced prior to June 16, 1995 shall qualify. [12-30-95, 2-1-96; Rn. _____ - ___-___-99]

- (3) An application must be filed with the Division within twelve (12) months of the production restoration. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (4) Applications shall be filed by the operator on behalf of all interest owners in the project. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (5) Applications shall be filed in triplicate with the Division at its appropriate District office on Division Form C-139 and shall contain:
 - (a) operator's name and address; and
 - (b) description of the production restoration project including:
 - (i) name and footage location of the well;
 - (ii) name of the pool from which the well previously produced;
 - (iii) a description of the process used, or to be used, by the operator for returning the well to production;
 - (iv) identification of the Division records which show that the well had thirty (30) days or less production in any period of twenty-four consecutive months beginning on or after January 1, 1993;
 - (v) date the project was commenced and date the well was returned to production; and
 - (vi) a statement under oath by the operator or its authorized representative having knowledge of the facts contained in the application that:
 - (A) the application is complete and correct;
 - (B) production from the well has been reported to the Division and Division records establish the well had thirty (30) days or less production in any period of twenty-four consecutive months beginning on or after January 1, 1993.

31.E. Approval, Certification, Notification and Hearing

- (1) Project Approval and Certification

(a) A project shall be approved and a certification of approval issued to the operator designating the natural gas or oil well as a production restoration project when the operator proves that:

- (i) after June 16, 1995, the operator has commenced any process to return the well to production; and
- (ii) division records show the well had thirty (30) days or less of production in any period of twenty-four consecutive months beginning on or after January 1, 1993.

(b) The exemption will apply beginning the first day of the month following the date the well was returned to production as certified by the Division. [12-30-95, 2-1-96; Rn. _____ - ____-99]

(2) Notification to the Secretary of Taxation and Revenue

The Division shall notify the Secretary of Taxation and Revenue of the approval. This notice shall identify the natural gas or oil well as a production restoration project and certify the date production was restored. [12-30-95, 2-1-96; Rn. _____ - ____-99]

(3) Hearing

The Division shall consider applications without a hearing. If the Division District office denies an application, the Division upon the applicant's request shall set the application for hearing. Any application not acted upon by the Division District office within thirty (30) days from the date it is filed shall be deemed denied. [12-30-95, 2-1-96; Rn. _____ - ____-99]

32 WELL WORKOVER PROJECT TAX INCENTIVE

32.A. General

Applications for qualification of well workover projects for the well workover incentive tax rate pursuant to the "Natural Gas and Crude Oil Production Incentive Act" (Sections 7-29B-1 through 7-29B-6 NMSA 1978) shall be accepted by the Division after November 9, 1995. [12-30-95,2-1-96; Rn. _____ - ____-99]

32.B. Applicability

These rules apply to any natural gas or oil well upon which the operator has commenced a workover after June 16, 1995 that is intended to increase production from the well. [12-30-95,2,1,96; Rn. _____ - ____-99]

32.C. Definitions

- (1) "Operator" means the person responsible for the actual physical operation of a natural gas or oil well;
- (2) "Routine Maintenance" means repair or like-for-like replacement of downhole equipment or any other procedure performed by an operator to maintain the well's current production;
- (2) "Well" means a wellbore with single or multiple completions, including all horizons and producing formations from the surface to total depth.
- (4) "Well Workover Incentive Tax Rate" means the tax rate imposed by Section 7-29-4 NMSA 1978 on natural gas and/or oil produced from a well workover project;
- (5) "Well Workover Project" means any procedure undertaken by the operator of a natural gas or oil well that is intended to increase production from the well and that has been approved and certified by the Division;
- (6) "Workover" means any procedure undertaken by the operator of the well intended to increase production but is not routine maintenance and includes, but is not limited to:
 - (a) re-entry into the well to drill deeper, to sidetrack to a different location, to recomple for production or to restore production from a zone which has been temporarily abandoned;
 - (b) recompletion by re-perforation of a zone from which natural gas or oil has been produced or by perforation of a different zone;

- (c) repair or replacement of faulty or damaged casing or related downhole equipment;
- (d) fracturing, acidizing or installing compression equipment; and
- (e) squeezing, cementing or installing equipment necessary for removal of excessive water, brine or condensate from the well bore in order to establish, continue or increase production from the well.

32.D. Procedure

- (1) The Division's general rules of procedure shall apply unless altered or amended by these rules. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (2) To be eligible for the incentive tax rate, the operator must apply for and receive Division approval. No well workover project commenced by the operator prior to June 16, 1995 shall qualify. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (3) Applications must be filed with the Division within twelve (12) months of completion of the workover. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (4) An application shall be filed by the operator on behalf of all interest owners in the project. [12-30-95, 2-1-96; Rn. _____ - ____-99]
- (5) The data utilized in the application shall be retained by the operator in its files during the period of time the well qualifies for and receives the well workover incentive tax rate and for such time thereafter as the Department requires. [12-30-95, 2-1-96; Rn. _____ - ____ 99]
- (6) Applications shall be filed in triplicate with the Division at its appropriate District office on Division Form C-140 and shall contain:
 - (a) operator's name and address; and
 - (b) description of well workover project including:
 - (i) name and footage location of the well;
 - (ii) name of the pool from which the well previously produced;
 - (iii) the dates workover procedures commenced and were completed;

- (iv) a description of the procedures undertaken by operator of the well intended to increase production;
- (v) evidence of a positive production increase over the production rate of the well prior to the workover. The operator must submit a production curve or data tabulation made up of at least twelve months' production prior to the workover and at least three months' production following the workover that reflects a positive production increase;
- (vi) other documentation the applicant determines may be applicable to this filing, such as Division forms or Division orders; and
- (vii) a statement under oath by the operator or its authorized representative having knowledge of the facts contained in the application that he/she has made or caused to be made a diligent search of all production records which are reasonably available and contain information relevant to the production history of the well.

[12-30-95, 2-1-96; Rn. _____ - ____-99]

32.E. Approval, Certification, Notification and Hearing

(1) Project Approval and Certification

- (a) A workover shall be approved and a certification of approval issued to the operator designating the natural gas or oil well as a well workover project when the operator proves that:
 - (i) approved workover procedures have been undertaken on the well which are intended to increase production; and
 - (ii) the production curve or data tabulation from production data reflects a positive production increase from the workover.
- (b) The incentive tax rate will apply beginning the first day of the month following the date the workover was completed as certified by the Division. [12-30-95, 2-1-96; Rn. _____ - ____-99]

(2) Notification to the Secretary of Taxation and Revenue

The Division shall notify the Secretary of Taxation and Revenue of the approval by identifying the natural gas or oil well as a well workover project and certifying the date the project was completed. [12-30-95, 2-1-96; Rn. _____ - ___ -99]

(3) Hearings and Requests for Additional Information

(a) The Division shall consider applications without a hearing. If the Division District office denies an application, the Division upon the applicant's request shall set the application for hearing. Any application not acted upon by the Division District office within thirty (30) days from the date it is filed is deemed denied.

[12-30-95, 2-1-96; Rn. _____ - ___ -99]

(b) The Division may request additional information from the operator to support an application. When additional information is requested, the 30-day approval period shall begin to run on the date the requested data is provided. [12-30-95, 2-1-96; Rn. _____ - ___ -99]

32.F. Certifications Prior to July 1, 1999

Well workover projects certified prior to July 1, 1999 shall be deemed to be approved and certified in accordance with the provisions of the 1999 act and natural gas or oil produced from those projects shall be eligible for the well workover incentive tax rate effective beginning July 1, 1999. [6-15-99]

33 STRIPPER WELL TAX INCENTIVE

33.A. General

Qualification of stripper well properties for the stripper well incentive tax rates in Sections 7-29-4 and 7-31-4 NMSA 1978, requires certification by the Division. The Division shall certify stripper well properties for calendar year 1998 no later than June 30, 1999 and no later than June 1 of each succeeding year for the preceding calendar year.

33.B. Applicability

These rules apply to any property that the Division certifies as a stripper well property after June 30, 1999.

33.C. Definitions

- (1) "Operator" means the person responsible for the actual physical operation of a natural gas or oil well;
- (2) "Average daily production" means the number derived by dividing the total volume of crude oil or natural gas production from the stripper well property reported to the Division during a calendar year by the sum of the number of days each eligible well within the property produced or injected during that calendar year;
- (3) "Eligible well" means a crude oil or natural gas well that produces, or an injection well that injects and is integral to production, for any period of time during the preceding calendar year;
- (4) "Stripper well property" means a crude oil or natural gas producing property that is assigned a single production unit number by the Taxation and Revenue Department and:
 - (a) (if a crude oil producing property) produced a daily average of less than ten barrels of oil per eligible well per day for the preceding calendar year;
 - (b) (if a natural gas producing property) produced a daily average of less than sixty thousand cubic feet of natural gas per eligible well per day during the preceding calendar year; or
 - (c) (if a property with wells that produce both crude oil and natural gas) produced a daily average of less than ten barrels of oil per eligible well per day for the preceding calendar year, as determined by converting the volume of natural gas produced by the well to

barrels of oil by using a ratio of six thousand cubic feet to one barrel of oil; and

- (5) "Stripper well incentive tax rates" means the tax rates set for stripper well properties by Sections 7-29-4 and 7-31-4 NMSA 1978.

33.D. Certification, Notification and Hearing

- (1) The Division shall determine which wells qualify as stripper well properties.
- (2) Upon certification of properties as stripper well properties, the Division shall notify the operator and the Secretary of Taxation and Revenue of that certification.
- (4) The operator shall notify all the interest owners of the certification of the property as a stripper well property.
- (5) An operator may make a written request that the Division reevaluate a property for stripper well status.
- (6) If the Division denies stripper well certification to a property, the Division upon the operator's request shall set the matter for hearing.

[__-__-99]

34 NEW WELL TAX INCENTIVE

34.A. General

The operator of a new crude oil or natural gas well may, upon completion of the new producing well, apply for and receive a one time credit of fifteen thousand dollars (\$15,000) per new well against the operator's liability for the Oil and Gas Emergency School Tax.

34.B. Applicability

These rules apply to any new natural gas or oil well for which drilling commenced after January 1, 1999 and before July 1, 2000.

34.C. Definitions

"New well" means a crude oil or natural gas producing well for which drilling commenced after January 1, 1999 and before July 1, 2000, or a horizontal crude oil or natural gas well that was recompleted from a vertical well by drilling operations that commenced after January 1, 1999 and before July 1, 2000, that has been approved and certified as such by the Division.

34.D. Procedure

- (1) The Division's general rules of procedure shall apply unless altered or amended by these rules.
- (2) The operator must apply for and be granted Division approval of the "new well". A new well shall qualify if the Division certifies that:
 - (a) the operator applying for the tax credit commenced drilling the new well after January 1, 1999 and before July 1, 2000;
 - (b) the new well was completed as a producer; and
 - (c) the application is for one of the first six hundred new wells commenced after January 1, 1999 and before July 1, 2000.
- (3) An application must be filed with the Division: (a) within sixty (60) days of completion of the well as a producer, or (b) by Oct 1, 1999 for a well commenced after January 1, 1999 and before July 1, 1999.
- (4) All applications shall be filed in triplicate with the Division's Santa Fe office on Form C-142 and shall contain:
 - (a) operator's name and address;

- (b) description of the well:
 - (i) name and footage location;
 - (ii) date and time spudded; and
 - (iii) completion date and production test results;
- (c) copies of Division Form C-103 showing spud date and time and Form C-105 showing the well was completed as a producing well; and
- (d) a statement under oath by the operator or its authorized representative having knowledge of the facts contained in the application that:
 - (i) the application is complete and correct; and
 - (ii) the well is producing.

34.E. Certification, Notification and Hearing

- (1) Upon approval of the application, the Division shall certify that approval by sending a copy of the approved application to the operator and the Secretary of Taxation and Revenue.
- (2) The Division shall consider applications without a hearing. The Division may request additional information from an operator to support the application. If the Division denies an application, the Division upon the applicant's request shall set the application for hearing. Any application not acted upon by the Division within thirty (30) days from the date it is filed is deemed denied.
- (3) The operator shall notify all interest owners of the approval and certification of the well as a new well.