

Dockets Nos. 23-85 and 24-85 are tentatively set for July 17 and 31, 1985. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - JULY 10, 1985

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 8643: In the matter of the hearing called by the Oil Conservation Commission on its own motion to amend Rule 8.1, Rule 1, Rule 2, Rule 3, Rule 7, Rule 709, and Rule 710 to define fresh water and produced water and to provide for protection of fresh water.

CASE 8644: In the matter of the hearing called by the Oil Conservation Commission on its own motion to promulgate a new Rule 8 to provide for the approval of the use of lined pits or below grade tanks for disposal or storage of produced water and other oil field fluids.

CASE 8645: In the matter of the hearing called by the Oil Conservation Commission on its own motion to amend Rule 102 to require a copy of Form C-101 (permit) on location during drilling operations and to provide for notice to landowners and/or tenants prior to the staking of well locations.

CASE 8646: In the matter of the hearing called by the Oil Conservation Commission on its own motion to amend Rules 108 and 113 to provide for notice of defective casing and for the notice of damage to casing, cement, or the formation as a result of well treatment.

CASE 8647: In the matter of the hearing called by the Oil Conservation Commission on its own motion to delete Rule 308 in order to clarify the need for reporting of small volumes of produced water.

CASE 8648: In the matter of the hearing called by the Oil Conservation Commission on its own motion to amend Rule 111 to provide for operator calculation of maximum bottomhole displacement when the deviation during drilling averages more than five degrees in any 500-foot interval.

CASE 8649: In the matter of the hearing called by the Oil Conservation Commission on its own motion to amend Rule 1204 and Rule 1205, to delete present Rule 1206, to renumber and amend Rule 1207, and to promulgate a new Rule 1207. The Commission, in the above-styled cause, seeks to amend its rules relative to giving notice of hearings and to establish additional notice requirements for applicants for hearings.

Copies of the proposed rule changes, deletions, and new rules are available at Oil Conservation Division offices in Santa Fe, Hobbs, Artesia, and Aztec.

CASE 5958: (DE NOVO) (This case will be dismissed.)

Application of Continental Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gonzales-Mesaverde and Otero-Chacra production in the wellbores of its AXI Apache "J" Wells Nos. 18, 23, and 24 located in Units A, D, and P of Section 8; Nos. 19 and 22 in Units D and L of Section 6; Nos. 20 and 21 in Units C and I of Section 5; and No. 25 in Unit A of Section 7, all in Township 25 North, Range 5 West. Upon application of Conoco Inc. this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 8400: (Continued from June 12, 1985, Commission Hearing)

Application of Jack J. Grynberg for amendment of Division Order No. R-6873, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-6873 to 1) declare the applicant to be the operator of said Order's subject well and unit, 2) allow for the drilling of a second PrePermian well on the established 320-acre proration unit and 3) the establishment of risk factor and overhead charges for the new well.

CASE 8604: (Continued from June 5, 1985, Examiner Hearing)

Application of HCW Exploration, Inc. for compulsory pooling and a non-standard gas proration unit, 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 Jalmat Gas Pool, underlying the SE/4 of Section 27, Township 23 South, Range 36 East, forming a 160-acre non-standard gas proration unit to be dedicated to a well to be drilled at a standard location thereon. 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.

CASE 8605: (Continued from June 5, 1985, Examiner Hearing)

Application of Doyle Hartman to rescind Division Order No. R-3690, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to rescind Division Order No. R-3690 which authorized the disposal of produced water into the Seven Rivers formation through the Etz Well No. 3 located 330 feet from the South line and 1650 feet from the West line of Section 27, Township 23 South, Range 36 East, Jalmat Gas Pool, in which HCW Exploration, Inc. is the operator.

CASE 8594: (Continued from June 5, 1985, Examiner Hearing)

Application of Doyle Hartman for compulsory pooling, a non-standard gas proration unit, and an unorthodox gas well location, 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 Jalmat Gas Pool underlying the SE/4 of Section 27, Township 23 South, Range 36 East, forming a 160-acre spacing and proration unit, to be dedicated to a well to be drilled 660 feet from the South line and 330 feet from the East line of said Section 27. Applicant further seeks approval for a 160-acre non-standard Jalmat Gas Pool spacing and proration unit comprising said SE/4 of Section 27 also to be dedicated to the aforementioned well which is an unorthodox gas well location in the Jalmat Gas Pool. 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.

CASE 8323: (DE NOVO)

Application of Blanco Engineering, Inc. for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Aroka Penn formation in the perforated interval from 9,094 feet to 9,116 feet in its Pan American Flint Gas Com Well No. 1 located in Section 22, Township 18 South, Range 26 East. Upon application of Yates Petroleum Corporation this case will be heard De Novo pursuant to the provisions of Rule 1220.

PROPOSED RULE ADDITIONS AND AMENDMENTS

RULE 0.1 DEFINITIONS

Additional Definitions

FRESH WATER (to be protected) includes all surface waters and includes all underground waters containing 10,000 milligrams per liter or less of total dissolved solids except for which, after notice and hearing, it is found there is no reasonably foreseeable beneficial use which would be impaired by contamination of such waters.

PRODUCED WATER shall mean those waters produced in conjunction with the production of crude oil and/or natural gas and commonly collected at field storage, processing, or disposal facilities including but not limited to: lease tanks, commingled tank batteries, burn pits, LACT units, and community or lease salt water disposal systems and which may be collected at gas processing plants, pipeline drips and other processing or transportation facilities.

B - MISCELLANEOUS RULES

RULE 1. SCOPE OF RULES AND REGULATIONS

(a) The following General Rules of statewide application have been adopted by the Oil Conservation Division of the New Mexico Energy and Minerals Department to conserve the natural resources of the State of New Mexico, to prevent waste, ~~land~~ to protect correlative rights of all owners of crude oil and natural gas, and to protect fresh waters. Special rules, regulations and orders have been and will be issued when required and shall prevail as against General Rules, Regulations and Orders if in conflict therewith. However, whenever these General Rules do not conflict with special rules heretofore or hereafter adopted, these General Rules shall apply.

(b) The Division may grant exceptions to these rules after notice and hearing, when the granting of such exceptions will not result in waste but will protect correlative rights or prevent undue hardship.

RULE 2. ENFORCEMENT OF LAWS, RULES AND REGULATIONS DEALING WITH CONSERVATION OF OIL AND GAS

The Division, its agents, representatives and employees are charged with the duty and obligation of enforcing all rules and statutes of the State of New Mexico relating to the conservation of oil and gas, including the related protection of fresh waters. However, it shall be the responsibility of all the owners or operators to obtain information pertaining to the regulation of oil and gas and protection of fresh waters before operations have begun.

RULE 3. WASTE PROHIBITED/ GENERAL OPERATIONS

(a) The production or handling of crude petroleum oil or natural gas of any type or in any form, or the handling of products thereof, in such a manner or under such conditions or in such amount as to constitute or result in waste is hereby prohibited.

(b) All operators, contractors, drillers, carriers, gas distributors, service companies, pipe pulling and salvaging contractors, treating plant operators or other persons shall at all times conduct their operations in or related to the drilling, equipping, operating, producing, plugging and abandonment of ~~land gas wells~~ oil, gas, injection, disposal, and storage wells or other facilities in a manner that will prevent waste of oil and gas, the contamination of fresh waters and shall not wastefully utilize oil or gas, or allow either to leak or escape from a natural reservoir, or from wells, tanks, containers, pipe or other storage, conduit or operating equipment.

RULE 7. AUTHORITY TO COOPERATE WITH OTHER AGENCIES

The Division may from time to time enter into arrangements with State and Federal governmental agencies, industry committees and individuals, with respect to special projects, services and studies relating to conservation of oil and gas and the associated protection of fresh waters.

RULE 8. LINED PITS/BELOW GRADE TANKS (New Rule)

After January 1, 1986, lined pits and below grade tanks may be used to contain produced water, sediment oil, tank bottoms, miscellaneous hydrocarbons, or other fluids subject to the jurisdiction of the Division under the Oil and Gas Act only upon prior approval of the Division. Applications for approval of lined pits or below grade tanks should be made in accordance with applicable special rules or, in the absence of special rules, in accordance with Division "Guidelines".

C - DRILLING

RULE 102. NOTICE OF INTENTION TO DRILL

(a) Prior to the commencement of operations, notice shall be delivered to the Division of intention to drill any well for oil or gas or for injection purposes and approval obtained on Form C-101. A copy of the approved Form C-101 must be kept at the well site during drilling operations.

(b) No permit shall be approved for the drilling of any well within the corporate limits of any city, town, or village of this state unless notice of intention to drill such well has been given to the duly constituted governing body of such city, town or village or its duly authorized agent. Evidence of such notification shall accompany the application for a permit to drill (Form C-101).

(c) Prior to staking a well, the operator shall make a reasonably diligent attempt to give notice to the land owner and, if different, notice to the tenant or lease.

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RULE 108. DEFECTIVE CASING OR CEMENTING

In any well that appears to have a defective casing program or faultily cemented or corroded casing which will permit or may create underground waste or contamination of fresh waters, the operator shall give immediate notice to the Division and proceed with diligence to use the appropriate method and means to eliminate such hazard. [of underground waste.] If such hazard of waste or contamination of fresh water cannot be eliminated, the well shall be properly plugged and abandoned.

For purposes of this rule, "immediate notice" shall be as defined in Rule 116.

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RULE 111. DEVIATION TESTS AND DIRECTIONAL DRILLING

(a) Any well which is drilled or deepened with rotary tools shall be tested at reasonably frequent intervals to determine the deviation from the vertical. Such tests shall be made at least once each 500 feet or at the first bit change succeeding 500 feet. A tabulation of all deviation tests run, sworn to and notarized, shall be filed with Form C-104, Request for Allowable and Authorization to Transport Oil and Natural Gas. When the deviation averages more than five degrees in any 500-foot interval, the operator shall include the calculations of the maximum possible horizontal displacement of the hole and the Division Director may require that a directional survey be run to establish the location of the producing interval(s).

RULE 113. SHOOTING AND CHEMICAL TREATMENT OF WELLS

If injury results to the producing formation or injection interval casing or casing seat from shooting, fracturing, or treating a well, the operator shall notify the Division and proceed with diligence to use the appropriate method and means for rectifying such damage. If shooting or chemical treating results in irreparable injury to the well the Division may require the operator to properly plug and abandon the well.

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RULE 308. [SALT OR SULPHUR WATER]

~~[Operators shall report monthly on Form C-115 the amount of percentage of salt or sulphur water produced with the oil by each well making 2 percent or more water.]~~

RULE 709. REMOVAL OF PRODUCED WATER FROM LEASES AND FIELD FACILITIES

~~[(a) "Produced Water" is defined as those waters produced in conjunction with the production of crude oil and/or natural gas and commonly collected at field storage or disposal facilities including: lease tanks, commingled tank batteries, burn pits, LACT units, and community or lease salt water disposal systems.)]~~

~~[(b)]~~ (a) Transportation of any produced water by motor vehicle from any lease, central tank battery, or other facility, without an approved Form C-133 (Authorization to Move Produced Water) is prohibited.

~~[(c)]~~ (b) Authorization to transport produced water may be obtained by filing three copies of Form C-133 with the Director of the Division in Santa Fe.

~~[(d)]~~ (c) No owner or operator shall permit produced water to be removed from it leases or field facilities by motor vehicle except by a person possessing an approved Form C-133.

RULE 710. DISPOSITION OF ~~[TRANSPORTED]~~ PRODUCED WATER

(a) No person, including any transporter, may dispose of ~~[such]~~ produced water on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place [or] in any manner which will constitute a hazard to any fresh water supplies.

Delivery of produced water to approved salt water disposal facilities, secondary recovery or pressure maintenance injection facilities, or to a drillsite for use in drilling fluid will not be construed as constituting a hazard to fresh water supplies provided the produced waters are placed in tanks or other impermeable storage at such facilities.

(b) The supervisor of the appropriate district office of the Division may grant temporary exceptions to paragraph (a) above for emergency situations and for use of produced water in road construction or maintenance or for use of produced waters for other construction purposes upon request and a proper showing by a holder of an approved Form C-133 (Authorization to Move Produced Water).

(c) Vehicular movement or disposition of produced water in any manner contrary to these rules shall be considered cause, after notice and hearing, for cancellation of Form C-133.

N - RULES ON PROCEDURE

RULE 1204. METHOD OF GIVING LEGAL NOTICE FOR HEARING

Notice of each hearing before the Commission and notice of each hearing before a Division Examiner shall be ~~[given by personal service on the person affected or]~~ by publication once in a newspaper of general circulation published at Santa Fe, New Mexico, and once in a newspaper of general circulation published in the county or each of the counties, if there be more than one, in which any land, oil, or gas, or other property which may be affected is situated.

RULE 1205 CONTENTS OF NOTICE OF HEARING

~~[Such notice]~~ Published notices shall be issued in the name of "The State of New Mexico" and shall be signed by the Director of the Division, and the seal of the Commission shall be impressed thereon.

The notice shall specify whether the case is set for hearing before the Commission or before a Division Examiner and shall state the number and style of the case and the time and place of hearing and shall briefly state the general nature of the order or orders, rule or rules, regulation or regulations to be promulgated or effected. The notice shall also state the name of the petitioner or applicant, if any, and unless the

contemplated order, rule, or regulation is intended to apply to and affect the entire state, it shall specify or generally describe the common source or sources of supply which may be affected by such order, rule, or regulation.

~~(RULE 1206. PERSONAL SERVICE OF NOTICE)~~

~~Personal service of the notice of hearing may be made by any agent of the Division or by any person over the age of 18 years in the same manner as is provided by law for the service of summons in civil actions in the district courts of this state. Such service shall be complete at the time of such personal service or on the date of publication, as the case may be. Proof of service shall be by the affidavit of the person making personal service or of the publisher of the newspaper in which publication is had. Service of the notice shall be made at least 10 days before the hearing.]~~

RULE ~~[1207]~~ 1206. PREPARATION OF NOTICES

After a motion or application is filed with the Division the notice ~~(or notices)~~ required under Rule 1205 shall be prepared by the Division and ~~(service and)~~ publication thereof shall be taken care of by the Division without cost to the applicant.

RULE 1207. ADDITIONAL NOTICE REQUIREMENTS (New Rule Alternative No. 1)

(a) Each applicant for hearing before the Division or Commission shall give additional notice as set forth below:

1. In cases of applications filed for compulsory pooling under Section 70-2-17 NMSA 1978, as amended, or statutory unitization under Section 70-7-1, et. seq. NMSA 1978, as amended: Actual notice shall be given to each known individual owning an uncommitted leasehold interest, an unleased and uncommitted mineral interest, or royalty interest not subject to a pooling or unitization clause in the lands affected by such application which interest must be committed and has not been voluntarily committed to the area proposed to be pooled or unitized. Such individual notice in compulsory pooling or statutory unitization cases shall be by certified mail (return receipt requested).

2. In cases of applications for hearing for approval of unorthodox well locations:

Actual notice shall be given to any offset operator in those adjoining spacing/proration units of the same size that is adversely affected by the proposed unorthodox location, or any potash operator in an adjoining proration or spacing unit in the R-111-A area provided the subject well be closer to that potash operator than the closest standard location allows. Such notice shall be given by certified mail (return receipt requested).

3. In the case of applications for the approval of any non-standard proration unit:

Actual notice shall be given to all operators owning a leasehold interest to be excluded from the proration unit in the quarter-quarter section (for 40-acre pools or formations), the quarter section (for 160-acre pools or formations) the half section (for 320-acre pools or formations), or in the section (for 640-acre pools or formations) in which the non-standard unit is located and to each operator on any proration unit, if there be such, or tract which adjoins or corners such quarter-quarter, quarter, half, or whole section. Such notice shall be by certified mail (return receipt requested).

4. In the case of applications for adoption of, or amendment of, special pool rules:

Actual notice shall be given to all operators within the existing, or proposed pool boundaries and those of operators within one (1) mile of such boundaries. Such notice may be provided by regular mail.

5. In the case of applications to amend R-111-A, the Potash-Oil Area and Special Rules, actual notice shall be given to any affected potash operator or oil or gas operator or owner. Such notice shall be provided by certified mail (return receipt requested).
6. In the case of applications for approval of downhole commingling of the product of multiple formations: Actual notice shall be given to all offset operators. Such notice shall be provided by regular mail.
7. In the case of any other application which may diminish or adversely affect

royalty interests: Actual notice shall be given to the applicant's royalty interest owners immediately affected. Such notice shall be provided by certified mail (return receipt requested).

At each hearing, the applicant shall cause to be made a matter of record, either by testimony at the hearing or by an affidavit signed by applicant or its authorized representative, that the notice provisions of this Rule 1207 have been complied with, that applicant has conducted a good-faith diligent effort to find the correct address of all interested persons entitled to receive notice, and that pursuant to Rule 1207, notice has been given at that correct address as provided by rule. In addition, such certificate shall contain the name and address of each interested person to whom such notice was sent and, where proof of receipt is available, a copy of same.

Evidence of failure to provide notice as provided in this rule may, upon a proper showing, be considered cause for reopening the case.

(b) Any notice required by this rule shall be to the last known address of the party to whom notice is to be given at least 20 days prior to the date of hearing of the application.

RULE 1207. ADDITIONAL NOTICE REQUIREMENTS (New Rule Alternative No. 2)

Each applicant for hearing before the Division or Commission shall give additional notice to any party expected to be adversely affected by granting of the application, any party whose interest would be pooled to form a spacing or proration unit, and any of applicant's royalty owners immediately affected by the granting of the application.

The notice required by this rule shall be mailed at least 20 days prior to the date of the hearing on the application.

At each hearing, the applicant shall cause to be made a matter of record, either by testimony or by an affidavit signed by the applicant or its authorized representative, the method used in determining the parties who received the additional notice required by this rule, the names and addresses of all such parties and a statement or proof that a good faith effort has been made to notify such parties of the purpose of the application and the date and time of the hearing.

Evidence of failure to provide notice as provided in this rule may, upon a proper showing, be considered cause for reopening the case.