

EMERY CARPER
CHAIRMAN GENERAL COMMITTEE

BERT ASTON
CHAIRMAN EXECUTIVE COMMITTEE

FRED BRAINARD
SECRETARY

Loco Hills Operators' Committee

ARTESIA, NEW MEXICO

MEMBERS
MARTIN YATES, JR.
C. M. POPE, JR.
HUGH JOHNSON

October 30 1940.

State Conservation Commission,
Santa Fe,
N.M.

Gentlemen;

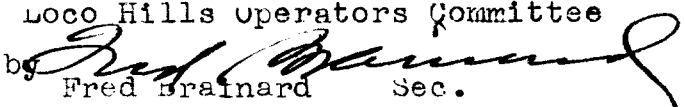
Whereas, the Loco Hills Operators, in duly assembled meeting, believe that a pressure maintenance program is the ultimate in conservation, and whereas, they propose to enter into a collective pressure maintenance program for the Loco Hills Field, now, therefore, through their executive committee, we respectfully petition the New Mexico Oil Conservation Commission for a hearing, at an early date, on the following issues, which have arisen in regard to the program.

1. We respectfully ask a ten percent increase over and above the normal allowable for each month, until the principle investment in this program has been amortized. Such a request is necessitated by the fact that many of the operators have been financed on such a basis that assignments of income have been made to mortgagees which will preclude the participation by the involved operators in this project, otherwise. Such an increase in allowable should prove to be an incentive toward additional conservation programs of this type in other New Mexico Fields.

2. We respectfully ask a reallocation of allowables monthly assigned to input wells. In order to avoid penalizing operators whose wells are selected for use as input wells, it is believed that an operator should be compensated by permitting him to produce the allowable monthly assigned to such well, from another well or wells owned by the operator, preferable on the same basic lease.

3. It is mutually satisfactory and is hereby recommended by the Loco Hills Operators, that the operators owning two gas wells, that is, R.W. Fair-Brainard # 6, & Dasset & Birney, #6B State, be compensated for keeping said wells shut in, by permitting them to produce an allowable for each gas well, prorated from other wells, preferably on the same basic lease.

Yours very truly,

Loco Hills operators Committee
by  Fred Brainard Sec.

EDDY COUNTY
LAND OFFICE

DEC 21 10 31 AM '40

RECEIVED

BEFORE THE STATE CONSERVATION

COMMISSION OF NEW MEXICO

IN THE MATTER OF THE
PETITION OF LOCO HILLS
OPERATORS' COMMITTEE

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Case No. _____.

- AMENDED PETITION -

Petitioners pursuant to permission granted by the Commission submit herewith their amended petition in this matter and request that this amended petition be given the same consideration and effect as if it had been filed on the date the original petition herein was filed. For their amended petition, petitioners respectfully submit:

1. Petitioners are a committee composed of operators in the Loco Hills Oil and Gas Field in Eddy County, New Mexico who have heretofore been selected by the operators of the said Field and authorized by such operators to represent them in presenting this petition. The officers and the executive committee of the committee are:

Emery Carper, General Chairman,
Bert Aston, Chairman of the Executive
Committee,
Fred Brainard, Secretary,
Martin Yates, Jr., C. M. Pope, Jr., and
Hugh L. Johnston, Executive Committee.

2. As used in this petition Loco Hills Oil and Gas Field is defined as including the following tracts of land:

Township 17 South, Range 29 East: $S\frac{1}{2}S\frac{1}{2}$ of Section 32, $S\frac{1}{2}SW\frac{1}{4}$ of Section 35, and $S\frac{1}{2}$ of Section 36.

Township 17 South, Range 30 East: $NE\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}N\frac{1}{2}$, and $S\frac{1}{2}$ of Section 31, and $W\frac{1}{2}$ and $W\frac{1}{2}E\frac{1}{2}$ of Section 32.

Township 18 South, Range 29 East: All of Sections 1, 2, 3, 4, 5, and $E\frac{1}{2}$ of Section 6, all of Sections 8, 9, 10, 11, $N\frac{1}{2}N\frac{1}{2}$, $S\frac{1}{2}NE\frac{1}{4}$, and $SE\frac{1}{4}$ of Section 12, $N\frac{1}{2}N\frac{1}{2}$ of Section 14, $NE\frac{1}{4}NE\frac{1}{4}$, $N\frac{1}{2}NW\frac{1}{4}$ of Section 15, $N\frac{1}{2}$ of Section 16, and $N\frac{1}{2}$ of Section 17.

Township 18 South, Range 30 East: $N\frac{1}{2}NW\frac{1}{4}$ of Section 5, all of Section 6, and $W\frac{1}{2}$ of Section 7.

Insofar as the said $S\frac{1}{2}S\frac{1}{2}$ of Section 32, Township 17 South, Range 29 East, approximately the $W\frac{1}{2}$ of said Section 4, all of said Section 5, $E\frac{1}{2}$ of said Section 6, approximately all of said Section 8, and the $NW\frac{1}{4}$ of said Section 17, Township 18 South, Range 29 East are concerned, the inclusion of said tracts as being within the limits of said field is tentative and subject to later determination. Subsequent drilling operations also may disclose that tracts adjacent to the present limits of said field as defined herein may properly be included in and designated as a part of the field.

3. In said field are approximately 160 producing wells of which number approximately 30 are what is known as

marginal wells, or wells which now are not capable of producing the amount of oil ordinarily allotted to wells within the field. Not all of the said marginal wells were marginal in character at the time of completion but have become such by decline in productive capacity from various causes since completion.

4. The discovery well in the field was drilled some two years ago but the first production of oil from said field in considerable amounts was obtained in January, 1940, at which time the bottom hole pressure in the field averaged 950 pounds. In September, 1940 this pressure had declined to an average of 737 pounds. The average depth of the wells is from 2500 feet to 2900 feet. The reservoir energy is from gas in solution in the oil. The present allowable for the field is approximately 6,000 barrels of oil daily and it is estimated that approximately 3,500,000 cubic feet of natural gas is produced with this oil. This gas is referred to in this petition as waste gas.

5. The operators in the field through this committee have heretofore caused a survey of the field to be made by a committee of engineers and such committee has prepared a complete report of its work, copies of which will be furnished to the Commission for its information and files. From such report it appears that the decline in bottom hole pressure which has already occurred in the field is due to the production of gas from the reservoir

in solution in the oil produced and that the decline will continue until the pressure in the reservoir is so reduced that it will be necessary to install pumping equipment on practically all of the wells in the field.

6. Said committee of engineers has recommended to the operators that immediate steps be taken to install a pressure maintenance system in the field which will recover the waste gas and return it to the oil bearing formation under high pressure, and that producing oil wells be used as input wells for the return of the gas so as to avoid the necessity and expense of drilling any wells for such purposes. In the opinion of such committee the immediate installation of such a system will prevent to a considerable degree further decline in the bottom hole pressure in the field and also will result in increasing the ultimate recovery of oil in the field approximately one hundred per cent.

7. The operators at several meetings have considered the recommendations of the said committee of engineers and have authorized this committee to proceed with the formulation of plans for the installation of the system recommended by such committee. Pursuant to such authorization estimates of the expense of the installation of the proposed system were obtained and tentative arrangements for the financing of the installation were made. At

a meeting of the operators held at Artesia, New Mexico December 14, 1940 this information was reported by this committee to the operators and thereupon the operators adopted tentative plans for the installation of the system and for obtaining the necessary funds and for the amortization of the investment. The principal features of the proposed plan are:

(a) A corporation will be formed under the laws of the State of New Mexico entitled "Loco Hills Cooperative Pressure Maintenance Association, Inc.". Its capital stock will be 200,000 shares of no par value. Each operator joining in the plan will be issued stock at the rate of 1,000 shares for each producing well. Ownership of stock must follow ownership of wells. Payment for stock issued shall be made by assigning to the corporation not to exceed five and one-half cents per barrel out of the proceeds of the working interest oil produced from the well to which the stock is appurtenant. After payment in full for the stock the assessment against the well will be reduced to its proportionate part of the operating expenses of the system. Additional wells drilled by original subscribers to the corporate plan will likewise entitle the owner to an issue of 1,000 shares of stock to be paid for in the same manner as provided for present wells. Other operators subsequently subscribing to the plan will be admitted upon fair and

equitable terms to be prescribed by the Board of Directors.

(b) Each operator will be required to enter into a contract with the corporation agreeing to deliver to the corporation all gas produced on his lease, except such as may be used for lease operations and to assign by division order not more than five and one-half cents per barrel from all working interest oil produced from his lease until the stock appurtenant to the wells on the lease is paid for. Out of such amount it is anticipated that one cent will be allotted to operating and maintenance expenses and the remainder credited on the stock subscription. Working interest oil will be considered as seven-eighths of the gross production. If the working interest oil from the lease is subject to existing liens or contracts which would prevent the assessment to the corporation being a first charge against the working interest, then proper subordination agreements must be obtained by the operator from the owner or holder of such lien or contract.

(c) The contract between the operator and the corporation will obligate the corporation to finance and install the system and to operate and maintain same thereafter.

(d) Provision is made for submitting the contract between the corporation and the operators for the approval of both State and Federal conservation authorities.

(e) The installation of the system is to be financed by a bank loan made to the corporation at a low rate of interest which loan will be retired by the corporation out of the proceeds received from the stock subscriptions. An appropriate contract with the bank will be executed by the corporation.

8. The undersigned counsel for petitioners were directed and authorized by the operators present at the said meeting to proceed with the incorporation of the proposed corporation and the preparation of the proposed contract between the corporation and the operators. At a later meeting of the operators the form of contract will be submitted for approval and when finally approved by the operators will then become the contract which all operators who participate in the plan will be required to execute.

9. It has developed that a number of the operators have hypothecated considerable amounts of their future oil runs for the purpose of obtaining developing and operating capital and that in some cases the operator's actual working interest is reduced to three-fourths of the gross production by reason of royalties payable over and above the royalties to the lessor. Since the proposed plan imposes the assessment upon all working interest oil and defines such interest to be seven-eighths of the gross, some of the operators will be compelled to pay the assessment imposed against the overriding royalty as

it cannot be expected that the royalty owners will agree to the assessment. In consequence a hardship will be imposed upon a number of the operators by the assessment and the committee proposes to the Commission that in order to relieve such situations and also to encourage cooperation on the part of all of the operators in carrying through the proposed plan, there be re-allocated to the so-called top allowable wells in the field the back allowable of production which has heretofore accrued from various causes in favor of marginal wells which no longer are capable of making up such back allowable. It is estimated that the back allowable which has accrued to these marginal wells is approximately 137,000 barrels. In the re-allocation of such back allowable it is proposed that it be distributed over a period of not less than ten months and that no deduction be made from the State allowable or the future allowable for the field by reason of such re-allocation.

10. Since the use of existing oil wells as input wells will deprive the owner of such well of his allowable production of oil for the period during which said well is so used, it is proposed by petitioners that the owners of such wells nevertheless be granted the usual allowable for such well and that such owner be permitted to produce such allowable from other wells on his lease. The engineering plan contemplates that the input wells will be changed from time to time so as to effectively equalize over the

field the return of the waste gas to the formations.

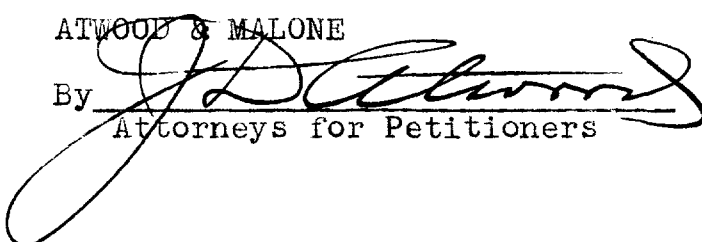
✓ 11. In the said field are two gas wells which are capable of producing substantial quantities of gas. One of these wells is the property of R. W. Fair and is located on the $SE\frac{1}{4}SE\frac{1}{4}$ of Section 10, Township 18 South, Range 29 East and the other of said wells is the property of Bassett and Birney and is located on the $NW\frac{1}{4}SE\frac{1}{4}$ of Section 11 in said Township and Range. These wells are shut in and the owners and operators of same are willing for the wells to remain closed if they can be compensated by receiving an oil allowable for such wells to be produced out of other wells which the operators own on the said leases. Petitioners are of the opinion that it would be of decided advantage in maintaining the reservoir energy in the field if these gas wells should not be produced.

Petitioners therefore respectfully request that the Commission after a proper hearing and due consideration enter its order herein approving in its general aspects the proposed plan for conserving the reservoir energy in said field as a proper and necessary plan for the prevention of waste and the conservation of natural resources of the State, and that as a matter of encouragement to the operators in said field and in recognition of the hardships which may result to some of the operators and to facilitate the financing of the proposed plan, the Commission authorize ✓ the re-allocation of back allowable from the marginal wells proposed above herein, and that the Commission specifically

authorize the allowables for the input wells and gas wells as proposed above herein, and that the Commission make such further orders in the premises as may be fair and just and equitable among all concerned. It is further requested that the order of the Commission in the premises retain jurisdiction of this matter for the approval of the contracts between the operators and the proposed corporation and for the taking of any and all action which may become necessary or proper in the furtherance of the said proposed plan of conservation.

ATWOOD & MALONE

By


Attorneys for Petitioners