## STATE OF NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF TENNECO OIL COMPANY FOR SEVEN NON-STANDARD PRORATION UNITS, SAN JUAN COUNTY, NEW MEXICO CASE NO. 8282

#### MEMORANDUM BRIEF

In accordance with the demands of the Aztec District Office, TENNECO OIL COMPANY has filed an Application and requested a hearing for approval of seven (7) 160 acre non-standard proration units in San Juan County, New Mexico. The seven wells in question were drilled pursuant to Oil Conservation Division Order No. R-6313 and were completed in the commingled Chacra-Mesaverde zones; five of the wells were also dually completed in the Dakota zone. At the time that the wells were completed the spacing in the Chacra-Mesaverde was 160 acres. Subsequent to the completion of these wells, the spacing in the Blanco Mesaverde pool was changed to 320 acres. The Aztec District Office has requested a rededication of acreage to these wells in the Blanco Mesaverde pool. This rededication would be 320 acres. As will be shown below, because of the ownership differences in the Blanco Mesaverde pool, rededication of these wells to 320 acre proration units will impair correlative rights.

## PRIOR PROCEEDINGS

On March 26, 1980, testimony was presented by Applicant to justify the downhole commingling of the Mesaverde and Chacra formations in these seven wells. Testimony was further presented to justify the dual completion of five of these wells in the Basin Dakota. At the March 26, 1980 hearing, testimony was presented to substantiate that it was not economic to produce and complete these wells solely in the Blanco Mesaverde, then spaced on 160 acres, because of insufficient reserves. In addition, testimony was presented to establish that a well completed in the Blanco Mesaverde pool would drain only 160 acres.

In addition, and critical to a resolution of the present application, testimony was presented that the ownership of the Mesaverde was not common in the 320 acre proration unit, but was common on a 160 acre dedication.

In 1979, the Oil Conservation Commission entered its Order R-1670-T which provided for infill drilling in the Blanco Mesaverde pool. That Order found that an additional well on a 320 acre proration

unit was required to efficiently and effectively drain the reservoir. A copy of Order R-1670-T is attached hereto and incorporated herein.

Notwithstanding the provisions of Order R-1670-T, on August 6, 1982 the Division expanded the Blanco Mesaverde pool to include acreage dedicated to the above seven wells. The wells have now been producing for four years, expenses have been incurred and paid, and rights to production have been established. Because of the difference in ownership in the Blanco Mesaverde pool from one 160 acre unit to the other 160 acre unit, the interest in the producing wells will have to be readjusted and reallocated to reflect the different ownership.

## WASTE AND CORRELATIVE RIGHTS

The New Mexico Oil Conservation Commission and the Division have two fundamental powers and duties. They are the prevention of waste and the protection of correlative rights. Of these two, the paramount duty is the prevention of waste, but in doing so the Commission must protect correlative rights. Continental Oil Company v. Oil Conservation Commission, 70 N.M. 310, 373 P.2d 809 (1962); El Paso Natural Gas Company v. Oil Conservation Commission, 76 N.M. 268, 414 P.2d 496 (1966), see also N.M.S.A.

70-2-11 (1978 Comp.). In order to protect correlative rights the Commission must, of course, determine what those rights are. Continental Oil Company v. Oil Conservation Commission, supra. A determination of these rights requires the Commission to apply its substantial knowledge of the underlying formations, the producing characteristics and the economics of development.

Commission, of course, The has broad authority to establish spacing and proration units, and if supported by substantial evidence, such orders establishing proration units will not be disturbed. Rutter & Willbanks v. Oil Conservation Commission, 87 N.M. 287, 532 P.2d 582 (1975). N.M.S.A. 70-2-12 (10) (1978 Comp.) gives the Commission the power to fix spacing of wells. The establishment of proration units is governed by N.M.S.A. 70-2-17 (1978 Comp.). latter section authorizes the Commission to This "establish a proration unit for each pool, such being the area that can be efficiently and ecconomically drained and developed by one well" (emphasis added). While it is admitted that the Division can change the spacing of wells and size of spacing and proration units in the interests of conservation and protection of correlative rights, it is important to note that

the expansion of the Blanco Mesaverde pool to the area to these seven wells is directly contradictory to Order 1670-T and the findings thereof.

Within the parameters of the application before the Commission it is not necessary for the determine whether the direct Commission to contradiction between Order R-7046 and R-1670-T constitute an unconstitutional taking in violation of the New Mexico and United States Constitutions. is necessary is that the Commission give appropriate weight to the Findings of the Commission in Order R-1670-T and the Findings of the Examiner in Case 6847, both of which recognize that the Blanco Mesaverde pool can be efficiently and effectively drained by a well spaced on 160 acre spacing.

The situation that would be created increasing the acreage dedicated to the seven wells question poses serious problems which directly upon the prevention of waste and the protection of correlative rights. Indeed, the two are entwined in this situation. In the event that the acreage dedicated to the Blanco Mesaverde wells increased, parties who did not pay for the drilling of the well or incur any risk in connection with the drilling will be permitted to benefit from production from the wells. As set out in Exhibit "B" attached hereto, significant differences in ownership within the proposed 320 acre dedication will result in benefit to parties who have taken no risk and a diminution of benefit to those parties who took the entire risk in drilling these wells.

By virtue of Order R-1670-T we know a Blanco Mesaverde well will drain 160 acres. That is the spacing on which these wells were drilled. The parties to the drilling and completion of these wells have a right to rely on the Commission's Findings and its expertise in determining the appropriate spacing for wells.

To now conclude that proper spacing is 320 acres will impair the correlative rights of the parties who took the risk of drilling the wells and will create an irreconcilable conflict with Order R-1670-T.

#### CONCLUSION

For the reasons stated above, Applicant requests that the Commission issue an Order granting Applicant's request for seven non-standard proration units.

Respectfully submitted,

KELLAHIN & KELLAHIN Post Office Box 2265

Santa Fe, New Mexico 87501

Telephone: (505) 982-4285

Karen Aubrey

# BEFORE THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

CASE NO. 5264 Order No. R-1670-T

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR THE AMENDMENT OF ORDER NO. R-1670, BLANCO MESAVERDE POOL, SAN JUAN AND RIO ARRIBA COUNTIES, NEW MEXICO.

## ORDER OF THE COMMISSION

#### BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 13 and August 14, 1974, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 14th day of November, 1974, 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 the Blanco Mesaverde Pool, located in San Juan and Rio Arriba Counties, New Mexico, was created by Commission Order No. 799, dated February 25, 1949.
- (3) That the Blanco Mesaverde Pool is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for the assignment of allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

- (4) That the applicant, El Paso Natural Gas Company, seeks an order amending said Order No. R-1670 to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Pool; to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverabilities of the two wells; to permit the production of the allowable assigned to a proration unit containing two wells from both wells in any proportion; to consider both wells on a proration unit as one well for purposes of balancing underproduction or overproduction; to report the production of each well on the unit as well as the total unit production; and to compare the unit production against the unit allowable for determining whether a unit should be classified marginal or non-marginal.
- (5) That the Blanco Mesaverde Pool has been developed for approximately 20 years on 320-acre proration units.
- (6) That to change the unit size now in said pool would disturb the equities under many of the existing proration units.
- (7) That the proration unit size in the Blanco Mesaverde Pool should continue to be 320 acres.
- (8) That Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers the Commission to prevent waste of hydrocarbons and to protect the correlative rights of the owners of each interest in said hydrocarbons.
- (9) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, confers jurisdiction on the Commission over all matters relating to the conversion of oil and gas.
- (10) That "waste" is defined by Section 65-3-3, New Mexico Statutes Annotated, 1953 Compilation.
- (11) That the evidence reveals that the Blanco Mesaverde Pool is not a homogeneous, uniform reservoir.
- (12) That the producing formation of the Blanco Mesaverde Pool is comprised of various overlapping, interconnecting, and lenticular sands of relatively low permeability, many of which are not being efficiently drained by existing wells in the pool but which could be more efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant.
- (13) That infill drilling will substantially increase recoverable reserves from the Blanco Mesaverde Pool.

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- (14) That infill drilling will result in greater ultimate recovery of the reserves under the various proration units in the pool.
- (15) That infill drilling in the Blanco Mesaverde Pool will result in more efficient use of reservoir energy and will tend to ensure greater ultimate recovery of gas from the pool, thereby preventing waste.
- (16) That if infill drilling is implemented in the Blanco Mesaverde Pool, each operator will be afforded the opportunity to produce, without waste, his just and equitable share of the gas from the Pool, and his correlative rights, as defined by Section 65-3-29, New Mexico Statutes Annotated, 1953 Compilation, therefore, will not be impaired.
- (17) That both wells on a proration unit should be produced so long as it is economically feasible to do so.
  - (18) That the application should be approved.

## IT IS THEREFORE ORDERED:

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- (1) That the Special Rules for the Blanco Mesaverde Pool in San Juan and Rio Arriba Counties, New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to permit the optional drilling of a second well on each proration unit; to provide that the deliverability of a proration unit containing two wells shall be the sum of the deliverabilities of each of the wells; to provide that the unit allowable may be produced from both of the wells in any proportion; to consider both wells on the proration unit as one well for purposes of balancing underproduction or overproduction; to provide for the reporting of production from each well individually and to require the reporting of total production from the unit; and to compare the unit production against the unit allowable in determining whether a unit should be classified marginal or non-marginal.
- (2) That Rule 2 of the Special Rules for the Blanco Mesaverde Pool, as promulgated by Order No. R-1670, as amended, is hereby amended to read in its entirety as follows:
  - "RULE 2 (A). The initial well drilled on a proration unit shall be located 990 feet from the outer boundary of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

- "RULE 2 (B). The second well drilled on a proration unit shall be located in the quarter section of the unit not containing a well, and shall be located with respect to the unit boundaries as described in Rule 2 (A) above.
- "The plats (Form C-102) accompanying the Application for Permit to Drill (OCC Form C-101 or Federal Form 9-331-C) for the second well on a proration unit shall have outlined thereon the boundaries of the unit and shall show the location of the first well on the unit as well as the proposed new well.
- "RULE 2 (C). In the event a second well is drilled on any proration unit, both wells shall be produced for so long as it is economically feasible to do so."
- (3) That the Special Rules for the Blanco Mesaverde Pool as promulgated by Order No. R-1670, as amended, are hereby amended by the addition of the following Special Rule 9:
  - RULE 9 (A). The product obtained by multiplying each proration unit's acreage factor by the calculated deliverability (expressed as MCF per day) for the well(s) on the unit shall be known as the AD Factor for the unit. The acreage factor shall be determined to the second decimal place by dividing the acreage within the proration unit by 320, subject to the acreage tolerances provided in Rule 5 (A). The AD Factor shall be computed to the nearest whole number.
  - RULE 9 (B). The monthly allowable to be assigned to each marginal proration unit shall be equal to its latest available monthly production.
  - RULE 9 (C). The pool allowable remaining each month after deducting the total allowable assigned to marginal proration units shall be allocated among the non-marginal units entitled to an allowable in the following manner:
    - 1. Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's "AD Factor" bears to the total "AD Factor" for all non-marginal units in the pool.

- 2. Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's acreage factor bears to the total acreage factor for all non-marginal units in the pool.
- RULE 9 (D). The current deliverability tests, taken in accordance with the 'Gas Well Testing Procedures-San Juan Basin, New Mexico," shall be used in calculating allowables for the proration units in the pool for the 12-month period beginning April 1 of the following year.
- RULE 9 (E). When calculating the allowable for a proration unit containing two wells, in accordance with Rule 9 of these rules, the deliverability of both wells shall be added in calculating the AD Factor and the unit allowable may be produced from both wells.
- (4) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 10 (C):
  - RULE 10 (C). The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Rules and Procedures San Juan Basin, New Mexico."
  - No well shall be eligible for reclassification to "Exempt Marginal" status unless it is located on a marginal proration unit.
- (5) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 12:
  - RULE 12. The full production of gas from each well, including drilling gas, shall be charged against the proration unit's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.
- (6) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 14:

- RULE 14 (A). Underproduction: Any non-marginal proration unit which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.
- RULE 14 (B). Production during any one month of a gas proration period in excess of the allowable assigned to a proration unit for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.
- (7) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 15:
  - RULE 15 (A). Overproduction: Any proration unit which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any unit which has not made up the overproduction carried into a gas proration period by the end of said period shall not be produced until such overproduction is made up.
  - RULE 15 (B). If, during any month, it is discovered that a proration unit is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, six times its average monthly allowable for the months available), it shall not be produced that month nor each succeeding month until it is overproduced in an amount six times or less its average monthly allowable, as determined hereinabove.
  - RULE 15 (C). Allowable assigned to a proration unit during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such unit in determining the amount of overproduction which must be made up pursuant to the provisions of Rules 15 (A) or 15 (B) above.

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- RULE 15 (D). The Secretary-Director of the Commission shall have authority to permit a well which is subject to shut-in, pursuant to Rules 15 (A) or 15 (B) above, to produce up to 500 MCF of gas per month upon proper showing to the Secretary-Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for any well produced in excess of the monthly rate authorized by the Secretary-Director.
- RULE 15 (E). The Commission may allow overproduction to be made up at a lesser rate than permitted under Rules 15 (A), 15 (B), or 15 (D) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.
- RULE 15 (F). Any allowable accruing to a proration unit at the end of a gas proration period due to the cancellation of underage in the pool and the redistribution thereof shall be applied against the unit's overproduction.
- RULE 15 (G). The Secretary-Director of the Commission shall have authority to grant a pool-wide moratorium of up to three months on the shutting in of gas wells in a pool during periods of high-demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 15 (A) or 15 (B) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.
- (8) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Section E:

## E. CLASSIFICATION OF UNITS

RULE 16 (A). The proration period (as defined in Rule 13) shall be divided into four classification periods of three months each, commencing on April 1, July 1, October 1, and January 1. After the production data is available for the last month of each classification period, any unit which had an underproduced status at the beginning of the proration period shall be classified marginal if its highest single month's production during the classification period is less than its average

monthly allowable during said classification period; provided however, that the operator of any unit so classified, or other interested party, shall have 15 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Commission that the unit is not of marginal character and should not be so classified.

- RULE 16 (B). The Secretary-Director may reclassify a marginal or non-marginal proration unit at any time the unit's production data, deliverability data, or other evidence as to the unit's producing ability justifies such reclassification.
- RULE 17. A proration unit which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to the unit prior to its classification as marginal shall be cancelled.
- RULE 18. If, at the end of a proration period, a marginal proration unit has produced more than the total allowable for the period, assigned to a non-marginal unit of like deliverability and acreage, the marginal unit shall be reclassified non-marginal and its allowable and net status adjusted accordingly. (If the unit has been classified as marginal for one proration period only, or a portion of one proration period only, any underproduction cancelled as the result of such classification shall be reinstated upon reclassification back to non-marginal status. All uncompensated-for overproduction accruing to the unit while marginal shall be chargeable upon reclassification to non-marginal.)
- RULE 19. A proration unit containing a well which has been reworked or recompleted shall be classified non-marginal as of the date of reconnection of the well to a pipeline until such time as production data, deliverability data, or other evidence as to the unit's producing ability indicates that the unit should be classified marginal.
- RULE 20. All proration units not classified marginal shall be classified non-marginal.
- (9) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 21 (A):

RULE 21 (A). The monthly gas production from each well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 in accordance with Rule 1115 of the Commission's Rules and Regulations, so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas reported was produced. The operator shall show on such report what disposition has been made of the gas produced. The sum of the production from both wells on the proration unit shall also be reported for multiple-well units.

- (10) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 23:
  - RULE 23. Failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected proration unit. No further allowable shall be assigned to the affected unit until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the unit and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.
- (11) 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

I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

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

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# B\_ORE THE OIL CONSERVATION ( MISSION OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

> CASE NO. 5264 Order No. R-1670-T-A

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR THE AMENDMENT OF ORDER NO. R-1670, BLANCO MESAVERDE POOL, SAN JUAN AND RIO ARRIBA COUNTIES, NEW MEXICO.

#### NUNC PRO TUNC

## BY THE COMMISSION:

It appearing to the Commission that Order No. R-1670-T, dated November 14, 1974, does not correctly state the intended order of the Commission in one particular.

## IT IS THEREFORE ORDERED

- (1) That Paragraph (9) on Page 2 of Order No. R-1670-T, be and the same is hereby corrected to read in its entirety as follows:
  - (9) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, confers jurisdiction on the Commission over all matters relating to the conservation of oil and gas.
- (2) That the correction set forth in this order be entered nunc pro tunc as of November 14, 1974.

DONE at Santa Fe, New Mexico, on this 19th day of November, 1974.

STATE OF NEW MEXICO

OIL CONSERVATION COMMISSION

I/R. TRUJILLO, Chairman

ALEX J ARMIJO Member

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

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## STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION ON ITS OWN MOTION FOR THE PURPOSE OF CONSIDERING THE AMENDMENT OF DIVISION ORDER NO. R-1670-T.

CASE NO. 6691 Order No. R-1670-T-B

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## ORDER OF THE DIVISION

#### BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 2, 1979, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this <u>lath</u> day of October, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

#### FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That an amended well test procedure should be adopted for the Blanco Mesaverde Pool, Rio Arriba and San Juan Counties, New Mexico, in order to permit the assignment of more appropriate allowables to proration units following completion of a second or "infill" well thereon.
- (3) That such test procedure should be established by amending the Special Rules and Regulations for the Blanco Mesaverde Pool, as promulgated by Division Order No. R-1670 and as amended by Division Orders Nos. R-1670-T and R-1670-T-A, to include the following Special Rule 10(D):
  - RULE 10 (D). Within ninety (90) days after gas from the second well on the unit is first delivered to a gas transportation facility, both wells on the unit shall have been tested in accordance with "Gas Well Testing Rules and Procedures San Juan Basin, New Mexico" and the results of the test filed with the Division's Aztec office and with the gas transportation facility to which the well is connected. If a test for the current test

<u>... O ...</u> Case No. 6691 Order No. R-1670-T-B period has previously been filed for the first well on the unit, a second test of said well will not be required. Both tests will be treated as Initial Tests for purposes of assigning allowables to the unit. This rule shall apply to newly completed wells. IT IS THEREFORE ORDERED: (1) That the Special Rules and Regulations for the Blanco Mesaverde Pool as promulgated by Division Order No. R-1670 and amended by Division Orders Nos. R-1670-T and R-1670-T-A are hereby amended by the addition of the following Special Rule 10(D): RULE 10 (D). Within ninety (90) days after gas from the second well on the unit is first delivered to a gas transportation facility, both wells on the unit shall have been tested in accordance with "Gas Well Testing Rules and Procedures - San Juan Basin, New Mexico" and the results of the test filed with the Division's Aztec office and with the gas transportation facility to which the well is connected. If a test for the current test period has previously been filed for the first well on the unit, a second test of said well will not be required. Both tests will be treated as Initial Tests for purposes of assigning allowables to the unit. This rule shall apply to newly completed wells. That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary. DONE at Santa Fe, New Mexico, on the day and year hereinabove designated. STATE OF NEW MEXICO OIL CONSERVATION DIVISION JOE D. RAMEY/ Director SEAL fd/