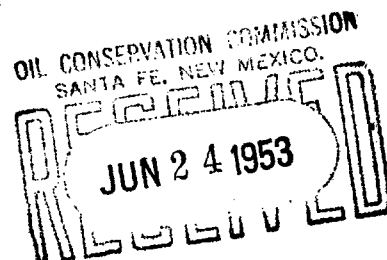


BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO



CASE 532:

Application of the Commission on its own motion
for an order revising Rule 502 of the Rules and Regu-
lations pertaining to the rate of producing wells and
establishment of a daily and monthly tolerance.

TRANSCRIPT OF HEARING

June 16, 1953

Date

BEFORE: Honorable Ed. L. Mechem, Governor
Honorable E. S. Walker, Land Commissioner
Honorable R. R. Spurrier, Director, OCC

STATE OF NEW MEXICO)

SS

COUNTY OF BERNALILLO)

I HEREBY CERTIFY That the within transcript of
proceedings before the Oil Conservation Commission is
a true record of the same to the best of my knowledge,
skill, and ability.

DONE at Albuquerque, N. M., this 20th day of
June 1953.

My Comm. Ex.
August 4, 1956

E. E. Gresson
E. E. Gresson
Notary - Reporter

COM. SPURRIER: The next case on the docket is Case 532.

(Mr. Graham reads the advertisement.)

MR. MACEY: I believe that everyone has received a copy of the new revision, and there are some changes in the proposed revision which I think should be noted.

It is my recommendation, starting with the Section V entitled "Legal Storage Records," the title be changed to "Storage Records"; and the wording be changed as follows: "All producers and transporters shall be required to maintain records" -- that is, strike the words "legal storage" from the phrase -- "Showing unrun allowable oil in storage at the end of each proration period."

The purpose of the change was that a great many of the transporters maintain legal storage records at the present time on electric accounting machines, such as IBM machines, and it is rather needless to require them to keep a set of records to conform with the Commission's form. There has been a little bit of confusion in regard to storage records. A lot of operators have thought they had to file those records. All that is required of them is to keep a record of their storage at the end of each month showing unrun allowable plus their storage at the end of the proration period.

MR. GRAHAM: What form can it be reported on, Mr.

Macey? Will the 115 take care of that?

MR. MACEY: They don't have to report it. Just a matter of them keeping a record of their unrun allowable oil. No new form to be submitted to the Commission or anything like that. The Proration Office in Hobbs keeps these records. But it was apparent to the Proration Office there wasn't anybody keeping them because there were a great number of deviations from the legal storage figures.

MR. SELINGER: Mr. Macey, would you mind reading that again so that we know the exact wordage there?

MR. MACEY: Surely. The title is "Storage Records."

"All producers and transporters shall be required to maintain records showing unrun allowable oil and (?) storage at the end of each proration period."

The other point which I would like to bring out is that in paragraph (b) under "Daily Tolerance" the way the proposal is written it grants an exception to an operator who for various reasons cannot live within the 125 per cent figure. Under the rule they are allowed to produce 125 per cent of the daily top unit allowable for the particular pool. Now, due to certain technical features, reservoir conditions, there probably ought to be exceptions to that. However, the way the rule is written now the operator, all he has to do, is notify his offset operators and apply to the Commission for an exception. But there has been some comment regarding

the fact that an operator in a pool, or operators in a pool, should have the right to object to the excess of 125 per cent. And, therefore, it is felt that the phrase should probably be re-worded to remove the automatic exception upon notice to offsets, and require a hearing on it.

There may be a number of comments in regard to that. I am just more or less throwing it in in the hope of some comments.

That is all I have.

COM. SPURRIER: Is there anyone else to be heard in this case?

Mr. Cusack.

MR. CUSACK: The purpose of this rule, as I understand it, is to adjust the overproduction over legal allowable, is that correct? For example, if you run over on any lease in the next month or months that shall be adjusted back, is that correct? What will be deducted from the following allowables?

COM. SPURRIER: Are you asking the Commission?

MR. CUSACK: Well, I expected --

MR. MACEY: I think I can answer in part your question, Mr. Cusack. In the first place it isn't a question of overrunning, it is a question of overproducing. Now, it does allow an operator who overproduces, it gives him a leeway by the terms of this written rule in here. He can write

to the Commission and explain his reasons for his overproduction, and what steps he will take to adjust it.

MR. CUSACK: It must be adjusted back?

MR. MACEY: Yes.

MR. CUSACK: Now, suppose you have legal storage oil? For example, allowed 1,500 bbls per well, and the pipe line takes 1,200 bbls, but you have the oil in storage. Can you make it up the following month?

MR. MACEY: The 300 bbls you didn't run is legal oil.

MR. CUSACK: It can be run?

MR. MACEY: Yes, sir, it can be run.

MR. CUSACK: But this rule doesn't set it out.

MR. MACEY: It doesn't set it out in this rule, but it does, I think, in 503. I am not sure. I would have to hunt through the whole thing.

MR. CUSACK: My thought was this rule should be amended to state what they think, that unrun legal oil in storage should be allowed to be run the following month. In other words, you spoke about protecting correlative rights when overrun. Of course, the same thing of protecting correlative rights if underrun. That is correct, I believe, isn't it?

MR. MACEY: We don't restrict runs of legal oil at any time.

MR. CUSACK: You don't state it in here whether or not we are allowed to make it up the following month. I think that should be stated; that any production of legal oil that is in storage shall be allowed to be run the following month. We should be allowed to make that up. Might have 200 bbls over on one lease and have to adjust that back; and might be 200 bbls short on another lease and couldn't make it up. Just as a matter of putting it down where you can understand it.

MR. SELINGER: I think it is carried in your monthly allowable order. I believe that is where it is carried.

MR. MACEY: Let's look at it.

COM. SPURRIER: Are you sure, Mr. Cusack, that doesn't appear in some other rule?

MR. CUSACK: No. I am asking you if it does. And if so, what rule it is. Of course, that would correct the situation without even checking the rules; if you would insert it here in your amendment to Rule 502. Wouldn't have to look the rules up.

MR. MACEY: Well, specifically there is nothing in the rules that says you can run any oil.

MR. CUSACK: You ought to put it in.

MR. MACEY: There is nothing in the rules that specifically says you can run one barrel or any amount of

oil. It is the matter of whether your oil is legal or not; legally produced. That is the question.

MR. CUSACK: Let me put it another way. Is there anything wrong by putting it in this rule?

MR. MACEY: I don't see anything wrong, offhand.

MR. CUSACK: That is the request we have to make on it. So it is clearly understood.

COM. SPURRIER: Do you have something else, Mr. Cusack?

MR. CUSACK: No, sir, that is all.

COM. SPURRIER: Mr. Seth.

MR. SETH: For the Wilson Oil Company. This proposed revision contains a number of variations from the original rule, and we would like to consider the matter further between now and next month's hearing. And we would like to ask the Commission to reconsider the daily, the monthly, tolerance. It provides for three days in the proposal here. And in view of that situation, we would like to move that the case be continued until next month's hearing.

If the Commission please, we would also like for the Commission to consider at that hearing the possibility of reinstating some provision relating to back allowables; a provision perhaps similar to the one that was eliminated during the last revision of the rules. But limited to

situations where oil is not run by the transporter, and limited to that reason only. We believe that reconsideration of reinstating that back allowable feature, and reconsideration of the daily, number of days tolerance here between now and the next hearing would be in the interests of all concerned.

COM. SPURRIER: Anyone else have a comment?

MR. CUSACK: We would like to go on record as seconding Mr. Seth's motion for the Wilson Oil Company. And for the further reasons we believe that the reinstatement of back allowable is necessary for the protection of correlative rights of the operators; particularly the independent operators in the State of New Mexico.

COM. SPURRIER: Anyone else?

MR. CURRY: If it please the Commission, I would like to second Mr. Seth's recommendation, and have the back allowable feature added to the call of the next hearing. If it can't be contained under the present call, to have it amended to include that feature.

COM. SPURRIER: Anyone else?

MR. MACEY: Mr. Spurrier, in view of the recommendations and motions that have been made here, I think it would be in order that we would appoint a committee of both pipe line companies and possibly the gasoline plants and the producers to consider both the motions and the proposed

(Reporters Note: To be included with the transcript in Case 532)

COM. SPURRIER: Before we recess for lunch, I would like to go back to Case 532 and appoint Wilson Oil Company as Chairman of that Committee on Rule 512.