

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

October 29, 1973

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

L. 25-13
The Honorable Santiago E. Campos
The Honorable Edwin L. Felter
District Judges
First Judicial District
State of New Mexico
County Courthouse
Santa Fe, New Mexico 87501

Dear Judges Campos and Felter:

The Oil Conservation Commission, Saturday, entered an order which upheld an earlier administrative order of the Commission directing Michael P. Grace II to cease producing a certain gas well which he operates. We anticipate that Mr. Grace will seek a temporary restraining order enjoining the Commission from enforcing its order.

The Commission wishes only to advise you that there is a specific section of the New Mexico Statutes, a copy of which is attached, which deals with temporary restraining orders or injunctions against the Commission. Mr. Grace obtained a temporary restraining order under the general TRO statute enjoining the Commission from enforcing its original administrative order. The validity of this temporary restraining order is under litigation in Judge Donnally's court.

In the light of these circumstances, the Oil Conservation Commission requests that, in the event Mr. or Mrs. Grace petitions you for a temporary restraining order enjoining enforcement of the Commission's October 27th order, that such order be granted only after the requirements imposed by Sec. 65-3-23 NMSA have been fulfilled.

Sincerely yours,

THOMAS W. DERRYBERRY
Special Assistant Attorney General

TWD/dr
enclosure

CALVIN KITTLE ASSOCIATES, INC.
1525 K Street, N. W.
Washington, D. C. 20006

In Albuquerque: Joe Rogers
296-5280

FOR RELEASE 8 a.m. M.D.T.
OCTOBER 26, 1973

NEW MEXICO INDEPENDENT GAS PRODUCERS URGES
FEDERAL REVIEW OF STATE REGULATORY RULES

Washington, D.C., October 25, 1973 Testifying before the

Senate Commerce Committee today, a New Mexico independent gas producer recommended that the Federal Power Commission be given authority to review all state measures regulating the production of oil and gas as a means of reducing the hoarding of natural resources by producer states.

Mrs. Corinne Grace, who with her husband, Michael, is a PFC-certified small producer in Eddy County, N. Mex., told the Senators that "in New Mexico we are confronted with a regulatory body--the Oil Conservation Commission--which appears dedicated to hoarding oil and gas solely for the residents of the state. They see these energy sources as a state resource rather than as a national resource."

As an example of how New Mexico has attempted to hold down production, she cited recent OCC moves to shut down those gas wells which have exceeded the average production level of all wells in their field--including one operated by the Graces. This "pure averages formula" for setting production allowances is antiquated and has long since been given up by other producing states, Mrs. Grace noted.

ILLEGIBLE

"Gas wells, like people, are different from one another. Some wells have a tremendous capacity to produce, while others in the same pool have a very small capacity. I believe that each well should be judged on its ability to produce and that its allowable should be set accordingly," Mrs. Grace told members of the committee.

Empowering the Federal Power Commission to review regulatory orders and the criteria used in determining them would prompt the states to up-date their formula for determining allowables, thereby increasing the supply of natural gas, she contended.

Mrs. Grace was testifying on Senate Bill 2506 introduced by Senator Adlai Stevenson III (D. Ill.), which would broaden regulations on the production of natural gas--particularly that produced by major companies. She endorsed Senator Stevenson's proposal to exempt small producers from ^{price} regulations, but recommended that "independent producers" be defined as an individual or company which limits its activities to exploring for and producing natural gas. Currently a "small producer" is defined simply as one who produces less than 10 billion cubic feet of gas with no limitation on related activities such as refining, transmitting, or petrochemicals.

"If you propose to continue to define 'small producers' by volume produced, then I would recommend that the Committee set the limit for a small producer at twenty billion cubic feet," Mrs. Grace said. "The 10 billion cubic feet limit for small producers is lower than is necessary to preserve open competition, and not nearly high enough to provide the ^{intended} incentive for independents."

(more)

ILLEGIBLE

3-3-3-3

In her testimony, Mrs. Grace further recommended that the Federal government undertake a matching funds program with the states to develop extensive gas and oil storage facilities, thereby providing a reserve supply with which to meet an unusual user demand.

#

NOTE TO NEW MEXICO EDITORS:

THE OCC IS HOLDING HEARINGS AT 9 a.m. TODAY (OCTOBER 25, 1973) IN SANTA FE TO DETERMINE IF THE PROPER PROCEDURE WAS FOLLOWED IN ORDERING THE SHUTDOWN OF THE GRACE-ATLANTIC GAS WELL #1 IN THE SOUTH CARLSBAD MORGON POOL BECAUSE OF HAVING PRODUCED OVER IT'S ALLOWABLE.

ILLEGIBLE

SHERIFF'S RETURN

Sheriff.

No. 46933

DISTRICT COURT

County of SANTA FE

MICHAEL P. GRACE and

CORINNE GRACE

vs.

OIL CONSERVATION COMMISSION

SUBPOENA

SUBPOENA DUCE TECUM

THE STATE OF NEW MEXICO

To JOHN B. MAGRUDER - BRINGING WITH YOU COPIES OF YOUR CORRESPONDENCE WITH THE PLAINTIFF
HEREIN CONCERNING THE GRACE-ATLANTIC WELL NO. 1 AND DAILY PRODUCTION FIGURES FOR THE
MONTH OF SEPTEMBER, 1973, FROM SAID WELL WHICH IS LOCATED IN UNIT J, SECTION 24,
TOWNSHIP 22 SOUTH, RANGE 26 EAST, NMPM, EDDY COUNTY, NEW MEXICO

Greeting:

You and each of you are hereby commanded to appear before Division I of the District Court of
the First Judicial District of the State of New Mexico, within and for the County of Santa Fe
at the Court House of Santa Fe County, on October 19 1973, at the hour
of 4 p.m., then and there to testify in a cause therein pending wherein Corinne Grace
are Plaintiff and Oil Conservation Commission is Defendant, on the part of the Defendant
Oil Conservation Commission of the State of New Mexico

And this do you under penalty of the law.

THOMAS A. DONNELLY
WITNESS The HON. ~~SAMUEL MONTANO~~ MONTANO, Judge
of the First Judicial District Court of New Mexico, and
the Seal of said District Court, this 18th
day of October, A. D. 1973

Clerk of the District Court, First Judicial District

Deputy

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
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87501

TRUJILLO
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MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

October 9, 1973

The Honorable Pete Dominici
United States Senate
Washington, D. C.

Dear Senator Dominici:

Pursuant to our telephone conversation of October 4, I am submitting some information which should shed some light on our action in directing that the gas well in question be shut in.

Mr. Michael P. Grace made appearances on three Albuquerque TV Stations on October 5 to attempt to justify non-compliance with formal orders of the New Mexico Oil Conservation Commission. The orders duly issued by the Commission after notice and hearing are designed to prevent the waste of natural gas and to afford the opportunity to each producer in the gas pools to produce his just and equitable share of gas in place.

The action by the Commission in prorating the gas in the South Carlsbad-Morrow Pool is nothing new. It has been done in many other pools of the State since 1954 and all of the prorated pools in Southeast New Mexico are prorated under the same formula as the South Carlsbad Pool. Incidentally, none of the other producers in the pool opposed prorating when the hearing was held in April of 1972. Even the owner of a half interest in the well recently directed to be shut in for overproduction supports not only the prorating, but also supports the action of the Commission in shutting in the well.

Page 2

The Honorable Pete Dominici
United States Senate
Washington, D. C.

The obligation of the Oil Conservation Commission is to all the producers in the State not just one. This agency is highly regarded, not only in New Mexico, but in all the other producing states and some foreign countries.


After the hearing in April of 1972, the Commission entered an order in June which was to become effective September 1, 1972 but because of a succession of events which included a stay order, the death of the Commission attorney, and a ruling by the attorney general that prorationing could not be made retroactive beyond the date of removal of the stay order, prorationing did not begin in the pool until April 11, 1973. The shut-in directive was issued when production records revealed that the well was more than 6 times overproduced.

The comments of Mr. Grace in relating the shutting in of his well to the efforts to alleviate the National energy shortage are too ridiculous to merit an answer, but even if the charge could be proven, it would not affect in anyway the Commission's obligation to carry out its legislative mandate.

Mr. Grace is a relative newcomer to the State, but his actions since he has been here have necessitated my presence in court far more than the actions of all the other more than 600 producers in the State, many of whom own hundreds of wells, and it should be noted here that I have served as director for more than 17 1/2 years.

In appearances before the Commission and subsequent court actions Mr. Grace has used some 20 or more different attorneys.

Sincerely yours,



A. L. PORTER, Jr.
Secretary-Director

ALP/ir
Attachment

Calvin Kytle Associates
1625 K Street N.W.
Washington, D.C. 20006
Telephone (202) 638-1113
Bill Bethea
In Albuquerque: Joe Rogers
(505) 296-5280

October 9, 1973

BACKGROUND INFORMATION

Grace Energy's Action Against N.M. Oil Conservation Commission

1. The New Mexico Oil Conservation Commission ordered the Grace-Atlantic No. 1 gas well in the South Carlsbad Morrow pool shut in on October 3rd because it had exceeded its production allowable set under prorationing order of the OCC by six times.
2. On October 4th, Michael P. Grace, operator of the Grace-Atlantic No. 1, obtained a temporary restraining order against the OCC closing down the well until a hearing can be held to consider evidence justifying a pool-wide moratorium on shut-ins.
3. Under regulations issued in June 1973, the OCC can grant such a moratorium "during periods of high demand emergency" or if it can be shown that a shut-in would cause "material damage to the well."
4. The basis of the Grace action is:
 - (a) There is a national high demand emergency for natural gas — one that has been heightened by the outbreak of war in the mid-East over the weekend.
 - (b) There is a real possibility that the well could be damaged by a shut-in and might never come back to its current level of flow, thereby depriving New Mexico and the nation of a greatly needed energy source.

BACKGROUND INFORMATION
Grace Energy's Action Against N.M.
Oil Conservation Commission

5. Further, the South Carlsbad Morrow pool has not overproduced its total allowable, since Grace Atlantic No. 1 is one of the few wells in the pool producing up to or beyond its allowable. Unfortunately the OCC only redistributes the unused allowable for the poor wells in the pool every six months rather than monthly as other states which have had prorationing have done. If a monthly redistribution of the unused allowable was made, Grace-Atlantic No. 1 would not have exceeded its allowable by a margin requiring it to be shut down.

The Commission currently has under advisement a request by El Paso Natural Gas Company to reallocate the unused allowable every month.

6. Only some 30 of the 282 gas pools in New Mexico are now being prorationed—the South Carlsbad Morrow pool being one of these. In a suit pending before the New Mexico State Supreme Court, Grace Energy is challenging the OCC's procedure in initially prorationing the pool in which Grace Atlantic No. 1 is located. The OCC's prorationing is being challenged on the following basis:

(a) That the Commission did not determine the reserve of the pool before prorationing it as a State Supreme Court mandate required.

(b) That the pipelines serving the field can take all the gas being produced, contrary to the Commission's contention that they could not do so. Two of the Commission's own witnesses so testified at hearings before the District Court of Carlsbad in April 1973, when the initial prorationing order was first challenged.

TRANSWESTERN PIPELINE COMPANY

921 MAIN AT MCKINNEY

HOUSTON, TEXAS

JAMES H. TILLERY, JR.
MANAGER
GAS PRORATION
AND ALLOCATION

May 17, 1973

MAIL ADDRESS
P. O. BOX 2521
HOUSTON, TEXAS 77001

Michael P. Grace and Corine Grace
P. O. Box 1418
Carlsbad, New Mexico 88200

Allowable Balance for the #2
GoPoGo Gas Unit, South Carlsbad
Field, Eddy County, New Mexico
Transwestern Station No. 1043-1

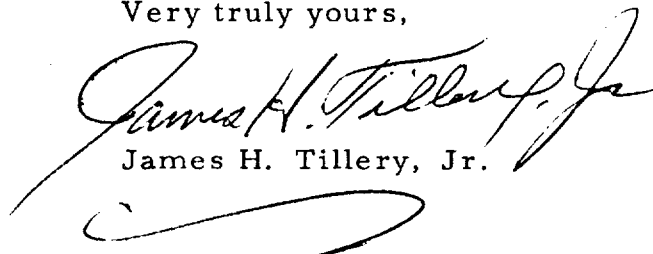
Gentlemen:

Transwestern has received copies of two letters from the New Mexico Oil Conservation Commission regarding proration in the South Carlsbad-Morrow Gas Pool. One letter dated April 26, 1973 establishes proration in this pool effective September 1, 1972 and the second letter dated May 2, 1973 states that a period extending through December 31, 1973 has been set up to allow for the balance of the well allowables in this pool (copies of this letter are attached for your information).

According to our figures the subject well has a current overproduction of 1,430,644 Mcf which is in excess of six times the basic allowable by 771,462 Mcf. It is anticipated that the current published allowables will remain essentially the same for the rest of 1973 and therefore, in order to bring this well into balance by January 1, 1974, it is suggested that the production be reduced to an average not to exceed 3,250 Mcf/day.

Although Transwestern's need for gas in this area is the same as it has been in the past, we feel that it would be better to take a minimum volume from this well and balance the allowable by the date specified rather than have it shut in for several months by the New Mexico Oil Conservation Commission during the early part of 1974.

Very truly yours,



James H. Tillery, Jr.

JHT:pm

TRANSWESTERN PIPELINE COMPANY

Inter-Department Correspondence

Office: Houston

Date: May 7, 1973

TO: Mr. J. H. Tillery, Jr.
FROM: Mr. J. B. Oldham
SUBJECT: Allowable Status for South Carlsbad (Morrow) Field

Attached are copies of letters from the New Mexico Oil Conservation Commission concerning the proration and balancing of the wells in the South Carlsbad (Morrow) field.

The first letter set the allowables to start at September 1, 1973. The second letter requires that the over production be made up according to the rules except that they may be made up by January 1, 1974 rather than be shut in now.

The commission canceled the underage on the limited wells and redistributed it to the good wells in an amount such that only one well on the Transwestern system is over six times its basic allowable. This well is the GoPoGo #2 Station Number 1043-1. It is over 6 times its basic allowable 445,048 Mcf. If the allowables average what they have been this well can produce approximately 32,000 Mcf per month and make up its average by January 1, 1974.

JBO:pm

RECEIVED
MAY 07 1973
J. H. T., JR.



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

GOVERNOR
BRUCE KING
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

MEMORANDUM

TO: ALL PURCHASERS AND PRODUCERS IN THE SOUTH CARLSBAD
MORROW POOL.

FROM: WILLIAM F. CARR, GENERAL COUNSEL

SUBJECT: PRORATION OF SOUTH CARLSBAD-MORROW GAS POOL.

On August 31, 1972, the Honorable D. D. Archer, District Judge, entered an order temporarily staying Order R-1670-L of the New Mexico Oil Conservation Commission which established proration in the South Carlsbad Morrow Pool.

On April 11, 1973, the Honorable Paul Snead entered an order vacating the August 31, 1972, order. As a result of this action, proration has been re-established in the South Carlsbad-Morrow Pool effective September 1, 1972.

April 26, 1973

dr/



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

GOVERNOR
BRUCE KING
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

MEMORANDUM

TO: ALL PURCHASERS AND PRODUCERS IN THE SOUTH CARLSBAD-MORROW POOL

FROM: A. L. PORTER, Jr., SECRETARY-DIRECTOR

SUBJECT: PRORATION OF SOUTH CARLSBAD-MORROW GAS POOL

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On April 11, 1973, the Honorable Paul Snead, District Judge, entered an order vacating and dissolving the August 31, 1972, order. As a result of this action, proration in the South Carlsbad-Morrow Pool is in effect as of September 1, 1972, pursuant to Order R-1670-L.

Rule 15-A of Oil Conservation Commission Order No. R-1670-L provides in part:

If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the preceding proration period, (or, in the case of a new well, six times the average monthly allowable for a unit of corresponding size) it shall be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceding proration period,...

Pending the outcome of the above-mentioned court action, allowables were published monthly for the wells in the pool, but the proration schedules bore the following notation "Proration suspended by court order until further notice."

The May proration schedule reflects that some of the wells in the South Carlsbad pool are more than six times overproduced. In view of the above-described circumstances, however, these wells will be allowed the remainder of the current proration period, which ends December 31, 1973, to become less than six times overproduced. Curtailment of production on such wells should begin immediately. Lack of evidence of a good faith effort to compensate for overproduction may result in a complete shut in order by the Commission.

May 2, 1973

MAILING LIST:

George Hunker, Esq.
P. O. Box 1837
Roswell

Jason Kellahin, Esq.
P. O. Box 1769
Santa Fe

Paul A. Cooter
Drawer 700
Roswell

Don Stevens

John MacGregor

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EL PASO, TEXAS 79999
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PS Form 3811 Nov. 1970

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OCT 5 1970

Gas producer blasts N.M. oil commission

A Carlsbad natural gas producer has leveled a blistering attack against the State Oil Conservation Commission — saying it was "arbitrary and capricious" in applying limits.

Michael P. Grace, an independent gas producer, speaking at a press conference at the Airport Marina Hotel, said, "The Commission follows no rules in determining how much oil a well can produce.

the commission told him to shut down his most productive well in the Carlsbad oil field.

"THEY TOLD me I was over my allowance," he said. "This isn't fair to the consumer because they are being robbed of energy in a time when there is an energy crisis."

Grace said that New Mexico was the only state that still had a prorating schedule that forced oil wells to produce less than capacity.

"Here in New Mexico, the highest producing well is forced to produce the same amount as the poorest producing well in the field," he said.

He said he has received a Santa Fe District Court restraining order that permits him to operate his well even though he was told to shut down.

"WE HAD engineers sitting with the commission for two weeks so we could work out our oil well allowances. We discovered that the commission works like a Ouija board connected to a computer," he said.

He accused the commission of not using formulas and not having a set pattern for determining allowances for oil wells.

Grace's attack came after

AROUND NEW MEXICO

SATURDAY
Oct. 6, 1973
Page A-6

L-204-3

Eddy Gas Well Owner Seeks to Halt Shutdown

From the Journal's

Santa Fe Bureau

SANTA FE — Michael P. Grace has filed another suit against A. L. (Pete) Porter, director of the Oil Conservation Commission, to prevent him from shutting down a gas well he owns in the South Carlsbad-Moro Pool in Eddy County.

Dist. Judge Gerald Fowlie of Albuquerque, sitting in the Santa Fe County District Court because of absence of its judges, issued a temporary restraining order preventing the shutting down of the well until a hearing can be held. This must be within 10 days.

THE ORDER was entered in an "es parte" proceedings — meaning neither Porter nor the Oil Conservation Commission knew of the suit until after the order was handed down.

Porter had ordered the well shut down until its "allowable" production had caught up with actual production.

The commission assigns an "allowable" production to each well in the pool, based on the surface acreage leased by its owner. Production may exceed this, however, until it becomes six times the amount allowed.

WILLIAM CARR, attorney for the Oil Conservation Commission, said the Grace No. 1 Well had exceeded the six-times figure and Porter had ordered it to stop production until the amount it was allowed to produce caught up with the actual production.

Another suit involving the same well is now before the State Supreme Court on appeal. In it, Grace had attacked the "pro rationing" of the state, under which the Oil Conservation Commission sets the allowable amount which can be produced.

A District Court upheld the pro rationing system. Grace appealed to the Supreme Court.

Hobbs Daily News-Sun

OCT 7 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Order Halts Shut-Down Of Oilwell

SANTA FE, N.M. (AP) — Dist. Judge Gerald Fowlie of Albuquerque has issued a temporary restraining order preventing the shutdown of an Eddy County gas well by the Oil Conservation Commission pending a hearing.

The order was issued after Michael P. Grace, the owner of the well located in the South Carlsbad-Morrow pool, filed a suit against commission director A.L. Porter to prevent the commission from shutting down the well.

Fowlie's order, which says the hearing must be held within 10 days, was entered in an "es parte" proceeding, meaning neither Porter nor the commission knew of the suit until the order had been handed down.

Porter had ordered the shut-down until the well's allowable production matched its actual production. The commission assigns an allowable production to each well in the pool, based on the surface acreage leased by its owner. Production may exceed that up to six times the amount allowed.

William Carr, attorney for the commission, said the well had exceeded the maximum production figure, and Porter had ordered a production halt.

Another suit involving the same well is now before the State Supreme Court on appeal. In that suit, Grace had attacked the "pro rationing" of the state, which the commission uses to set the allowable amount. A district court ruling upheld the system.

OCT 7 1973

New Mexico Press Clipping Bureau

Eddy well shutdown 22 prevented

SANTA FE, N.M. (AP) — Dist. Judge Gerald Fowlie of Albuquerque has issued a temporary restraining order preventing the shutdown of an Eddy County gas well by the Oil Conservation Commission pending a hearing.

The order was issued after Michael P. Grace, the owner of the well located in the South Carlsbad-Morrow Pool, filed a suit against commission director A.L. Porter to prevent the commission from shutting down the well.

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EL PASO, TEXAS

OCT 7 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Eddy Oil Shutdown Postponed

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New Mexico Press Clipping Bureau
Albuquerque, N. M.

Hearing Slated Friday On Carlsbad Oil Well

SANTA FE, N.M. (AP) — Arguments on the New Mexico Oil Conservation Commission's authority to require complete shutdown of a gas well in the Carlsbad area will be heard in a district court hearing late Friday.

The commission issued an order Oct. 2 directing that GraceAtlantic Well No. 1 be shut down by reason of overproduction outside the established allowable. Michael P. Grace of Carlsbad, operator of the well, then obtained a temporary court order setting aside the commission shutdown order.

Judge Thomas Donnelly set the hearing for 4 p.m. to determine if the restraining order will be made permanent.

Grace contends that shutting down production could cause permanent damage to the well and that it might possibly never return to its current flow. He also contends there is a national high demand for natural gas, intensified by the outbreak of war in the Middle East.

The commission contended in its order that metered flow showed the well was being overproduced six times above allowances. A commission rule requires a shutdown at that stage.

The Albuquerque Tribune

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Gas well hearing set

SANTA FE (UPI) — Arguments are scheduled to begin Friday before Dist. Judge Thomas Donnelly in a dispute between the Oil Conservation Commission and a gas producer seeking greater production out of one of his wells in southeastern New Mexico.

The OCC ordered a shutdown of the Grace-Atlantic No. 1 well Oct. 2 because it was exceeding allowable production by six times.

The owner of the well, Michael P. Grace, obtained a temporary restraining order to prevent the OCC from closing his well.

Donnelly will consider whether to make the restraining order permanent.

CARLSBAD CURRENT-ARGUS

OCT 16 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Well Arguments Planned Friday

SANTA FE, N.M. (AP) — A new Mexico district court is to hear arguments Friday on whether a gas well in the Carlsbad area should be shut down for overproduction.

On Oct. 2 the New Mexico Oil Conservation Commission ordered that the well, operated by Michael P. Grace of Carlsbad, be shut down for overproduction.

The commission contends that metered flow showed the well was overproducing at six times above allowances. A commission rule requires a shutdown at that stage.

Grace obtained a court order setting aside the shutdown ruling, pending the hearing.

Grace contends that shutting down the well might permanently damage it, and that there is a high demand for natural gas.

M OCT 17 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Well Shutdown Hearing Friday

SANTA FE, N.M. (AP) — A new Mexico district court is to hear arguments Friday on whether a gas well in the Carlsbad area should be shut down for overproduction.

On Oct. 2 the New Mexico Oil Conservation Commission ordered that the well, operated by Michael P. Grace of Carlsbad, be shut down for over-production. 22

The commission contends that metered flow showed the well was overproducing at six times above allowances. A commission rule requires a shutdown at that stage.

Grace contends that shutting down the well might permanently damage it, and that there is a high demand for natural gas.

A OCT 17 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Oil Dispute 22 In N.M. Court

SANTA FE (UPI) — Dist. Judge Thomas Donnelly will hear arguments in a dispute between the Oil Conservation Commission and a natural gas producer in southeastern New Mexico over production of one of the producer's wells.

The OCC, in an October 2 decision, ordered a shutdown of the Grace-Atlantic No. 1 well, owned by Michael P. Grace, contending it was exceeding allowable production by six times.

Grace obtained a temporary restraining order October 4 preventing the OCC from closing the well until a hearing could be held in District Court to consider the facts.

Donnelley will consider whether to make the restraining order permanent.

Attorney for Grace contend that under a regulation issued by the OCC in 1973, the OCC can disregard "shut ins" of wells if there is a high demand emergency for natural gas or if there is a possibility of damage to the well. Grace's attorneys contend that there is currently a high demand for natural gas and that damage could result from the OCC's closure of the well.

NM Shuts Down Grace Gas Well 22

SANTA FE, N.M. (AP) — The New Mexico Oil Conservation Commission issued a final order today shutting down an overproducing gas well owned by Michael P. Grace near Carlsbad.

The order was based on a hearing last week at which Grace contended a complete shutdown would harm the well.

The commission rejected Grace's argument.

The well, Grace-Atlantic No. 1, is more than six times overproduced with respect to its average monthly allowable, the commission said.

The order said production can't resume until the total production is back in line with the cumulative monthly allowable previously set by the commission.

Lovington Daily Leader

A OCT 30 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

OCC Orders Gas Well Closed Down 22

SANTA FE, N.M. (UPI) — The Oil Conservation Commission Monday ordered a natural gas well in southeastern New Mexico to be closed down on grounds that it has overproduced.

The action was the latest in a dispute between the OCC and the owner of the well, Michael Grace.

The OCC issued a similar order earlier this month directing a "shut in" of the Grace Atlantic No. 1 natural gas well. Grace then requested the OCC to conduct a hearing so he could show that the shut-in would damage the well.

In its findings, the OCC said that "substantial evidence has been presented to the effect that material damage would not occur to the well if it were pro-

perly shut in."

The OCC also said that rights of owners of other mineral interests in the pool in which the Grace well was located "could be adversely affected by the continued over production of the subject well."

The commission found that Grace "failed to show that the commission's methods of calculating well allowables is incorrect. . ."

Attorneys for Grace obtained a district court restraining order to block the OCC's original order.

A hearing on whether to make that order permanent is scheduled Friday in Santa Fe before District Judge Thomas Donnelly.

OCT 31 1977

New Mexico Press Clipping Bureau

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NOV 2 1977

Carlsbad Hearing Set On Oil Well

A-J Correspondent

CARLSBAD, N. M. — A district court hearing is scheduled for Friday on a State Oil Commission order to shut down a local gas well operated by Michael P. Grace.

The commission issued its final order Monday for the Grace-Atlantic Number One to be closed because its

production allegedly had exceeded six times its average monthly allowable.

OCT 3 1977

New Mexico Press Clipping Bureau

OCC well suit aired

A civil suit questioning the right of the state Oil Conservation Commission to prevent production of a gas well in the southern part of New Mexico was aired today before District Judge Thomas Donnelly.

Michael P. Grace and Corrine Grace, operators of a gas well in Eddy County are contesting a shut-in order by the commission issued Oct. 2.

According to Donnelly, the Graces claim the order to halt production would be dangerous and damage the well. Donnelly said the commission's position is that the Graces were over-producing the well.

The suit seeks an order from the court restraining the commission from enforcing the shut-in order.

Donnelly said several other parties have asked to enter the case, which has drawn statewide attention.

A NOV 3 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Gas Production Is Slowed

22

SANTA FE, N.M. (AP) - The state Oil Conservation Commission reached an agreement that will permit the controversial Grace-Atlantic Well No. 1 near Carlsbad to continue producing gas at a reduced rate.

District Court Judge Thomas A. Donnelly signed an order late Friday incorporating terms of the agreement.

It gives the Conservation Commission authority to shut down the well if production levels are not in line with state allowables by March 31, 1974.

The commission ordered early in October that the well be shut down, in line with a rule requiring the shut-in of wells when accumulated overproduction exceeds by six times the average monthly allowable. When the order was issued, overproduction was nearly seven times the average allowable.

Michael P. Grace and Corinne Grace, operators of the well, went into district court and obtained a temporary restraining order to block the commission action. Friday's action was on whether to make that order permanent.

Last Monday, the commission issued a second order to shut down the well.

Donnelly was prepared to hear ar-

guments on the restraining order but shortly after court convened, Ted Howden, attorney for the Graces, asked for a recess, saying he believed an agreement could be reached.

The agreement provides that the Graces will reduce production to 6,970 thousand cubic feet per day as of 7 a.m. Saturday. A spokesman for the operators said it has been producing at about 9,300 thousand cubic feet per day.

The Graces agreed to produce during November and December at a rate they believe "appropriate to reduce the well's overproduced status while avoiding material damage to the well."

If the commission determines that as of Dec. 31, the well still is being overproduced, a special committee of three engineers will determine the proper production level.

The Graces agreed that if overproduction still exceeds top limitations by March 31, 1974, the well will be shut in until overproduction has been reduced to below maximum limits.

They also agreed to drop court suits pending against the commission. One asks for separate pooling of Grace-owned wells in the South Carlsbad Morrow gas

field. The Grace-Atlantic Well No. 1 is in that field. The other suit challenged commission prorationing in the South Carlsbad-Strawn field.

Albuquerque Journal
ALBUQUERQUE, N. M.

W 3 1973
New Mexico Press Clipping Bureau
Albuquerque, N. M.

Grace Well²² Production Approved

SANTA FE (AP) — Dist. Court Judge Thomas A. Donnelly issued an order late Friday allowing the operator of the Grace-Atlantic Well No. 1 near Carlsbad to continue natural gas production, but at a reduced rate.

The order was issued after a full day of negotiations between the oil Conservation Commission and attorneys for Michael P. and Corinne Grace, operators of the well.

On Monday the OCC had issued an order affirming another order issued in early October, that the Grace well be shut down for having exceeded allowable over production levels.

The Graces had received a temporary restraining order from Santa Fe District Court to block the OCC from enforcing its shut-in order.

Judge Donnelly had been prepared to hear arguments Friday on whether the restraining order against the OCC should be made permanent or dismissed.

But at the outset of Friday's hearing, attorney Ted Howden, representing the Graces, asked for a brief recess and advised the court he felt an agreement could be reached.

The El Paso Times

NOV 3 1973

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Reduced Rates Placed²² On Grace-Atlantic Well

SANTA FE, N.M. (AP) — Dist. Court Judge Thomas A. Donnelly decided Friday to let the Grace-Atlantic Well No. 1 near Carlsbad continue producing natural gas, but at a reduced rate.

The state Oil Conservation Commission earlier had ordered the well shut down because of what it termed excessive overproduction.

Friday's court order came after a full day of negotiations between the Conservation Commission and attorneys for Michael P. Grace and Corinne Grace, operators of the well.

The court action came on a temporary restraining order obtained by the Graces' against the commission. Donnelly had been pre-

pared to hear arguments in the case, but Ted Howden, attorney for the Graces, asked for a recess and advised he believed an agreement could be reached.

Terms of that agreement were in the judge's order.

It calls for daily production of 6,970 thousand cubic feet per day, the daily allowable for November set by the commission. The well, in recent weeks, had been producing at the rate of about 9,300 thousand cubic feet per day.

The Graces also agreed that during November and December, they will continue to produce at a rate they believe will reduce its overproduced status, while avoiding material damage to the well.

Commission Reaches Agreement

By BILL FEATHER

Associated Press Writer

SANTA FE, N.M. (AP) —

The state Oil Conservation Commission reached an agreement that will permit the controversial Grace-Atlantic Well No. 1 near Carlsbad to continue producing has at a reduced rate.

District Court Judge Thomas A. Donnelly signed an order late Friday incorporating terms of the agreement.

It gives the Conservation Commission authority to shut down the well if production levels are not in line with state allowables by March 31, 1974.

The commission ordered early in October that the well be shut down, in line with a rule

requiring the shut-in of wells when accumulated overproduction exceeds by six times the average monthly allowable.

When the order was issued, overproduction was nearly seven times the average allowable.

Michael P. Grace and Corinne Grace, operators of the well, went into district court and obtained a temporary restraining order to block the commission action. Friday's action was on whether to make that order permanent.

Last Monday, the commission issued a second order to shut down the well.

Donnelly was prepared to hear arguments on the restraining order but shortly after court convened, Ted Howden,

attorney for the Graces, asked for a recess, saying he believed a n agreement could be reached.

The agreement provides that the Graces will reduce production to 6,970 thousand cubic feet per day as of 7 a.m. Saturday. A spokesman for the operators said it has been producing at about 9,300 thousand cubic feet per day.

The Graces agreed to produce during November and December at a rate they believe "appropriate to reduce the well's overproduced status while avoiding material damage to the well."

If the commission determines that as of Dec. 31, the well still is being overproduced, a special committee of three engineers will determine the proper production level.

The Graces agreed that if overproduction still exceeds top limitations by March 31, 1974, the well will be shut in until overproduction has been reduced to below maximum limits.

They also agreed to drop court suits pending against the

Atlantic Well No. 1 is in that field. The other suit challenged commission prorationing in the South Carlsbad-Strawn field. Morrow gas field. The Grace-

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Grace Well Garners 22 Limited Flow Right

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The Graces agreed that if overproduction still exceeds top limitations by March 31, 1974, the well will be shut in until overproduction has been reduced to below maximum limits.

They also agreed to drop court suits pending against the commission. One asks for separate pooling of Grace-owned wells in the South Carlsbad-Morrow gas field.

NOV 4 1974

New Mexico Press Clipping Bureau
Albuquerque, N. M.

Carlsbad Area Gas Well²² Granted Partial Production

SANTA FE, N.M. (AP) — The state Oil Conservation Commission reached an agreement that will permit the controversial Grace-Atlantic Well No. 1 near Carlsbad to continue producing gas at a reduced rate.

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They also agreed to drop court suits pending against the commission. One asks for separate pooling of Grace-owned wells in the South Carlsbad-Morrow gas field. The Grace-Atlantic Well No. 1 is in that field. The other suit challenged commission prorationing in the South Carlsbad-Strawn field.

Hearing on Well Recessed

SANTA FE (AP) — A hearing got under way late Friday in a court case challenging the authority of the Oil Conservation Commission to shut down production on a gas well in the Carlsbad area.

Dist. Court Judge Thomas A. Donnelly recessed the hearing until Nov. 2 after allowing other gas producers in the Carlsbad gas field to intervene in support of the OCC.

Michael P. Grace of Carlsbad, operator of Grace-Atlantic No. 1 well in the South Carlsbad-Morrow Gas Pool, obtained a temporary restraining order against the OCC in early October after the commission had ordered the well shut down for reasons of over-production above the allowables established.

The hearing before Judge Donnelly is to determine if the writ will be made permanent or dismissed.

Most of the hearing Friday afternoon was devoted to consideration by the court of motions filed by two major oil companies and an independent oil producer to intervene in the case.

Santa Fe attorney Jason Kellahin represented Cities Service Oil Co. and Pennzoil Corp. in their motions to intervene. Both

companies operate wells adjacent to or near the Grace well.

Santa Fe attorney Donald G. Stevens represented independent operator Morris Antweil of Hobbs, who also has gas wells in the South Carlsbad field.

Alan Antweil, a son of Morris Antweil, and supervisor of his interests in the oil business, told the court he was intervening to protect his correlative rights to gas in the South Carlsbad field.

Antweil said that in his opinion the overproduction from the Grace well affects all the other wells in the field, and reduces their value.

"As they say in the oil fields, they have a straw in everyone's tea cup," Antweil said.

Kellahin called James L. Ralph of Midland, Tex., regional reservoir engineer for Cities Service Co., to testify as to the effect overproduction of one well has on other wells in a field.

Ralph said that continued overproduction of one well in a field ultimately will have an effect on other wells in the field.

Ted Howden, attorney representing Grace, objected to the intervention.

Howden contended that today's hearing was related to one well, the Grace-Atlantic No. 1, and not to the entire field.

Grace contends that a complete shut-down of production could cause permanent damage to the well, from which it might not recover. He also contends there is a high demand for natural gas, which has been intensified by the outbreak of war in the Middle East. The high production should be allowed to meet a national emergency, he says.

Howden argued that the case now pending before Judge Donnelly deals with the principal issue of potential damage to the Grace well if it is required to shut down.

But Kellahin told the

court the case basically involves the question of prorating and production in a gas pool.

"If the other operators in the field obey the prorating order, then the one who does not obey ultimately will get more than his share of the resource in the field," Ralph said.

Howden called witnesses who testified there was no technical evidence available to show that production of the Grace well was having any adverse effect of production of other wells in the field.

Robert Becker, a consulting geologist from Roswell, said there are four production zones in the Morrow formation of the South Carlsbad field. The Grace-Atlantic well is being produced from only one of these zone, he said. On the other hand, two adjacent Cities Service wells are being produced from three of these zones. It is possible the Cities Service wells are draining the Grace well area, he said.