

NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

ATTENTION: MR. A. L. PORTER, JR.
Secretary-Director

*sent copy to
Director's
Clerk on 10/29/56*
Re: The Ohio Oil Company's Application for
Rehearing in Case No. 1102 and on the
Decision of The Commission evidenced by
those Provisions of Order R-892 pertain-
ing to the Dean-Permo-Pennsylvanian Pool.

GENTLEMEN:

The Ohio Oil Company hereby applies for rehearing in Case No. 1102 on the decision of the Commission evidenced by those provisions of Order R-892, entered October 4, 1956, regarding the spacing of and allowables for wells located within the limits of the Dean-Permo-Pennsylvanian Pool as defined in the Order.

PRELIMINARY STATEMENT

The effect of the Order, if applied according to its terms, will be that commencing December 1, 1956, the allowable of The Ohio Oil Company's A. C. Dean Well No. 1 will be restricted to approximately one-half of the amount which the well is presently authorized to produce under the statewide rules with a normal 40-acre proportional factor applied. The well is capable of producing without waste an amount substantially in excess of the current normal 40-acre allowable for a well of the same depth.

Your Applicant's A. C. Dean Well No. 1 (located in the NW/4 of the NW/4 of Section 35, Township 15 South, Range 36 East, N.M.P.M.) was in good faith projected to test the Pennsylvanian and Devonian formations, as stated in Application dated January 25, 1956, filed with this Commission. Upon approval by your Order dated March 29, 1956, in Case No. 1021, the well was commenced on March 31, 1956. Drilling proceeded with due diligence and on or about May 25, 1956, a copy of the original Application of Sinclair Oil & Gas Company, in Case No. 1102, was furnished to The Ohio. That Application sought pool rules placing 80-acre spacing in effect in the then existing Dean-Pennsylvanian Pool. The pool rules sought by that Application would have invoked the statewide rules for determining allowables on the basis of the 80-acre spacing which was applied for. Paragraph IV of that Application stipulated that all wells drilled or drilling at the time of filing the Application "should be excepted from the Order herein applied for." The Application was subsequently amended to seek creation of the Dean-Permo-Pennsylvanian Pool with 80-acre spacing. The amended Application stipulated that wells

drilled or drilling should be excepted from the spacing provisions of the proposed rules. At the hearing in Case No. 1102 on July 18, 1956, Mr. Rogers, Division Engineer for the Applicant Sinclair Oil & Gas Company, testified on cross-examination that he recognized The Ohio's A. C. Dean Well No. 1 as entitled to be excepted from the provisions of the proposed rules. Such exception for the well was expressly requested on behalf of The Ohio at that hearing on July 18, 1956, and no objection was made. In calling for the exception, it was specifically requested that the well be recognized as being entitled to the same allowable it would receive under the statewide rules with normal 40-acre spacing.

Efforts for a successful completion of the well in the Devonian formation failed. The well was plugged back and on September 21, 1956 was completed in the Pennsylvanian formation. Order R-892 was issued October 4, 1956, and a copy of the Order was received by your Applicant on October 8, 1956. The Order grants an exception to the 80-acre spacing requirements for each well drilled or drilling on October 4, 1956, including, of course, The Ohio's A. C. Dean Well No. 1. However, the Order fails to provide that The Ohio's well is exempt from those provisions of the Order which reduce the allowable of each well to which a standard 80-acre pro-ration unit is not dedicated as of December 1, 1956.

Your Applicant believes and earnestly insists that on the basis of all of the pertinent facts and law those provisions of Order R-892 dealing with spacing of and allowables for wells theretofore completed in the Dean-Permo-Pennsylvanian Pool are erroneous and invalid in the respects hereinafter stated, particularly as applied to your Applicant's A. C. Dean Well No. 1.

1.

The Order is not authorized by the statutes of New Mexico and is actually contrary to the applicable statutes.

(a) The restriction of the production of The Ohio's A. C. Dean Well No. 1 below the amount which the well would be authorized to produce under the statewide rules with a normal 40-acre spacing pattern does not prevent waste.

(b) Waste will not result from continuing to produce the well at the rate permitted by the allowable determined for the well in accordance with the statewide rules applicable under normal 40-acre spacing.

(c) The Order destroys correlative rights of The Ohio and its royalty owners, affords offset operators an unfair opportunity to drain oil and gas from the lands held under lease by The Ohio and prevents The Ohio from adequately protecting against such drainage.

(d) The Order deprives The Ohio of a fair opportunity to produce its just and equitable share of the oil and gas in the Dean-Permo-Pennsylvanian Pool.

(e) The Order tends to force your Applicant to drill an unnecessary well (at an estimated cost of \$233,000.00) of very doubtful commercial value in order to recover the oil and gas in the Dean-Permo-Pennsylvanian Pool under lands covered by leases owned by The Ohio.

(f) The ultimate effect of the Order will be to force or compel the pooling or communitization of The Ohio's completed producing well and wellsite with adjoining undrilled acreage of another operator in Section 35, which result is not authorized or condoned by any statute of this State.

(g) The Order will not distribute the allowable production among the producers in the pool on a reasonable basis.

(h) The correlative rights of offset operators are adequately protected by those provisions of Order R-892 dealing with designation of standard proration units and selection of well locations. Restriction of production from previously completed wells as provided for in the Order is neither a necessary nor a permissible method for the protection of the correlative rights of other operators in the pool.

2.

Order R-892, as well as any statute purporting to authorize the Order, is void, because each is in violation of Sections 4 and 18 of Article II of the Constitution of the State of New Mexico and in violation of the Due Process Clause and the Equal Protection Clause of Section 1 of the 14th Amendment to the Constitution of the United States. The unconstitutionality of the Order and any such statute exists for each of the reasons stated under 1 above and for each of the following reasons:

(a) The restriction of production from The Ohio's well as provided by Order R-892 amounts to the taking of the property of The Ohio and its royalty owners for the benefit of the offset operators and royalty owners.

(b) There is no reasonable ground or basis for restricting production from The Ohio's well below the allowable determined by the statewide rules under 40-acre spacing.

(c) The restriction of the production from your Applicant's well as provided for in Order R-892 is arbitrary, unreasonable and confiscatory; deprives The Ohio and its royalty owners of their property without due process of law and denies them equal protection of the laws.

(d) The requirement of Order R-892 that all of the acreage dedicated to a well in the Dean-Permo-Pennsylvanian Pool must be in a single governmental section is arbitrary, unreasonable and confiscatory as applied to your Applicant; deprives The Ohio and its royalty owners of their property without due process of law and denies them equal protection of the laws.

3.

Regardless of questions of statutory authority and constitutionality, this Commission in its wisdom and discretion should not adopt any regulatory measure having the results demonstrated by the application of Order R-892 to The Ohio's A. C. Dean Well No. 1.

(a) So far as your Applicant has been able to determine, this Commission has never before entered an order restricting the production from an oil well to a volume smaller than the allowable determined by rules or orders existing at the time the well was drilled, unless such new restriction was necessary to prevent waste.

(b) The precedent of reducing the allowable of a nonwasteful completed well for the benefit of others who may thereafter drill and complete wells in the same pool will retard rather than encourage discovery and development. Such a precedent safeguards the operator who delays development and penalizes the diligent operator and his royalty owners.

(c) The effect of the Order will be to deprive The Ohio of any possible chance to recover out of the production from the well the cost of drilling and producing the well. The Order will in effect change the status of The Ohio's well from what appeared to be a commercial venture to what seems certain to be an economic loss. The only remaining way for The Ohio to avoid such loss under Order R-892 is to attempt to recoup a part of its investment by selling a one-half interest in the producing well to the offset operator in Section 35.

(d) The Commission properly recognized The Ohio's well as an exception to the spacing regulations imposed by the Order. To refuse to recognize that exception would have been an obviously unfair and unsound policy. It would have been the same as requiring an operator to shut his well in until and unless he could devise some means of dedicating a new and larger standard spacing unit to the well. To reduce the allowable of the well to a point at which the cost of drilling, equipping and operating the well cannot be recovered out of production actually accomplishes the same unfair and unwise result by indirection.

4.

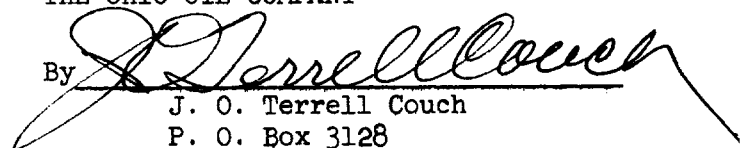
In conclusion, your Applicant says that the latitude permitted by the Order for the location of wells hereafter drilled on standard spacing units will afford to all affected operators a just and ample opportunity to protect themselves and their properties from any possible or fanciful advantage thought to exist as a result of exempting The Ohio's A. C. Dean Well No. 1 from those provisions of Order R-892 which would restrict the allowable of the well. However, if it is felt that other operators need further relief from previously completed wells, a reasonable increase in allowables for wells on standard 80-acre spacing units would be an appropriate and legal remedy, provided such wells can produce such increased allowables without waste.

WHEREFORE, your Applicant prays that, pending final determination of the questions raised by this Application, the Commission enter its order staying Order R-892 and specifying that the allowable of The Ohio's A. C. Dean Well No. 1 shall continue to be computed in accordance with the statewide rules applicable to a well of the same depth under normal 40-acre spacing. Your Applicant further prays that a rehearing be granted in respect to each and all of the matters set forth above, that the date and place of such rehearing be fixed by notice to your Applicant and other interested parties at the earliest practical date, and that on such rehearing this Commission revise its Order R-892 so as to expressly recognize that The Ohio Oil Company's A. C. Dean Well No. 1 is exempt from both the spacing and allowable provisions of the Order and so as to grant such other and further relief as is proper and just.

Respectfully submitted this 19th day of October, 1956.

THE OHIO OIL COMPANY

By



J. O. Terrell Couch
P. O. Box 3128
Houston 1, Texas

W. H. Everett
P. O. Box 3128
Houston 1, Texas

A copy of this motion has been mailed this date to each of the parties named below at the addresses shown. Those are the only parties to this Case known to Applicant.

Sinclair Oil & Gas Company
1103 Fair Building
Fort Worth 2, Texas

Magnolia Petroleum Company
P. O. Box 727
Kermit, Texas

Humble Oil & Refining Company
P. O. Box 1600
Midland, Texas

Atlantic Refining Company
P. O. Box 871
Midland, Texas

Sunray Mid-Continent Oil Company
P. O. Box 2039
Tulsa, Oklahoma

Gulf Oil Corporation
P. O. Box 2167
Hobbs, New Mexico

Tidewater Oil Company
P. O. Box 1404
Houston, Texas

Cities Service Oil Company
P. O. Box 97
Hobbs, New Mexico

Mr. Dan Auld
P. O. Box 988
Kerrville, Texas

Mr. J. L. Hamon
First National Bank Building
Dallas, Texas

DOCKET: REGULAR HEARING NOVEMBER 13, 1956

Oil Conservation Commission 9:00 a.m., Mabry Hall, State Capitol, Santa Fe

- ALLOWABLE:
- (1) Consideration of the oil allowable for December, 1956.
 - (2) Consideration of the allowable production of gas from designated pools in Lea County, New Mexico, for December, 1956, and also presentation of purchasers' nominations for the 6-month period beginning January 1, 1957; also consideration of the gas allowable for December, 1956, for the prorated pools in San Juan and Rio Arriba Counties, New Mexico.

NEW CASES

CASE 727: (Readvertisement) Application of the Oil Conservation Commission upon its own motion as provided for in Order R-610-C, to hear testimony and receive evidence regarding the amending, revising or abrogating existing Rules and Regulations of the Oil Conservation Commission, and/or promulgating rules and regulations relating to gas pool delineation, gas proration and other related matters affecting or concerning the Blinebry Gas Pool, Blinebry Oil Pool and Terry-Blinebry Oil Pool.

CASE 861: (Readvertisement) Application of El Paso Natural Gas Company for an order amending the well spacing and drilling unit provisions of Commission Order R-639 and establishment of gas proration units and allocation of gas production in the Crosby-Devonian Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order amending the Special Rules and Regulations for the Crosby-Devonian Gas Pool as set forth in Order R-639 insofar as well spacing and drilling unit provisions and the wells to be excepted thereto. Applicant further seeks to establish standard gas proration units consisting of not less than 632 acres nor more than 648 acres and further seeks to establish the allocation of gas production in the proportion that the acreage assigned to each well multiplied by its well-head pressure after 72 hours shut-in bears to the sum of said product for all wells and proration units in the Crosby-Devonian Gas Pool or in accordance with such other method for allocating production as the Commission shall deem necessary and proper.

CASE 1102: (Rehearing) Application of the Ohio Oil Company for rehearing in Case 1102, Order R-892 which established pool rules for the Dean Permo-Pennsylvanian and Dean-Devonian Pools, Lea County, New Mexico. Applicant, in the above-styled cause, seeks reconsideration by the Commission of the spacing and allowable provisions for the Dean Permo-Pennsylvanian Pool with particular attention to the allowable for existing wells on 40-acre tracts. Applicant contends that such wells should retain the normal 40-acre allowable rather than one-half of the normal 80-acre allowable as established by Order R-892.

- CASE 1172: Application of Magnolia Petroleum Company for an order granting exception to paragraph 2 of the Special Rules and Regulations of the Dean Permo-Pennsylvanian Pool as set forth in Order R-892 and further for an extension of the horizontal limits of the Dean Permo-Pennsylvanian Pool. Applicant, in the above-styled cause, seeks an order granting the establishment of an 80-acre non-standard proration unit comprising the NE/4 SE/4 of Section 27, and the NW/4 SW/4 of Section 26, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico; said acreage to be dedicated to its Cone No. 1 Well, located in the NW/4 SW/4 of said Section 26 and further applicant requests the extension of the horizontal limits of the Dean Permo-Pennsylvanian Pool to include the SE/4 of said Section 27.
- CASE 1173: Application of Skelly Oil Company for an order granting approval of its proposed Sombero Unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order granting approval of its proposed Sombero Unit containing 640 acres comprising the E/2 of Section 11 and the W/2 of Section 12, Township 16 South, Range 33 East, Lea County, New Mexico. The unit consists entirely of State of New Mexico lands.
- CASE 1174: Application of the Oil Conservation Commission upon its own motion for an order granting exception to Rule 502 I (a) of the Commission Statewide Rules and Regulations for all wells in the Caprock-Queen Pool, Chaves and Lea Counties, New Mexico. Applicant, in the above-styled cause, seeks an order granting exception to Rule 502 I (a) in permitting production greater than 125% of the daily allowable for all wells in the Caprock-Queen Pool.
- CASE 1175: Southeastern New Mexico nomenclature case calling for the creation of new pools and the extension of and deletion of certain areas from existing pools in Lea and Eddy Counties, New Mexico:
- (a) Create a new pool for Pennsylvanian production, designated as the Anderson-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 17 SOUTH, RANGE 30 EAST
Section 18: NW/4
 - (b) Create a new pool for Pennsylvanian production, designated as the Duffield-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 16 SOUTH, RANGE 27 EAST
Section 21: SW/4

- (c) Create a new pool for Devonian production, designated as the Four Lakes-Devonian Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 1: NW/4
Section 2: NE/4

- (d) Create a new pool for Wolfcamp production, designated as the Four Lakes-Wolfcamp Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 1: NW/4
Section 2: NE/4

- (e) Create a new pool for Pennsylvanian production, designated as the Fren-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 17 SOUTH, RANGE 31 EAST
Section 15: SW/4
Section 21: E/2
Section 22: NW/4

- (f) Create a new pool for Seven Rivers production, designated as the High Lonesome-Seven Rivers Pool, and described as:

TOWNSHIP 16 SOUTH, RANGE 29 EAST
Section 15: NW/4

- (g) Create a new pool for Pennsylvanian production, designated as the Ranger Lake-Pennsylvanian Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 23: SE/4

- (h) Create a new pool for Yates production, designated as the Saladar-Yates Pool, and described as:

TOWNSHIP 20 SOUTH, RANGE 28 EAST
Section 33: SW/4

- (i) Create a new pool for Delaware production, designated as the Wye-Delaware Pool and described as:

TOWNSHIP 22 SCUTH, RANGE 27 EAST
Section 29: NW/4

- (j) Extension of the Aid Pool to include therein:

TOWNSHIP 17 SCUTH, RANGE 29 EAST
Section 19: SW/4

- (k) Extension of the Atoka Pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 26 EAST

Section 10: E/2 and E/2 W/2

Section 11: S/2

Section 13: W/2 W/2

Section 21: NE/4

Section 22: NE/4

- (l) Extension of the Dean Permo-Pennsylvanian Pool to include therein:

TOWNSHIP 15 SOUTH, RANGE 36 EAST

Section 23: S/2 SE/4

- (m) Extension of the Dos Hermanos Yates-Seven Rivers Pool to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST

Section 32: E/2 NE/4

- (n) Extension of the North Gladiola-Devonian Pool to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST

Section 5: W/2

- (o) Extension of the High-Lonesome Pool to include therein:

TOWNSHIP 16 SOUTH, RANGE 29 EAST

Section 21: E/2 and SW/4

Section 28: All

- (p) Extension of the Hobbs Pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 37 EAST

Section 26: E/2 NE/4

- (q) Extension of the Roberts Pool to include therein:

TOWNSHIP 17 SOUTH, RANGE 33 EAST

Section 8: NE/4

- (r) Extension of the Townsend-Wolfcamp Pool to include therein:

TOWNSHIP 16 SOUTH, RANGE 35 EAST

Section 1: Lots 9, 10, 15 & 16

Section 8: NE/4 SW/4

- (s) Extension of the Jalmat Gas Pool to include therein:

TOWNSHIP 22 SOUTH, RANGE 35 EAST

Section 11: SE/4

- (t) Deletion from the Terry-Blinebry Oil Pool
the following:

TOWNSHIP 21 SOUTH, RANGE 37 EAST
Section 3: Lots 6, 10, 11 & 12

- (u) Extension of the Blinebry Gas Pool in Lea
County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST
Section 3: Lots 6, 10, 11 & 12

- (v) Extension of the Blinebry Oil Pool in Lea
County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST
Section 3: Lots 6, 10, 11 & 12

CASE 1176: Northwestern New Mexico nomenclature case calling for
the extension of existing pools in San Juan and Rio
Arriba Counties, New Mexico:

- (a) Extension of the Ballard-Pictured Cliffs Pool
to include therein:

TOWNSHIP 26 NORTH, RANGE 7 WEST
Section 30: SW/4

- (b) Extension of the Aztec-Pictured Cliffs Pool to
include therein:

TOWNSHIP 29 NORTH, RANGE 10 WEST
Section 2: W/2

- (c) Extension of the Otero-Pictured Cliffs Pool to
include therein:

TOWNSHIP 24 NORTH, RANGE 6 WEST
Section 36: S/2

- (d) Extension of the Tapicito-Pictured Cliffs Pool
to include therein:

TOWNSHIP 26 NORTH, RANGE 3 WEST
Section 33: E/2

TOWNSHIP 26 NORTH, RANGE 4 WEST
Section 3: S/2
Section 4: S/2
Section 10: N/2

- (e) Extension of the West Kutz-Pictured Cliffs Pool to include therein:

TOWNSHIP 27 NORTH, RANGE 11 WEST
Section 10: NE/4

- (f) Extension of the Bisti Lower Gallup Oil Pool to include therein:

TOWNSHIP 25 NORTH, RANGE 12 WEST
Section 7: SE/4

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