

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Indefinite
Production **CASE** 608
Allocation **EXHIBIT No.** 1

New Mexico Oil Conservation Commission

Santa Fe, New Mexico

Gentlemen:

We, the undersigned, have made a careful study of the Commission's well costs, payouts, and proportional depth factors for computing the oil allowable. We find some inequities in regard to the length of time required for a "payout" under the present system.

It is our opinion that the length of "payout" should be essentially equal or uniform. We, therefore, commend the Commission and its staff for reviewing the question and attempting to resolve the inequalities. However, we deem the present proration plan for wells shallower than 5000 feet to be fully satisfactory and not to require adjusting.

The majority of New Mexico's production to date has come from the pools at depths less than 5000 feet.

The small business enterprise has been the cornerstone of the nation's growth. Small business enterprises can only operate in the depth ranges to 5000 feet. To this group belong the wildcatters who have been responsible for many discoveries. Reducing the allowable for the 0-5000 foot depth range would seriously curtail wildcatting. It would be ill-advised to tamper with the energy, industry, and livelihood of the operators in this group.

The "payout" time for a 3500 foot well is 1.247 years - just slightly under the average 1.406 years which figure the Commission calculated for all depths over 5000 feet. The "payout" time for a 4500 foot well is 1.503 years - over the average 1.406 years. In the group of wells from 0-3000 feet deep, it is true that top allowable wells with 36 gravity oil would "payout" quickly, but these are seldom found in New Mexico. In this depth range, exclusive of the southern tip of the Central Basin platform where some fields straddle the 3000 foot mark, we are looking at only 39 top allowable wells so that the present proration volume is not an important factor. The incentive and assistance of present proration practice for a small operator is of far greater consequence than the reallocation of a few barrels of oil.

Further, we deem a "minimum" top unit allowable as an essential portion of our proration rules and regulations. The old rules provided a "minimum" of 30 BOPD for wells under 5000 feet and provided a formula for

allocation of production in the depths over 5000 feet whenever the "normal" top unit allowable fell below 30 BOPD. For some reason this provision was deleted from the revised rules and regulations. A formula is not needed now inasmuch as the present proration derives from the top unit allowable.

We submit that a new paragraph be added to rule 505 permitting any well, capable of so-doing, to produce a minimum of 30 BOPD in the event that the "normal" top unit allowable set by the Commission in any period is less than said figure.

Signed this 13 day of April, 1954.

Company

Representative - Title

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Kincaid & Watson Drilling Co.
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