

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11935
ORDER NO. R-_____

APPLICATION OF CHEVRON U.S.A. PRODUCTION
COMPANY FOR REINSTATEMENT OF UNDER-
PRODUCTION FOR ITS FEDERAL COM. "33"
WELL NOS. 1 AND 2 GAS PRORATION UNIT,
INDIAN BASIN-UPPER PENNSYLVANIAN GAS POOL,
EDDY COUNTY, NEW MEXICO.

**CHEVRON U.S.A. PRODUCTION COMPANY'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 5, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of March, 1998, the Division Director, having considered the testimony, the record, and the recommendation of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Chevron U.S.A. Production Company ("Chevron"), pursuant to the provisions of Rule 14 (a) of the General Rules and Regulations for the Prorated Gas

Pools of New Mexico, as promulgated by Division Order No. R-8170, as amended, seeks the reclassification to non-marginal of a gas production unit ("GPU") in the Indian Basin-Upper Pennsylvanian Gas Pool comprised of all of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico. Chevron also seeks an order pursuant to the provisions of Rules 14 (b) of said rules reinstating canceled underproduction for this GPU from the gas proration period from April 1, 1995 to April 1, 1996.

(3) Chevron is the operator of the standard gas spacing and proration unit in the Indian Basin-Upper Pennsylvanian Gas Pool comprised of all of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico which is dedicated to its Federal Com. "33" Well Nos. 1 and 2 located in Units G and J respectfully.

(4) This GPU is classified by the Division as a marginal GPU.

(5) Prior to July 1996, this GPU was dedicated to only the Federal Com. "33" Well No. 1.

(6) Wells producing from the Indian Basin-Upper Pennsylvanian Gas Pool water out because of encroachment from the South, East and West. Prior to watering out, operators in this pool attempt to produce these GPU's at top allowable rates.

(7) In 1996, to enable this GPU to produce at top allowable rates, Chevron drilled its Federal Com. "33" Well No. 2 in Section 33. This well first produced in July 1996 and since that date, this GPU has been able to produce more gas during the proration period than its shadow allowable for any month.

(8) Rule 14 (a) of Division Order No. R-8170, as amended, requires the reclassification of a GPU from marginal to non-marginal "If, at the end of any classification period, ... [it] has produced more gas during the proration period to that time than its shadow allowable for the same period."

(9) The evidence showed that at the end of the classification period on January 1, 1997, the GPU comprised of said Section 33 had produced more gas during the proration period to that time than its shadow allowable for the same period and should have been reclassified as a non-marginal GPU pursuant to Rule 14 (a) of Division Order No. R-8170, as amended.

(10) Rule 14 (b) of the General Rules and Regulations for the Prorated Gas Pools of New Mexico provides that "A GPU reclassified to non-marginal under the provisions of Rule 14 (a) shall have reinstated to it all underproduction which accrued or would have accrued as a non-marginal GPU from the current production period." This rule further requires that "All uncompensated for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal." The GPU comprised of said Section 33 should have reinstated to it all underproduction, if any, which accrued or would have accrued as a non-marginal GPU for the proration period commencing on April 1, 1996 and should be charged with any overproduction which has accrued during this proration period.

(11) Rule 14 (b) of Division Order No. R-8170, as amended, also provides that "underproduction from the prior proration period may be reinstated after notice and hearing." In this case, Chevron seeks the reinstatement of the underproduction for this GPU for the prior proration period from April 1, 1995 to April 1, 1996.

(12) The evidence presented indicates that the GPU comprised of said Section 33, being a non-marginal unit, underproduced its shadow allowable in the amount of 265,528 MCFG during the gas proration period from April 1, 1995 to April 1, 1996.

(13) During the gas proration period from April 1, 1996 to April 1, 1997, the subject GPU has accrued overproduction and the reinstatement of the accrued underproduction will have the effect of reducing or eliminating the amount of this overproduction.

(14) Chevron requests that the underproduction described in Finding No. 12 be reinstated and credited against the overproduction accrued during the gas proration period from April 1, 1996 to April 1, 1997.

(15) Chevron notified all other operators in the Indian Basin-Upper Pennsylvanian Gas Pool of its application in this case, and where there was no operator for a tract, Chevron notified the leasehold owners.

(16) Marathon Oil Company ("Marathon") and Chevron have reviewed this request for reinstatement of allowable and how underproduction for this GPU has been calculated. Marathon appeared through counsel at the hearing but presented no evidence or testimony.

(17) Chevron also discussed this application with representatives of Texaco Exploration and Production Inc. and Devon Energy Corporation, successor to Kerr-McGee Corporation. No operator appeared at the hearing in opposition to the application.

(18) Rule 10 (a) of Division Order No. R-8170, as amended, provides that "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 in the succeeding period."

(19) Reinstatement of the underproduction from the prior proration period to the GPU comprised of said Section 33 would result in this GPU being treated like other non-marginal GPU's in the Indian Basin-Upper Pennsylvanian Gas Pool for it would enable this GPU to also carry forward and produce underproduction from the prior proration period.

(20) Rule 10 (a) also provides that "Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be canceled." Accordingly, this portion of the underproduction reinstated by this order from the proration period from April 1, 1995 to April 1, 1996 which was not produced by April 1, 1997 should be canceled on that date.

(21) Approval of this application in accordance with Rules 14 (a) and (b) of Division Order No. R-8170, as amended, will not cause waste and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Chevron U.S.A. Production Company to reclassify the GPU comprised of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico effective January 1, 1997 and reinstate canceled underproduction in the amount of 265,528 MCFG from the gas proration unit period running from April 1, 1995 to April 1, 1996 for this GPU in the Indian Basin-Upper Pennsylvanian Gas Pool, said Unit being dedicated to the Chevron Federal "33" Com. Wells Nos. 1 and 2 located in Units J and G respectfully, is hereby approved.

(2) The underproduction as described above shall be credited against

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overproduction from the subject GPU accrued during the gas proration period from April 1, 1996 through April 1, 1997.

(3) Jurisdiction is hereby 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

LORI WROTENBERY
Director

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