

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

TRANSCRIPT OF HEARING

CASE NO. 308

September 20, 1951

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

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In Re:)	
)	
In the Matter of the application of)	
the Oil Conservation Commission of)	
New Mexico upon its own motion for)	
reconsideration, clarification,)	
amendment, revocation and necessary)	Case No. <u>308</u>
extension of certain rules and)	
regulations of the Commission,)	
as follows:)	
)	
)	

- (1) Oil and gas proration and allocation, being Section "G", Rules 501-507, inclusive, and Section "H", Rules 601-605, inclusive.
- (2) Oil purchasing and transporting, being Section "J", Rules 801-803, inclusive.
- (3) Rules in regard to reports, being Section "M", Rules 1101-1125, inclusive.
- (4) Rules of procedure, being Section "N", Rules 1201-1212, inclusive.
- (5) Rules of administration, being Section "O", Rules 1301-1304, inclusive.

The listed paragraphs 1, 2, 3, 4 and 5 having reference to the Rules and Regulations of the New Mexico Oil Conservation Commission heretofore adopted and effective January 1, 1950.

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TRANSCRIPT OF HEARING

Regular Hearing
September 20, 1951

MR. SPURRIER: The next case is Case No. 308.

(Mr. Kellahin reads the Notice of Publication.)

MR. SPURRIER: Gentlemen, at this time I should like to make a few comments on what we have in mind on this case.

Some of you are quite well acquainted with what we have in mind and some of you are not. As you know, Judge Carl Hatch of the Federal District Court has made a ruling which effects our proration status here in New Mexico.

In the audience today we have a gentleman who is the Chairman of the Federal Tender Board, Mr. James Lewis, who, of course, has followed the case that has come up in Judge Hatch's Court from beginning to end. He has some comments which he has agreed he will deliver to you about the proration in New Mexico and what Judge Hatch's ruling is and how it will effect us and probably some of the changes we should make to perfect our allocation system.

MR. LEWIS: Governor Mechem and Members of the Oil and Gas Conservation Commission and Gentlemen:

I didn't come to this meeting today with the idea of delivering any particular remarks. Naturally in our official work in the administration of the Connally Act, we are slightly interested in proration problems where ever they may arise, and as has been stated to you, the litigation that is now

pending in Judge Hatch's Court has resulted in a judicial determination that the proration schedules which have been in effect in your state here during the period involved in the transactions in question in the court which cover the period from about 1948 possibly earlier, but primarily from 1948 to June 1950, the Court, as we understand has held, not that the proration schedules were invalid, he carries that conception that he never reached the question of whether the orders were valid or invalid. He merely held that they were not orders at all of the proration Commission, but documents which were made by the Oil Conservation delegate, the committee down there.

says

He/quite clearly that he didn't determine that the orders were invalid, but that they just weren't orders at all of the Conservation Commission.

It is his opinion, made orally from the bench. I happen to have, however, the court reporter's transcript of the comments made both on the original proceeding on August 14 and subsequent proceeding on September 10. The comments from the bench on September 10th tend to clarify the original holding. The comments on the later date made it very clear that he did not reach the question of validity of the order of the Oil Conservation Commission, but found that those schedules were not the act of the Commission.

In commenting about the matter, however, his remarks indicated that his difficulty with the schedules in question was not that the investigative work to determine the factual questions which had to take place before the schedules were prepared. He didn't find anything wrong apparently with the fact that those determinations had been made by Mr. Staley's committee down there, nor in my opinion was his objection that the schedules were made by Mr. Staley's Commission.

It seemed ~~implicit~~ to us that all of that would have been acceptable to the Court if only the schedules prior to their being distributed to the industry had been returned to the Commission and given at least some casual or perfunctory examination and formally ratified or adopted.

I am told that the Court informally elaborated on that somewhat to those interested quite recently and made the observation that he thought the Commission was going to have to adopt those schedules. That had been my notion about it based upon his holdings in the matter. As many of you know, Texas has followed somewhat the same procedure for a good many years now. They issued their state-wide general allowable orders pursuant to hearing on notice just as you are doing here now. The schedules are prepared, of course, by subordinate personnel of the Commission. But after those schedules are prepared they come back to the central office

in Austin, at least a master copy does, and it is formally adopted by an order of the Commission. In conversation this morning with attorneys in your state, the inquiry was made as to whether in my opinion, to satisfy the indication to the Court, would it probably be necessary for the Commission in adopting these schedules to have another hearing on notice. In my opinion you would not need to have another hearing on notice. Your hearing on notice is to take the evidence, as you have done here this morning. But after the mechanics of preparing the schedules have been completed, if that schedule come back, in my opinion, all that would be necessary would be for the members of the Commission to have a formal meeting of their own and take some step which would amount to a formal ratification or adoption of proration schedules and that would be probably signified by a very simple adopting order. I think if you examine the procedure in that respect of the Texas Commission, you will find it admirably adopted to your needs here.

I believe that would cover substantially my thoughts, Mr. Chairman.

MR. SPURRIER: Thank you very much, Mr. Lewis.

MR. McKELLAR: McKellar from Magnolia. May I ask you a question? I would like to get a few points. The period

that was at issue covered the time in 1948 or previous, up to June 1950?

MR. LEWIS: Up to June 1950.

MR. McKELLAR: It did include the first six months of 1950 after we made the change here?

A MR. LEWIS: That is correct.

MR. McKELLAR: You spoke of the committee.

MR. LEWIS: Yes.

MR. McKELLAR: Were you referring to the old Lea County operators Committee or the committee that Mr. Staley is now working with?

MR. LEWIS: I was referring to them both insofar as either one of them prepared these schedules.

MR. McKELLAR: Well, of course, the old Lea County Operators Committee was dissolved effective January 1, 1950, and then we changed that date our old proration set up out here in this state and began -- that is the reason I am some what --

MR. LEWIS: (Interrupting) Well, your order 850 provided for a complete change in your procedures but under the evidence before the Court in this matter, the undisputed evidence was that the schedules themselves continued to be made by Mr. Staley's committee through June of 1950.

MR. McKELLAR: Thank you. I just wanted to get that

period.

^{Porter}
MR. ~~BORDER~~: May I ask one? A. L. ^{Porter}~~Border~~ with the Oil Commission, New Mexico. In our present procedure sometimes it becomes necessary to change allowables during a proration period and, of course, it is always necessary to issue what we refer to as a supplement for the purpose of assigning allowables to new wells or re-completed wells. Since that is a part of your proration schedule, do you feel that it would be necessary for the Commission to meet to adopt those supplements?

MR. LEWIS: No, sir, I do not think that would be necessary. That is a minor aspect of the operation of your general system and it is my opinion that none of the courts are going to impose any possible or unreasonable burden upon the administrative body and where it is obvious that even in your state that the completion, re-completions and abandonments are continually occurring and it would, in my opinion, entail a burden to attempt to require the body to formulize the procedure every time one of those changes occur. I do think you can take care of that by having your general procedural orders set up a definite plan by which those steps will be carried out as a matter of course. They should not be left to the arbitrary or unformulized act of the person on the Commission, but should be governed, in my opinion, by

some formal order.

MR. BORDER: Thank you.

MR. SPURRIER: Thank you, Mr. Lewis. Mr. Seth, would you care to make any comment?

MR. SETH: My suggestion was that this Commission adjourn this hearing on the allowable as to a definite date so that anyone who wants to appear could appear and object.

MR. SPURRIER: I believe at this time we will have our Proration Manager, Mr. Porter, come forward with some recommendations which he has in writing. These recommendations are not necessarily the Commission's final ideas, they are Mr. Porter's ideas of exactly how proration should be set up. If there is an expert on proration in New Mexico, certainly Mr. Porter is that. We will welcome suggestions on these comments of Mr. Porter's. I hope that some of you have his comments before you so you can follow this.

I believe that the hearing would best be continued from this date forward, either to October 23 or the regular November hearing. In the meantime, the Commission would like to ask some of the legal and engineering experts here to serve on advisory committees, make recommendations to the Commission before the next hearing and those committees can accept suggestions from any and all operators.

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I believe if we get into a full ~~long~~ discussion here this morning the morning will be so cluttered that it will be hard to figure out just what everybody did have in mind. Mr. White is going to read Mr. Porter's written suggestions and Mr. Porter is here to try to answer questions if there are any.

MR. WHITE: I might state before reading these that these are suggestions made by Mr. Porter from a practical standpoint. He hasn't approached it from the legal aspect whatsoever, but they are just suggestions that if they were incorporated in our rules it would make it more practical from a functioning standpoint. As to Rule 501: he suggests no change as to Part A or B. He makes no suggestion as to changing Rule 502. As to Rule 503, Part A, there is no change. 503, Part B, no change, and as to Part C, he makes these suggested changes. The Commission will consider all evidence of market demand for oil and determining the amount of oil to be produced from all oil pools during the following month. The amounts so determined will be allocated on the various pools in accordance with existing regulations and among the various units in each pool according to the regulations governing each pool. These are the suggested changes for allocated pools effective the first day of each proration period. The Manager of Proration, in accordance with any rule or order of the Commission, shall issue a proration schedule which will authorize the production of oil

from the various units and the purchase and transportation of oil so produced. Allowable for wells completed after the first day of the proration period will become effective at 7:00 A. M. on the date of completion; provided form C-104 is approved during the proration period in which the well is completed. Otherwise, the allowable will become effective at 7:00 A. M. on the first day of the proration period in which form C-104 is approved. A supplementary schedule will be issued by the Manager of Proration to the operator of a newly completed or recompleted well and to the purchaser or transporter of the oil from the newly completed or recompleted well, establishing the effective date of allowable, the amount of production permitted during the remainder of the proration period, and the authority to purchase and transport same from said well.

As to Part D of Rule 503, he suggests that the whole Section D be re-written as follows: A marginal unit shall be permitted to produce any amount of crude petroleum which it is capable of producing up to and including the top unit allowable for that particular pool for that particular proration period; provided the operator of such unit shall file with the Manager of Proration for a supplemental schedule covering the increase above the amount shown on the proration schedule. The Manager of Proration shall issue such supplemental order setting forth the daily amount of crude petroleum which such unit shall be permitted to produce for

the particular proration period and shall furnish such supplemental order to the operator of the unit and a copy thereof to the transporter authorized to transport crude petroleum from the unit.

He suggests Part E be re-written as follows: Current oil Under-Production or Under-Runs to be made up or current and unavoidable over-production or over-runs shall be compensated for at any time or times during the two proration periods next following the proration period in which such occurred. This may be done without any special authorization therefor from the Commission, and the volumes thereof will not appear in the proration schedule.

He suggests that Part F be discontinued, stating "It is my opinion that if the provisions of paragraph E are complied with the necessity for back allowable clause will no longer exist.

He suggests paragraph G read as follows: In order to preclude premature abandonment, a common purchaser within its purchasing area is authorized and directed to make 100 percent purchases from units of settled production producing 10 barrels or less daily of crude petroleum in lieu of ratable purchases or takings. Provided, however, where such purchaser's takings are curtailed below 10 barrels per unit of crude petroleum daily, then such purchaser is authorized and directed to purchase equally from all such units within its purchasing area regardless of their producing ability

insofar as they are capable of producing.

I don't believe there is any change in that respect.

MR. PORTER: No.

MR. WHITE: As to Rule 504, he suggests no change.

As to Rule 505, under oil proration, he suggests changes only as to Parts 5 and 8. As to Part 5, he recommends the following: The top unit allowables hereinabove determined shall be assigned to the respective pools in accordance with each pool's depth range. Allowables to marginal units other than those affected by gas-oil ratios will be assigned in accordance with the nominations submitted by the operators on Commission form C-115. Such nominations must be based upon ability of the well to produce; otherwise the allowables will be assigned on the basis of the latest available production figures.

As to Part 8, he suggests that it be re-written as follows: At the beginning of each calendar month the distribution or proration to the respective units in each pool shall be changed in order to take into account all new wells which have been completed and were not in the proration schedule during the previous calendar month; with the exception that all newly completed or recompleted wells on which form C-104 is approved on or after the 25th of the month will be assigned an allowable for the next month by supplementary schedule.

As to the remaining portion of that paragraph, he suggests that it be stricken. I believe that is because it is covered elsewhere in the rule.

MR. PORTER: That is right, it is covered under 503.

MR. WHITE: As to 506 he suggests no changes. Same as to Rule 507.

CHAIRMAN SPURRIER: Mr. Porter will be glad to answer any questions or further explain his suggestions if anyone cares to inquire.

MR. CAMPBELL: Jack Campbell, Roswell. If the Commission please, Mr. Porter, I take it that these suggestions have been made on the assumption that some program can be worked out where it will be unnecessary for the schedule to return to the Commission for ratification. I gather that from some of your notes.

MR. PORTER: That is what was intended by the revisions in Paragraph C, I believe.

MR. CAMPBELL: What practical difficulty would be involved except from the point of view of the time element and what administrative problems would that create if it were necessary to send the schedule back up to the Commission for ratification?

MR. PORTER: The only thing that I could see would be that it would delay the distribution date of the proration schedule, which has been the point in question for some time anyway.

MR. CAMPBELL: How much, of course, that would depend whether the Commission were available when it gets up here.

MR. PORTER: That would depend on the action of the Commission.

MR. CAMPBELL: What is the timing suggestion now?
How close are you running?

MR. PORTER: Well, we actually begin the typing and printing of the schedule the first day of the month. We have always endeavored to distribute the proration schedule by the tenth day of the month. We have, well I believe once during the last eighteen months, we failed to meet that ten-day deadline which we ourselves set, and at that time we sent it out on the eleventh of the month.

MR. CAMPBELL: What happens in that ten-day period from the expiration of the previous month's schedule to the time that you get the new schedule? They take on the new proration schedule?

MR. PORTER: I suppose the transporters do abide by the old schedule.

MR. WHITE: Would it be possible for you, Mr. Porter, to submit the schedule to the Commission on or before the first of each month?

MR. PORTER: On the present arrangement of reportings it would not be.

MR. WHITE: Explain why.

MR. PORTER: We receive the form C-115, which is submitted by the operator and which carries the nomination for each proration unit any time from the first of the month up through practically all through the month as far as that is concerned.

MR. WHITE: Is it possible to have those forms submitted prior to the twentieth of the month?

MR. PORTER: The opinions that I have gathered from the operators are that it would not be possible to, in the case of most major companies, to submit those earlier than the twentieth of the month due to the fact that they are depending upon the gas line plants for the figures on their gas take for the completion of these records. They do not get those in time to allow them to compile their C-115 in time to reach us by the twentieth.

MR. WHITE: Oftentimes the essential information that you need is not received by you until after the twenty-fifth of the month, is that right?

MR. PORTER: That is right.

CHAIRMAN SPURRIER: Is there an operator here who would shed any light on that matter?

MR. CHRISTIE: Mr. Christie with Amerada. Do you use those gas figures that are supplied by the gas line plant in making up your schedule?

MR. PORTER: No, sir.

MR. CHRISTIE: If that were contained in some other report and you got only the production report you might be able to get them out a little earlier, is that true?

MR. PORTER: I think so.

MR. McKELLAR: There are three attorneys on the advisory commission now, and I would like to ask the gentlemen if it

is their opinion as of today there is anything invalid or illegal about our picture out here and our set-up. I am firmly convinced I can defend it, and I don't think there is anything wrong with it. I haven't heard a single lawyer tell me that he really thought it was illegal. I had some small part in working this procedure out and I personally am convinced we are on solid ground.

I would like to know if, since the Commission took this thing over, our set-up was not an issue in this case as I understand it. It was only the first of June or the first of July, 1950. You have today taken testimony, and based upon your testimony and your evidence you are going to get what the allowable for the state should be. You have already determined in which manner that is going to be broken down and distributed. Mr. Porter's is simply a mathematical process and administrative. Your schedule, you promulgate them, you adopt them, and you have an order to that effect signed by all the other members of the Commission. I am firmly convinced that our position is sound.

CHAIRMAN SPURRIER: Anyone else have anything to say?

MR. HOWARD: ~~Pinkston~~ Howard of Shell. I would like to state my feeling. Basically I agree with the statement that has been made that the procedure at this time is sound. I can't help but recognize that there may be some question involved as to this question of the delegation of authority. That is, by having the schedule prepared by the Proration

Manager. In other words, I think I have to agree that the thing would be air-tight, so to speak, if it were possible to prepare the schedule by the Proration Manager and have it returned to the Commission before issuance and then have just a notation that they would be adopted and issued and signed by the Commission. I think that would be just an air-tight procedure. A very conservative procedure. My opinion is that it probably is not necessary to go that far in order to have a procedure that can be defended. In other words, it is my thought that the making up, the mechanical making up of the schedule, is not the delegation of such authority, that the Commission is prohibited from doing. In other words, when the law says the Commission shall do so and so, I don't believe it contemplates that each individual member of the Commission himself has to do those particular things or that the Commission as a body has to do all those things. The Commission clearly, I know, could not delegate to the Manager of Proration, for example, the fixing of the statewide allowable. That is a duty that it could just not delegate.

But it would seem to me that if the Manager of Proration, as any employee of the Commission, is told by the Commission to prepare the mechanical schedule allocating the production that the Commission has fixed and then issue that schedule as the act of the Commission, quite honestly I think that is

sound.

Mr. McKellar: And distribute that in with the fixed formula that the Commission has adopted.

MR. PARKIN: I understand you don't care to get into a discussion today on the proposed suggestion, but when the proper time comes on that I think there could be some additions made to these proposals to emphasize that fact that the Manager of Proration is not exercising discretion or issuing a schedule of his own but that as an employee of the Commission he is merely carrying out the mechanical features of the rules and regulations of the Commission. I think our present procedure can be defended. I think it is sound. As I say, I think it would be unquestioned if it were possible to return that schedule. But you sometimes run into a practical situation in which it isn't possible in order to operate in order to plug all legal loopholes. I think that when such a situation arises you have to weigh the practical requirements of the situation against your best reasoning as to the procedure you are following and then make up your own mind. May I suggest just one other thing while I am on my feet. I know there is a question that Mr. Campbell raised a little while ago. In the event the schedule is late in coming out after the first of the month. I know that the Commission in the past and in its order has in effect stated that if the schedule is elected

that producers may produce and purchasers may purchase on the basis of the prior month's schedule until the new schedule comes out. Due to some wording in the last order I believe it was there has been some question in the minds of some of the purchasers as to whether or not there has been any change on that. I just want to urge that when the orders are prepared that there be that close statement if that is the intention of the Commission that the operators and the purchasers may rely upon the previous month's schedule until a new one comes out.

MR. WHITE: That will be done.

MR. LOLLY: Mr. Lolly with Shell. These suggested rules here, we have taken care of the top allowable wells and you have taken care of the marginal wells so called, but I question that we have protected the correlative rights for the operator in the wells that are penalized because of high gas-oil ratio. I may be wrong but it is my question that the penalized allowable is a fixed thing. It doesn't change from month to month. If the production is raised the unit allowable is raised, and the already penalized well on the high gas-oil ratio does not get any benefit in that increased production. Whereas to protect correlative rights it seems to me they should be allowed their pro-rata share of their allowable.

MR. PORTER: That is the practice now.

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MR. LEVERING: I thought it was a fixed thing.

MR. PORTER: No. As your normal unit allowable is increased your wells affected by the high gas-oil ratio are increased accordingly.

MR. KELLOUGH: I am attorney for the Amerada. I have the same confidence in the legality of the present proceedings as Mr. McKellar and Mr. Howard. I have just one idea that I want to throw in for what it is worth. That is this. That under your law if it is that the Commission fix the allowable on notice and hearing then you have given your notice and you have had your notice. Judge Seth suggested that perhaps then the matter could be continued and set down at some future time. Now then this thought I wish to make. If the only purpose of bringing this schedule back and having it ratified or adopted by the Commission is to make it an act of the Commission if it isn't already one is simply to eliminate any question that the procedure already set up is not the act of the Commission what difference would it make whether that ratification or adoption was made before the issuance of the schedule? In other words, right now you have a hearing upon notice and you determine total amount of allowable for the whole state. You then have by order a schedule which breaks that down, eliminates the marginal wells and the high gas-oil ratio wells and divides it up among your units. That is fixed and definite. The

actual computation of that is purely mechanical. It would seem it attributed more authority to Mr. Staley than he actually had. If that is the present set-up then it is the opinion here at least of the lawyers that you are all right now. What do you want to do? In order to have additional insurance let's have the Commission adopt and ratify the schedule, why do you have to do that before you send it out? If there is no purpose is to assure that this is the act of the Commission then the suggestion to make is to you lawyers and other men as to what difference you make when you do it. As long as during the month as adopted and ratified and made official by the Commission which in the opinion of a good many already is.

MR. DOW: Mr. Dow of Hervey, Dow, and Hinkle. In actual operation in the Railroad Commission of Texas not necessarily that schedule is approved before the first of the month. The one thing that they guard against is that they don't do it in their office. That was attacked in a previous suit in Texas years ago and the order was actually being prepared and signed by taking it around to the various offices. That was attacked and they said that before the Commission had the power to make that they must be in a meeting and invoke the powers of the Commission. Now nowhere there do they set a timetable as to when they have to sign the order. So I think, Mr. Kellough is exactly correct that at the same time

that the schedule is distributed by Mr. Porter the master copy could come to the Commission and by formal approval it would be of valid approval of the Commission of the schedule and would clear up all legal loopholes in that order. In that way nobody will be prejudiced or inconvenienced or delayed. If that procedure was followed I think that there would be no way that the legal eagles could attack it.

CHAIRMAN SPURRIER: Is there some other attorney that wants the floor for a minute or two?

MR. CAMPBELL: So there won't be any mistake or misunderstanding I would like the record to show that I concur thoroughly in the view that the procedure which has been followed since January 1, 1950, particularly since the schedule has been prepared by the office of the Commission, is completely valid and not subject to attack. However, I agree that if Judge Hatch has raised this possibility that for future protection if it can be done by practical means that most certainly we should undertake to have some kind of a ratification by the Commission. I further agree that it is proper and passable for the Commission to approve the schedule after the physical distribution has started. They can approve the master copy and let the minutes show so. I don't see how anybody can be hurt on that situation.

CHAIRMAN SPURRIER: Anyone else?

MR. SANDERS: Mr. Sanders from Continental. I concur in that method of procedure. I believe that someone else has stated that we'll plug all loopholes as we know them now.

CHAIRMAN SPURRIER: Is there anyone else? Mr. Morrell, do you have any comment.

MR. MORRELL: No comment at this time.

CHAIRMAN SPURRIER: I should like to make a few comments in defense of the Commission's calling this matter for a hearing. In the first place, as Mr. Campbell said, there has been a question raised by no less than Judge Carl Hatch. If the Commission needs to plug some legal loophole the Commission certainly stands ready to do just that.

We thought, and I am sure a lot of other people thought, that for about sixteen years we were putting out a legal proration schedule and yet when the case is brought up as a criminal case, maybe we did and maybe we didn't.

There are some administrative details that I am sure very few of you are thoroughly acquainted with in the matter of preparing a proration schedule. It is incumbent on the Commission to straighten out all those little details, and Mr. Porter, who actually does most of the detail work in preparing these schedules has made these suggested changes. For example, what about the ten days from the first of the month until the proration schedules are actually available?

Our rules and regulations do not state to my particular knowledge, although Mr. Howard said he believed there was an order somewhere to that effect, it is not clearly stated in our ^{"500"} five hundred rules and regulations. Therefore, if the rules were changed so that the previous month's schedule would absolutely be in effect until the current month's schedule was received. I am bringing these things up to show you what we were thinking about when we called this hearing.

To enlarge on my original comments, the Governor has a suggestion here that the operators submit in writing to the committee, which we will appoint immediately, any suggested change in writing to these committees, and I think we will have to put a deadline on that. We also will have to continue this case until a future date. The next regular hearing is October 23rd, and this case will be continued until that date.

I think we will put this out in writing to all operators, but I think you should have about two weeks to submit your suggestions to the committee, and then the committee will have two weeks in which to consider those suggestions and be prepared to recommend to the Commission on October 23rd. If that doesn't seem feasible, is there anyone that has a comment? Apparently there will not need to be any major changes in the actual wording of the rules and regulations.

The Commission itself will have to revise some of its procedure.

We have considered, apparently to the satisfaction of all, the number one item under Case 308. Now we have item No. 2, which says Oil Purchasing and Transporting, Section J, Rules 801 and 803 inclusive. There again and on through these numbered items the Commission does not have any particular recommendation. If any of you do have we should like to hear them or if you would prefer to put them in writing and submit them to the committee on these matters it will be held open until October 23rd.

Does anyone have anything to say on 801, 802, 803?

MR. McKELLAR: I think these rules follow the statute.

CHAIRMAN SPURRIER: You mean the rules are practically as the statute is worded.

MR. McKELLAR: I think so.

CHAIRMAN SPURRIER: Then they cannot be changed but can be added to. I assume there are no comments on Item 2. We will take up Item 3. Rules in regard to reports, being Section M, Rules 1101 to 1123 inclusive.

MR. NEWMAN: Well these rules are advertised as open for change. We have in Rule 1105, the last sentence, a copy of the notice giving the decision of the Commission will be returned to the owner. We will, of course, the Commission doesn't consider these forms, and I would like

to see inserted in there decision of the Commission or the deputy of the Commission. Since it would be impossible for the Commission to consider all of those forms that come in. his answer is

CHAIRMAN SPURRIER: What Mr. Newman is raising there is when is the Commission a Commission and when are the agents and employees of the Commission, when should they take over. It seems obvious in a practical way that the Commission can't sign all the C-101s or approve all the C-103s and that sort of detail.

MR. NEWMAN: Also in Rule 1107, as a matter of practice we do not have these forms, C-103, sworn and some of the new, newer forms don't have a place on them where the operator can swear to the forms. I would like to see that last part of the last sentence sworn and signed before a notary public taken out of that rule.

CHAIRMAN SPURRIER: There again, it has been suggested that if the statute requires that the forms be notarized then we cannot make that change and the forms will have to provide for notarization.

MR. NEWMAN: Then the forms referred to in Rule 1108, 1109, 1110, 1111, and 1114, paragraph A, have that same provision that they will be sworn to. Then in rule 1119, the last sentence in that rule reads "It is in regard to the C-115 under discussion this morning". Such report for

each month shall be filed on or before the twentieth day of each succeeding month. One operator in particular was of the opinion last week that if that form were mailed out of his Denver office on the fifteenth it would be considered filed, and I should like to see this defined so that filed would mean in the hands of the Commission since these forms are necessary to make out the proration schedule.

MR. WHITE: You also want that the copy be -

MR. NEWMAN (interrupting): Yes, it is not clear where the file goes. It should state that the file goes to proration office in Hobbs, Oil Commission in Santa Fe and the transport.

MR. PORTER: Still in regard to the eleven hundred rules, Rule 1112, which has to do with the request for allowable form C-104, I would like to make the same suggestion there that I made in the proration procedure. Under that rule it says that the allowable will be assigned effective 7:00 A. M. on the day of completion. I wonder if it is necessary for that statement to be in there since it is elsewhere in the rules or regulations, or if it is I think we should go further and say that the allowable will be effective as of 7:00 A. M. on the day of completion provided that form C-104 during the month in which the well is completed - see, you are placing no limit on it there.

CHAIRMAN SPURRIER: I think Mr. Morrell has something

to say on that.

MR. MORRELL: If the Commission please, I would like to propose for consideration of the Commission and this committee that is to report to the Commission on proposed revisions that some clarification be made to Rule 1104. I am offering this thought in connection with the action taken by the Commission recently in calling attention of the operators to their desire to have filed with the Commission copies of reports on wells drilled on Federal land. Reference is also made to Rule 4, which states that the Commission recognizes that all persons drilling on United States Government land shall comply with the United States Government regulations. Further that such persons shall also comply with all applicable state rules and regulations which are not in conflict therewith. The question has been raised with us several times as to whether Rule 1104 requires the prior approval of the state as well as the Federal government before a well is drilled on Federal land. That raises the question of dual control or regulation of the operator. Possibly some clarification of Rule 1104 would be helpful to the operators. If the Commission merely wants the information on the copies of well reports on Federal land for record purposes arrangements could be made so that an approved copy of the reports, reports approved by representatives of the United States Government, could be furnished

by the operators. As now furnished to us the operator gives us three copies. They could furnish four copies of which we could return two and they could mail the Commission a approved copy. That is offered merely as a suggestion, but I do not believe that section, Rule 1104, says that before beginning drilling they must file a form C-101. The inference is also there that it would require approval by the Commission before drilling. I don't know that that was intended. I am merely raising this for possible clarification. It is subject to amendment at this time.

CHAIRMAN SPURRIER: Thank you, Mr. Morrell. Does anyone have anything else on Item No. 3? If not, I think we will continue the comments on Items 4 and 5 and ask they be written and submitted to the committee for consideration on October 23rd. If no one has anything further, no further comments, the meeting will stand adjourned.

MR. McKELLAR: That gives just two weeks to get the reports in to the Chairman of the committe. How long will it before we find out who he is and where he is?

CHAIRMAN SPURRIER: Mr. McKellar, if all the operators will mail their suggestions to the Commission we will see that they get to the proper person. If nothing further, the meeting is adjourned. (Whereupon, the meeting was adjourned.)

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

Transcript of Hearing

Case No. 308

October 23, 1951

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[illegible]

Case No. 308

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October 23, 1951

MR. SPURRIER: We will go to Case 308. This case as you know was continued from the September 20 hearing in order that the Commission might appoint an advisory committee which would make recommendations to the Commission. That committee was appointed and the recommendations are now in the Commission's hands, and I believe each and every one of you has available a copy of the recommendations. Now, if there are any objections or additions or deletions to these recommendations, we should like to hear from any of you in the circumstances.

MR. WHITE: The Humble Oil Company has offered some suggestions, I think it would be well to read into the record. The first clause of the first sentence of Rule 502 should be amended to read as follows:

"In allocated oil pools the owner or operator of any producing unit shall not produce therefrom during any proration period anymore oil than the allowable production of oil from the unit as shown by the proration schedule."

Then otherwise the rule would read as it presently exists. The changes are as follows:

It presently reads, "In allocated oil pools the owner or operator of any producing units -- " they changed the plural to singular to read "unit". They strike the words, "any unit", and insert the word "therefrom", and "shall not produce therefrom", that remains the same. They changed

the word "from such" to the "unit". That is the only change. And they state in their suggestion that doesn't change the meaning but makes a few gramatical changes which may be helpful.

Their second suggestion pertains to Rule 503 (C). They recommend that we strike out the words "instruct the manager of proration to" in the second sentence so that the sentence will read in part: "For allocated pools, effective the first day of the proration period, the Commission will issue a proration schedule." And so on.

Change the word "order" to "schedule" in the fifth sentence of Rule 503 (C) and change the words "manager of proration" in the same sentence to "commission" so that this sentence will read in part: "A supplementary schedule will be issued by the Commission to the operator."

I might state that the suggested changes as revised by the committee, I believe takes care of this suggestion.

Continuing with Humble's suggestion, we call your attention to the fact that in the fifth sentence of Rule 503 (C) the words "purchaser or" should be eliminated, because it is the transporter not the purchaser who moves the oil from the lease, and in this same sentence the words, "amount of" preceeding the words "production permitted during the remainder of the proration period," should be eliminated and the words "daily allowable" should be substituted therefore.

I don't believe we passed on that part at all in our recommendations.

Change the words "manager of proration" in the first and second sentences of Rule 503 (D) to "commission" and change the word "order" appearing several times in Rule 503 (D) to the word "schedule".

I believe that has also been taken care of by our suggested amendments.

We see no objection to the elimination of Rule 503 (F) but we do not believe Rule 503 (E) should be reworded as suggested. Oil lawfully produced may be run from the lease at any time. We suggest that Rule 503 (E) if retained in the rules be unchanged. If Rule 503 (F) is eliminated from the rules, the definition of "back allowables" should also be eliminated.

Change the word "orders" in two places in Rule 503 (H) to "schedules" and the word "order" in one place to "schedule" and change the words "manager of proration" to "commission".

In the third sentence of Paragraph 5 of Rule 505 add the words "without waste" after the word "produce" and change the words "manager of proration" to "commission".

That is submitted by Mr. Pressler.

MR. SPURRIER: In order that we may have some continuity let's consider the items recommended by the committee, one by one. Does anyone have any comment on Item No. 1, which

reads:

(Reads Item No. 1.)

Item No. 2.

MR. SELINGER: Mr. Spurrier, before you get off Item No. 1 we would like to concur in the Humble's suggestion whereas the words "manager of proration" appear the word "Commission" shall be substituted therefore.

MR. WHITE: I might state that in the Humble's suggestions in regard to that they say this. These suggestions and some of the other suggestions are based on the legal proposition that, one, the Commission cannot delegate the authority to issue orders, rules or regulations; and two, orders, rules or regulations must be issued after reasonable notice and a public hearing; the Commission can have any of its employees including its manager of proration make computations, prepare schedules, prepare orders and do clerical work, including mailing or distributing the schedules, but the schedules must be issued by the Commission, and orders must be entered only by the Commission and only after notice.

Now, the suggested amendments that the Committee has drawn definitely makes it mandatory on the Commission to approve its schedules. Although it is the manager of proration that compiles them.

MR. BALLOU: My name is Sheridan Ballou for the Sun Oil Company. This matter has been discussed with our legal

department, and the Sun Oil Company wants to concur with the recommendations of the Humble Oil and Refining Company in all respects here.

MR. SPURRIER: Any other comment on No. 1?

MR. SELINGER: I would like to explain my concurrence with the Humble. We believe that obviously the Commission must necessarily act through its employees. It cannot naturally, handle all the mechanics of thousands of wells in the state and thousands of operators involved. It must necessarily therefore, rely upon its own employees. We think after the Commission lays down certain general fundamental principles, like establishing a 51 or 52 barrel allowable for wells in the zero to 5,000 foot and other depth brackets, after the Commission does that, after a properly filed order after notice and hearing, it makes no difference who will execute this order. It may be a stenographer, it may be anybody, it doesn't necessarily have to^{be}/the manager of proration. This is true in operations in other states. The Commission itself establishes general principles in making these decisions, and thereafter any number of its employees executes the decisions of the Commission. We think it would be hard for the Commission itself in its proper function to delegate or appoint just one particular individual to do certain things. Because that individual may be

incapacitated for one reason or another and then by your own rules, no one is able to act. And we think it would be better not to have it or spell it out. That the Commission adhere to the general theory of law that they themselves make the decision. And that that be executed by its employees and not delegated.

MR. SPURRIER: Are there any other comments?

MR. CAMPBELL: If the Commission please, I was a member of the committee that suggested these changes. I might state for the benefit of this hearing what my understanding was for the reason the manager of proration was set up here rather than the Commission. However, I want to state at the outset I certainly don't pretend to know as much about the case as I should, certainly not as much as the Humble does about it.

(Laughter.)

I would be glad to take their word on it. This was the impression I had: The the Court indicated that even in the period from January 1, 1950, until whatever the pertinent date was in the difficulty there, when the Commission or its employees were doing all the work as distinguished from the operators' committee employees, that there was still some question in the court's mind as to whether the duties of these employees were properly defined and limited. Now, if the court didn't say that and doesn't think it is necessary,

I certainly concur it would be better to have the rule refer solely to the Commission. But if the Court indicated he wanted those employees' duties defined in rules and regulations, perhaps they ~~should~~ be in there.

MR. SETH: I agree with Mr. Campbell. The Court indicated very clearly the duties of the employees should be defined by the Commission.

MR. BALLOU: I would like to add here, in the opinion of our legal department, the Sun Oil Company, the New Mexico Oil Conservation Commission does have the statutory power to delegate such authority to Mr. Porter or anyone else. As suggested by Mr. Pressler, the Commission cannot delegate the authority, but after notice and hearing the Commission can have any of its employees, including this manager of proration, make computations and prepare schedules and so forth.

MR. McKELLAR: What discretion does Mr. Porter have right now other than the issuance of supplemental schedules?

MR. SPURRIER: To whom are you directing your question, Mr. McKellar?

MR. McKELLAR: To the Commission, as your employee, sir.

MR. SPURRIER: As far as I know he has no discretion. The Commission doesn't give him any discretion except in the issuance of those supplemental -- putting those additional wells in the schedules, so to speak.

MR. SELINGER: In other words, he acts for the Commission on behalf of the Commission. Just carries out the judgment of the Commission.

MR. CAMPBELL: The only discretion he has is whether to give the allowable or not. He has to give the allowable on the basis of the existing proration order established by the Commission. Then the rules prescribe the supplementary orders issued in the 60 day period would come before the Commission at the next regular hearing to be formally approved by the Commission in the same manner the schedule is approved before it is put out.

MR. SPURRIER: Mr. Campbell, do you think he has discretion to put a well on or leave it off? I don't think he does by our rules and regulations.

MR. CAMPBELL: No, I think if a person drilling the well complied with all rules and regulations, he has to give him an allowable.

MR. SPURRIER: Then he has no discretion.

MR. MCKELLAR: I took the position last month, and it is my position again today that Mr. Porter has no discretion as to whether or not I get an allowable, and if I get an allowable, how much allowable I will get. Under any given set of facts, I am entitled and get the same allowable as every other operator in the State of New Mexico. Now as to supplemental schedules

since last month, I have investigated that a little further, and it is my opinion our procedure as to supplemental schedules is invalid and illegal if Mr. Porter issues those and the Commission never does approve or adopt or ratify them or anything else. That is the only reason I raise that question. You have a formula written out in the rules and regulations and it is found on the first and second pages of each proration schedule.

MR. BALLOU: I think it is pretty well evident that a lot of operators have a lot of ideas about the validity of these orders. Judge Hatch didn't seem to agree with everybody. It would have no bearing upon the actual duties of Mr. Porter. But I think it would certainly eliminate any question to take the first course, to follow the procedure Humble has suggested here to have the Commission making the orders, and certainly no one can object to that, and Mr. Porter can be advised by the Commission specifically what to do in the orders.

MR. SELINGER: Apparently the point seems to be involved around the question of supplemental allowables. It is my suggestion he can issue monthly allowables to make provision that thereafter all wells completed be assigned the allowable by the Commission in line with the schedule or order made a

part thereof. And to further sew it up, you can in the subsequent order, ratify all supplemental schedules issued by putting in a sheet showing the issuance of the supplemental schedule. In other words, have it at the first of the month the Commission is doing it and at the end of the period the Commission is ratifying it. I don't see where you could have any trouble whatsoever.

MR. SPURRIER: I think your comment is well taken. I think the consensus up here is all we need do to make the schedule official and valid. Anymore comments?

Is there comment on Item No. 2? We will go onto No. 3.

MR. McKELLAR: Before you leave No. 2. It is stated in Rule 503 here, it will have to be followed because the supplemental schedule established by the manager of proration for the purpose of assigning or revising allowables during a proration period should be according to and in compliance with the then effective proration order of the Commission, and all supplementary schedules should be submitted to the Commission for its approval at the next hearing. Mr. Porter doesn't have the authority to issue any supplemental schedules unless provision is made for the Commission to specifically ratify that.

MR. SELINGER: Is that No. 3, Mac, is that 3?

(Off the record.)

MR. SELINGER: No. 2 I believe is covered by Humble's suggestion in which the committee substituted manager of proration and Humble has suggested it be returned to its present way of writing by substituting the words, "the commission".

MR. SPURRIER: Are there anymore comments on Items 2 or 3? Item 4.

MR. KELLY: If it please the Commission I would like to make a comment on 503 (E). I would like to agree with the Humble's comment that under-productions and under-runs may be made up at anytime and not limited to a specific period. I would like to point out to the Commission that the practice of some pipeline companies is only to run full tanks of oil, and due to this practice there is always a little shortage each month. Never run over, but always run you under. So, over a period of time you build up a little shortage, say, only 40 or 50 barrels a month. And it will take 6 months to build up a tank of oil. If you limit under-production, you are cutting out some legally produced oil in the tanks at the end of the month which the pipeline company doesn't run.

MR. SPURRIER: I think that comment is well taken. We have had that problem come up several times recently.

Anymore comments on No. 3? No. 4. Is there any objection to Item 4? No. 5.

MR. SELINGER: Mr. Spurrier, I believe No. 5 refers to the proration schedule as to the form of proration schedule based on the 60 day period. For example, January and February or November and December. We have written you direct with respect to the form of the proration schedule, and we believe that the proration schedule should not only include the allowable but should also include the runs and the matter of over and under currently for that particular month. We say that in view of the importance placed on the matter of underproduction which is to be carried forward. We think it is no more than fair and right that all operators should be advised as to his having an underage carried forward. The only place I know that can have wide circulation is the proration schedule itself which is before each operator every second month. We still feel that the Commission activities should include an all inclusive one containing everything with regard to allowables. In that respect there could be no criticism as to the schedule and having certain information which may or may not be pertinent. In our opinion, we think it is pertinent to do it. We believe the schedules should carry not only the scheduled allowable but also the runs and also the status of that particular lease as of the first of the month. So that we all know where the underage is accumulating and where it is occurring.

MR. SPURRIER: Does anyone else have anymore comment

on that particular item? Mr. Porter.

MR. PORTER: Well, if that were done, it couldn't be done under the form prescribed or recommended by this Commission. Now it might possibly be done under a separate provision, but there simply isn't room for it here. There is a question in my mind -- I don't know whether I am qualified to say or not -- but there is a question in my mind as to the responsibility of the Commission for publishing that information. If it were done, it would have to be under separate cover in my opinion.

MR. SPURRIER: Do you have any idea of how many extra employees you would need to accomplish that?

MR. PORTER: Well, offhand I don't know. With the matter of proration -- well, that in itself gives me a rather crowded curriculum and a full-time job. I know I would have to have at least two or three extra employees to prepare that information on 6,000 wells. And at best, that information would be two months old. Due to the system of reporting, which we haven't proposed to change and which you couldn't speed up.

MR. SELINGER: May I ask Mr. Porter a question?
Mr. Porter, how do you ascertain a lease as under-production to be carried forward?

A We could check that on one particular well.

MR. SELINGER: You have that information available in your

office?

A I have the C-115. I do not keep books on that in the Hobbs office. It is kept in the Santa Fe office.

MR. SPURRIER: Do you all understand Mr. Porter suggested that the runs of over and shorts might be incorporated in a separate circular so to speak? It is obvious if you look at the committee-recommended form of publishing the proration schedule that you can't get two more columns in there. Unless two columns are deleted.

MR. PORTER: Well, it is necessary to use the same -- to use this month's schedule for next month's work sheet. You can't reduce the schedule. It is physically impossible in the time allotted. You have to leave a certain space between those columns of figures.

MR. SPURRIER: Is there any other comment on this particular item?

MR. KELLY: At the present time has the Commission taken any legal action to validate the oil that has been run? That is, by the proration schedule to give an operator the authority to run 1,000 barrels. If he runs, say, 900 barrels, do you in any way notify the purchaser or the pipeline company or the operator that he has sold that oil legally?

MR. SPURRIER: Not that I know of.

MR. KELLY: Don't you think the only way it could be done is issue an over and short statement showing actual runs and

the Commission certifying these are runs from the well or wells?

MR. PORTER: We are not doing that at present. It might be the only way. I would like to ask this question. Is this information published by other states, other oil commissions in other states as a matter of publishing shorts?

MR. SELINGER: Yes, it is published in Kansas and Oklahoma.

A VOICE: In Texas, with regard to gas.

MR. SELINGER: That is because those two states permit under-production to be carried forward for a certain period. In Texas it isn't carried forward at all. Therefore, no necessity for carrying it forward in Texas. My point was whereas you make some disposition of carrying forward under-production, as Mr. Kelly pointed out, there should be some approval by the Commission. And the only way you can show it is in the schedule. Whether on the same schedule or not -- issue two schedules -- could issue another one. All done under the order of the Commission. And the producers and the operators would know where the under-production was occurring.

MR. PORTER: Are you talking about under-production or under-run?

MR. SELINGER: I will stand corrected. Where ever I said under-production I mean under-run.

MR. McKELLAR: In Texas, if you don't produce it you lose it. You don't get it. That is one reason why it isn't done in Texas. If you don't produce it by the end of the proration period, you lose it. That is the end of it.

MR. SPURRIER: Mr. Porter says that is an idea.

MR. PORTER: Mr. Kelly, I believe it was, said under-up production or under-run should be allowed to be made/at any time. Mr. Kelly, in your statement awhile ago, did you say under-production or under-runs should be allowed to be made up at any time?

MR. KELLY: Yes, sir.

MR. PORTER: Do you mean under-runs or under-production?

MR. KELLY: The under-runs. Production has to be produced in the proration period, but if it isn't run the pipeling company should be allowed to pick up the oil that is legally produced and run it at any time.

MR. PORTER: Well, how about the authorization? Do you think it would have to be authorized by the Commission, that shortage? It would require quite a bit of bookkeeping if you went back over a long period of years. We have been asked to check these things as far back as 1937. There should be a time limit placed on it.

MR. KELLY: I think there is a time limit placed on it, placed on it a few years ago, that cut it all off at a certain period of time, wasn't there?

MR. SELINGER: 90 days.

MR. PORTER: That is in effect now, but before you could job the whole accumulated shortage, and I remember we carried wells for as much as 20,000 barrels. Then it was cut to 90 days and that is what we are operating under at present.

MR. SPURRIER: Are there anymore comments or anything on Items 5 and 6? On 5 rather, excuse me. All right, let's take up Item 6.

MR. SELINGER: As far as Item 6 is concerned, Humble's suggestion covered that and we concur that there is no reason for defining the duties of the proration manager if left exclusively with the Commission as such.

MR. SPURRIER: Item No. 7.

MR. McKELLAR: I wonder if the committee talked with any of the large purchasers or pipeline companies as to whether or not there was enough flexibility provided within the 60 day period.

MR. CAMPBELL: I undertook to contact one directly and another one indirectly on that question. And apparently their present attitude is that the condition for New Mexico now -- there is sufficient flexibility, they can know at the end of the 60 day proration period they can nominate that far in advance. Of course, we would not have the Bureau of Mines' estimate. It would be purely a matter of nominations

and the allowable would have to be based on that. But the purchasing companies haven't indicated to my knowledge it would cause them any trouble at this time.

MR. SPURRIER: Any further comment? The Commission is to assume if you have no comment everyone agrees to a 60 day proration period.

MR. FOSTER: I don't want you to assume the Phillips Petroleum Company does because I didn't know anything about a 60 day proration period until this morning. I didn't have an advanced copy of these suggestions and I don't know what the attitude of my company will be.

MR. SPURRIER: Any other comments?

MR. BALLOU: Mr. Spurrier, will you issue a schedule each month as a regular part of the hearing held every other month.

MR. SPURRIER: No.

MR. BALLOU: In other words, some states have a hearing for the purpose of determining market demand for a 60 or 62 day period, and then on the 25th day of each month they issue a schedule for the next succeeding month. Is that the way you planned to handle this or does this mean you issue a schedule say on the 25th for the months of January and February?

MR. SPURRIER: Only issue one schedule every two months and the way I understand the proposal -- am I correct Mr.

Campbell or Mr. Seth?

MR. SETH: That is my understanding.

MR. CAMPBELL: That is my understanding.

MR. FOSTER: Mr. Commissioner, before you pass that I think you are going to find out at times this 60 day period will work all right and at times it isn't. We have had experience with issuing a 90 day order in Texas and as long as demand is steady and everything going all right we have no trouble. But when demand slackens off, you will find you are going to have trouble on a 60 day basis. You will have to call hearings to cut your allowable back. You will get everything full... (Reporter's note: The balance of Mr. Foster's remark was inaudible.)

MR. KELLY: You will issue a schedule once every two months under your recommendation. ^{Then} / Mr. Porter's objection to an over and short statement might be eliminated if he could issue it on alternate months with the same number of employees. He is issuing one schedule a month right now.

MR. PORTER: The fact is there is more work. You will notice in the form there there is about one-third or approximately more to it than the present proration schedule. With my present force and present facilities, equipment and so forth I couldn't do it. It might be published separately if we had added facilities and office space and so forth.

MR. KELLY: What would your employees be doing every other month?

MR. PORTER: I can find something for them to do. Wel

MR. KELLY: Well, you will have a lull actually every other month and if you take it in between months, I think spread the work out --

MR. PORTER: Well, I expect quite a bit of increase. In fact, there is no doubt in my mind but that the girls will be kept busy on this schedule. Now, it might be worked out some way or other. I am not objecting to the publishing of over and shorts. I certainly couldn't do it with the present facilities.

MR. SPURRIER: Are there any other comments on this 60 day proration period?

MR. PORTER: Mr. Spurrier, I might clarify that a little. My purpose in recommending a longer proration period was in order to -- that we might compile the proration schedule and have it adopted by the Commission and in the hands of you people who need it prior to or on the beginning of the proration period. Now, that has been a point in question a long time. The ten days which elapse between the first of the month and the effective date of the order and the time the proration schedule appears, of course, this wouldn't take care of that situation.

MR. SPURRIER: Anyone else? Item No. 8.

A VOICE: Item No. 8 contemplates you will have 60 days

allowable for gas as well as oil.

MR. CAMPBELL: No, I think that was intended to be oil. Gas is set up on a six-months basis in the statute I believe.

MR. SPURRIER: According to what I hear in the front row, I think the word "gas" in Item 8 should be changed oil and not gas.

Item No. 9. Item No. 10.

MR. SELINGER: May I ask why they recommend that another hearing be held with respect to gas-oil ratios?

MR. SPURRIER: That's right.

MR. SELINGER: We had about a 2 year period in which we had continuous, virtually continuous hearings from month to month. It is quite a problem and I hate to see us get back into that question again. I was just wondering why it was brought up.

MR. SPURRIER: One reason I hear of is about 80 per cent of the operators are not complying with the rules.

MR. SELINGER: Do you have to change it?

MR. WHITE: Proposed changes in the rules is what the hearing is for.

MR. CAMPBELL: Mr. Porter, didn't you have some suggestion on that?

MR. PORTER: I had the suggestion the Commission should adopt a gas-oil ratio survey schedule. I believe under the

rule it is stated that the gas-oil ratio should be taken during the anniversary date of the discovery well in the field. It is my suggestion the Commission publish each year a definite schedule stating which month gas-oil ratios shall be run and submit it for all pools in the state. That is for the allocated pools. And a test be required of all wells in the state regardless whether any gas is run. At least that could show the oil production test on the form C-116. This provision provides a well shall^{not}/be assigned an allowable higher than the amount of oil made on the gas-oil ratio test. It seems you can't enforce that provision until you get complete coverage with the C-116.

MR. SELINGER: Your present orders require an annual gas-oil ratio test. And I think it requires mostly an administrative act on the part of the Commission to set the dates and that is all. I don't think it necessitates a separate hearing. You have it already in your orders. You have to have an annual gas-oil ratio test. If you set forth the dates in your appendix B, as you have in your state-wide rules, you have a gas-oil ratio established pursuant to Rule 506 and really as to dates I don't think it necessitates a hearing.

MR. PORTER: That part wouldn't necessitate a hearing, because in this statement of when gas-oil ratio tests shall be

run it says, at such other times as the Commission shall specify.
So a schedule could be adopted under those provisions.

MR. SPURRIER: Any further comment on item 10?

MR. MCKELLAR: I agree with Mr. Selinger of Skelly. I see no reason for revising the rule. If they don't comply as provided in the rules with it drop them. I see no need for revising the rule.

MR. SPURRIER: It occurs to me this is perhaps a good time for the Commission to be -- I was going to say everyone, everyone doesn't need to be on notice, but each person can be on notice. We must enforce our own rules and regulations.

No. 11.

A VOICE: What is the purpose of that. I don't understand it.

MR. SPURRIER: It seems a lot of you don't know what the proposed change is. There is a figure, two figures, in rule 104. The one is $39\frac{1}{2}$ and the other $40\frac{1}{2}$ and you have that much tolerance in the size of your 40-acre subdivision.

A VOICE: Proration unit?

MR. SPURRIER: That is right. Proration unit, you have that much tolerance. And the proposal is one I believe to give that tolerance, widen that tolerance. Somebody has suggested that from 35 to 45 there should be no change made in the allowable for the unit. In other words, any tract between 35 and 45 acres should be considered a 40-acre proration unit for

allowable purposes. Does anyone on the Committee disagree with that?

MR. CAMPBELL: If the Commission please, I might explain my understanding of the reason for suggesting these two matters is that those are two of the factors that the man who makes up the schedule has to consider in allocating the oil and we have a lot of tracts in New Mexico that run off the 40-acre surface. What is happening now is that I think we are just shutting our eyes when they get a unit say of 37 or 38 acres. Under this rule they would have to give it 38-40ths of an allowable. The number of tracts makes it a considerable burden on the proration man to require those to be surveyed and to break it down on such a small fraction. The suggestion is a Committee might be appointed to make a survey of the extent of the problem in these areas where smaller or larger tracts occur and arrive at some fair figure for the variation between those amounts. The same thing is true in rule 301. He is not offering to give a well an allowable in excess of the gas-oil ratio limits, but he doesn't have the test in many cases. So he is giving the well more allowable than it should be getting under the rule. That is why we put that in this report.

MR. SPURRIER: Item 12.

MR. BOND: My name is L. H. Bond representing the Standolind Oil and Gas Company. Before we leave this last one perhaps that 39½ and 40½ acres is cutting it pretty fine. But it seems to me a figure as large as five acres would be

a little too much. That would be a difference in acreage of 12½ per cent.

MR. SPURRIER: What would be your suggestion for the latitude.

MR. BOND: I would say one acre.

MR. SPURRIER: 39, 41. Any other comment.

MR. KELLY: I would like to make the suggestion ten per cent 36 to 44. That is one job I would like to help Mr. Porter on.

MR. SPURRIER: I presume you have a bunch of over 40 acres.

MR. MCKELLAR: Since proration is based entirely on acreage how do you protect correlative rights if you give a man with 35 acres the same allowable you give a man for 40. I can't speak for the Magnolia management, as Judge Foster brought up we were just given the proposed changes today, but it poses such a basic question I recommend that the matter be continued.

MR. CAMPBELL: The Commission - the recommendation is to have a hearing on it?

MR. MCKELLAR: To have a hearing.

MR. SPURRIER: Since we are talking about a hearing here to consider this point, let's go on to item 12.

MR. BALLOU: Mr. Spurrier, do you intend to issue a schedule of the hearings you are going to have and point out

what matters will be discussed in the hearing in November as a result of the suggestion here?

MR. WHITE: No. 12 says indicate in the notice of hearing changes what/will be taken into consideration and it will be done.

MR. SPURRIER: Might I ask the Committee if it is mandatory these be considered in November.

MR. CAMPBELL: As far as I am concerned it isn't.

MR. SPURRIER: I am told the reason for setting the hearing in November would be to start out the new year on the new proration basis of 60 days.

A VOICE: With respect to notice of hearing, I wonder if there is some way the operators could have these docket supplements a little ahead of time. Instead of coming up at the last minute and some of us not prepared to discuss or go on record for our management with regard to certain of these cases.

MR. SPURRIER: Item 13.

MR. FOSTER: I have a comment I would like to make about 13 in connection with the Number 1 item over here on this mimeographed sheet that has been issued. Where you set up the six months proration. If I read that correctly it is possible for the Commission to set a hearing down and have a hearing on the question of allowable before the nominations are in. The nominations are required to be in by the 10th. In other words

the operator has until the 10th of the month to get his nominations in but the Commission may have a hearing say on the 6th. I think possibly that ought to be corrected and require them to give a fixed time so that the nominations would be required to be in before the Commission calls any hearing. Of course, the Commission can control that itself but since you are attempting to spell it out, I think it would be better to put it down and fix the date definitely.

MR. SPURRIER: Any other comments on 13?

MR. PORTER: At the present time on the allowable the evidence considered in setting it is based on the transporter's nominations and not operators of individual wells. The date for the transporter filing his nominations might have to be changed.

A VOICE: Transporters do not nominate, purchasers nominate.

A VOICE: That is right.

A VOICE: As far as Shell is concerned we could determine what our nominations would be on the 5th of the month which is as easy as the tenth.

MR. SPURRIER: Any other comment on 13?

MR. FOSTER: Mr. Commissioner before we leave this part of the hearing I want to make a comment on this second item up here from the report of the Committee.

It seems to me and it comes

It seems to me there the Commission has delegated to the manager of proration the assigning or advising of the allowable during the proration period.. Of course, the suggestion has been made that could be cured by the Commission ratifying it. But if you are actually delegating some of your authority to somebody else and it wouldn't be proper, I don't see what good ratifying it would do.

MR. SPURRIER: Any other comment. We will stand in recess until 2:00 o'clock.

(Nooon recess.)

MR. SPURRIER: The meeting will come to order. Case 308 which we were considering will be taken under advisement.

(Off the record between members of the Commission.)

MR. SPURRIER: The case as I said will be taken under advisement. The items that will come up for change will come up in a notice of hearing and you will all be advised of any changes the Commission hopes to make at the next hearing. We realize you were on short notice for the Committee recommendation but at the same time you will have a 30day notice of intended or proposed changes which will come up for hearing.

A VOICE: you will reopen that at the next hearing.

MR. SPURRIER: That is right.

STATE OF NEW MEXICO)
 : SS.
COUNTY OF BERNALILLO)

I HEREBY certify that the foregoing and attached
Transcript of Hearing before the Oil Conservation Commission
in Case No. 308, taken on October 23, 1951, at Santa Fe,
is a true and correct record to the best of my knowledge,
skill and ability.

DATED at Albuquerque, New Mexico this 19 day of
November, 1951.



REPORTER

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

TRANSCRIPT OF HEARING

December 20, 1951

Case No. 308

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

- - - - -

IN RE:

This case concerns proposed revisions)
in the Oil Conservation Commission's)
rules relating to proration of oil.)
The proposed changes have been) Case 308
readvertised extensively prior to this)
hearing and should have been available)
to all interested parties.)

- - - - -

TRANSCRIPT OF HEARING

December 20, 1951.

- - - - -

MR. SPURRIER: The next case we will take up this
Case 308 which has been successively continued and in the
interest of time, without objection, we will waive the
reading of the advertisement. Is there any objection?
Very well, we will take up Case 308. Now I have a
recommendation from the Chairman of the Pipe Line Committee,
Mr. Brown. Mr. Brown, would you like to say something on
this recommendation?

MR. BROWN: Not a thing, Mr. Spurrier.

MR. SPURRIER: We find that the Pipe Line Representatives, the Pipe Line Committee, and the Producers Committee are not in full agreement on their recommendations to the Commission. You have I believe all of you copies of the recommendations as made by the Pipe Line Committee. You received copies of the Producers recommendations at the last hearing. I think that probably before the Commission can write an order it will be necessary to get these Committees together for a joint recommendation. Mr. Porter, do you have any comments you would like to make on this?

MR. PORTER: I think your idea, your suggestion, is excellent for the appointing of a joint Committee, since some of the proposals by this Pipe Line Committee are radical departures from what we are now doing. And I think it will require some study on the part of the operators and all concerned before we are actually able to form an opinion as to whether it is workable or not. But I had a few minor suggestions concerning this case myself, but in the event the Committee is appointed I think I might as well forego that at this time and make those recommendations to the Committee.

MR. SPURRIER: Very well. Does anyone else have a comment on this particular case?

MR. PORTER: If the operators here have had time to look over this proposal, which I passed out a few minutes ago, I

would like to hear some comments from them. Now the basic proposal there is that the proration schedule be published only when the normal unit allowable is changed by the Commission. There wouldn't be a change in the proration. It would remain on a monthly basis but the proration schedule would be published only when the normal unit allowable is changed, and changes in new wells would be handled by supplement just as they are now. Of course, sometimes that might require something covering an entire pool in the case of a gas oil ratio survey.

MR. SPURRIER: Does anyone have a comment? Is there any objection to combining these Committees to get a recommendation? We don't like to see the thing drag on any further. As you know we had hoped to set the thing up by the first of January, but these changes are very important and very far reaching if they are made, and I think we can well wait until we get a complete agreement between the producer and the purchaser.

MR. PORTER: One thing again. I can concur in, and that is the form of proration schedule suggested by the Committee.

MR. SPURRIER: You will notice this is a considerably abbreviated form as compared to what the proration schedule contains now.

MR. PORTER: My thought on that, Mr. Spurrier, is either

we will have to cut down the volume of schedules or reduce the number of schedules for the year because that thing is becoming increasingly voluminous from month to month, especially in the size of the new development.

MR. SPURRIER: Does anyone else have a comment?

MR. DAILEY: I have one question. Is it possible to split the proration schedules up by pools and help Mr. Porter out and only send copies to the operators within the pool?

MR. SPURRIER: It might be, I don't know.

MR. PORTER: Off hand I would object to splitting the proration schedules up, although that suggestion was made by some of the Pipe Line Committee. It would certainly complicate our mailing list and we would have to prepare a certain number of different stencils. In other words, it wouldn't be uniform. At present we publish 640 copies of the Lea County proration schedule. Well, we run 640 copies of each stencil and it might become quite complicated.

MR. SPURRIER: I think probably the thing to do is just to combine these two Committees and get their Committee recommendations at the next hearing which will be in January. I believe it will save time and we will get a more compatible set of recommendations. If there are no further comments on this case we will proceed to the next case which is Case 329. Let the record show that Case 308 is continued until the January hearing.

STATE OF NEW MEXICO)
 :
COUNTY OF BERNALILLO)

I HEREBY CERTIFY that the foregoing and attached transcript of proceedings in Case No. 308, before the Oil Conservation Commission at Santa Fe, is a true and correct record to the best of my knowledge, skill and ability.

DATED at Albuquerque, New Mexico, this 27 day of January, 1952.

66 Gorman
REPORTER

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

Transcript of Hearing

CASE NO. 308

January 22, 1952

Henrickson's Reporting Service
2224 - 47th Street
Los Alamos, New Mexico

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

January 22, 1952

MR. SPURRIER: The next case on the agenda is case 254, but we will take up case 308 first; because this case has been continued and probably will be continued again. I'm speaking of 308 now, not 254. We will take up 308 at this time. Mr. Graham?

MR. GRAHAM: Case 308: (Re-advertisement). In the matter of the application of the Oil Conservation Commission of New Mexico on its own motion for reconsideration, clarification, amendment, revocation, and necessary extension of certain rules and regulations of the Commission, as follows:

(A) To amend Rule 503, sub-section (a), to provide for proration of oil production on a two-month's basis for approval of the proration schedule by the Commission.

(B) To amend Rule 503 sub-section (b) to fix dates for approval by the Commission of proration schedules.

(C) To amend Rule 503 sub-section (c) to provide for the issuance and approval of supplementary schedules for nearly completed or recompleted wells and setting the effective date for the allowable for such wells.

(D) To amend Rule 503 sub-section (d) to provide for the handling of applications for supplementary proration schedules by

the Manager of Proration.

(E) To amend Rule 503 sub-section (e) to provide for compensation for current under-production or under-runs during the next ensuing proration period following the proration period in which such under-production or under-runs occurred.

(F) To rescind sub-section (f) of Rule 503.

(G) To add a sub-section to Rule 503 to be designated as sub-section (h) to provide for the tabulation of supplementary schedules and for their approval by the Commission.

(H) To amend Rule 505 sub-section (5) to provide for the setting of allowables to marginal units in accordance with the nominations based upon the bids that the wells will produce or latest production figures.

(I) To amend Rule 505 sub-section (8) to provide for assignment of allowable to wells completed during the month immediately preceeding the beginning of a proration period by supplemental schedule for the proration period following completion.

(J) To adopt such other changes and amendments and other rules necessary and proper to give full force and effect to the changes and amendments contemplated in this case. Such proposed changes to include, and not to be limited to, the adoption of a definition of a Manager of Proration and the delineation of his duties. Adoption of a Well Nomination Form to be designated as Commission Form Cpl24; changes in the form of proration schedules and adoption of form for supplementary schedules. Amendments to definition 60, Top Unit

Allowable for Oil. The list of rules for sections and sub-sections thereof, having reference to the Rules and Regulations of the New Mexico Oil Conservation Commission heretofore adopted and effective January 1st, 1950. Case 308.

MR. SHEPARD: Is the Committee here?

VOICE: Yes.

MR. GRAHAM: Will you please come forward if you have anything to offer?

F. C. BROWN.

having first been duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. GRAHAM:

Q. Will you state your name and special capacity, please?

A. F. C. Brown, Shell Pipe Line Corporation, Houston.

Q. You are also Chairman of a committee appointed to submit suggestions for changes of the rules in Case 308?

A. I am.

Q. Mr. Brown, will you proceed with your suggestions in your own way. I know you've done a great amount of work on that.

A. All right. At the request of Mr. Spurrier on December 27, he asked a number of us - four from the Producers Committee which was organized some two or three months ago and four from the Transporters Committee to form a joint committee for the study and review of the Rules and Regulations pertaining to Case 308, with further

respect to Sections G, H, J, M, N, and O.

This committee was formed with Glenn Staley as vice chairman, myself as chairman, with Mr. Pennington of Magnolia, Mr. C.V. Goodwin of Texas, Mr. A.D. Wilbur of Humble, Mr. ^{Jack} John Campbell of Malco as members. We have been in session in Santa Fe for a number of days and reviewing the various recommendations contained in this case and we have a definite recommendation on all of the forms covered by these various Rules and Regulations which we have prepared in this form and submitted to the Commission for its consideration.

MR. GRAHAM: Your Committee's deliberations included also a re-draft and changing of the 1950 Rules, as well as the forms?

MR. BROWN: To some extent. With respect to the various Rules and the accompanying forms, where we felt agreeable from the standpoint of the Committee as a whole, we have made various changes and recommendations, in both the forms and the Rules and Regulations.

MR. GRAHAM: Would you care to go into those changes as your Committee has - - -

MR. BROWN: Starting with Rule 301, which I might digress for a moment and say that this was a recommendation of the Committee which was shared by Judge Seth and the present Committee concurred in his recommendation. That is also true of Judge Seth's Committee on Rule 104 on which we also concurred. We made the recommendation that the Commission continue to issue monthly proration schedules, Definition contained in Order No. 850 be changed as follows: Delete

the definition of "Back Allowable" and amend Definition No. 41 and 56.

MR. GRAHAM: I'm sure it would be - - -

MR. BROWN: It's rather voluminous what we have here. We get down to Oil Proration and Allocation in the Proposed Revisions there, Regulation of Pools, Rate of Producing Wells, the Authorization for the Production of Oil, Oil Proration which is Rule 505, Gas-Oil Ratio Limitation and then that brings us to Rule 507 and then to Rule 802 which we propose to add as well as 803, Production and Transportation of Condensate.

The next, Section M. is the next in line and the forms which we felt were necessary to change, we have made the changes and have the forms, or at least that is, the recommended forms contained in the recommendation.

MR. GRAHAM: Your committee has devoted itself to the changing of the forms and the authorizations of the additional forms to more nearly meet the actual emphasis of the new district?

MR. BROWN: That is right.

MR. GRAHAM: Mr. Brown, would you go into that point. I believe everyone here has a copy of your recommendation.

MR. BROWN: Which one did you want me to discuss?

MR. GRAHAM: The one which your Committee very carefully considered and did change.

MR. BROWN: For one, we proposed one change on the Form C-115 which is the Operator's Monthly Report. It was changed to make two

forms of it - 115-A and 115-B; 115-A being for the production of oil and condensates and 115-B for gas. We felt it was necessary, at Mr. Fuller's suggestion, in order to enable him to get the information necessary for his operation schedules each month and to aid him in compiling his schedules from the information shown on this particular form which was necessary and pertinent to the operation. Also by making one for oil and one for gas, it would aid him materially and we felt that the change would be helpful to the industry as a whole.

MR. GRAHAM: That would make at least one additional form.

MR. BROWN: Yes. One additional form - we made two forms out of one form.

MR. GRAHAM: Would you like to take the others?

MR. BROWN: We have made several changes in some of the forms by more or less changing the columns from one place to another to make it read in a better routine for the information that was required.

MR. GRAHAM: Simplified it.

MR. BROWN: That's right. I can't recall just off-hand which ones they are without reference to the other forms but they were - - - there were a number of forms that we arranged and rearranged the matter to make the continuity flow better - - the continuity of the information which the Commission required.

MR. MCKELLAR: Mr. Spurrier, I can't follow Mr. Brown one by

one as he goes over these things. If it is the intent of the Commission to carry this over until next month, why don't you -- I don't like to run your hearing -- but why don't you introduce a copy of this into the record and let everyone take them back and study them this month and then come up here -- we can see what he's done, we've got the old one and the new one -- we'll be here all day reading these one by one and we still won't have a copy of it. We can't follow him and think about it as he goes along over them. This thing is tedious -- they've been working on it a week and I sure can't sit here and digest it in an hour or two, I know.

MR. SPURRIER: Mr. Brown, I think with your indulgence and if you concur, that Mr. McKellar probably has a very good suggestion. This thing is tedious. We realize that you worked awfully hard for a week to get this stuff ready but by the same token, we certainly can't digest it and I know that it will be necessary to continue the thing. I suggest, therefore, that you enter it into the record as your recommendation.

MR. MCKELLAR: With your letter too, Mr. Spurrier. I think it ought to be read or be shown in the record. Didn't you write a letter appointing this committee and setting forth what had to get done?

MR. SPURRIER: Yes.

MR. MCKELLAR: That will show that these members of this team have worked on this at the specific written request of the Commission

and I want to be sure that it gets into the record.

MR. SPURRIER: Yes, sir. According to a letter dated December 27th signed by myself, which reads as follows:

"A memorandum to F. C. Brown, J. O. Seth, C. J. Goodwin, G. Staley, Jack M. Campbell, A. L. Porter, Jr., O. E. Hunter, E. V. Anderson and R. F. Flynn. The Commission has chosen four members from each of the Production and Pipe Line Committee plus R. F. Flynn to serve on a combined committee to make final recommendations at the January 22nd hearing in Case No. 308. The Committee will chose their own chairman and set dates for any meetings before the hearing. The State of New Mexico, Oil Conservation Commission, signed by R. R. Spurrier."

MR. GRAHAM: Mr. Brown, do you wish to introduce a copy of your work into the record and do you care to make any general recommendation?

MR. BROWN: We are pleased, Mr. Secretary, very pleased to have had this opportunity to make these recommendations and we wish to let you know that we, the Committee, stand ready to be of further assistance if the Commission so desires.

(The Recommendations of Producers and Transporters Committee on Case 308 for Hearing before the Oil Conservation Commission at Santa Fe, January 22, 1952, was made a part of the record by reference.)

MR. GRAHAM: It's yours and the Committee's opinion that these recommendations that you have made will be of benefit to the industry as a whole and contribute to the conservation of oil in New Mexico?

MR. BROWN: Yes.

- - - - -

STATE OF NEW MEXICO)
)
COUNTY OF LOS ALAMOS) ss

I certify hereby that the foregoing and attached transcript of hearing in Case 308 before the Oil Conservation Commission on January 22, 1952, at Santa Fe is a true record of the same to the best of my knowledge, skill and ability.

DATED at Los Alamos, this 28th day of January, 1952.

Audrey M. Hearickson

My Commission expires September 20, 1955.

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

IN THE MATTER OF:

In the matter of proposed
revisions in the Oil Con-
servation Commission's rules
relating to proration.

CASE NO. 308

TRANSCRIPT OF HEARING

February 21, 1952

MR. SPURRIER: Mr. Brown, would you care to come forward, please. Because Mr. Brown has been Chairman of the company which has drawn up these recommended changes, I should like for him to sit where he is now to respond, if necessary, to questions from the floor. We understand that there are possibly comments to come from the floor. You have had a month to criticize the proposed changes in the rules and regulations. Here again I should like to move this thing along as quickly as possible, but we do want to hear from everyone who has a comment on these proposed changes. Mr. Brown, do you have any comment before we start?

MR. BROWN: None, Mr. Spurrier, except to say, or to re-iterate what you have said, that we present this to the Commission and have presented it a month ago, and it was introduced as a

matter of record, and if there is any question that I can answer I will be very happy to do so.

CHAIRMAN SPURRIER: I suggest before we start taking these floor comments that you be chronological about it because we can proceed through these recommendations that way. Let's start on Page 2 with proposed revisions, Rule 501. Is there any comment on that rule, 501? Is there any comment on Rule 502?

MR. BLYNN: On 501, I believe there is something that needs to be said in regard to it. Don't you have something on that?

MR. McKELLER: 501, no change from the present rule. If it please the Commission, after studying this report of Mr. Brown's and his committee, there is a number of us in the industry that got together in discussing Rule 502 and we have a suggested change which I would like to dictate into the record. This is not, of course, I am appearing as attorney for Magnolia and we would like to recommend the following change to 502.

I will dictate. It is recognized that the producing units capable of producing their daily allowable may over-produce one day and under-produce another. Such deficiencies as may occur may be made up by excess production from the same unit or such excess production may be adjusted by under-production provided, however, one: that no producing unit except for the purpose of testing in the process of completing or reCompleting a well and for draw down test shall produce during any day more than 125% of the daily top unit allowable for the pool in which the unit is located or 10 barrels per day, whichever is greater. Two:

That no producing unit shall produce in any one month more than its monthly allowable plus an amount equal to one day's allowable production. The tolerance so allowed shall not be construed to increase the allowable of a producing unit or to grant authority to any producer to market or to any transporter to transport any quantity of oil in excess of the unit allowed. The allowed monthly tolerance of over-production shall be adjusted for during the following month. The processing of a quantity of oil in less storage at the end plus any unrun allowable oil shall be construed as a violation of this rule. That is all of that.

Now, my purpose in bringing this to the Commission's attention is it is impossible, as you know, to produce these wells and wind up at 7:00 A. M. on the first day of the succeeding month with just exactly a month's allowable. And by allowing the industry this one day's tolerance no one will be allowed any excess oil, but we will be able to run our allowable for the current month. You see it doesn't grant us any oil. We will adjust for this. If we have one day's storage at the end of the month, we will adjust for that to the next month so as not to run any excess oil. If there is any question from the Commission or any members of the industry here, I will be glad to answer them. I am now open for any questions.

MR. SPURRIER: Are there any more comments?

MR. McKELLER: If not, if there is anyone that supports me in this, I would like for them to stand and be heard.

MR. PRESSLER: I represent Humble Oil, and I would like to

join on the part of and on behalf of Humble Oil & Refining Company in the support of the suggestion that Mr. McKeller has just made.

MR. SPURRIER: Mr. McPheron.

MR. MCPHERON: Mr. Bob McPheron, Gulf Oil. We concur with the recommendation made, however, we are of the opinion that some consideration should be given to the fact that a form be supplied by the Commission for us to take exception on this on wells produced from a water-driven field that cannot be produced at a rate of 125% of its allowable. We have wells which produce three and four days at a time water only and then come on oil and produce considerably in excess of 125. Rather than to have a hearing on the wells, we are of the opinion that some provision should be made where we could get permission to do that from the Commission representative in the field, who knows about the conditions.

MR. MCKELLER: I think Mr. McPheron was trying to get away from the top of 125% per day. Of course, if the proper form could be provided we would certainly have no objection to the Commission granting those exceptions.

MR. BLYMM: In addition to those wells that Mr. McPheron referred to that would produce large quantities or produce oil for a number of days and then produce nothing but water for a number of days, there are other wells that do not produce water at all but which are produced by a stop calk method. Possibly produced one day and shut in for one day, then experimentation having indicated

that to be the most efficient manner of producing the well. There is considerable feeling among the men in the field that they should have some means of getting exceptions to Rule 502 without open hearing. That is, they would like to be permitted to have the field personnel grant exceptions to Rule 502 if that could be, if that is legal.

MR. MCPHERON: We are of the opinion that the Commission's personnel in the field is thoroughly qualified to take care of the matter. We have a number of wells, all companies I am sure do, I know we do, that we cannot produce and live within that regulation. We do our best to live within it and we want to protect our management. I am sure that the Commission feels it is something that should be considered.

MR. SPURRIER: Anyone else?

MR. MCKELLER: Would you have any objection, as Chairman of your committee, to change the rule as I dictated it into the record?

MR. BROWN: It is quite agreeable.

MR. MCKELLER: It would not interfere with the spirit?

MR. BROWN: It would not.

MR. PRESSLER: On the part of Humble, I would like to say we can see why they, you understand, we are joined in the suggestion made by Mr. McKeller. The suggested change by Mr. McPheron, we have some doubt as to the advisability of giving a blanket exception to a well from this 502 without a hearing. Offset operators are affected, and we feel that it probably would be advisable to .

have hearings on those exceptions and grant, not that there would be any objection to granting them in the proper case, but that there should be an opportunity for offset operators to be heard.

MR. SPURRIER: Any more comments on 502? 503?

MR. BOND: Lewis Bond, I would like to make a statement on 503. Stanolind Oil and Gas. We believe that the provisions now in Rule 503, which permit back allowable, encourage the operator to gather engineering data and to work over wells since they can make up production which is lost during those activities. I would like to recommend that the back allowable provision be left in Rule 503 and not deleted like the committee has recommended.

MR. SPURRIER: Any other comment on 503?

MR. McPHERON: Mr. McPheron, Gulf Oil Corporation. I would like to speak for the Gulf, that the Gulf concurs with the committee's recommendation in deleting the back allowable.

MR. SPURRIER: Anyone else for or against back allowable? Mr. Pressler.

MR. PRESSLER: We concur in the committee's recommendation also.

MR. SPURRIER: Mr. Colliston.

MR. COLLISTON: I have no comment.

MR. SPURRIER: Is there any other comment on 503? Then we will take up Rule 504. Any comment on Rule 504? We will take up Rule 505, oil proration. We haven't given notice, I might say, in this pool depth range proportional factor, but we would like to

have an expression. If anyone should care to give it on our new factors set from 13 to 14 thousand, which re-established to be 8. It was my understanding that that was the original committee's recommendation that the factor should be 8 from 13 to 14 thousand. Mr. Dewey, weren't you on that first committee?

MR. DEWEY: That met four or five years ago.

MR. SPURRIER: That was in 1945.

MR. DEWEY: I think that is right.

MR. SPURRIER: Does anyone have any comment, any further comment on 505? Then we will take up Rule 506, gas-oil ratio limitation, any comment on that? No comment on 506, we will take up Rule 507, unadvertised area, Rule 803.

MR. BOND: I would just like to point out, Mr. Spurrier, Lewis Bond of Stanolind, that there was some possible conflict between 803 and Section D-2 of Rule 506. 803 possibly should be qualified to indicate that a gas well, I believe that the rule states that a gas well can produce as much condensate as may be produced without waste. 506, Section D-2, limits a gas well and in an oil reservoir to producing the amount of gas, volume of gas obtained by multiplying the gas-oil ratio by the gas limits. Possibly 803 should be clarified to show it is a well still subjection to provisions of Rule 506.

MR. SPURRIER: Any further comments on 803?

MR. GRAHAM: Do you have a suggestion on that, Mr. Bond?

MR. BOND: Mr. Graham, something that notwithstanding anything

in this rule, a gas well in an oil reservoir will not be permitted to produce a quantity of gas in excess of the gas-oil ratio times the unit allowable.

MR. COLLISTON: Mr. Spurrier, might I make a suggestion, if Rule 803 read the operator of a gas well in a gas field, I don't think there could be any confusion. One is talking about a gas well in a gas field, the other is talking about a gas well in an oil reservoir.

MR. SPURRIER: Any further comment on that? The next is page 26, Rule 1101.

MR. BROWN: No changes in Rule 1101.

MR. SPURRIER: There is no change in either Rule 1101 or 1102 recommended.

MR. BROWN: Right.

MR. SPURRIER: 1103?

MR. JERNIGAN: Mr. Spurrier, we met with Mr. Blymm and Mr. Porter and Mr. Staley and myself. We would like to call your attention to just a few of the discrepancies and things that we felt might be amended from your reports, and that would simplify them from an operator's standpoint. Under Form C101, the first correction we found there should be that the form should show notice of intention to drill or recomplete. The form shows complete. In your recommendation you ask for the name of the drilling contractor on your form and there is no space provided for it.

MR. BROWN: You might add that these forms were drawn up

without any thought of pendency, simply drawn up as a proposal, and while they might be on 8½ by 11 paper, when they are printed they might be on 8½ by -

MR. JERNIGAN (interrupting): I wanted to call your attention to the fact that there was no place for the contractor provided.

MR. BROWN: That is right.

MR. JERNIGAN: Your statement there takes care of the next one, that the casing program description there wasn't large enough to take care of the casing program. I think your statement there would take care of that.

MR. BROWN: That is right.

MR. JERNIGAN: Then on Form 102 we believe from an operational standpoint that it is not feasible to give a notice of intention to test the casing shut off. Neither by the same token on 103 the results, we believe that could be incorporated on your Form C105, which is a well record. We also feel that the notice of intention to shut or chemically treat a well should probably apply only to old wells and that could be covered by your notice of intention to repair a well, and not incorporate those things because both of those are incorporated on C105. You get the same results and the same answers and just a duplication of work. By suggesting that it would eliminate eight reports on each drilling well that your office has to file. If anybody has any comments on this as we go through with it, say so.

MR. BLYMM: I would like to enlarge on Mr. Jernigan's statement

that notice of intention to test casing shut off we do not have a rule currently requiring a notice of intention to test casing shut off. We had it in circular 6, and the form still has a block showing it, and we have been requiring it as a part of our completion file before we would sign a certificate of compliance, but we do not have a specific rule in the current set of regulations requiring a notice to test casing shut off. As we see it, the only thing necessary in that regard is to eliminate that block from the miscellaneous notice.

MR. BROWN: Could cut it down to 7 instead of 8 as on here now.

MR. JERNIGAN: Yes, we are just asking you to eliminate that from the report.

MR. DAILEY: Of course, there is one area where you would not be able to eliminate that and that would be in your artesian water basin there at Roswell.

MR. JERNIGAN: Shall I go ahead?

MR. SPURRIER: Yes.

MR. BLYMM: I would like to make a comment in that regard. Those notices of intention to test casing shut off in the water basin should be handled in another manner because there is only 30 hours cement setting time, and if somebody has a plug down at the beginning of the weekend he may not even be able to find anybody in the Commission office to get approval of the forms. He should be required in most cases then to contact a Commission representative in some positive manner, but the notice of intention to test casing shut off on Form C102 is, it just doesn't work out

with cement setting time of maximum of 30 hours on a long string.

MR. JERNIGAN: It is ambiguous at the present time.

MR. SPURRIER: Go ahead.

MR. JERNIGAN: We go on to Form C104. We believe that you have a very definite case of duplication there in requiring the casing cementing record, the ~~acid~~ record, shut-in record shows of oil or gas or water and your test. We believe that is a duplication of the same thing that you again will find on Form C105.

MR. BROWN: Completion form.

MR. JERNIGAN: Yes sir. We feel it should be eliminated. We think after our discussion with Mr. Blymm and Mr. Porter, we felt that the gas-oil ratio on your request for oil allowable should be eliminated and that report because your first gas-oil ratio is not a good one. Sometimes when you have 16 or 17 wells to be taken care of the operator doesn't have time to take an official gas-oil ratio. You have to submit one in thirty days. We recommend that that be eliminated. We also recommend that you add your casing corporation which you have here, but you have provided no space for it, or depth in casing shoe, to that form.

MR. MACY: You mean to recommend that you don't report oil ratio when you ask for an allowable.

MR. JERNIGAN: You don't on the first well. You have thirty days. You have an official test at that time that has to be reported on Form 116, I believe. So many times some of these have 16 or 17 wells running and it is just hard for them to get around

setting up the equipment and getting the gas-oil ratio. This report is reported just as quickly as you can because you want to get the well on production. You wouldn't want to delay getting this report in to get gas-oil ratio test on it. Then on your C Form 105 we recommended that the casing record be deleted to show size, weight per foot, show mat, kind of shoe, we couldn't find anybody that knew what cut and fill meant. We asked that be deleted. We think on that casing record that where you delete these other forms that will give you room to show test with pounds, length of test drop in pressure noted, that would give you the information that you would, that you normally have now on your notice of intention to test casing in result of casing shut-off. We also ask that you delete the plugs and adapters because we haven't found anybody that knows what a heaving plug is. Apparently that form was made up years ago, and we are just still carrying it and it is space that you could probably use for something else.

MR. BROWN: It was the original form just put in here as is.

MR. JERNIGAN: That is right. We are not criticizing the form. Also, where you show the name of employee, such as drillers, on your form, drillers change on wells and that is almost an impossibility. I think that could be covered by, is covered on your form by the name of your drilling contractor because as you know in the drilling business you are always changing your drilling men. That is all I have on this.

MR. SPURRIER: Anyone else have a comment on these forms?

MR. PORTER: The only comment that I have, Mr. Spurrier, is that in the space for the description of location like when the new forms are drafted that we make that description uniform throughout the series. In other words, on some it shows quarter section and some we don't -

MR. DAILEY (Interrupting): I have something on the C115 Form.

MR. SPURRIER: 115.

MR. DAILEY: At the present time we have one form which now will be set into two forms. In the present forms it shows the complete operation of a lease for one month, whereas by two forms it is going to practically double the work of preparation. It is going to necessitate additional filing and it is going to be a little bit harder to find the information, and I just wondered why the form was put in two.

MR. BROWN: May I say here, Mr. Spurrier, 115 was made into two forms principally and primarily to try and lighten the load on the industry. That we could have accomplished the same thing by taking a pair of scissors and cutting the form in two, the oil is on 115A and gas is on 115B, and in our research and studies on these and various ones in the industry the information available on gas is not readily available as soon as it was on oil, and the date for filing the 115 originally was the 20th of the month, and in order to aid the proration manager in getting his schedules out to the industry on or before the first of the month and the 115

carries the well nominations on marginal wells on which information it is necessary for him to get the schedules out, we felt that the 115A would reach him to give him that information and at the same time would not impose any great burden on the industry by virtue of the fact that we still have two forms instead of one.

MR. SPURRIER: Any other comments?

MR. BERNARD: Fred Bernard, El Paso Natural Gas. Under Form C115B it is specified that the gas reported at the pressure basis 15025 temperature of 80 degrees, whereas in Rule 17 in your definition of rules and regulations it specifies the temperature base of 60 degrees. That is not concurrent.

MR. SPURRIER: The degree is a misprint.

MR. BROWN: That is right. That will be corrected in the re-writing of the regulations.

MR. SPURRIER: Yes, sir.

MR. BROWN: I would like to state on Form 115 that we would prefer to submit the information on one form instead of two proposed forms.

MR. McKELLER: I would like to ask the gentlemen who want to send the one form, how are you going to get the gas figures from the plants in order to get it down to the peak by the 18th or 20th of the month? We have to have pro-ration schedule out in the hands of the pipeline by the first, or about the first. The business of running the oil in a pipeline schedule coming out around the 15th or 20th, I think it's just asking these pipeliners, it is just

taking advantage of them, and that is the spirit that the committee was trying to get away from. Whether we submitted it on one, two, three or ten, I don't care. But now can you get your reports from those gas people and send this book in to ~~peak~~ by the 18th or 20th of the month?

MR. SPURRIER: Let's go off the record.

(Discussion off the record.)

MR. SPURRIER: Let's go back on the record unless you have some more things that you want to discuss. Let's get back on the record in the interest of time. Does anyone else have any comment on this C115 for the record?

MR. McKELLER: I would like to say that Magnolia is heartily in favor of the committee report splitting the Form-C 115.

MR. SPURRIER: I understand that the Humble is also.

MR. PRESSLER: I would like to repeat for the record that we are in favor of the report and think it essential in the operation of the pipeline that we have the proration schedules before the first day of the month. Otherwise the pipeline company is put in the position of running oil that it doesn't know whether it is legal oil or allowable oil or what it is. It is essential for the pipeline company's operation.

MR. SPURRIER: Mr. Porter, can you get the proration schedule out for the first of the month if you had two forms C115, which are submitted to you according to schedule?

MR. PORTER: Yes, sir.

MR. BROWN: If he gets them by the 20th as prescribed at the present time.

I believe were copied verbatim from that of the Commission at the moment and should be brought up to date with those that have been added since this was written. I believe that is correct.

MR. SPURRIER: Any other comment on 1301? 1302? I notice in 1302 it sets out the way to file the Form C115 A and B, original copy to the Commission at Santa Fe, one copy to the proration office at Hobbs, and one copy to the district office. I don't believe that applies any longer. Or does it, Mr. Staley?

MR. BROWN: When we said the office of proration I think that meant Mr. Porter.

MR. STALEY: I think that meant Mr. Porter.

MR. BROWN: That was the intent, to say the office of manager of proration.

MR. SPURRIER: I think we had better make it to the person, the proration manager. He is at Hobbs.

MR. BROWN: Instead of office we just put proration manager.

MR. PORTER: Leave out the district office, will you Mr. Spurrier?

MR. SPURRIER: Yes. 1303, 1304. Is there any other comment on any of these rules? If not, we will assume that the committee's report is accepted except for the changes recommended here for the record. We certainly want to thank you, Mr. Brown, and take this opportunity of doing so. Thank you, and your hard-working committee.

MR. BROWN: Thank you.

MR. SPURRIER: We appreciate your efforts very much.

MR. BROWN: Thank you. It has been a pleasure, Mr. Spurrier.

MR. SPURRIER: Any other comments in this Case 308? If not, it will be taken under advisement.

C E R T I F I C A T E

I HEREBY CERTIFY that the foregoing and attached Transcript of Hearing, in Case No. 308, before the Oil Conservation Commission, State of New Mexico, at Santa Fe, on February 21, 1952, is a true and correct record of the matters herein contained to the best of my knowledge, skill and ability.

DATED at Albuquerque, New Mexico, this 25th day of Feb., 1952.

Ada H. H. H.
COURT REPORTER