

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

26 February 1986

COMMISSION HEARING

IN THE MATTER OF:

Application of the Oil Conservation  
Commission on its own motion to res-  
cind Order No. R-1670, as amended.

CASE  
8749

Application of Northwest Pipeline  
Corporation to amend Oil Conserva-  
tion Division Rule 403, Rule 1100,  
Rule 1111, and Form C-111.

CASE  
8792

BEFORE: Richard L. Stamets, Chairman  
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Jeff Taylor  
Legal Counsel to the Division  
Oil Conservation Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STAMETS: At this time, then, we will call again Case 8749, which is the application of the Commission relative to rescinding Order No. R-1670 to recodify and amend the General Rules of the -- for the pro-rated gas pools.

At the conclusion of this hearing last month I asked Mr. H. L. Kendrick of El Paso Natural Gas Company to chair a small committee to look into two issues which cropped up at that time relating to the definition of transporter and gas purchaser, and also to the test procedure for wells on units with infill wells in the San Juan Basin.

And at this time I'd like for Mr. Kendrick to take the stand and report on the activities of that committee.

I would point out that Mr. Kendrick has previously been qualified and sworn in this case.

Mr. Kendrick, you may proceed when you're ready.

MR. KENDRICK; We have two exhibits today. This is, hopefully, the conclusion or wrap-up of the statewide rules and the special pool rules that have been under observation for the past two years with this committee.

1 MR. STAMETS: Mr. Kendrick, be-  
2 fore you proceed, let me -- let me take a look here. I  
3 would guess that, judging by your Exhibit Number One, that  
4 Case 8792 is also involved in your report, so let's go ahead  
5 and also call Case 8792, being the application of Northwest  
6 Pipeline Company to amend Rules 403, 1100, 1111, and Form C-  
7 111, and having done that, why, you can proceed.

8 MR. KENDRICK: Thank you.  
9 Copies of these exhibits are available on the table down at  
10 the front.

11 Exhibit Number One is identi-  
12 fied as Case Number 8749, which may be actually better iden-  
13 tified as the other case, but in this particular exhibit we  
14 are trying to set forth the difference in the purchaser, the  
15 transporter, the nominator of gas from the various pools in  
16 the State of New Mexico.

17 It is my understanding that the  
18 statutes say that the purchaser of the gas will be the one  
19 to make nominations, and in two committee meetings of this  
20 group, we think we have batted this around enough that we  
21 believe that the actual organization that might be better  
22 qualified to make nominations would be the transporter of  
23 the gas.

24 But in lieu of that, it has  
25 been marked that the purchaser would be the one to make nom-

1 inations and that he may delegate that duty to the trans-  
2 porter or to someone else that can do that.

3 This seems to be a very diffi-  
4 cult situation at this time. I believe the natural gas in-  
5 dustry is changing faster today than it has ever changed in  
6 the history of the industry, and that anything that we could  
7 do to try to stay up-to-date with today's happenings would  
8 be real mark of progress.

9 The Form C-111, as prescribed  
10 under Rule 1111, which is listed in this Exhibit Number One,  
11 is talking about the transporter's monthly report and I be-  
12 lieve this Exhibit One pretty well identifies all of the  
13 changes that are necessary in the language to cause C-111 to  
14 be properly filed; however, in the last paragraph of this  
15 Exhibit One, in the first line, the statement is made,  
16 "Where gas is taken by the producer and utilized by him for  
17 any of the above uses ..." I think it would be more appro-  
18 priate to take the word "him" out of that and insert the  
19 words "the producer", such that that would read, "Where gas  
20 is taken by the producer and utilized by the producer for  
21 any of the above uses ...".

22 With that, I think that would  
23 clear up Exhibit Number One.

24 MR. STAMETS: While we're right  
25 there, Mr. Kendrick, let me ask Warren Curtis, who's here

1 today and testified on behalf of Northwest Pipeline last  
2 month, if they have any objection to this change?

3 MR. CURTIS: No, we do not.

4 MR. STAMETS: Thank you.

5 MR. KENDRICK: Exhibit Two in  
6 this case is labeled General Rules for the Prorated Pools of  
7 New Mexico.

8 I believe a hearing or two ago  
9 we had some general rules that had been worked out through  
10 both the northwest and southeast parts of New Mexico, trying  
11 to get the rules in as near the same order as possible to be  
12 able to identify the rules in various pools in the same man-  
13 ner, and I think this is pretty well done. With the general  
14 rules covering as much of the rules as is possible and the  
15 special rules coming into play where there is something par-  
16 ticularly important about a particular pool.

17 Going through the Exhibit Two,  
18 there are asterisks in the left margin where some changes  
19 have been represented and this again is talking about the  
20 gas transporter.

21 On the first page, the second  
22 paragraph from the bottom, "the term 'gas transporter' as  
23 used in these rules shall mean any 'first taker' of gas  
24 either at the wellhead, or at any other point on the lease,  
25 or at any other point authorized by the Division where con-

1 nection is made for gas transportation or utilization (other  
2 than that necessary for maintaining the producing ability of  
3 the well)."

4 This may be described as the  
5 point where the ownership of the gas may change hands or at  
6 least it's the first place that gas is measured, where the  
7 records are made and maintained for the gas from wells.

8 The gas purchaser in the next  
9 paragraph as used in these rules shall mean the purchaser,  
10 where ownership of the gas is first exchanged by the pro-  
11 ducer to the purchaser for an agreed value, of the gas from  
12 a gas well or gas proration unit.

13 And there is definitely a dis-  
14 tinction between the gas transporter and the gas purchaser.  
15 It's still going back to the reasoning behind who makes nom-  
16 inations and it might be felt that at time gas transporter  
17 and gas purchaser might need to be used loosely or inter-  
18 changeably so that nominations can be made in the proration  
19 gas pools by the person that -- or by the party that best  
20 knows what the nominations should be for the next period.

21 I believe this exhibit has de-  
22 finitions pretty well for all of the things that we think  
23 might be necessary at today's date in order to prorate gas.

24 On page two, in the last para-  
25 graph, there is a typo change that needs to be made in the

1 fourth line of the last paragraph. The third word down from  
2 the righthand end of the line is the word "by" E-Y, and that  
3 should be B-E.

4 MR. STAMETS: "-- shall be a  
5 legal subdivision"?

6 MR. KENDRICK: Yes, sir.

7 On the third page of this exhi-  
8 bit in the next to the last paragraph, in the second line of  
9 what is labeled as paragraph 4), the word is written as  
10 "foresaid", and I would like to read this in the manner that  
11 we would like to have this worded: "In lieu of Paragraph  
12 (3) of this rule, the applicant may furnish proof of the  
13 fact that all of the aforesaid offset operators were noti-  
14 fied by registered or certified mail of his intent to form  
15 such non-standard gas proration unit."

16 On page five, the center of the  
17 page right under the heading of B. Nominations and Prora-  
18 tion Schedule, you see an asterisk in front of Rule 3(a) for  
19 Nominations:

20 It says, "Each month each gas  
21 purchaser shall file with the Division its nomination for  
22 the amount of gas which it actually in good faith desires to  
23 'purchase' during the ensuing proration month from each gas  
24 pool regulated by this order."

25 Reading further, "The purchaser

1 may delegate the nomination responsibility to the trans-  
2 porter by notifying the Division's Santa Fe office."

3 I think in actuality we have to  
4 leave the word "purchaser" in in the first sentence due to  
5 the statutes of the State, but then the opportunity to dele-  
6 gate that to the transporter for the transporter to file the  
7 nomination, I think, is the key thing about this that wher-  
8 ever we can get the best figure nomination is where we feel  
9 that that nomination should be submitted from.

10 MR. STAMETS: Mr. Kendrick, I  
11 wonder, in that sentence if after the word "gas purchaser",  
12 I don't know if this is necessary, but it might be worth a  
13 thought, if the phrase "or each gas transporter as herein-  
14 after provided", if that would help that, if that would make  
15 it more clear that the gas transporters could nominate.

16 MR. KENDRICK: I have no qualm  
17 with that. The main thing that the committee felt on that  
18 was that, really, we may need someone other than the pur-  
19 chaser making nominations. In that, a specific example was  
20 brought to light recently where the one well has 60 pur-  
21 chasers of gas from that well. It was our thought that the  
22 Commission might not really wish to get 60 nominations for  
23 that particular well, and I'd say very long discussion was  
24 held between transporter and purchaser and maybe none of us  
25 really know, but the general consensus was that maybe the



1 transporter knows more about what gas will be taken from  
2 what pool than anyone else would know at that late date, or  
3 a date near enough to the taking date that -- to make nomi-  
4 nations for that gas.

5 MR. STAMETS: Let me -- let me  
6 make another suggestion that perhaps we should start this  
7 out with a sentence that says, "Gas purchasers or gas trans-  
8 porters shall nominate as provided in this rule", and then  
9 go through with the rest of the rule, which would explain  
10 how that works.

11 MR. KENDRICK: I think that  
12 would be a capable way of doing it, yes, sir.

13 We need all the help we can  
14 get.

15 MR. STAMETS: Thank you.

16 MR. KENDRICK: I did not find  
17 any other typos or anything in this rule, or in this exhi-  
18 bit. I do not know if there are any other comments about  
19 this at this time.

20 MR. STAMETS: Does that con-  
21 clude your testimony this morning?

22 MR. KENDRICK: It does for --  
23 to close up this committee's work, I believe.

24 MR. STAMETS: Do you have any  
25 comments on -- any additional comments on anything that has

1   been presented in this case for that?

2                               MR. KENDRICK:    I do have some  
3   comments   for some continuing work going on with the commit-  
4   tee   that was established in January of this year to try   to  
5   solve   some of the problems in assignment of   allowables   in  
6   some of the pools where infill drilling has occurred.

7                               We   have   had two meetings to  
8   date   and we are still in the beginning but hopefully we can  
9   in   the   near future come to a conclusion of what   might   be  
10   best in a manner of prorating and allocating the gas to the  
11   various gas proration units.

12                              There   are at the present time,  
13   as far as I know, four committees operating under the  
14   jurisdiction of the Division and maybe two of them can be  
15   completed very hurriedly, one being the general rules  
16   committee, which I think did an outstanding job in all the  
17   help that we've had in various parts of the state in putting  
18   this together, and with the deliverability test committee  
19   that if the chairman of that committee would ever get  
20   started, he could finish that up, probably, in a couple of  
21   days and you'd have a test booklet available for the San  
22   Juan Basin.

23                              And,   hopefully,   the   third  
24   committee will get some answers shortly on the assignment of  
25   allowables for the infill drilled wells.

1 MR. STAMETS: Are there any  
2 questions of Mr. Kendrick today?

3 He may be excused.

4 Does anybody have anything they  
5 wish to add in either of these cases at this time?

6 All right, the Commission would  
7 like to announce its decision in these cases at this time so  
8 that these general rules and special individual gas pool  
9 rules can be effective beginning the new gas proration per-  
10 iod on April 1, 1986.

11 The Commission will, as expedi-  
12 tiously as it can write an order which adopts the general  
13 rules for the prorated gas pools as shown on Exhibit Two,  
14 the special committee Exhibit Two presented here today.

15 Incorporated in that would be  
16 the changes which Mr. Kendrick has mentioned and then some  
17 further clarification in Rule B 3(a).

18 In addition to that, the  
19 special rules for the individual pools, Basin Dakota, Jalmat  
20 Pool, and so on, will be adopted as they were previously  
21 presented in this case and shown on exhibits in the case.

22 In Case Number 8792 the Commis-  
23 sion will adopt the proposed rule changes for Rule 403, Rule  
24 1100, Rule 1111, and Form C-111, along with the change that  
25 Mr. Kendrick recommended this morning, and again those will

1 be adopted so that they can be effective for the new gas  
2 proration period beginning April 1.

3 With that, these two cases are  
4 concluded, and I certainly wish to thank all of those people  
5 who have participated in such a long and grueling session  
6 beginning at February, 1984, but certainly anything that's  
7 taken that long must be first class by this time, and so I'm  
8 very pleased.

9  
10 (Hearing concluded.)

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## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO  
HEREBY CERTIFY the foregoing Transcript of Hearing before  
the Oil Conservation Division (Commission) was reported by  
me; that the said transcript is a full, true, and correct  
record of the hearing, prepared by me to the best of my  
ability.

Sally W. Boyd CSR