



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
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Santa Fe, New Mexico 87505  
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August 13, 1997

Chairman William J. LeMay  
New Mexico Oil Conservation Commission  
2040 South Pacheco  
Santa Fe, NM 87505

RE: Case No. 11705---Request for Continuance to Commission hearing on September 25, 1997

Dear Chairman LeMay:

The Division respectfully requests that Case No. 11705 concerning changing the proration rules for Northwest New Mexico be continued to the September Commission hearing to allow the committee chaired by Frank Chavez of the OCD Aztec office additional time to formulate proposed changes to the rules.

Attached is a memorandum from Mr. Chavez dated today reporting to the Commission on the work that the committee has done to date.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Rand Carroll".

Rand Carroll  
Legal Counsel

Date: August 13, 1997

Memorandum To: Chairman LeMay, Commissioner Bailey, and Commissioner Weiss  
From: Frank T. Chavez, Supervisor, District 3  
Subject: Report on the Meeting of the Deliverability Test and Proration Study Committee  
August 6, 1997, in Aztec.

The committee discussed several issues:

- 1) How much testing is necessary in order to prorate?
- 2) If deliverability testing is reduced will there still be enough production and pressure data gathered?
- 3) Is the combination of deliverability and acreage still important to calculate allowables?
- 4) Is there a better way to classify wells?

There are very few non-marginal GPU's in the prorated pools in the San Juan Basin and given the current and anticipated allowables it is reasonable to expect that there will be little change or reclassification occurring unless there would be a dramatic change in the gas supply. Current rules allow for an operator to request exemptions from well testing for wells that meet very stringent criteria. Even with those exemptions several hundred wells are tested which stand no likelihood of being affected by the test results. We came to the conclusion that GPU's that are classified as marginal need not be tested on the biennial schedule unless their production creates a concern within the OCD or among any offset operators. Order R-333 which specifies the well testing rules, would require considerable amendment to meet this criteria. However, it appears to us that under Rule 9C of Order R-8170 the Director can limit the amount of testing required for wells on marginal GPU's at an operator's application. The question is what form the application should take. We propose that the operator be allowed to request that all his wells on marginal GPU's be exempted without having to list them separately and that the exemption be granted "until further notice." It may be possible for the Director to determine that under this rule he can make a determination and grant exceptions without an application. We request that this issue be studied.

The San Juan Basin is one of the best documented producing areas in the world because of the required testing performed over the years. However, newer analysis tools and the age of the Basin have reduced the benefits of gathering data on the scale and for the cost as was once done. Because of the current exemption practices, testing has already been significantly reduced with no noted loss of valuable data. We believe that further reductions in testing as we propose will not be harmful. The OCD already has authority to require special testing as necessary for conservation purposes.

In other areas of the State, proration is done on acreage only. Because of the amount of work that would be required to present the data necessary to prove that an acreage only system would work in the San Juan Basin we do not intend to seriously pursue that at this time.

We are considering proposing rule changes so that a GPU would be classified as marginal unless the operator of the GPU or another operator in the pool presented evidence that the well should be classified as non-marginal. This is a very significant change in that it would be the operator's responsibility to monitor potential drainage from offset wells and take a more active role in proration. The exact rule changes and procedures for this still need to be worked out.