

Mobil Oil Corporation

P.O. BOX 633
MIDLAND, TEXAS 79701

January 19, 1968

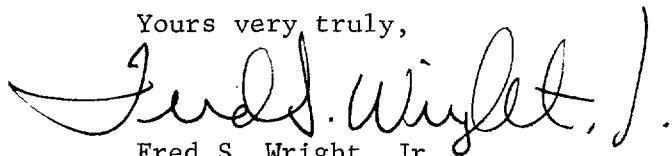
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

CASE (3711) - JANUARY 24, 1968
HEARING ON COMMISSION PROPOSED
AMENDMENTS PERTAINING TO STATE-
WIDE DISCOVERY ALLOWABLE RULE 509

Gentlemen:

Mobil Oil Corporation, an operator in the State of New Mexico, supports the Commission's proposed action in regard to amending Statewide Rule No. 509. The Commission's proposed amendments will give the rule meaningful flexibility while maintaining necessary regulatory control.

Yours very truly,



Fred S. Wright, Jr.
Producing Manager

BJT/vp

MAILED

1968 JAN 23 AM 8 42



SKELLY OIL COMPANY

P. O. BOX 1650

TULSA, OKLAHOMA 74102

PRODUCTION DEPARTMENT

C. L. BLACKSHER, VICE PRESIDENT

W. P. WHITMORE, MGR. PRODUCTION

W. D. CARSON, MGR. TECHNICAL SERVICES

BARTON W. RATLIFF, MGR. JOINT OPERATIONS

GEORGE W. SELINGER, MGR. CONSERVATION

January 18, 1968

Re: Case No. 3711
Hearing - January 24, 1968

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr., Secretary-Director

Gentlemen:

This is to advise that Skelly Oil Company concurs in the proposal to amend the discovery allowable rule so as to permit the production of the bonus discovery oil allowable assigned to multiple discovery wells to be produced from any discovery zone in any proportion, and further, to permit applications for the bonus discovery allowable to be heard on dockets other than the regular pool nomenclature docket in instances where the applicant will present the evidence.

Yours very truly,

RJJ:br

MAILED

'68 JAN 22 AM 8 17

CLASS OF SERVICE

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WESTERN UNION

TELEGRAM

W. P. MARSHALL
CHAIRMAN OF THE BOARD

R. W. MCFALL
PRESIDENT

SYMBOLS

DL=Day Letter
NL=Night Letter
LT=International Letter Telegram

The filing time shown in the date line on domestic telegrams is LOCAL TIME at point of origin. Time of receipt is LOCAL TIME

LA129 NSA384

(35)

NS FWB233 PD=FAX FORT WORTH TEX 23 220 PM JAN 23 1968

A L PORTER JR SECRETARY AND DIRECTOR NEW MEXICO OIL
CONSERVATION COMMISSION=


STATE LAND OFFICE BLDG SANTA FE NMEX=

PAN AMERICAN PETROLEUM CORPORATION HAS NO OBJECTION TO
THE PROPOSED CHANGES IN STATEWIDE RULES 103, 509 AND
701 AS CONTAINED IN THE NEW MEXICO OIL CONSERVATION
COMMISSION HEARING DOCKET FOR JANUARY 24, 1968

J L HOYT JR PAN AMERICAN PETROLEUM CORP=

MAIN OFFICE
JAN 23 PM 2 04

=103 509 701 24 1968=



CLASS OF SERVICE

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WESTERN UNION

TELEGRAM

W. P. MARSHALL
CHAIRMAN OF THE BOARD

R. W. MCFALL
PRESIDENT

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LA34 NSA643

(401).

1968 APR 16 PM 3 14

NS MDA083 PD=MIDLAND TEX 16 356P CST=

OIL CONSERVATION COMMISSION=

1000 W BROADWAY HOBBS NMEX=

CONCERNING CASE 3711 AND ORDER R-3105 PERTAINING TO
DISCOVERY ALLOWABLES IN NEW MEXICO TEXACO INC, CONCURS
WITH THE PROPOSAL TO ASSIGN DISCOVERY ALLOWABLE TO EACH
DISCOVERY ZONE OF MULTIPLY COMPLETED WELLS BASED UPON
THE DEPTH OF SAID ZONE FROM GROUND LEVEL. THIS WILL
PROVIDE ADDITIONAL INCENTIVE STIMULATING THE SEARCH FOR
NEW SOURCES OF OIL IN NEW MEXICO=

J H MARKLEY-DIVISION MANAGER=

Memo

From

D. S. NUTTER
CHIEF ENGINEER

To

to be heard on
dockets other than
the regular pool room
Clature docket in
instances where the
applicant will present
the evidence

BEST AVAILABLE COPY

to permit the
production of the
bonus discovery
allowance ^{assigned to} ~~from~~ for
multiple discovery
wells to be produced
from any discovery
zone in said well
in any proportion.
Further, to permit
applications for the
bonus discovery allowance

Order No. R-3380 in Case 3711 mailed to:

Ronald Jacobs
Skelly Oil Company - Tulsa

Carl Whigham
Texaco, Midland

Mr. Frank Hart
Mobil Oil Co.

James Sperling

R. M. Anderson
Sinclair

All district offices and Mr. Byram

BEST AVAILABLE COPY

History & Background of Rule 509

→ After hearing on July 13, 1966, the Commission by Order No R-3105 ~~etc~~ dated August 26 of that year adopted Rule 509 authorizing an oil discovery allowance to each well ~~discovering~~ making a bona fide discovery of a new oil ~~field~~ pool after September 1, 1966.

→ The rule provided that the discovery allowance would be equal to 5 bbls of oil from the surface of the ground to the discovery zone, with the allowance to be produced in addition to the regular allowance over a two year period. Thus, a well making a discovery at 10,000 feet would receive 50,000 barrels of oil in addition to its regular allowance during the first two years. In counties where there was no previous oil production, ~~and~~ the discovery allowance would be doubled, ~~to~~ 10 barrels per foot; ~~and~~ ~~also~~ 10 barrels per foot is also earned by any well which is the deepest oil production in the county.

→ The discovery allowance rule as adopted in August of 1966 provided that in the case of multiple completion discoveries, or where one well discovers more than one pool on the way down, the discovery allowance for the upper zone is

(2)

computed on the distance from the surface to the top of the uppermost discovery zone, while the discovery allowable for the lower zone is based on the ~~distance~~ additional distance drilled from the bottom of the upper pay to the top of the lower pay. It is further provided that the allowance ~~assigned to each zone~~ earned by each zone and assigned to each zone ~~to~~ may be produced from that zone only in that well only.

→ The call of case 3711 when it was ^{first} heard in January of 1968 was, among other things, to amend Rule 509 to permit the allowance assigned to each of the zones in a multiple discovery well to be produced from either zone in any proportion. I testified at that hearing and recommended that the rule be thus amended but with some sort of limitation to prevent reservoir damage.

→ ~~No, I no longer feel that the allowance should be produced.~~

Well, during the past year we had one multiple discovery well which really pointed up the deficiency of the rule as it is currently on the books.

Texas Pacific Oil Company made a multiple discovery in its Ella Drinkard Well No 2 down in Section 25 of Township 22 South Range 37 East Lea County.

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This well made a discovery in the Ellenburger at 7783 feet and then went on down to discover a new pool in the Granite wash 43 feet below the ~~the~~ base of the Ellenburger. The Ellenburger zone received 38,915 barrels of discovery allowance and the Granite wash received 210 barrels. ~~but there for with variations in assignments such as is possible at~~ In a situation like this, you could very well have the upper zone fall off and not be able to make the allowance ~~to~~ ~~that~~ because of the physical capacity of the well. However the other zone could be strong and still not be able to make the allowance because of the way the rule is written. For that reason, to provide some flexibility in the production of the allowance, I recommended that the rule be revised to permit the production from either zone subject to some limitation to prevent reservoir damage

→ No I no longer recommend this. —

→ I believe this will be self evident as we get into the following proposed amendment. In order to liberalize the bonus discovery allowance and further encourage discovery drilling, it is felt that the allowance should be made applicable from the surface of the ground to any discovery zone. This would apply to each

zone of a multiple discovery well and also to add wells deepened or plugged back to new discoveries. The allowance assigned to each zone thus will be substantial. For example a well which makes a dual discovery in the Pennsylvanian at 10,000 feet and in the Devonian at 12,000 feet would receive 50,000 barrels for the upper zone and 60,000 for the lower zone, ^{for a total of 110,000}. Formerly, this ~~total allowance~~ discovery allowance would have been 50,000 and 10,000, respectively, for a total of 60,000. In most instances you could divide the 60,000 up in ^{some odd} ~~any~~ proportion and permit the better zone to make most of it without hurting the well. To permit one zone to make the 110,000 barrels, however, in addition to its regular allowance, ~~it~~ is far more likely to damage the well and possibly result in waste.

→ I would propose that the 2nd and 3rd paragraphs of Rule 509 be stricken completely. Read para 2 & 3 into record

→ After we have had numerous occasions when the bonus allowable for a discovery well could have been heard at other than a regular nomenclature hearing. Perhaps the operator is going to be in for a hearing on some other matter early in the life of

(2)

the well: A dual completion, non-standard location, non-standard pronunciation unit, pool rules, or any of a number of other things. He might just want to go ahead and have his discovery allowance ~~at~~ hearing at the same time and avoid having to wait for the next nomenclature hearing. Its purpose to just miss getting on the docket for one of these regular hearings and having to wait over seven weeks to get on the next. We therefore propose that the sixth paragraph of Rule 509 be amended as shown on page 2 of the proposed rule. This is as proposed at the first hearing of this case on January 24 of this year. Read Rule on 2nd page of proposal.

→ No nothing further.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

CASE No. 3425
Order No. R-3105

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
ON ITS OWN MOTION TO CONSIDER ALL
ASPECTS OF THE POSSIBLE ADOPTION OF
A BONUS DISCOVERY ALLOWABLE FOR THE
STATE OF NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 13, 1966, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 26th day of August, 1966, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That there is reason to believe that a discovery allowable will stimulate the search and exploration for new sources of oil within the boundaries of New Mexico.
- (3) That the adoption of the rules hereinafter designated and of related Commission Form C-109, all as hereinafter set out, is in the interest of conservation.

IT IS THEREFORE ORDERED:

- (1) That Section "G" of the Rules and Regulations of the Commission entitled "OIL PRORATION AND ALLOCATION" is hereby amended to include Rule 509 as follows:

RULE 509. OIL DISCOVERY ALLOWABLE

In addition to the normally assigned allowable, an oil discovery allowable may be assigned to a well completed as a bona fide discovery well in a new common source of supply. Said oil discovery allowable shall be in the amount of 5 barrels for each foot of depth of said well from the surface of the ground to the top of the perforations in the new pool or the depth of the casing shoe, whichever is higher. In counties where there is no other current oil production, and in any county when the discovery is the deepest oil production in the county, the oil discovery allowable shall be 10 barrels per foot of depth.

A multiply completed well shall be eligible to receive an oil discovery allowable for each new oil pool discovered, provided that the discovery allowable for the uppermost pool shall be based on the depth from the surface of the ground to the top of the perforations, and the discovery allowable for each lower pool shall be based on the distance from the bottom of the perforations in the next higher newly discovered oil pool to the top of the perforations in said lower pool or to the casing shoe, if applicable.

Oil discoveries made in old producing wells drilled deeper or previously abandoned dry holes shall receive discovery allowables in accordance with the above, except that the depth measurement shall be from the point actual formation drilling was commenced rather than from the surface of the ground. However, any abandoned dry hole which is re-entered and drilled deeper and a discovery made within one year from the date of abandonment, may receive a discovery allowable based on the depth as measured from the surface of the ground.

Date of discovery to determine the well which should properly receive the oil discovery allowable for any new pool shall be the date the well is completed and new oil is run into stock tanks, provided however, any operator drilling through and discovering a new oil pool in the course of drilling to a lower horizon may file an affidavit of such discovery within seven days after drill stem tests were made of said pool, accompanying said affidavit with all available pool data. If, prior to completion of said well, another operator claims discovery of a similar pool and there are reasonable grounds to believe the pools are one and the same, no discovery allowable will be assigned to either well.

until after the initial well for which the affidavit was filed has been completed. If at that time the operator of the initial well makes formal application for the discovery allowable in said pool, it will be determined after hearing which well shall receive the discovery allowable.

To obtain an oil discovery allowable, the owner of a discovery well shall file two copies of Commission Form C-109, Application for Discovery Allowable and Creation of a New Pool, with the appropriate District Office of the Commission and one with the Santa Fe office. Each copy of said form shall be accompanied by the following:

1. A map depicting all wells within a two-mile radius of the discovery well. All producing oil and gas wells and the formations from which they are producing or have produced are to be clearly shown as well as all dry holes and the depths to which they were drilled. Maps shall be on a scale one inch equals 1,000 feet and shall also indicate the names of all lessees of record in the depicted area.
2. A complete electrical log of the subject well with the tops and bottoms of producing formations in the subject well and in nearby wells identified thereon.
3. If application is based on horizontal separation, a sub-surface structural map of the producing formation(s) for which the discovery allowable is sought, showing seismic or geological interpretation of the subject structure and any troughs, faults, pinch-outs, etc., which separate the subject well from nearby wells producing from the same formation(s).
4. A geological cross-section prepared from electrical logs of the subject well and nearby wells establishing horizontal as well as vertical separation from other wells depicted on the plat which are producing or have produced from the discovery formation(s).
5. A summary of all available reservoir data including bottom hole pressure data, fluid levels, core analyses, reservoir liquid characteristics and any other

pertinent data on the subject reservoir as well as other nearby reservoirs which may help establish whether the subject well is in fact a discovery.

If, in the opinion of the Commission staff, good cause exists to bring the pool on for hearing as a discovery, and no objection has been received from any other operator, the pool will be placed on the first available hearing docket for inclusion by the staff in its regular pool nomenclature case. If the staff is not in agreement with the applicant's contention that a new pool has been discovered, or if another operator objects to the creation of a new pool and the assignment of an oil discovery allowable, the applicant will be so notified, and he will be expected to present the evidence supporting his case at the nomenclature hearing.

Effective date of a well's discovery allowable will be 7:00 a.m. on the first day of the month next succeeding the month in which the Commission approves the discovery.

The total discovery allowable attributable to each zone in the well shall be produced over a two-year period commencing with the time of authorization. The well's daily allowable for each pool receiving the discovery allowable shall not exceed the daily top unit allowable for the pool plus the total pool discovery allowable divided by 730 days (731 days if a leap year is included).

A discovery well shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio for the pool multiplied by the top unit allowable for the pool plus the daily oil discovery allowable. In addition to all other statewide rules not specifically excepted herein, the provisions of Commission Rule 502 relating to daily tolerance, monthly tolerance, and underproduction and overproduction, shall apply to oil discovery allowables as well as to regular allowables for discovery wells.

Nothing herein contained shall be construed as prohibiting the Commission from curtailing the discovery allowables of wells during times of depressed market demand, provided however, such discovery allowables shall be reinstated for production at the earliest possible date. Further, when it appears reservoir damage or waste might result from production of the oil discovery allowable within the normal two-year period, the Commission may, after notice and hearing, extend said period.

-5-

CASE No. 3425

Order No. R-3105

(2) That Section "M" of the Rules and Regulations of the Commission entitled "REPORTS" is hereby amended to include Rule 1109 as follows:

RULE 1109: APPLICATION FOR DISCOVERY ALLOWABLE AND CREATION OF A NEW POOL (Form C-109)

Form C-109, when applicable, shall be filed in accordance with Rule 509.

(3) That Form C-109, Application for Discovery Allowable and Creation of a New Pool, (a copy of which is attached hereto and made a part hereof as Exhibit "A") is hereby approved.

(4) That Rule 1100-D of the Commission Rules and Regulations is hereby amended to include Form C-109, Application for Discovery Allowable and Creation of a New Pool.

(5) That the provisions of this order shall be limited to oil pools discovered after September 1, 1966.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JACK M. CAMPBELL, Chairman

GUYTON B. HAYS, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION FOR DISCOVERY ALLOWABLE AND CREATION OF A NEW POOL

Note: This form is to be filed and attachments made in accordance with the provisions of Rule 509. If discovery is claimed for more than one zone, separate forms must be filed for each.

OPERATOR		ADDRESS	
LEASE NAME	WELL NO.	COUNTY	
WELL LOCATION			
UNIT LETTER _____; WELL IS LOCATED _____ FEET FROM THE _____ LINE AND _____ FEET FROM THE _____ LINE OF SECTION _____, TOWNSHIP _____, RANGE _____, NMPM			
SUGGESTED POOL NAMES (List in order of preference)			
1. _____ 2. _____ 3. _____			
NAME OF PRODUCING FORMATION		PERFORATIONS	DATE OF FILING FORM C-104
WAS "AFFIDAVIT OF DISCOVERY" PREVIOUSLY FILED FOR THIS WELL IN THIS POOL?		IF YES, GIVE DATE OF FILING	DATE WELL WAS SPURRED
DATE COMPL. READY TO PROD.			
TOTAL DEPTH	PLUGGED BACK DEPTH	DEPTH CASING SHOE	TUBING DEPTH
ELEVATION (State whether Gr., DF, RKB, RT, etc.)			
OIL WELL POTENTIAL (TEST TO BE TAKEN ONLY AFTER ALL LOAD OIL HAS BEEN RECOVERED)			
_____ BBLs, OIL PER DAY BASED ON _____ BBLs IN _____ HOURS; _____ BBLs WATER PER DAY BASED ON _____ BBLs			
IN _____ HOURS; GAS PRODUCTION DURING TEST: _____ MCF; RATIO: _____ METHOD OF PRODUCING: _____ CHK. SIZE _____			

NEAREST PRODUCTION TO THIS DISCOVERY (INCLUDES PAST AND PRESENT OIL OR GAS PRODUCING AREAS AND ZONES WHETHER THIS DISCOVERY IS BASED ON HORIZONTAL OR VERTICAL SEPARATION):

POOL NAME	NAME OF PRODUCING INFOR.	TOP OF PAY	BOTTOM OF PAY	CURRENTLY PRODUCING?
HORIZONTAL DISTANCE AND DIRECTION FROM SUBJECT DISCOVERY WELL TO THE NEAREST WELL IN THIS POOL		VERTICAL DISTANCE FROM SUBJECT DISCOVERY ZONE TO PRODUCING INTERVAL THIS POOL		
NEAREST COMPARABLE PRODUCTION (INCLUDES PAST AND PRESENT OIL OR GAS PRODUCTION FROM THIS PAY OR FORMATION ONLY):				
POOL NAME	TOP OF PAY	BOTTOM OF PAY	CURRENTLY PRODUCING?	
HORIZONTAL DISTANCE AND DIRECTION FROM SUBJECT DISCOVERY WELL TO THE NEAREST WELL IN THIS COMPARABLE POOL				

IS "COUNTY DEEP" DISCOVERY ALLOWABLE REQUESTED FOR SUBJECT DISCOVERY WELL?	IF YES, GIVE NAME, LOCATION, AND DEPTH OF NEXT DEEPEST OIL PRODUCTION IN THIS COUNTY
--	--

IS THE SUBJECT WELL A MULTIPLE COMPLETION?	IS DISCOVERY ALLOWABLE BEING REQUESTED FOR ANY OTHER ZONE(s)?	IF YES, NAME ALL SUCH FORMATIONS
--	---	----------------------------------

LIST ALL OPERATORS OWNING LEASES WITHIN ONE MILE OF THIS WELL (ATTACH ADDITIONAL SHEET IF NECESSARY)

NAME	ADDRESS

ATTACH EVIDENCE THAT ALL OF THE ABOVE OPERATORS HAVE BEEN FURNISHED A COPY OF THIS APPLICATION. ANY OF SAID OPERATORS WHO INTENDS TO OBJECT TO THE DESIGNATION OF THE SUBJECT WELL AS A DISCOVERY WELL ELIGIBLE TO RECEIVE A DISCOVERY ALLOWABLE MUST NOTIFY THE APPROPRIATE DISTRICT OFFICE AND THE SANTA FE OFFICE OF THE COMMISSION OF SUCH INTENT IN WRITING WITHIN TEN DAYS AFTER RECEIVING A COPY OF THIS APPLICATION.

REMARKS:

CERTIFICATION
I HEREBY CERTIFY THAT ALL RULES AND REGULATIONS OF THE NEW MEXICO OIL CONSERVATION COMMISSION HAVE BEEN COMPLIED WITH RESPECT TO THE SUBJECT WELL, AND THAT IT IS MY OPINION THAT A BONA FIDE DISCOVERY OF A HITHER-TO UNKNOWN COMMON SOURCE OF OIL SUPPLY HAS BEEN MADE IN SAID WELL. I FURTHER CERTIFY THAT THE DISCOVERY ALLOWABLE FOR THE SUBJECT WELL, IF AUTHORIZED, WILL BE PRODUCED FROM THE SUBJECT ZONE IN THIS WELL ONLY.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Hobbs, New Mexico
April 17, 1968
REGULAR HEARING

IN THE MATTER OF:

In the matter of Case No. 3711 b
originally heard January 24, 1968,
and in which no order has yet been
entered, being reopened on the motion
of the Commission to hear additional
testimony regarding the amendment of
Rule 509 of the Commission Rules and
Regulations; among other things, the
Commission will consider the
assignment of an oil discovery allowable
to each zone of a multiple discovery
well based on the depth of said zone
from the surface of the ground.

Case 3711 Reopened

BEFORE:

A.L. "Pete" Porter, Secretary-Director
Guyton B. Hayes, Land Commissioner
David F. Cargo, Governor

TRANSCRIPT OF HEARING

MR. PORTER: The Commission will take up next a reopened case, 3711.

MR. HATCH: Case 3711 Reopened. In the matter of Case No. 3711, originally heard January 24, 1968, and in which no order has yet been entered, being reopened on the motion of the Commission to hear additional testimony regarding the amendment of Rule 509 of the Commission Rules and Regulations, among other things, the Commission will consider the assignment of an oil discovery allowable to each zone of a multiple discovery well based on the depth of said zone from the surface of the ground.

George Hatch appearing on behalf of the Commission and staff: I have one witness I would like to have sworn at this time.

(Witness sworn)

DANIEL NUTTER

called as a witness, having been first duly sworn was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HATCH:

Q Will you state your name and position for the record?

A Dan Nutter, Chief Engineer for the Oil Conservation Commission.

Q Mr. Nutter, as Chief Engineer for the New Mexico Oil Conservation Commission is it one of your duties to make recommendations to the Commission concerning revision of rules of the Commission?

A Yes, sir, it is.

Q Are you familiar with Case 3711 as it's being reopened and what is proposed?

A Yes, sir, I am.

Q What does it propose, I mean, what rule --

A It's proposed that Rule 509 of the Commission Rules and Regulations be amended at this hearing.

Q Will you briefly review the history of Rule 509 for the Commission?

A Yes, sir. After hearing on July 13, 1966 the Commission by Order No. R-3105 dated August 26 of that year adopted Rule 509 authorizing an oil discovery allowable to each well making a bonafide discovery of a new oil pool after September 1, 1966.

Q In general terms, what does Rule 509 provide?

A The rule provides that the discovery allowable would be equal to five barrels of oil from the surface of

the ground to the discovery zone in a discovery well with the allowable to be produced in addition to the regular allowable for a well over a two-year period, thus a well making a discovery at say, 10,000 feet would receive a bonus allowable of 50,000 barrels in addition to the regular allowable during the first two years of the well's producing life. In counties where there was no previous oil production or in the instance of the deepest well in a county the bonus would be ten barrels a foot.

Q Did Rule 509 make any provision for multiply completed wells?

A Yes, sir, it does. The discovery allowable rule as adopted in August of 1966 provides that in the case of multiple completion discoveries or where one well discovers more than one pool on the way down, the discovery allowable for the upper zone is computed on the distance from the surface of the ground to the top of the uppermost discovery zone, while the discovery allowable for the lower pool is based on the additional distance drilled from the bottom of the upper pay to the top of the lower pay. It is further provided in the rule that the allowable earned by each zone and assigned to each zone could be produced by that zone only in that well only.

Q Now, as the case today is the reopening of Case 3711 will you review for the Commission what has taken place before today?

A Yes, sir. Case 3711 is being reopened today; it was originally heard in January of 1968. Now, the call of the hearing in January of 1968 was among other things to amend Rule 509 to permit the allowable assigned to each of the zones in a multiple discovery well to be produced from either zone in any proportion. I testified at that hearing and recommended that the rule be amended to provide that the allowable could be produced from either zone in any proportion but with some sort of limitations to prevent reservoir damage.

Q Why did you make such a recommendation in January?

A Well, during the first year that we had the discovery allowable, we had only one instance of a multiple discovery well, but in this well it really pointed up the deficiency of the rule as it's currently on the books. Texas Pacific Oil Company made a multiple discovery in its Ella Drinkard Well No. 2 down in Section 25 of Township 22 South, Range 37 East of Lea County. This well made a discovery in the Ellenburger zone at 7,783 feet and then it went on down to discover a new pool in the Granite Wash

43 feet below the base of the Ellenburger. The Ellenburger zone received a discovery allowable of 38,915 barrels and the Granite Wash zone received a discovery allowable of 210 barrels. In a situation like this, you can very well have the upper zone fall off and become marginal early in the life of the well and not be able to make the discovery allowable because of the physical capacity of the well; however, the other zone could be a strong zone but still not be able to make the discovery allowable for the well because of the way the rule is written so for that reason and to provide some flexibility in production of the allowable we recommended in January that the rule be revised to permit the production from either zone of the discovery allowable subject to, as I mentioned before, a limitation to prevent reservoir damage.

Q Mr. Nutter, has an order issued as a result of that hearing in January?

A No, sir, we have not entered an order in that case.

Q Would you make the same recommendation that you made in January?

A No, sir, I would not.

Q Why not?

A Well, I believe this will be self-evident as we get into the following proposed amendment that I've got here today. In order to liberalize the bonus allowable and to further encourage discovery drilling it is felt that the allowable should be applicable from the surface of the ground down to the discovery zone. Now, this would be true in each well, regardless of whether it's a multiple discovery or what. In the case of a multiple discovery well we would suggest that the allowable be applied from the surface of the ground down to each of the discovery zones. The allowable assigned to each zone would be substantial, for example, a well which makes a dual discovery say, in the Pennsylvanian zone at 10,000 feet and in the Devonian zone at 12,000 feet would receive 50,000 barrels for the upper zone and 60,000 barrels for the lower zone or a total of 110,000 barrels of discovery allowable. Formerly, and the way the rule is written now, this well would receive a discovery allowable of 50,000 for the upper zone and 10,000 for the lower zone for the additional two thousand feet of drilling or a total discovery allowable of 60,000 barrels.

In most instances you could divide the 60,000 barrels up into some odd proportion and permit the better zone to

make the allowable without hurting the well or hurting either reservoir; however, to permit one zone to make the 110,000 barrels in addition to its regular allowable is far more likely to damage the reservoirs or one of the reservoirs and possibly result in waste and for this reason I don't recommend that we have this flexibility that we recommended in January.

Q But you are recommending today that Rule 509 be amended so as to allow the assignment of an oil discovery allowable to each zone of a multiple discovery well based on the depth of said zone from the surface of the ground?

A Yes, sir, I am.

Q How do you propose Rule 509 be amended to accomplish that result?

A Well, I have handed to the Commission copies of Rule 509 identified there at the top there as proposed amendment and there are two paragraphs that are deleted from the existing rule.

Q Now, you also handed the Commission the old 509?

A Yes, sir, I have handed the Commission also copies of Order No. 3105 which promulgated Rule 509 and

the two paragraphs that are being suggested for deletion read as follows. The Commission has the proposed rule, they also have the existing rule, but for the benefit of those that don't have them in their hands I will read the paragraphs that would be deleted under the proposal that we are making here today. Paragraph 2 of Rule 509 reads as follows: "A multiply completed well shall be eligible to receive an oil discovery allowable for each new oil pool discovered, provided that the discovery allowable for the uppermost pool shall be based on the depth from the surface of the ground to the top of the perforations and the discovery allowable for each lower pool shall be based on the distance from bottom of the perforations in the next higher newly discovered oil pool to the top of the perforations in said lower pool or to the casing shoe if applicable." The third paragraph, "All discoveries made on old producing wells drilled deeper or previously abandoned dry holes shall receive discovery allowables in accordance with the above except that the depth measurement shall be from the point actual formation drilling was commenced rather than from the surface of the ground, however any abandoned dry hole which is re-entered and drilled deeper than a discovery made within

one year from the date of abandonment may receive a discovery allowable based on the depth as measured from the surface of the ground." Now, it's proposed that those two paragraphs be deleted and that the remainder of the rule remain in effect.

Q Do you have any further recommendations to make to the Commission concerning revision of Rule 509?

A Yes, sir, I do. We have had, on numerous occasions cases when the bonus allowable for a discovery well could have been heard at some hearing other than the regular nomenclature hearing, perhaps the operator is going to be in on a hearing for some other matter early in the life of the discovery well, such as dual completion, nonstandard location, nonstandard proration unit, pool rules, or any of a number of other things. The operator might just want to go ahead and have his discovery allowable heard at the same time and avoid having to wait for the next nomenclature hearing. It's possible to just miss one of these nomenclature hearings by a day or two and having to wait almost seven weeks sometimes before the next nomenclature hearing comes up, we therefore propose that the Sixth Paragraph of Rule 509 be amended as shown on Page 2 of the proposed rule. Now, if the

Commission would turn to Page 2 there I have marked the paragraph that would be amended there, the existing paragraph reads as follows, now, this is the existing rule that I am reading: "If in the opinion of the Commission's staff good cause exists to bring the pool on for hearing as a discovery and no objection has been received from any other operator the pool will be placed on the first available hearing docket for inclusion by the staff in its regular pool nomenclature case, If the staff is not in agreement with the applicant's contention that a new pool has been discovered or if another operator objects to the creation of a new pool and the assignment of an oil discovery allowable the applicant will be so notified and he will be expected to present the evidence supporting his case at the nomenclature hearing." Now, in order to permit some flexibility here, we are making the proposal that the rule be amended to provide that the case could be heard at other than a nomenclature hearing and I'll read the proposed rule into the record, this paragraph: "If in the opinion of the Commission's staff good cause exists to bring the pool on for hearing as a discovery and no objection has been received from any other operator the pool will be placed on the first

available hearing docket for inclusion by the staff in its regular pool nomenclature case. If the staff is not in agreement with the applicant's contention that a new pool has been discovered or if within ten days after receiving a copy of the application another operator files with the Commission an objection to the creation of a new pool and the assignment of discovery allowable, the applicant will be so notified and he will be expected to present the evidence supporting his case or if the applicant so desires the application may be set for separate hearing on other than the nomenclature docket for presentation of evidence by the applicant."

Q Mr. Nutter, is that substantially the same as your testimony and recommendation concerning this particular part in January?

A Yes, sir, this is the same recommendation I'm making that I made in January on this particular paragraph.

Q You have here a proposed amendment to Rule 509. Have you had that marked as an exhibit?

A No, sir, I haven't but we can have it marked.

(Whereupon, Exhibit 1 marked
for identification)

Q Did you prepare it?

A Yes, sir, I did.

MR. HATCH: I would like to move the introduction of Exhibit 1 into evidence.

MR. PORTER: If there are no objections, the exhibit will be admitted,

(Whereupon, Exhibit 1 was offered and admitted in evidence.)

MR. HATCH: That's all the questions I have.

CROSS EXAMINATION

BY MR. PORTER:

Q Mr. Nutter, this last recommendation you made just primarily to give us flexibility of setting this type of application before the Examiners?

A Yes, sir.

MR. PORTER: Does anyone have a question of Mr. Nutter concerning any phase of his recommendation? Is it clear to all?

MR. JACOBS: Ronald Jacobs of Skelly Oil Company. Mr. Nutter, do you feel that your proposed amendment would have the effect of encouraging designating small reservoirs to take advantage of this bonus allowable which otherwise might be classified or grouped together and classified as a single pool?

A I think that any time you have a discovery allowable

you may have the possibility that operators might seek the designation of a new pool when it is in reality, the extension of an existing pool. I don't believe that my recommendation here changes this aspect of the discovery allowable.

MR. JACOBS: Well, where you gave the discovery or bonus allowable to the pools from the surface of the ground to the top, I am talking about multiple completed wells and then you gave an additional discovery from that formation down to the next deeper discovery, the well has a total discovery allowable and it really didn't make too much difference whether you had two or three but if you are going to give each one a discovery of bonus from the surface of the ground to each pool, won't that encourage breaking up what would otherwise be a single pool or maybe two pools into four pools?

A Yes, sir, the effect of this might be in that direction, however, I think the Commission will have to be prudent in designation of these pools and where an operator may want to split a zone so to speak, and make two vertical pools out of that zone the Commission is going to have to watch that and prevent the designation of two pools in one zone.

MR. PORTER: Does anyone else have a question of Mr. Nutter concerning this proposed rule change? I might say for the record in connection with Mr. Nutter's testimony, after this case came on I believe he testified in January a proposal was made to change the rule. A lot of discussion resulted among staff members concerning the rule as it was and the proposed change and this included staff meetings, bringing in the District people to discuss all aspects of this problem and it was felt that because of difficulty in administrative handling of this matter that had already arisen in some cases, that it should be thoroughly considered by the staff so this resulted in the reopening of the case 3711. So Mr. Nutter's testimony is a result of the staff's thinking and feeling from the experiences that we have had with the bonus discovery allowable rule up to this time. Does anyone have anything further? If not, the witness may be excused.

MR. WHIGHAM: I'm Carl Whigham with Texaco.

MR. PORTER: Do you have a question of the witness?

MR. WHIGHAM: Yes, I do. Mr. Nutter, you made a brief mention to the assignment of this discovery

allowable to the well and to the zone. You do not plan to make any recommendations on changes in the assignment, in other words, will the allowable still be assigned to the discovery zone and to the discovery well and cannot be produced from other zones or from other wells?

A This is correct. The discovery allowable, since we adopted it in New Mexico has been limited to the well that makes the discovery.

MR. WHIGHAM: So there will be no change?

A And there will be no change in that respect. In January I recommended that the discovery allowable could be produced from other than the discovery zone in that well, but I am withdrawing that recommendation at this time because, like I stated in my testimony, say, a Pennsylvanian discovery earning 50,000 barrels, that allowable would be assigned to the Pennsylvanian. The Devonian earning 60,000 barrels, that allowable would be assigned to the Devonian and would be produced from that zone, so each of these zones would receive its own allowable and would be expected to produce its own allowable and the allowable could not be produced from any other well or from any other zone.

MR. WHIGHAM: Thank you.

MR. PORTER: Does anyone else have a question?

Witness may be excused.

(Witness excused)

MR. PORTER: Does anyone have a statement to make in this case?

MR. HART: Frank Hart representing Mobil Oil Corporation, I would like to make a statement.

MR. PORTER: In connection with Mr. Hart's statement, the Director of the Commission had a telephone call from Mr. James E. Sperling, who is the attorney who was representing Mobil, I believe, ordinarily in their cases before this case, informing me that a statement would be made for the record this morning by a representative of Mobil. You may proceed, Mr. Hart.

MR. HART: Gentlemen: On November 15, 1967 Mobil Oil Corporation presented testimony suggesting that Rule 509 be amended to calculate bonus allowable by utilizing a depth factor measured from the surface of the earth to the top of newly discovered zones. Mobil's testimony at that time stated that "Only through such incentive programs will a State produce an economic atmosphere which will inspire operators to actively seek out

the hydrocarbon reserves of that State." Mobil further stated that "Not only is the discovery of new reserves vital to the economy of a state, but as witnessed during the recent Middle East crisis, it is Mobil's opinion that an increase in the producing capabilities of the nation is a forthcoming necessity."

Without reiterating statistics on drilling success ratios and profit margins, it is a fact of common knowledge that each foot of drilling for new discovery reserves represents tremendous investments and that, as a State's oil industry ages, this success ratio drastically declines. Ultimately a point is reached wherein the economic risk involved renders the drilling venture prohibitive.

Adoption of the proposed amendment to Rule 509 will retard the inevitable decline of those drilling operations specifically designed to discover new resource wealth within the State of New Mexico. That proposed amendment contains a two-year termination date safeguard. The rule likewise safeguards against gross inequities by limiting the amount of oil bonus per foot of depth.

Mobil, therefore, urges that the proposed amendment to Rule 509 is designed with adequate safeguards and will operate to effectively increase the reserves in

the State of New Mexico. Performing such functions, amendment of Rule 509 thereby stands as an excellent example of true conservation practices.

For these reasons, Mobil urges passage of the proposed amendment to Rule 509 of the Rules and Regulations of the Oil Conservation Commission of the State of New Mexico.

MR. PORTER: Thank you, sir. Does anyone else have a statement concerning this case?

MR. ANDERSON: R.M. Anderson, Sinclair Oil and Gas Company. Sinclair wishes to concur in recommendations of Mr. Nutter this morning with regard to the amendment of the statewide rule. Thank you.

MR. JACOBS: Ronald Jacobs appearing for Skelly Oil Company. We likewise would like to concur in recommendation made by Mr. Nutter but we would like to throw in a note of caution that the Commission exercise wisdom in seeing that the zones are not indiscriminately or unnecessarily split up into numerous other zones so as to take advantage of the rule.

MR. PORTER: Do we have anyone else? Mr. Hatch, do you have any written communications from any interested parties?

MR. HATCH: I have one telegram here from

Texaco concerning Case 3711 and Order 3105 pertaining to the discovery allowables in New Mexico. "Texaco Incorporated concurs with the proposal to assign discovery allowable to each discovery zone of multiply completed wells based upon the depth of said zone from ground level. This will provide additional incentive stimulating the search for new sources of oil in New Mexico." Dated April 16, 1968, Division Manager.

MR. PORTER: Is that the only communication we have received since reopening? Is there anything further to be offered in this case? The Commission will take the case under advisement.

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, KAY EMBREE, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Witness my Hand and Seal this 29th day of April, 1968.



NOTARY PUBLIC

My Commission Expires:

November 19, 1971