

605 <sup>1</sup> <sup>GAS</sup> ~~PRORATION RULES FOR NEW MEXICO~~

605.A DEFINITIONS

(1) ACREAGE FACTOR: A GPU's acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the GPU by a number equal to the number of acres in a standard GPU for such pool. However, the acreage tolerance provided in ~~Rule 2(a)2~~ shall apply. [5-15-98]

605.3(2)

(2) AD FACTOR: An acreage times deliverability factor is calculated in pools where acreage and deliverability are proration factors. The product obtained by multiplying the acreage factor by the calculated deliverability (expressed as MCF per day) for that GPU shall be known as the AD factor for that GPU. The AD Factor shall be computed to the nearest whole unit. [5-15-98]

(3) ALLOCATION HEARING: A hearing held by the Division twice each year to determine pool allocations for the ensuing allocation period. [5-15-98]

(4) ALLOCATION PERIOD: A six-month period beginning at 7:00 A.M. April 1 and October 1 of each year, ~~shall be the allocation period.~~ [5-15-98]

(5) BALANCING DATE: The date 7:00 a.m. April 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period. [5-15-98]

(6) BROKER: A third party who negotiates contracts for purchase and resale. [5-15-98]

(7) CLASSIFICATION PERIOD: A three month period beginning at 7:00 a.m. April 1, July 1, October 1, and January 1 of each year, ~~shall be the classification period.~~ [5-15-98]

(8) GAS POOL: Any pool which has been designated as a gas pool by the Division after notice and hearing. [5-15-98]

(9) GAS PRORATION UNIT (GPU): The acreage allocated to a well, or in the case of an infill well or wells to a group of wells, for purposes of spacing and proration shall be known as the gas proration unit (GPU). GPU's may be either of a standard or nonstandard size as provided in these rules. (GPU's means plural GPU). [5-15-98]

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>11705</u>	Exhibit No. <u>1a</u>
Submitted by <u>OCD</u>	
Hearing Date <u>4/9/98</u>	

(10) **GAS TRANSPORTER:** ~~The term Gas Transporter as used in these rules shall mean~~ any taker of gas, the party servicing the well meter, or the party responsible for measurement of gas sold from the well or beneficially used off-lease. This could be at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than is necessary for maintaining the producing ability of the well). The Gas Transporter can be the gatherer, transporter, producer, or a delegate of one of those parties. The Gas Transporter shall be identified on Form C-104 and will be responsible for filing Form C-111 as required under the provisions of Rule 1111. [5-15-98]

(11) **GAS PURCHASER:** ~~The term Gas Purchaser as used in these rules shall mean~~ the purchaser (where ownership of the gas is first exchanged by the producer to the purchaser for an agreed value) of the gas from a gas well or GPU. [5-15-98]

(12) **HARDSHIP GAS WELL:** A gas well wherein underground waste will occur if the well <sup>is</sup> ~~should be~~ shut-in or curtailed below its minimum sustainable flow rate. No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division. [5-15-98]

(13) **INFILL WELL:** An additional producing well on a GPU which serves as a companion well to an existing well on the GPU. [5-15-98]

(14) **MARGINAL GPU:** A proration unit which is incapable of producing or has not produced the non-marginal allowable based on pool allocation factors. Marginal GPU's do not accrue over or underproduction. [5-15-98]

(15) **NON-MARGINAL GPU:** A proration unit receiving an allowable based upon pool allocation factors. Non-marginal proration units accrue over or underproduction. [5-15-98]

(16) **OVERPRODUCTION:** The volume of gas produced on a GPU in any month greater than the assigned non-marginal allowable (does not include gas used in maintaining the producing ability of the well(s) of the GPU). Overproduction accumulates month to month during the proration period. [5-15-98]

(17) **PRORATED GAS POOL:** A prorated gas pool is a gas pool in which, after notice and hearing, the production is allocated by the Division according to these General Rules and any applicable special pool rules. [5-15-98]

(18) **PRORATION PERIOD:** The twelve-month period beginning April 1 of each year shall be the gas proration period. [5-15-98]

(19) **SHADOW ALLOWABLE:** The gas volume calculated for a marginal GPU that is equal to the allowable assigned to a non-marginal GPU in the same pool of the same A (acreage) or A and AD (acreage deliverability) factors as the marginal GPU. [5-15-98]

(20) UNDERPRODUCTION: The volume of assigned non-marginal allowable not produced on a GPU. Underproduction accumulates month to month during the proration period. [5-15-98]

#### 605.B. WELL ACREAGE AND LOCATION REQUIREMENTS

(1) STANDARD GAS PRORATION UNIT SIZE AND WELL SPACING:

- (a) Unless otherwise provided for in applicable special pool rules, gas wells in prorated gas pools shall be drilled according to the well spacing and acreage requirements contained in the Rules and Regulations of the Oil Conservation Division, provided that wells drilled in pools with 640 acre spacing, a government section, shall comprise the proration unit.
- (b) Any GPU drilled according to paragraph (a) which contains acreage within the tolerances below shall be considered a standard GPU for calculating allowables:

<u>STANDARD PRORATION UNIT</u>	<u>ACREAGE TOLERANCE</u>
160 acres	158-162 acres
320 acres	316-324 acres
640 acres [5-15-98]	632-648 acres

(2) NON-STANDARD GAS PRORATION UNITS:

- (a) The District Supervisor of the appropriate district office of the Division has the authority to approve a nonstandard GPU without notice and hearing when the unorthodox size and shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the nonstandard GPU is not less than 75% nor more than 125% of a standard GPU by accepting a Form C-102 land plat showing the proposed nonstandard GPU with the number of acres contained therein, and shall assign an allowable to the nonstandard GPU based upon the acreage factor for that acreage. [5-15-98]

- (b) Nonstandard proration units and unorthodox locations may be approved by the Division according to applicable special pool rules or Rules and Regulations of the Division. [5-15-98]

#### 606.5. C. NOMINATIONS

(1) **GAS PURCHASERS OR GAS TRANSPORTERS SHALL NOMINATE:** Each gas purchaser or each gas transporter as herein provided shall file with the Division its nomination for the amount of gas which it in good faith desires to purchase and/or expects to transport during the ensuing allocation period from each gas pool regulated by this order. The purchaser may delegate the nomination responsibility to the transporter, operator, or broker by notifying the Division's Santa Fe office. One copy of such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider at its allocation hearing~~x~~ the nominations for the succeeding allocation period. The Division shall consider at its allocation hearing the nominations received, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing allocation period. [5-15-98]

The Division Director may, at his discretion, suspend this rule whenever it appears that the nominations are of little or no value. [5-15-98]

(2) **SCHEDULE:** The Division shall issue a gas proration schedule for each allocation period showing the monthly allowable for each GPU that may be produced during each month of the ensuing allocation period, the current classification of each GPU, and such other information as is necessary to show the allowable production status of each GPU on the schedule. The Division may issue supplemental proration schedules during an allocation period as necessary to show changes in GPU classification, adjustments to allowables due to changes in market conditions, or to reflect any other changes as the Division deems necessary. [5-15-98]

(3) **PRORATION OF ALL GAS WELLS WITHIN A POOL:** The Division shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transporter, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such a well. [5-15-98]

#### 605.D. ALLOCATION AND GRANTING OF ALLOWABLES

(1) **FILING OF FORM C-102 AND FORM C-104 REQUIRED:** No GPU shall be assigned an allowable before receipt of Form C-102 (well location and acreage dedication plat) and the approval date of Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas). [5-15-98]

(2) **HOW ALLOWABLES ARE CALCULATED:** The total allowable to be allocated to each gas pool regulated by this order for each allocation period shall be equal to the estimated market demand as determined by the Division, plus any adjustments the Director deems necessary to equate the total pool allowable to the estimated market demand. The Director may make such adjustments as he deems necessary to compensate for overproduction, underproduction, and other circumstances which may necessitate such adjustment to equate pool allowable to the anticipated market demand. The estimated market demand for each pool shall be established from any information the Director requires and can consist of nominations from purchasers, transporters or other parties having knowledge of market demand for gas from such pools, actual past production figures, seasonal trends, or any other factors deemed necessary to establish estimated market demand. The Director shall not be bound to use all the information requested and can establish market demand by any method so approved. A monthly allowable shall be assigned to each GPU entitled to an allowable for the ensuing allocation period by allocating the pool allowable among all such GPU's in that pool according to the procedure set forth in the following paragraphs of this order. Should market conditions indicate a change is necessary, the Director may adjust allowables up or down during the 6-month allocation period using a maximum of 10% as a guideline. [5-15-98]

(3) **MARGINAL GPU ALLOWABLE:** The monthly allowable to be assigned to each marginal GPU shall be equal to its average monthly production from its latest classification period. [5-15-98]

(4) **NON-MARGINAL GPU ALLOWABLE:** Non-marginal GPU allowables shall be determined in conformance with the applicable special pool rules. [5-15-98]

- (a) In pools where acreage is the only proration factor, the total non-marginal allowable shall be allocated to each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPU's. [5-15-98]
- (b) In pools where acreage and deliverability are proration factors:
  - (i) A percentage as set forth in special pool rules, of the non-marginal allowable shall be allocated to each GPU in the proportion that each GPU's AD factor bears to the total AD factor for all non-marginal GPU's in the pool; and [5-15-98]
  - (ii) The remaining non-marginal allowable shall be allocated to non-marginal GPU's among each GPU in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool. [5-15-98]

(5) **NEW CONNECTS ASSIGNMENT OF ALLOWABLES:** Allowables to newly completed gas wells shall commence, in pools where acreage is the only proration factor, on the date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office or the approval date of Form C-102 and Form C-104, whichever is later. [5-15-98]

(6) **GAS CHARGED AGAINST GPU'S ALLOWABLE:** Except as provided in the Special Pool Rules, the volume of produced gas sold or beneficially used other than lease fuel from each GPU shall be charged against the GPU's allowable; however, the gas used in maintaining the producing ability of the well shall not be charged against the allowable. [5-15-98]

(7) **CHANGE IN ACREAGE:** If the acreage assigned to a GPU is changed, the operator shall notify the appropriate Division district office in writing of such change by filing a revised Plat (Form C-102). The revised allowable, as determined by the Division, assigned to the GPU shall be effective on the first day of the month following receipt of the notification. [5-15-98]

(8) **MINIMUM ALLOWABLES:** After notice and hearing, the Division may assign minimum allowables for prorated gas pools to avoid waste, encourage efficient operations, and to prevent the premature abandonment of wells. (See Special Pool Rules for minimum allowable amount.) In determining the volume of minimum allowable for a well with a standard proration unit, the Division shall take into account economic and engineering factors such as drilling and operating costs, anticipated revenues, taxes, and any similar data that will establish that the ultimate recovery of hydrocarbons will be increased from the pool because of the adoption of a minimum allowable for the pool. Once adopted, the minimum allowable for wells with nonstandard proration units shall be proportionally adjusted. [5-15-98]

(9) **DELIVERABILITY TESTS:** In pools where acreage and deliverability are proration factors, wells on non-marginal GPUs will be tested in accordance with Division rules and the test results shall be used in calculating deliverabilities for the succeeding proration period. Wells on GPUs reclassified to non-marginal shall be tested within 90 days of the order and thereafter in accordance with the appropriate testing schedule for the pool. Wells on marginal GPUs are exempt from deliverability testing. [5-15-98]

#### 605.E. BALANCING OF PRODUCTION

(1) **UNDERPRODUCTION:** Any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be canceled. [5-15-98]

(2) **BALANCING UNDERPRODUCTION:** Production during any one month of a gas proration period greater than the allowable assigned to a GPU for such a month shall be applied against the underproduction carried into such a period in determining the amount of allowable, if any, to be canceled. [5-15-98]

(3) **OVERPRODUCTION:** Any GPU 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 by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up. [5-15-98]

(a) **TWELVE-TIMES OVERPRODUCED, NORTHWEST:** For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its current year January allowable (or, in the case of a newly connected well, a marginal well, or a well recently reclassified as non-marginal, twelve times the January allowable assigned to a non-marginal GPU of similar acreage and deliverability factors), it shall be shut in until its overproduction is less than twelve times its January allowable, as determined hereinabove. [5-15-98]

(b) **SIX-TIMES OVERPRODUCED, SOUTHEAST:** For the prorated gas pools of southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its current year January allowable (or, in the case of a newly connected well, a marginal well, or a well recently reclassified as non-marginal, six times the January allowable assigned to a non-marginal GPU of a similar acreage factor), it shall be shut in until its overproduction is less than six times its January allowable, as determined hereinabove. [5-15-98]

~~(3)~~ (a) or (b)  
(4) **EXCEPTION TO SHUT IN FOR OVERPRODUCTION:** The Director of the Oil Conservation Division shall have authority to permit a GPU which is subject to shut-in, pursuant to ~~(1) or (2) or~~ above to produce up to 250 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission may be rescinded for any GPU produced greater than the monthly rate authorized by the Director. [5-15-98]

(5) **BALANCING OVERPRODUCTION:** Allowable assigned to a GPU during any one month of a gas proration period greater than the production for the same month shall be applied against the overproduction chargeable to such GPU in determining the overproduction which must be made up pursuant to the provisions of ~~(1) or (2) or~~ above. [5-15-98]

(3) (a) or (b)

(3)(a) or (b) or (5)

(6) **EXCEPTION TO BALANCING OVERPRODUCTION:** The Director may allow overproduction to be made up at a lesser rate than permitted under ~~Rules 1, 2 or 7~~ above upon a showing at public hearing that the same is necessary to avoid material damage to the well. [5-15-98]

X

(7) **HARDSHIP GAS WELLS:** If a GPU containing a hardship gas well is overproduced, the operator must take the necessary steps to reduce production in order to reduce the overproduction. Any overproduction existing at the time of designation of a well as a hardship gas well or accruing to the GPU thereafter shall be carried forward until it is made up by underproduction. No GPU containing a hardship gas well, which GPU is overproduced, shall be permitted to produced at a rate higher than the minimum producing rate authorized by the Division. [5-15-98]

(8) **MORATORIUM ON SHUT-INS:** The Director shall have authority to grant a pool-wide moratorium of up to three months as to 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 ~~(1), (2) or (7)~~ above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing. [5-15-98]

X

(a)  
(b)  
or  
(7)

(9) The Director may reinstate allowable to wells which suffered cancellation of allowable under ~~Rules E(1) or F(4)~~, or loss of allowable due to reclassification of a well under ~~Rule F(3)~~. If such cancellation or loss of allowable was caused by non-access or limited access to the average market demand in the pool rather than inability of the well to produce. Upon petition, with a showing of circumstances which prevented production of the non-marginal allowable, and evidence that the well was capable of producing at allowable rates during the period for which reinstatement is requested, the allowable may be reinstated in such amounts needed to avoid curtailment or shut-in of the well for excessive overproduction. Such petition shall be approved administratively or docketed for hearing within 30 days after receipt in the Division's Santa Fe office. [5-15-98]

X

#### 605.F. CLASSIFICATION OF GPU's

(1) **CLASSIFICATION PERIOD:** The proration period shall be divided into four classification periods of three months each, commencing April 1, July 1, October 1 and January 1. [5-15-98]

(2) **RECLASSIFICATION BY THE DIRECTOR:** The Director ~~of the Oil Conservation Division~~ may reclassify a marginal or non-marginal GPU anytime the GPU's producing ability justifies such reclassification. The director may suspend the reclassification of GPU's on his own initiative or upon proper showing by an interested party, should it appear that such suspension is necessary to permit underproduced GPU's which would otherwise be reclassified, a proper opportunity to make up such underproduction. [5-15-98]

X



(3) RECLASSIFICATION TO MARGINAL: A non-marginal well may be reclassified as marginal in either of the following ways:

- (a) After the production data is available for the last month of each classification period, any GPU which had an underproduced status at the beginning of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; however, the operator of any GPU so classified, or other interested party, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified; or
- (b) A GPU which is underproduced <sup>above,</sup> more than the overproduction limit as described in E(3)(a) or (b) ~~for 11(b)(2)~~, whichever is applicable, shall be reclassified as marginal. [5-15-98]

(4) CANCELLATION OF UNDERPRODUCTION FOR MARGINAL GPU: A GPU which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to a GPU before its classification as marginal shall be canceled. [5-15-98]

(5) RECLASSIFICATION TO NON-MARGINAL: If, at the end of any classification period, a marginal GPU has produced more gas during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU. [5-15-98]

(6) REINSTATEMENT OF STATUS: A GPU reclassified to non-marginal under the provisions of Rule (5) above shall have reinstated to it all underproduction which accrued or would have accrued as a non-marginal GPU from the current proration period, underproduction from the prior proration period may be reinstated after notice and hearing. All uncompensated-for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal. [5-15-98]

605.G. REPORTING OF PRODUCTION - FILING C-111 AND C-115 REPORTS: Transporters and operators shall file gas transportation and production reports pursuant to Rules 1111 and 1115 of the Rules and Regulations of the Division provided that upon approval by the Director ~~of the Oil Conservation Division~~ as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a chart-period basis; provided the following provisions shall be applicable to each gas well:

(1) Reports for a month shall include not less than 24 nor more than 32 reported days.

(2) Reported days may include as many as the last seven days of the previous month but no days of the succeeding month.

(3) The total of the monthly reports for a year shall include not less than 360 nor more than 368 reported days.

(4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "Reporting Month" for those reporting on a chart-period basis according to the exception provided in this rule. [5-15-98]