

TITLE 19 NATURAL RESOURCES AND WILDLIFE
CHAPTER 15 OIL AND GAS
PART 20 OIL PRORATION AND ALLOCATION

19.15.20.1 ISSUING AGENCY: Energy, Minerals and Natural Resources Department, Oil Conservation Division.

[19.15.20.1 NMAC - Rp, 19.15.7.1 NMAC, 12/1/08]

19.15.20.2 SCOPE: 19.15.20 NMAC applies to persons engaged in oil development and production within New Mexico.

[19.15.20.2 NMAC - Rp, 19.15.7.2 NMAC, 12/1/08]

19.15.20.3 STATUTORY AUTHORITY: 19.15.20 NMAC is adopted pursuant to the Oil and Gas Act, NMSA 1978, Section 70-2-6, Section 70-2-11, Section 70-2-12, Section 70-2-16 and Section 70-2-17.

[19.15.20.3 NMAC - Rp, 19.15.7.3 NMAC, 12/1/08]

19.15.20.4 DURATION: Permanent.

[19.15.20.4 NMAC - Rp, 19.15.7.4 NMAC, 12/1/08]

19.15.20.5 EFFECTIVE DATE: December 1, 2008, unless a later date is cited at the end of a section.

[19.15.20.5 NMAC - Rp, 19.15.7.5 NMAC, 12/1/08]

19.15.20.6 OBJECTIVE: To establish requirements implementing the division's statutory authority to prorate and allocate oil production.

[19.15.20.6 NMAC - Rp, 19.15.7.6 NMAC, 12/1/08]

19.15.20.7 DEFINITIONS:

A. "Date of completion" means the date when new oil is delivered into the stock tanks.

B. "Marginal unit" means a proration unit that is incapable of producing the top proration unit allowable for the pool in which it is located as evidenced by well tests, production history or other report or form the operator files with the division.

C. "Non-marginal unit" means a proration unit that is incapable of producing top proration unit allowable for the pool in which it is located and to which the division has assigned a top proration unit allowable.

D. "Recovered load oil" means oil or liquid hydrocarbon that has been used in an operation in an oil or gas well, and that has been recovered as a merchantable product.

[19.15.20.7 NMAC - Rp, 19.15.7.7 NMAC, Subsection D of 19.15.7.503 NMAC and Subsection B of 19.15.7.508 NMAC, 12/1/08]

19.15.20.8 REGULATION OF OIL POOLS:

A. To prevent waste, the division shall prorate and distribute the allowable production among the producers in a pool upon a reasonable basis and recognizing correlative rights.

B. After notice and hearing, the division, in order to prevent waste and protect correlative rights, may enter special orders pertaining to a pool.

[19.15.20.8 NMAC - Rp, 19.15.7.501 NMAC, 12/1/08]

19.15.20.9 RATE OF PRODUCING WELLS:

A. Daily tolerance.

(1) Oil wells located on units capable of producing their allowables may overproduce one day and underproduce another. No unit capable of producing its allowable, except for the purpose of testing, in the process of completing or recompleting a well or for tests made for the purpose of obtaining scientific data, shall produce any day more than 125 percent of the daily top proration unit allowable for the pool in which the well is located. (Subject to the foregoing, an underproduction may be made up by production from the same unit within the same month, and in like manner any overproduction shall be adjusted or balanced by underproduction from the same unit, within the same proration period).

(2) Certain wells must, as a matter of practicality, be produced at daily rates in excess of 125 percent of the daily top proration unit allowable for the pool in which the wells are located. The director may grant

exceptions to the provisions of Paragraph (1) of Subsection A of 19.15.20.9 NMAC, without formal hearing, where an operator has filed application setting out the reasons for the requested exception.

(a) Applicants for the exceptions shall, at the time of filing, furnish each operator in the pool in which the well is located a copy of the application.

(b) The applicant shall include in an application for exception or attach to the application a formal written statement that the applicant has served every operator in the pool in which the well is located with a copy of the application.

(3) The director shall wait at least 10 days after receipt before approving the application, and shall approve the application only in absence of objection from an operator or interested party, or in the director's discretion. In the event the director fails to approve the application, the division after notice shall hear and determine the matter.

B. Monthly tolerance. No unit shall produce during any one proration period more than the unit's allowable production for the proration period plus a tolerance of not to exceed five days allowable production. This permissive tolerance of overproduction from a unit is subject to all other provisions of 19.15.20.9 NMAC and particularly to the provisions of Subsection D of 19.15.20.9 NMAC. The operator shall adjust or balance permissive tolerance of overproduction from a unit by subsequent corresponding underproduction from the same unit. The division shall consider overproduction within the permitted tolerance as oil produced against the allowable production assigned to the unit for the proration period during which the overproduction is adjusted or balanced by underproduction.

C. Production in excess of monthly allowable, plus tolerance.

(1) Oil produced from a unit in excess of the assigned monthly allowable plus the permissive proration period tolerance shall be "illegal oil" as defined in the Oil and Gas Act, unless the excess oil:

- (a) is produced as a result of mistake or error;
- (b) results from mechanical failure beyond the operator's immediate control; or
- (c) results from essential tests of the unit within the purview of division rules.

(2) Whenever production from a unit for a proration period exceeds the assigned allowable, plus the permitted tolerance authorized in Subsection B of 19.15.20.9 NMAC and the cause of the excess reasonably falls within Subparagraphs (a), (b) or (c) of Paragraph (1) of Subsection C of 19.15.20.9 NMAC, the producer or operator shall briefly set forth the excess production's cause together with a proposed plan for production adjustment in the comments area of form C-115 for the month in which the excess production occurs. The excess production shall be considered as oil produced against the allowable assigned to the unit for the following proration period, and it may be transported from the lease tanks only as and when the unit accrues daily allowable to offset the excess production.

D. General.

(1) The tolerance permitted on a daily or monthly basis as provided in Subsections A and B of 19.15.20.9 NMAC does not increase a producing unit's allowable or grant an operator authority to market or a transporter authority to transport any quantity of oil in excess of the unit's allowable.

(2) The possession of a quantity of oil in lease storage at the end of a proration period in excess of five days allowable plus any rerun allowable oil is a violation of 19.15.20.9 NMAC, unless the operator reports the possession in the manner and within the time provided in Subsection C of 19.15.20.9 NMAC for filing form C-115.

E. Storage records. Producers and transporters of oil shall maintain adequate records showing unrun allowable oil in storage at the end of each proration period. The storage oil shall be the amount of oil in tanks from which oil is measured and delivered to the transporter.

[19.15.20.9 NMAC - Rp, 19.15.7.502 NMAC, 12/1/08]

19.15.20.10 AUTHORIZATION FOR PRODUCTION OF OIL:

A. Except as provided below, the daily top proration unit allowable for an oil pool is 100 percent of the depth bracket allowable for the pool determined pursuant to 19.15.20.12 NMAC.

B. The division may, within five days prior to the end of the month, determine the likelihood the total producing capacity of all oil wells in the state exceeding anticipated reasonable market demand for oil from the state. If the division determines that the capacity may exceed the anticipated reasonable market demand, and that a market demand factor of less than 100 percent may be necessary to prevent waste, it shall immediately institute proper proceedings for a hearing to be held before the 20th day of the following month to determine actual reasonable market demand up to a maximum of six months.

C. At the hearing the division shall consider all evidence of market demand for oil from this state, and if it determines that the market demand percentage factor should be less than 100 percent, issue an order

establishing the market demand factor and set a date for the next market demand hearing.

D. The division shall multiply the market demand factor established by the applicable depth bracket allowable for each well and each pool to determine its unit allowable. A fraction of a barrel is regarded as a full barrel in determining top proration unit allowable. Upon initial establishment of a market demand factor, and from time to time thereafter, the division shall issue a proration schedule authorizing the production of oil from the various proration units in the various pools in the state. A well completed or recompleted after the schedule's issuance and for which the division has approved form C-104, shall, by supplement to the schedule, be authorized a daily allowable equal to the top proration unit allowable in effect. The allowable for the well is effective at 7:00 a.m. on the date of the completion, provided the operator submits form C-104 and the division approves the form within 10 days following the completion date; otherwise the allowable is effective on the date the division approves the form C-104.

E. A non-marginal unit may produce the top proration unit allowable without waste and subject to the provisions of 19.15.18.7 NMAC, 19.15.20.9 NMAC and 19.15.20.13 NMAC and all other applicable rules.

F. A marginal unit may produce any amount of oil that it is capable of producing without waste up to the pool's top proration unit allowable, subject to the provisions of 19.15.18.7 NMAC, 19.15.20.9 NMAC and 19.15.20.13 NMAC and all other applicable rules if the division has assigned an allowable to the unit to authorize the production.

G. A penalized non-marginal unit is a proration unit to which, because of an excessive gas-oil ratio, the division has assigned an allowable determined in accordance with the procedure in 19.15.20.13 NMAC. In calculating a penalized allowable, a fraction of a barrel is regarded as a full barrel.

H. The division shall make and distribute a periodic tabulation of all supplements to the current proration schedule.

I. The division shall adhere to 19.15.15.14 NMAC in fixing top proration unit allowables.

J. If it becomes necessary for an oil transporter to resort to pipeline proration, the transporter shall, as soon as possible and not later than 24 hours after the effective date of the pipeline proration, notify the division of its decision to prorate. Upon receipt of the notice from the transporter, the division may take such emergency action as it deems proper or upon its own motion, after notice, hold a hearing for the purpose of considering any action within its authority to preserve and protect correlative rights.

K. In case of pipeline proration an operator the pipeline proration affects may apply to the division for authorization to have an underproduction resulting from the pipeline proration included in subsequent proration schedules. The operator shall apply upon a division-prescribed form and file it with the division within 30 days after the close of the first proration period in which the pipeline proration underproduction occurred. The authorization is limited to wells capable of producing the daily top proration unit allowable for the period.

L. In approving the application the division shall determine the time period during which the underproduction shall be made up without injury to the well or pool, and shall include the time period in the regularly approved proration schedules following the pipeline proration's conclusion.

[19.15.20.10 NMAC - Rp, 19.15.7.503 NMAC, 12/1/08]

19.15.20.11 AUTHORIZATION FOR PRODUCTION OF OIL WHILE COMPLETING, RECOMPLETING OR TESTING AN OIL WELL:

A. If an operator does not have sufficient lease storage to hold oil produced from a well during its drilling, completing, recompleting or testing, the operator may produce and sell from the well an amount of oil necessary to drill, complete, recomplete or test the well; provided however, that the operator shall file with the division a written application stating the circumstances at the well and setting forth in the application the estimated amount of oil to be produced during the aforementioned operations, and provided further that the division approves the application. Oil produced during drilling, completion or recompletion or testing a well shall be charged against the well's allowable production.

B. The division shall not place a well on the proration schedule until the operator files with the division and the division approves the form C-104.

[19.15.20.11 NMAC - Rp, 19.15.7.504 NMAC, 12/1/08]

19.15.20.12 DEPTH BRACKET ALLOWABLES:

A. Subject to the market demand percentage factor determined pursuant to 19.15.20.10 NMAC, the daily oil allowable for each oil pool in the state shall equal the appropriate depth bracket allowable below. The depth of the casing shoe or the top perforation in the casing, whichever is higher, in the first well completed in the pool shall determine the pool's depth classification. Daily oil allowables for each of the several ranges of depth and

spacing patterns are as follows, shown in barrels:

<u>POOL DEPTH RANGE</u>	<u>DEPTH BRACKET ALLOWABLE</u>		
	<u>40 Acres</u>	<u>80 Acres</u>	<u>160 Acres</u>
0 to 4999 feet	80	160	
5000 to 5999	107	187	347
6000 to 6999	142	222	382
7000 to 7999	187	267	427
8000 to 8999	230	310	470
9000 to 9999	275	355	515
10,000 to 10,999	320	400	560
11,000 to 11,999	365	445	605
12,000 to 12,999	410	490	650
13,000 to 13,999	455	535	695
14,000 to 14,999	500	580	740
15,000 to 15,999	545	625	785
16,000 to 16,999	590	670	830
17,000 and deeper	635	715	875

B. The 40-acre depth bracket allowables apply to all undesignated wells not governed by special pool orders and to all pools developed on the normal 40-acre statewide spacing unit.

C. The 80-acre and 160-acre depth bracket allowables apply to wells governed by applicable special pool orders the division issues as an exception to the normal 40-acre statewide spacing unit.

D. The division may, where deemed appropriate, assign to a given pool a special depth bracket allowable at variance to the depth bracket allowable normally assigned to a pool of similar depth and spacing. The special allowable may be more or less than the regular depth bracket allowable and shall be assigned only after notice and hearing.

E. In assigning a lesser than regular depth bracket allowable, the division may consider, among other pertinent factors, reservoir damage, casinghead gas production and disposition, water production and disposition, transportation facilities, the prevention of surface or underground waste and the protection of correlative rights.

F. The division shall assign a greater than regular depth bracket allowable only after sufficient reservoir information is available to ensure that the allowable can be produced without damage to the reservoir and without causing surface or underground waste. The division shall also consider the availability of oil transportation and marketing facilities; casinghead gas transportation, processing and marketing facilities; water disposal facilities; the protection of correlative rights; and other pertinent factors.

[19.15.20.12 NMAC - Rp, 19.15.7.505 NMAC, 12/1/08]

19.15.20.13 GAS-OIL RATIO LIMITATION:

A. In allocated pools containing a well or wells producing from a reservoir that contains both oil and gas, each proration unit shall produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the pool's top unit oil allowable. In the event the division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2000 cubic feet of gas for each barrel of oil produced. In allocated oil pools the division shall place all producing wells, whether oil or casinghead gas, on the oil proration schedule.

B. Unless specifically exempted by division order issued after hearing, the division shall place a gas-oil ratio limitation on all allocated oil pools, and penalize all proration units having a gas-oil ratio exceeding the pool's limit in accordance with the following procedure.

(1) A proration unit that, on the basis of the latest official gas-oil ratio test, has a gas-oil ratio that exceeds the limiting gas-oil ratio and has the capacity to produce above the top casinghead gas volume calculated by Subsection A of 19.15.20.13 NMAC for the pool in which it is located may produce daily that number of barrels of oil that the division determines by multiplying the current top proration unit allowable by a fraction, the numerator of which shall be the limiting gas-oil ratio for the pool and the denominator of which shall be the well's official test gas-oil ratio, and the proration unit shall be designated non-marginal.

(2) A unit containing a well or wells producing from a reservoir that contains both oil and gas shall produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top proration unit allowable currently assigned to the pool.

(3) A marginal unit may produce the same volume of gas that it would be permitted to produce if it

were a non-marginal unit.

C. The division shall indicate non-marginal proration units to which gas-oil ratio adjustments are applied in the proration schedule with adjusted allowables stated.

D. In cases of new pools, the limit shall be 2000 cubic feet per barrel until such time as changed by division order issued after a hearing. Upon petition and after notice and hearing according to law, the division shall determine or redetermine the specific gas-oil ratio limit that is applicable to a particular allocated oil pool.
[19.15.20.13 NMAC - Rp, 19.15.7.506 NMAC, 12/1/08]

19.15.20.14 UNITIZED AREAS: After petition and notice and hearing, the division may approve the combining of contiguous developed proration units into a unitized area.
[19.15.20.14 NMAC - Rp, 19.15.7.507 NMAC, 12/1/08]

19.15.20.15 RECOVERED LOAD OIL:

A. An operator may run recovered load oil from the lease on which it is recovered, provided the operator obtains division approval of form C-126. The operator shall file form C-126 with the appropriate division district office. Upon approval, the division shall return one copy to the operator and send one copy to the designated transporter as authority to transport the oil.

B. 19.15.20.15 NMAC applies only to oil that has been obtained from a source other than the lease on which it is used.
[19.15.20.15 NMAC - Rp, 19.15.7.508 NMAC, 12/1/08]

19.15.20.16 OIL DISCOVERY ALLOWABLE:

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

B. The date of discovery the division uses to determine the well that should properly receive the oil discovery allowable for a new pool is the date the operator completes the well and runs new oil into stock tanks. Provided however, an operator drilling through and discovering a new oil pool in the course of drilling to a lower horizon may file an affidavit of the discovery within seven days after making drill stem tests of the pool, accompanying the affidavit with all available pool data. If, prior to the well's completion, another operator claims discovery of a similar pool and there are reasonable grounds to believe the pools are one and the same, the division shall not assign a discovery allowable to either well until after the initial well for which the affidavit was filed is completed. If at that time the operator of the initial well formally applies for the discovery allowable in the pool, the division shall determine after hearing which well receives the discovery allowable.

C. To obtain an oil discovery allowable, the owner of a discovery well shall file form C-109 with the appropriate division district office and the division's Santa Fe office. Each copy of the form shall be accompanied by the following.

(1) A map depicting all wells within a two-mile radius of the discovery well. The owner of the discovery shall clearly show producing oil and gas wells and the formations from which they are producing or have produced as well as all dry holes and the depths to which they were drilled. Maps shall be on a scale one inch equals 1000 feet and shall also indicate the names of all lessees of record in the depicted area.

(2) A complete electrical log of the subject well with the tops and bottoms of producing formations in the subject well and in nearby wells identified thereon.

(3) If the application is based on horizontal separation, a sub-surface structural map of the producing formations for which the owner of the discovery seek the discovery allowable, showing seismic or geological interpretation of the subject structure and any troughs, faults, pinch-outs, etc., that separate the subject well from nearby wells producing from the same formation or formations.

(4) A geological cross-section prepared from electrical logs of the subject well and nearby wells establishing horizontal as well as vertical separation from other wells depicted on the plat that are producing or have produced from the discovery formation or formations.

(5) A summary of all available reservoir data including bottom hole pressure data, fluid levels, core analyses, reservoir liquid characteristics and any other pertinent data on the subject reservoir as well as other nearby reservoirs that may help establish whether the subject well is in fact a discovery.

D. If, in the division staff's opinion, good cause exists to bring the pool for hearing as a discovery, and the division has received no objection from another operator, the division shall place the pool on the first available hearing docket for inclusion by the staff in its regular pool nomenclature case. If the staff disagrees with the applicant's contention that a new pool has been discovered or if within 10 days after receiving a copy of the application another operator files with the division an objection to the creation of a new pool and the assignment of a discovery allowable, the division shall notify the applicant. The applicant will be expected to present the evidence supporting the applicant's case. Or, if the applicant so desires, the division may set the application for separate hearing on other than the nomenclature docket for presentation of evidence by the applicant.

E. The effective date of a well's discovery allowable is 7:00 a.m. on the first day of the month next succeeding the month in which the division approves the discovery.

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

G. A discovery well may produce only that volume of gas equivalent to the applicable limiting gas-oil ratio for the pool multiplied by the top proration unit allowable for the pool plus the daily oil discovery allowable. In addition to all other statewide rules not specifically excepted in 19.15.20.16 NMAC, the provisions of 19.15.20.9 NMAC relating to daily tolerance, monthly tolerance and underproduction and overproduction shall apply to oil discovery allowables as well as to regular allowables for discovery wells.

H. Nothing contained in 19.15.20.16 NMAC prohibits the division from curtailing the discovery allowables of wells during times of depressed market demand. However, the division shall reinstate such discovery allowables for production at the earliest possible date. Further, when it appears reservoir damage or waste may result from production of the oil discovery allowable within the normal two-year period, the division may, after notice and hearing, extend the period.

[19.15.20.16 NMAC - Rp, 19.15.7.509 NMAC, 12/1/08]

HISTORY of 19.15.20 NMAC:

History of Repealed Material: 19.15.7 NMAC, Oil Proration and Allocation (filed 05/21/2002) repealed 12/1/08.

NMAC History:

19.15.7 NMAC, Oil Proration and Allocation, (filed 05/21/2002) was replaced by 19.15.20 NMAC, Oil Proration and Allocation, effective 12/1/08.