

Dockets Nos. 13-92 and 14-92 are tentatively set for April 30, 1992 and May 14, 1992. Applications for hearing must be filed at least 23 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - APRIL 16, 1992

**8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO**

The following cases will be heard before Michael E. Stogner, Examiner or David R. Catanach, Alternate Examiner:

CASE 10465: Application of Marbob Energy Corporation for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Cedar Lake-Abo Pool through the perforated interval from approximately 6890 feet to 7480 feet in its Turner "B" Well No. 65 located 330 feet from the South line and 1980 feet from the West line (Unit N) of Section 20, Township 17 South, Range 31 East. Said well is located approximately 5 miles east of Loco Hills, New Mexico.

CASE 10466: Application of Marbob Energy Corporation for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Cedar Lake-Abo Pool through the perforated interval from approximately 6890 feet to 7230 feet in its Turner "B" Well No. 69 located 380 feet from the North line and 2310 feet from the East line (Unit B) of Section 29, Township 17 South, Range 31 East. Said well is located approximately 5 miles east of Loco Hills, New Mexico.

CASE 10457: (Continued from April 2, 1992, Examiner Hearing.)

Application of Union Oil Company of California D/B/A UNOCAL, for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order promulgating special rules for the Red Hills-Pennsylvanian Gas Pool, including a provision for 640-acre spacing units and designated well location requirements. Said pool comprises Sections 31, 32 and 33, Township 25 South, Range 33 East and Sections 4, 5, and 6, Township 26 South, Range 33 East and is located approximately 23 miles west of Jal, New Mexico.

CASE 10467: (This case will be continued to April 30, 1992.)

Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from a depth of 5000 feet below the surface to the base of the Morrow formation underlying the N/2 of Section 27, Township 18 South, Range 27 East, forming a standard 320-acre gas spacing and proration unit for any and all formations spaced on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Red Lake Atoka-Morrow Gas Pool. Said unit is to be dedicated to a well to be drilled at an unorthodox gas well location 660 feet from the North line and, either, 1310 feet or 1330 feet from the East line (Unit A or B) of said Section 27. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 7.5 miles south by east of Riverside, New Mexico.

CASE 10459: (Continued from April 2, 1992, Examiner Hearing.)

Application of Bright & Company for a high angle/horizontal directional drilling pilot project, special operating rules therefor, and an exception to the pool's gas/oil ratio limitation factor, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks to initiate a high angle/horizontal directional drilling pilot project in the Undesignated Rio Puerco-Mancos Oil Pool by commencing its Cuba Mesa Unit Well No. 1 at a standard surface oil well location 730 feet from the North line and 1000 feet from the West line (Unit M) of Section 35, Township 21 North, Range 2 West, drill vertically to a depth of approximately 4000 feet, kick-off in a northerly direction, build angle up to approximately 88 degrees, drill horizontally for approximately 3000 feet, and bottom said wellbore at a location approximately 1250 feet from the North line and 660 feet from the West line of said Section 35. Said well is to be dedicated to the W/2 of said Section 35 forming a standard 320-acre oil spacing and proration unit for said pool. Applicant further seeks the adoption of special operating provisions and rules within the pilot project area including a special gas/oil ratio of 1,000 to 1. Applicant proposes to keep the horizontal displacement of said well's producing interval within the allowed 660 foot setback from the outer boundary of the assigned spacing unit. Said unit is located approximately 3.5 miles west by south of Cuba, New Mexico.

CASE 10468: Application of Ultramar Oil and Gas Limited for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 16, Township 21 South, Range 35 East, forming a standard 320-acre gas spacing and proration unit for any and all formations spaced on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the South Osudo-Morrow Gas Pool. Said unit is to be dedicated its existing P. Q. Osudo State Com Well No. 1, which was drilled in 1989 at a standard gas well location 1980 feet from the North and East lines (Unit G) of said Section 16. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6.5 miles west by south of Oil Center, New Mexico.

CASE 10399: (Continued from January 9, 1992, Examiner Hearing.)

Application of Meridian Oil, Inc. for a high angle/horizontal directional drilling pilot project, special operating rules therefor, non-standard oil proration unit, special project allowable and increase in gas-oil ratio, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks to initiate a high angle/horizontal directional drilling pilot project in the Rio Puerco-Mancos Oil Pool by commencing its San Isidro Wash Well No. 1 at a standard surface oil well location tentatively selected in the NW/4 NW/4 (Unit D) of Section 21, Township 20 North, Range 3 West, drill vertically to a depth of approximately 3,000 feet, kick-off in a southeasterly direction, build angle up to approximately 80 degrees and then drill horizontally for approximately 4,000 feet. Applicant, further seeks the adoption of special operating provisions and rules within the pilot project area including a special project allowable of up to 640 BOPD with a GOR of 1,000 to 1, and an unorthodox well location exception. Applicant further seeks the flexibility to dedicate the N/2 of said Section 21 to the well as a standard 320-acre spacing unit or, in the alternative, the approval of all of Section 21 as a 640-acre non-standard spacing unit. Applicant proposes to keep the horizontal displacement of said well's producing interval within the allowed 660 foot setback from the outer sides of the assigned spacing unit. Said unit is located approximately 12 miles west-southwest of Cuba, New Mexico.

State of New Mexico
ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT
Santa Fe, New Mexico 87505



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

MATTHEW BACA
DEPUTY SECRETARY

MEMORANDUM

TO: ALL INTERESTED PARTIES

FROM: WILLIAM J. LEMAY, Director *WJL*
Oil Conservation Division

SUBJECT: STATE OF THE INDUSTRY

This year's New Mexico Oil and Gas Industry Meeting will be held in Morgan Hall, State Land Office Building, Santa Fe, New Mexico, on May 8, 1992, beginning at 9:00 a.m. Navajo Refining Company will be hosting a welcoming reception for everyone attending the State of Industry meeting. It will be held on Thursday night, May 7, 1992, from 6:30 p.m. to 8:00 p.m. at the La Fonda Hotel. Cocktails and hors d'oeuvres will be served. There will be a varied and interesting program this year which will include presentations on crude oil and natural gas production and markets from the New Mexico domestic and international perspective. The agenda will be finalized and distributed prior to May 8th. The meeting is open to everyone at no charge.

For additional information contact the Oil Conservation Division at (505) 827-5802.

VILLAGRA BUILDING - 408 Galisteo
Forestry and Resources Conservation Division
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827-5830

Park and Recreation Division
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2040 South Pacheco
Office of the Secretary
827-5950

Administrative Services
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Energy Conservation & Management
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Mining and Minerals
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LAND OFFICE BUILDING - 310 Old Santa Fe Trail
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BRUCE KING
GOVERNOR

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: ALL PRODUCERS OF GAS IN NEW MEXICO.

FROM: MICHAEL E. STOGNER, CHIEF HEARING OFFICER *MES*

SUBJECT: SPECIAL ADMINISTRATIVE RULES AND REGULATIONS FOR
TIGHT FORMATION DESIGNATIONS UNDER SECTION 107 OF THE
NATURAL GAS POLICY ACT OF 1978.

DATE: APRIL 2, 1992

On January 9, 1992, a hearing was called to modify the rules and procedures for filing applications for tight formation designations in New Mexico. As a result of this hearing, Division Order No R-6388-A, which promulgated the existing rules and procedures, was placed in abeyance until further notice.

In its place, the Division has adopted administrative rules and procedures for the filing of future tight formation designation applications (see attached). These rules are effective as of March 31, 1992 for all filings made after this date.

This new approach will help facilitate faster determinations from the jurisdictional agencies as well as allow the Division to keep up with policy changes from the Federal Energy Regulatory Commission without the need for a rule-making hearing.

MES/AMG

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
P.O. BOX 2088
SANTA FE, NEW MEXICO 87504

**SPECIAL RULES AND PROCEDURES FOR
TIGHT FORMATION DESIGNATIONS UNDER
SECTION 107 OF THE NATURAL GAS POLICY ACT OF 1978**

Amended March 31, 1992

A. *General*

Applications for tight formation designations under Section 107 of the NGPA and applicable FERC rules and regulations shall be accepted by the Division at its Santa Fe, New Mexico office after June 30, 1980. These special rules apply only to individual tight formation designations and do not apply to individual well filing requirements for price category determination.

B. *Definitions*

1. "Crude oil" means a mixture of hydrocarbons that exists in liquid phase in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separation facilities.
2. "Division" means the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico.
3. "FERC" means the Federal Energy Regulatory Commission.
4. "USBLM" means the office of the United States Bureau of Land Management in Albuquerque, New Mexico.
5. "Formation" means any geological formation or portion thereof described by geological as well as geographical parameters which is the subject of a tight formation designation application.
6. "Infll drilling" means any drilling in a substantially developed formation (or a portion thereof) subject to the requirements respecting well spacing or proration units which were amended by the Division or the Oil Conservation Commission after the formation (or portion thereof) was substantially developed and which were adopted for the purpose of more effective and efficient drainage of the reservoirs in such formation. Such amendment may provide for the establishment of smaller drilling or production units or may permit the drilling of additional wells on original units.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

**SPECIAL ADMINISTRATIVE
RULES AND PROCEDURES
FOR
TIGHT FORMATION DESIGNATIONS
UNDER SECTION 107
OF THE
NATURAL GAS POLICY ACT OF 1978**

Effective March 31, 1992

C. Procedure

1. All applications for tight formation designation in the State of New Mexico, which contain state and/or fee lands in any proportion, shall be filed with the Division.
2. Any application for tight formation designation in the State of New Mexico which contains Federal and/or Indian lands in any proportion shall be concurrently filed with the USBLM and the Division.
3. Any application containing lands entirely administered by the federal government shall be filed only with the USBLM. **IF LANDS ARE ENTIRELY FEDERAL, NO APPLICATION NEED BE FILED WITH THE DIVISION NOR WILL ACTION BY THE DIVISION BE NECESSARY.**
4. Upon receipt of an application for the designation of a tight formation which involves both the Division and USBLM, it will be determined after preliminary review of the subject filing which agency is the most appropriate to sponsor said filing and submit same to the FERC.
5. Proof of publication must be submitted with the application. Such proof shall consist of a copy of the legal advertisement which was published once in a newspaper of general circulation in the county or counties within the proposed tight formation area. The contents of such advertisement shall include:
 - a. the name, address, phone number and contact party for the applicant;
 - b. the legal description of the proposed area, amount of acreage contained in said area and percentages of land types within said area;
 - c. name of formation or formations to be included and pool names if applicable;
 - d. a notation that any interested party must file objections or requests for hearing with the Oil Conservation Division, P.O. Box 2088, Santa Fe, New Mexico, 87504, within fifteen days from the date of publication.

NO ACTION WILL BE TAKEN ON THE APPLICATION UNTIL PROPER PROOF OF NOTIFICATION HAS BEEN SUBMITTED.

6. If no objection is received within fifteen days following the date of public notification, the application may be approved administratively.

7. If a written objection is received within fifteen days after the date of public notice or if a hearing is deemed advisable by the Division Director, the application may be set for hearing and notice thereof given by the Division.
8. The application shall include a complete set of supporting exhibits (i.e. -- maps, plats, cross-sections, type logs, engineering data, reservoir analyses, core analyses, calculations, pressure information, publications, etc.) together with a statement of the meaning and purpose of each exhibit and shall be submitted to the Division and if applicable to the USBLM. These exhibits shall cover all aspects of the required evidentiary data described in Section D below.
9. An oath statement shall accompany the application signed by each participant and notarized as to the accuracy and interpretation of the application.
10. Three complete additional sets of exhibits, statements, and oath statements must accompany the application; these additional items will be forwarded to the FERC by either the Division or USBLM, together with the Division's recommendation either in the form of an administrative order or letter to the FERC filed by the USBLM.
11. Further, it may be necessary for the applicant to submit additional data and/or supplement the original application with additional supporting statements and/or data. The applicant shall be responsible for submitting the required number of copies to complete the application for final approval by the FERC.
12. At the request of the USBLM or the Division, a meeting with the applicant may be necessary so that additional inquiries or questions of the filing may be addressed.

D. Evidence

1. Evidence offered by an applicant shall include:
 - a. a land plat or lease map which clearly indicates the land types (state, fee, federal, and/or Indian) and amounts and percentages for each;
 - b. a map and geographical and geological descriptions of the area and formation for which the designation is sought;
 - c. geological and engineering data to support the application;
 - d. a map or list which clearly locates or describes wells which are currently producing oil or gas, or both, from the formation within a geographical area of the formation;

- e. a report of the extent to which an applicant believes existing state and federal regulations will assure that development of the formation will not adversely affect or impair fresh water aquifers (during both hydraulic fracturing and waste disposal operations) that are being used or are expected to be used in the foreseeable future for domestic or agricultural water supplies;
 - f. if the formation has been authorized to be developed by infill drilling prior to the date of recommendation, information and data demonstrating that the formation cannot be developed without the incentive price established in 18 CFR §271.703(a); and,
 - g. any other information which the Division and/or BLM may require.
2. Evidence shall be based on each of the following geological and engineering guidelines:
- a. The estimated average in situ permeability, throughout the pay section, is expected to be 0.1 millidarcy or less;
 - (1) Permeability may be established and demonstrated by any customary or acceptable methods, techniques, or testing acceptable in the oil and gas industry.
 - b. The stabilized production rate, either at atmospheric pressure or calculated against atmospheric pressure, of wells completed for production in the formation, without stimulation, is not expected to exceed the production rate determined in accordance with the following table:

<i>If the average depth to the top of the formation (in feet):</i>		<i>The maximum allowable production rate (in MCF/day) may not exceed:</i>
<i>Exceeds</i>	<i>but does not exceed</i>	
0	1000	44
1000	1500	51
1500	2000	59
2000	2500	68
2500	3000	79
3000	3500	91

<i>If the average depth to the top of the formation (in feet):</i>		<i>The maximum allowable production rate (in MCF/day) may not exceed:</i>
<i>Exceeds</i>	<i>but does not exceed</i>	
3500	4000	105
4000	4500	122
4500	5000	141
5000	5500	163
5500	6000	188
6000	6500	217
6500	7000	251
7000	7500	290
7500	8000	336
8000	8500	388
8500	9000	449
9000	9500	519
9500	10000	600
10000	10500	693
10500	11000	802
11000	11500	927
11500	12000	1071
12000	12500	1328
12500	13000	1432
13000	13500	1655
13500	14000	1913
14000	14500	2212
14500	15000	2557

- c. No well drilled into the recommended tight formation is expected to produce, without stimulation, more than five barrels of crude oil per day.

- d. If an application meets the guidelines contained in subparagraphs 2.b. and 2.c. above, but does not meet the guidelines contained in subparagraph 2.a., the applicant may, in the alternative, show that the formation exhibits low permeability characteristics and that the incentive price is necessary to provide reasonable incentive for production of natural gas from the formation due to extraordinary risks or costs associated with such production.
 - (1) An application based on the guidelines outlined in subparagraph 2.d. above shall include data to support the contention that the guidelines contained in paragraph 2.b. and 2.c above are met, and in addition thereto, shall contain:
 - (a) the types and extent of enhanced production techniques which are expected to be necessary;
 - (b) the estimated expenditures necessary for employing those techniques; and,
 - (c) an estimate of the degree of increase in production from use of such techniques together with engineering and geological data to support that estimate.
- e. If the formation or any portion thereof were authorized to be developed by infill drilling prior to the date of recommendation and the Division has information which in its judgement indicates that such formation or portion subject to infill drilling can be developed absent the incentive price established in 18 CFR §271.703(a), then the Division Director shall not include such formation or portion thereof in its recommendation.

State of New Mexico
ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT
Santa Fe, New Mexico 87505



BRUCE KING
GOVERNOR

MEMORANDUM

ANITA LOCKWOOD
CABINET SECRETARY

MATTHEW BACA
DEPUTY SECRETARY

TO: PIPELINE AND GATHERING SYSTEM OPERATORS

FROM: WILLIAM J. LEMAY, Director, Oil Conservation Division *WJL*

SUBJECT: TANK FOUNDATIONS, FIREWALLS AND CHEMICAL IDENTIFICATION

DATE: APRIL 1, 1992

The Oil Conservation Division requires operators to conduct a review of the method and manner of supporting chemical tanks for both storage and distribution along gas gathering systems, on well locations, and at gas plants. Of particular concern is the load carrying capacity of any tank rack or stand as a function of underlying soil type and support padding of gravel and other materials.

The Oil Conservation Division requires the construction of berms or fire walls around chemical tanks larger than 250 gallons. The fire walls shall form a reservoir having a capacity one third larger than the enclosed tank or tanks. An exception to the firewall requirement may be granted by the District Supervisor, upon application demonstrating that geology and hydrology in the area of the tank will prevent contamination if a tank failure should occur. A compliance schedule will be determined by the district supervisors.

Chemical storage tanks must have labeling showing the generic name or chemical formula of the contents (not brand name). Applicable hazard code identifications are to be prominently displayed on chemical storage tanks. The chemical labels and hazard codes will be maintained in a legible condition.

Operators will post an identification sign for chemical tanks larger than 250 gallons which are not located at a facility with a street address. Identification signs are to show the operator's name, facility name, unit letter or quarter quarter designation, section, township and range. Operators should include an emergency notification telephone number on identification signs. Identification signs shall be posted no more than 50 feet from the tank and must be legible at a distance of 50 feet under normal conditions.

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