

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 11,931
)
HEARING CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER PROPOSED APRIL,)
1998 - SEPTEMBER, 1998, GAS ALLOWABLES)
FOR THE PRORATED GAS POOLS IN NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: LORI WROTENBERY, ACTING CHAIRMAN
WILLIAM J. LEMAY, COMMISSIONER
JAMI BAILEY, COMMISSIONER

February 26th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Acting Chairman, on Thursday, February 26th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

February 26th, 1998
Commission Hearing
CASE NO. 11,931

PAGE

REPORTER'S CERTIFICATE

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A P P E A R A N C E S

FOR THE COMMISSION:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:15 a.m.:

3 MS. WROTENBERY: And I believe that leaves us
4 with two cases to consider here today. One is Case 11,931.
5 This is the hearing called on the motion of the Oil
6 Conservation Division to consider gas allowables for the
7 prorated gas pools in New Mexico for the period April,
8 1998, to September, 1998.

9 We distributed the allowable assignment factors
10 in a memo from the Oil Conservation Division dated February
11 6th, 1998. That memo went out with this docket.

12 I don't believe that we've received any requests
13 for changes to the factor listed in that docket, but we are
14 here today to take any comments or testimony on those
15 proposed factors.

16 At this point I guess it's appropriate to ask if
17 there are any appearances in this particular case.

18 MR. CARROLL: Rand Carroll on behalf of the Oil
19 Conservation Division.

20 I have one oversight to bring to the attention of
21 the Commission, and that is, I would ask the Commission to
22 take administrative notice of Order Numbers 8170-O-1 and
23 R-2441-B -- I've made copies for the Division -- and this
24 is an order dated July 31st, 1996, which deprorated the
25 Indian Basin-Morrow Pool.

1 So I would ask this Commission to delete the
2 Indian Basin-Morrow Pool from all further orders and
3 notices regarding proration.

4 The ordering paragraphs can be found on page 8,
5 ordering paragraphs 1 and 2 that deproprated this pool.

6 MS. WROTENBERY: Rand, what was the date on this
7 order again?

8 MR. CARROLL: July 31st, 1996.

9 MS. WROTENBERY: Am I correct in understanding,
10 then, that this particular pool should have been dropped
11 from the list of prorated gas pools --

12 MR. CARROLL: That's right.

13 MS. WROTENBERY: -- at the time that this order
14 was adopted?

15 MR. CARROLL: At the next Commission hearing it
16 should have been dropped from the notice and the order that
17 was issued.

18 MS. WROTENBERY: Any questions of Mr. Carroll?

19 Are there any other appearances on this
20 particular matter?

21 Bill or Jami, I was going to ask you if you had
22 any comments that you might like to make based on your
23 experience with the proration system in New Mexico. I'd be
24 interested in hearing any comments you'd have.

25 MR. LEMAY: Well, for the Chairman's -- I guess

1 historical background on proration, because you've probably
2 got some contact with it in Texas, we used to take
3 nominations.

4 Of course, way back when the pipelines controlled
5 the markets, nominations for gas were an important factor
6 to the production of gas from certain fields, because they
7 were dedicated to defined markets.

8 Now, with the evolution of the present system
9 where the pipelines are only transporters of that gas and
10 that producers make their own markets, the concept of
11 having proration as a tool to allocate gas to the market --
12 I feel, anyways -- is really not a valid issue. It's not
13 sound judgment.

14 I think proration has value in protecting
15 correlative rights. We do it in many situations by
16 assigning penalties to encroaching, by virtue of the fact
17 that you have an allowable and you take a percentage of
18 that allowable as an encroachment penalty.

19 Also, in certain cases where -- and this may be
20 rare today, but where there is a limited amount of capacity
21 out of a field and what you really -- This was really the
22 issue in the San Juan Basin, although people didn't define
23 it as such. Where you had limited capacity out of the
24 Basin, you divided up the gas in that Basin based on the
25 maximum capacity and allocated it to the various wells

1 through proration. That wasn't what they called it. They
2 called it market demand, but in essence it was truly
3 pipeline proration according to a doctrine of fairness.

4 So with all those issues somewhat behind us, I
5 don't really -- I can't think of any fields today that have
6 limiting capacity, but if that was the case proration would
7 have a purpose. And to say that in the future proration
8 may not have a purpose is trying to predict the future.

9 So I think in the meantime what we do is assign
10 allowables that basically are at almost the capacity to
11 produce, although there may be -- there's some curtailment,
12 with the idea being that the superstars in any given field
13 will be taking some gas from wells that are offsetting it
14 that might produce that gas. And the superstars -- That
15 could be argued, but there are certain high-capacity wells
16 in certain fields that are curtailed, but very few, based
17 on the premise that those wells might be taking offset gas
18 that could be produced from marginal wells.

19 With those concepts we've had a system of
20 assigning allowables, and if anyone has -- and we have had
21 occasion where people have come to us asking for increased
22 allowables. I can't remember any that asked for decreased
23 allowables, although some argued an increase in Indian
24 Basin back -- Indian Basin-Pennsylvanian, back when that
25 field was more controversial.

1 But now I think it's become just a -- basically a
2 rubber stamp of the previous allowables unless there was
3 some people who wanted increases. And occasionally you'll
4 get some workovers or some elements that would require the
5 Commission to increase the allowable in the field. But
6 they bring that evidence before us and we consider it, and
7 generally we've increased without objection, we've
8 increased the allowable.

9 So it's become a rather cut and dried matter. We
10 used to spend a lot of time with it, and now it goes pretty
11 smooth. Don't you think, Jami?

12 COMMISSIONER BAILEY: Well, I think over the past
13 several years we've had very few objections to the amounts
14 that were advertised. As you say, it's mostly to increase
15 allowables, and I don't know that we ever denied any of
16 those. Its purpose is mainly for correlative-right
17 protections.

18 So at this time I see no problem with accepting
19 these for another six months.

20 MR. LEMAY: Yeah, I think it's almost like
21 without objection these are -- They are default allowables,
22 and they work unless anyone objects to them, so...

23 MS. WROTENBERY: And we haven't had any
24 objections here today.

25 We do have one change, and that is the deletion

1 of the Indian Basin-Morrow.

2 Okay, with that I guess I'll entertain a motion
3 to approve these proposed allowable allocation factors with
4 the one change.

5 MR. LEMAY: We could do that here. In the past
6 we've taken it under advisement, but is there any -- Maybe
7 we could have some legal input on that. We could that at
8 this meeting without objection, couldn't we, and then have
9 it take effect as of today and just follow it with a
10 written order?

11 MS. HEBERT: Yes, we could do that -- this
12 official action.

13 MR. LEMAY: Right, right, we could take official
14 action. I move we accept the allowables as presented in
15 the docket as the allowables for the next six months.

16 MS. WROTENBERY: Just one last time, let me make
17 sure nobody wanted to make any statement about the proposed
18 allowables.

19 I don't hear any.

20 MR. LEMAY: They're happy campers.

21 MS. WROTENBERY: They're happy campers. Okay.

22 COMMISSIONER BAILEY: Then I think that the
23 motion would be deletion of the Indian Basin-Morrow Pool.

24 MS. WROTENBERY: All in favor, say aye.

25 MR. LEMAY: Aye.

1 COMMISSIONER BAILEY: Aye.

2 MS. WROTENBERY: Okay, that's done, then.

3 So let me make sure I understand, then. We'll
4 have this prepared in the form of an order and I will
5 sign --

6 MS. HEBERT: Uh-huh.

7 MS. WROTENBERY: -- as Chairman, Acting Chairman.

8 MS. HEBERT: Acting Chairman, or Division
9 Director.

10 MS. WROTENBERY: Or Division Director, either
11 one.

12 MS. HEBERT: Division Director.

13 MS. WROTENBERY: Okay, that sounds good. Thank
14 you.

15 (Thereupon, these proceedings were concluded at
16 9:35 a.m.)

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 28th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998