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RECEIVED

APR 23 1992

April 20, 1992

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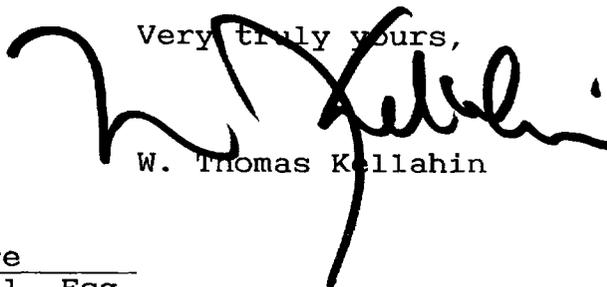
FEDERAL EXPRESS

RE: Marathon Oil Company Application for  
Rehearing of Case No. 10450  
Commission Order R-9656

Gentlemen:

On behalf of Marathon Oil Company, please find enclosed our Application of Rehearing of the referenced case. This case was heard by the Commission on February 27, 1992 and was decided by Order No. R-9656 entered March 31, 1992.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

Enclosure

cc: With Enclosure

Robert Stovall, Esq.  
William F. Carr, Esq.  
Thomas C. Lowry, Esq.

1trt415.092

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

RECEIVED

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

APR 20 1992

OIL CONSERVATION DIVISION

GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR APRIL, 1992  
THROUGH SEPTEMBER, 1992.

CASE: NO. 10450  
ORDER NO. R-9656

**MARATHON OIL COMPANY'S  
APPLICATION FOR REHEARING**

Comes now MARATHON OIL COMPANY ("Marathon") pursuant to the provisions of Section 70-2-25 NMSA (1978) and applies to the New Mexico Oil Conservation Commission ("Commission") for a Rehearing of the above-captioned case and order in so far as it applies to the Indian Basin Upper Penn Gas Pool and in support thereof states:

**INTRODUCTION**

New Mexico's Market Demand Prorationing System is based on the relatively simple concept of allocating surplus gas production capacity on a reasonable basis because production in excess of market demand has been classified as waste under the New Mexico Oil & Gas Act.<sup>1</sup>

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<sup>1</sup>N.M.Stat. Ann. Sec. 70-2-1 et. seq. (1978)

While the mechanics of doing so are complex, the process is easy to describe: the Commission determines what the market demand is for pool production within a proration period; then determines if the producing capacity of the pool exceeds that demand. If the Commission finds that there is a surplus of gas production capacity then, and only then, does it prorate production.<sup>2</sup>

In practice to make the process work, once a pool is initially prorated it continues to be prorated during periods of Excess Gas Deliverability (demand less than total pool production capacity) and during periods of Excess Market Demand (demand in excess of pool production capacity). However, allowables at less than capacity are set ONLY during periods where market demand is less than pool production capacity.<sup>3</sup>

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<sup>2</sup>See Sullivan, Handbook of Oil and Gas Law, pp. 311-335, (1955).

<sup>3</sup> See Glenn Taylor, "The Excess Gas Market-Recent Legal Problems Precipitated by Excess Gas Deliverability and Applicable Regulatory Provisions," Institute of Oil and Gas Law, pp. 94-95.

Thus, if the Commission finds that there is a surplus of gas production capacity then it allocates total market demand to individual producing proration units in the form of production allowables which are LESS THAN the capacity of the non-marginal wells to produce. Only during a proration period of Excess Gas Deliverability is prorationing necessary and therefore production allowables set which will result in production rates less than capacity for non-marginal wells.

Conversely, during a proration period of Excess Market Demand prorationing is unnecessary. If the Commission finds that there is no surplus of production capacity, then it is obligated to set allowables so that the highest capacity wells are unrestricted.<sup>4</sup>

Under the prorationing scheme in New Mexico, allowables must be set based only on market demand for production from prorated pools in Southeast New Mexico

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<sup>4</sup> See Tex.Nat.Res.Code Ann. Sec. 86.081 (Vernon 1978) for Texas Market Demand Prorationing System statutory scheme which prorates Texas gas ONLY when there is a surplus of supply available from that common reservoir. Also see Stephen M. Hackerman, "Market Demand Prorationing and Ratable Taking," Oil and Gas Conservation Law and Practice, Paper No. 11, pp. 2-7, Rocky Mt. Min. L. Fdn., 1985.

regardless of the capacity of the wells to produce.<sup>5</sup>  
The sole purpose of the Hearing called in Case 10450 was to determine market demand for the forthcoming April through September, 1992 allocation period and to allocate that demand back to the pools.

**POINT I: THE COMMISSION ADOPTED AN ALLOWABLE OF 3,292,012 MCF/MONTH FOR THE INDIAN BASIN (UPPER PENN) GAS POOL FOR THE APRIL, 1992 THROUGH SEPTEMBER, 1992 ALLOCATION PERIOD WHICH IS NOT SUPPORTED BY SUBSTANTIAL EVIDENCE**

At the subject Commission hearing, the Division was first to testify and presented two witnesses: Mr. Ronald H. Merrett, the Division's gas marketing director, and Mr. Larry Van Ryan, the Division's proration engineer. Mr. Merrett expressed no opinions on the volume of gas necessary to satisfy market demand for any individual pool. The Transcript of this matter at page 18, lines 18-24 reads:

Q: Mr. Merrett, a point of clarification, sir, have you as part of your duties made an assessment for this proposed-- for the reasonable market demand for any of

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<sup>5</sup> N.M.Stat. Ann. Sec. 70-2-3(E) (1978).

the individual prorated pools in New Mexico for the next proration period?

A. No, we have not.

Mr. Van Ryan presented the Division's preliminary allowable schedule, including F1 factor, which had not yet been adjusted to reflect the anticipated market demand for the subject allocation period. In doing so, Mr. Van Ryan repeatedly made it clear that the Division's schedule was just a "guideline." The following is taken from the Hearing Transcript at page 26, lines 7-17 where Mr. Stovall questions Mr. Van Ryan:

[Stovall] Q. Is the Division advocating these as allowables to be set for the prorated pools?

[Van Ryan] A: These are just guidelines which we are trying to establish. And one of the reasons for this hearing today is if anybody else has any information to bring to light to help us to establish these allowables, that's why we're here, to obtain that information. We don't always know what's going on in the field, as far as gas marketing....

And from the Hearing Transcript at page 29, lines 11-16:

[Stovall] Q. And you would hope today that industry will present some items to plug in to lines 2 or 3 that would help get something that's at least realistic in view of the industry?

[Van Ryan] A. Yes. That is the whole purpose of this meeting--" [emphasis added]

Marathon presented two expert witnesses, Mr. Ronald Folse, a petroleum engineer and Mr. William Hastings, a gas marketing expert. Marathon presented evidence of the volume of gas needed from the Indian Basin (Upper Penn) Gas Pool in order to satisfy the reasonable market demand for production from that pool. Witnesses for Marathon testified that the pool allowable of 3,292,012 MCF/month set forth in the Division preliminary guideline (OCD Exhibit A) should be increased to 3,756,031 MCF/month (Hearing Transcript, p. 146) and that there would be reasonable market demand for this amount of gas from the Indian Basin (Upper Penn) Gas Pool (Hearing Transcript, p. 173). Marathon further testified that there would be no problem in gathering, processing or taking to market this amount of gas (Hearing Transcript, pp. 150, 161 & 173).

Chevron U.S.A. Inc. ("Chevron"), the only other operator besides Marathon to testify concerning the Indian Basin (Upper Penn) Gas Pool, testified next. But Chevron ignored the market demand criteria as the basis

for setting pool allowables. Instead, Chevron recommended an allowable to reflect the producing capacity of the pool on an average basis. (Hearing Transcript, p. 185, lines 10-22). While asserting that the allowable should not exceed pool capacity, it is interesting to note that Chevron's proposal is just slightly below the capacity of its best well. (Hearing Transcript, p. 198, lines 16-20).

Chevron presented an engineering witness, Mr. Mark Corley, who testified that there would be a market for the gas that would be produced under the Marathon's proposed allowable (Hearing Transcript, p. 200, lines 13-15) and submitted a letter from Chevron's gas marketer that states "there is a market for this gas." (Chevron Exhibit #7).

Mr. Corley further testified that Chevron's opposition to Marathon was not based on a differences in market demand, but rather on Chevron's forecast of a "likely weakened price" for gas. (Hearing Transcript, p. 194, lines 11-24).

It is essential to remember that Chevron concurred with Marathon's opinion of market demand (Hearing

Transcript, p. 200, lines 13-15) and only opposed Marathon's allowable level because of price (Hearing Transcript, p. 201, line 24).

The Commission rejected the opinion of market demand presented by Marathon and adopted the Division F1 factor for the pool which had not been adjusted to reflect an adequate allowable to meet the market demand. The Commission's decision as set forth in Commission Order R-9656 is not supported by substantial evidence and a rehearing must be granted.<sup>6</sup>

**POINT II:           SUBSTANTIAL EVIDENCE REQUIRED THE COMMISSION TO ADOPT A POOL ALLOWABLE OF 3,756,031 MCF/MONTH IN ORDER FOR THE INDIAN BASIN (UPPER PENN) GAS POOL TO SATISFY REASONABLE MARKET DEMAND FOR PRODUCTION FROM THAT POOL**

Mr. Van Ryan, testifying for the Division admitted that the preliminary Division F1 factors had not yet been adjusted to reflect current market demand. He stated that the purpose of the Commission allowable hearing was

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<sup>6</sup> See Oil Conservation Commission Order R-9656, attached hereto as Exhibit "A."

to obtain the recommendations from the operators and from that evidence the Commission would adopt an adjustment factor so that the pool's allowable would be able to meet market demand.

Thereafter the following substantial evidence was provided:

(1) The reasonable market demand for production from this pool required a monthly allowable of not less than 3,756,031 MCF/month, the "Marathon allowable," which results in an adjusted F1 factor of 232,000 MCF/month. (Hearing Transcript, p. 173, lines 5-16).

(2) The Marathon allowable will generate an underproduction allowable for certain proration units in the pool which will be an incentive for additional work to improve production from the pool. (Hearing Transcript, p. 176, lines 8-23).

(3) The Marathon allowable will not cause any gathering, processing or taking problems in the pool, (Hearing Transcript, from p. 149, line 25 to p. 150 line 8; and from p. 171, line 10 to p. 172, line 3).

(4) Chevron indicated there would be a market for the gas that would be produced under the Marathon allowable. (Hearing Transcript, p. 200, lines 4-15).

(5) Chevron's opposition to the Marathon allowable is not based on difference in perceived market demand volumes, but rather on its forecast of a "likely weakened price." (Hearing Transcript, p. 201, lines 20-24; p. 194, lines 11-24; and Chevron Exhibit #7).

(6) The Marathon allowable will not impair the abilities of the other operators in the pool to market their gas. (Hearing Transcript, p. 174, lines 10-14).

(7) The Indian Gas Plant has the capacity to process the additional gas which would be produced under the Marathon allowable. (Hearing Transcript, p. 171, lines 10-14; and p. 161, lines 17-22).

(8) The Marathon operated Indian Basin D-1 well is capable of producing at the level of the Marathon allowable. (Hearing Transcript, p. 155, lines 20-22; and Marathon Exhibit #7).

(9) If the Chevron's proposed F1 factor of 152,500 MCF/month is adopted, then at least five non-marginal wells in the pool will be curtailed resulting in loss of

market share for the pool. (Hearing Transcript, p. 190, lines 3-16; p. 173, lines 5-10; and from p. 121, line 18 to p. 125, line 9).

(10) If the Chevron's proposed allowable is adopted, then the F1 factor will be set just below the maximum producing rate of Chevron's best well. (Hearing Transcript, p. 198, lines 1-20).

Despite this substantial evidence, the Commission adopted the preliminary guidelines of the Division which was based entirely on the average production from April through September 1991. In doing so the Commission set allowables for the subject allocation period at significantly less than the volume of gas needed in order to satisfy the market demand for gas produced from this pool. Because of the Commission's action, gas producers in other states or in Canada will now satisfy this market demand.

The Commission has ignored the substantial evidence of market demand in this case and a rehearing must be granted.

**POINT III: THE COMMISSION SET ALLOWABLES FOR THE INDIAN BASIN UPPER PENN GAS POOL BASED UPON CRITERIA OTHER THAN MARKET DEMAND FOR POOL PRODUCTION IN VIOLATION OF SECTION 70-2-3(E) NMSA-1978**

A review of the transcript of the hearing reflects that the Commission appears to confuse its duty in the subject case to determine market demand with its obligation in another type of case to allocate the allowable production among the spacing units in a prorated pool. These are two separate and distinct functions of the Commission and have historically been dealt with by the Commission as two separate cases with separate hearings and orders for each.

The first type of case is addressed within the context of the subject allowable hearing. But the second type of case has already been heard and resolved in Order R-8170 which, in accordance with Section 70-2-17 NMSA (1978), set the equitable allocation of allowable production for each of the spacing and proration units and their respective wells within this pool to prevent drainage and to afford each own its just and equitable share of production.

It is not the purpose of the subject allowable case to use the prorating system as a device to set the maximum efficient rate ("MER") of production from a pool or to control perceived drainage between spacing units or to try to apportion shares of recoverable reserves under each spacing unit.

Somehow the Commission has gotten mixed up in presuming it can disregard the volume of gas necessary to satisfy market demand for production from this pool on the unfounded assumption that at least one high capacity well must be curtailed or the Commission somehow is not doing its duty.

Even so the Commission expressed its frustration with a proration system that would be administered so that it "tracked" only a single high capacity well. (Hearing Transcript, p. 68, lines 5-25).

The misunderstanding of the Commission's obligation in this allowable case has caused it to set allowables for the subject pool upon criteria other than market demand for pool production in violation of Section 70-2-3(E) NMSA-1978

The Commission should not be reluctant to allow the proration system to achieve "capacity allowable" at times when market demand exceeds the pool's deliverability. In fact, that is exactly what should happen. That would result in an economic incentive to all pool operators to increase pool production and take advantage of any unused underproduction. It provides a reward to those operators who have expended money and past effort to improve production from the pool. It affords an opportunity for the non-marginal wells to help produce gas to satisfy the market demand rather than be shut-in or artificially curtailed. Ultimately it benefits everyone by keeping New Mexico's share of the gas market supplied with New Mexico gas rather than by Canada, Texas, Oklahoma or somewhere else.

Market Demand Prorationing requires the Commission to prorate surplus gas production capacity on a "reasonable basis." It has done something else in this case and it is wrong. A rehearing is required.

**POINT IV: COMMISSION ORDER R-9656 (Finding Paragraph 15) ADOPTS THE DIVISION'S PROPOSED "F1 FACTOR" AND THEREBY ERRONEOUSLY SETS ALLOWABLES FOR INDIAN BASIN UPPER PENN GAS POOL WHICH ARE ARBITRARY AND CAPRICIOUS**

The Commission states in Finding (15) of Order R-9656 that:

(15) OCD Exhibit "A" presented at this hearing had suggested an F1 factor of 160,502 for the Indian Basin Upper Penn Gas Pool. Considering the exhibits and testimony presented by Marathon and Chevron, this F1 factor is adequate. Sufficient production will be allowed to meet the market demand and to encourage additional work in the field.

In adopting this finding, the Commission ignores the testimony of the Division's own expert and abandons its obligation to adopt an adjustment factor for this pool which would result in setting allowables to meet market demand.

In leaving blank the adjustment factor on line three of Exhibit A attached to Order R-9656 the Commission fails to do what it was supposed to do. By that inaction, the Commission erroneously sets allowables for the Indian Basin Upper Penn Gas Pool at substantially less than market demand.

One can only guess at how the Commission was able to ignore the limitation in the Division's own testimony, resolve the Marathon and Chevron testimony and leap to the conclusion that the Division's preliminary F1 factor will allow sufficient production to meet the market demand for production from this pool when neither the testimony of the Division, Chevron nor Marathon supports the Division F1 factor as accurately reflecting market demand for the subject proration period. A rehearing must be granted.

**POINT V: THE COMMISSION FAILED TO MAKE SUFFICIENT FINDINGS OF ULTIMATE FACTS TO SUPPORT ITS DECISION**

The Commission summarizes only select portions of the Marathon evidence and the Chevron evidence, omits essential evidence and without explanation adopts the Division preliminary F1 factor as adequate. The Commission has failed to make findings which support the Commission adoption of the Division's preliminary F1 factor which was calculated without any adjustments made

for market demand. Under New Mexico law, this is impermissible.

In Continental Oil Company v. Oil Conservation Commission, 70 N.M. 310, 373 P.2d 809 (1962) The New Mexico Supreme Court held:

Administrative findings by an expert administrative commission should be sufficiently extensive to show not only the jurisdiction but the basis of the commission's order.

at page 321.

In order for an administrative order to be valid such an order must contain:

(1) Findings of ultimate facts which are material to the issue;

(2) Sufficient findings to disclose the reasoning of the Commission in reaching its ultimate findings; and

(3) Substantial support in the record for such findings.

Fasken v. Oil Conservation Commission, 87 N.M. 292, 532 P.2d 588 (1975).

In the absence of sufficient findings disclosing the reasoning of the Commission in reaching its ultimate findings, reversal is required. Id at 294.

Likewise, in Viking Petroleum v. Oil Conservation Commission, 100 N.M. 451, 453, 672 P.2d 280 (1983), the New Mexico Supreme Court reiterated its opinions in Continental Oil and Fasken, supra, that "administrative findings by the Commission should be sufficiently extensive to show the basis of the order" and that "findings must disclose the reasoning of the Commission in reaching its conclusion."

It is not enough for the Commission to simply state "sufficient production will be allowed to meet the market demand and to encourage additional work in the field."<sup>7</sup> Where are the reasons that show anyone how it reached this conclusion?

The Commission order has failed to make such findings and therefore violates the judicial standards established for the Commission. Marathon Oil Company and everyone else is left to speculate how the Commission came to its decision. A rehearing is required, if for no other reason than for the Commission to adopt an adequate order which complies with state law.

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<sup>7</sup> Order R-9656, at Finding (15).

**POINT VI:           THE COMMISSION FAILED TO MAKE AN  
ESSENTIAL        JURISDICTIONAL        FINDING  
CONCERNING WASTE**

The New Mexico Supreme Court in Sims v. Mechem, 72 N.M. 186 (1963) held that an Oil Conservation Commission order which did not contain a finding as to existence of waste and its prevention was void. By amendments adopted in 1949 the New Mexico Legislature expanded the definition of "waste" in the Oil & Gas Act to include the production of natural gas in excess of market demand.<sup>8</sup>

The Commission Order R-9656 omits the jurisdictional findings concerning the prevention of waste as it applies to the allowable hearing and the evidence to support such a finding. Without such a finding, the Commission was without jurisdiction to entered Order R-9656 and therefore it is void.

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<sup>8</sup> W. Perry Pearce, "Natural Gas Prorationing in New Mexico: An Attempt to Just and Equitable Allocation," Univ. of Colorado Law Review, Vol. 57, Issue 2, Winter 1986.

**POINT VII:           THERE IS NEW EVIDENCE NOT AVAILABLE AT  
THE TIME OF THE HEARING WHICH WILL CHANGE  
THE RESULT OF ORDER R-9656**

The impact of Order R-9656, unless modified upon Rehearing, will be a reduction in the ultimate recovery of hydrocarbons from this pool, thereby causing waste to occur in violation of the New Mexico Oil and Gas Act.

Subsequent to the Commission hearing, Marathon has updated a material balance study on the Indian Basin Upper Penn Gas Pool to determine if the Commission allowables for the pool set forth in Order R-9656 will result in the loss of recoverable reserves. Marathon concludes that the Commission order will in fact cause waste by leaving hydrocarbons in the reservoir that would be recovered had the Commission adopted the Marathon allowable.

Marathon has concluded and is prepared to present new evidence that:

(1) Maximum recovery for the pool is obtained when withdrawal rates are maintained at or near the capacity of the wells to produce.

(2) Restricting wells that have higher flow capacity will result in lost reserves for those spacing

units thereby impairing correlative rights and will lower ultimate recovery from the pool thereby causing waste.

(3) The drive mechanism for the pool is primarily depletion drive with water encroachment. Loss of reserves from water encroachment will be exacerbated by the Commission allowables.

(4) The aquifer is characterized by an encroaching water volume of 1.45 billion barrels with a productivity of 85 bpd/psi. Total water influx estimated to date is approximately 360 million barrels or 22% of the original hydrocarbon productive volume.

(5) Failure to produce the wells in the pool at capacity will lead to the encroaching water trapping in place gas which would otherwise be recovered. Thus lower allowables will directly contribute to the waste of gas. Higher allowables will afford an opportunity to produce this gas which will otherwise be left in the reservoir.

Application for Rehearing  
Marathon Oil Company  
Page 22

WHEREFORE, MARATHON OIL COMPANY respectfully requests the Commission grant a Rehearing in the above styled cause and that after Rehearing, the Commission modify that portion of Order R-9656 dealing with the Indian Basin Upper Penn Gas Pool to increase the average monthly pool allowable from 3,292,012 MCF/month to 3,756,031 MCF/month for the April-September, 1992 proration period.

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

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

CASE NO. 10450  
Order No. R-9656

GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR APRIL, 1992  
THROUGH SEPTEMBER, 1992.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 27, 1992, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 31st day of March, 1992, the Commission, a quorum being present and having considered the testimony, the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) This hearing was called for the purpose of accepting nominations and other evidence and information to assist in determining April, 1992, through September, 1992 gas allowables for the prorated gas pools in New Mexico. Thirteen of the prorated gas pools are in Lea, Eddy and Chaves Counties in Southeast New Mexico and the other four prorated gas pools are in San Juan, Rio Arriba and Sandoval Counties in Northwest New Mexico.

(3) Amendments to the Gas Proration Rules approved by Commission Order No. R-8170-H in December, 1990 provide for allowables to be established for 6-month allocation periods beginning in April and October of each year. The April, 1992 through September, 1992 allocation period will be the third under the amended rules.

(4) Average monthly allowables for April 92 - Sept. 92 for each pool should be based on monthly average individual pool sales for April 91 - Sept. 91, with administrative adjustments where appropriate.

(5) Oil Conservation Division (OCD) personnel prepared Market Demand and Allowable Determination Schedules for the prorated gas pools in New Mexico. These contained preliminary allowable estimates for the April 92 - Sept. 92 period and were developed in accordance with procedures set forth in Division Order R-8170-H, Rules 5(a)1 and 5(a)2. Producers, purchasers and transporters of gas were asked to review these preliminary allowables and to participate in the February 27, 1992 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) Revised preliminary allowable estimates for each prorated pool were submitted at the hearing by OCD as Exhibits A and B. These estimates contained updated production data and differed from the preliminary estimates which had been mailed out earlier.

(7) The OCD Director of Natural Gas Marketing submitted at the time of the hearing as Exhibits Nos. 1 through 8 a series of graphs in slide form which showed the following:

- (a) New Mexico natural gas production has increased steadily from 1985 through 1991. The preliminary estimate for 1991 production is one trillion cubic feet.
- (b) Monthly gas production in New Mexico reflects seasonal trends with the period April through September having lower production than the period October through March. This trend has flattened out in recent years but still exists and is expected to continue in 1992.
- (c) The number of completions and the production from the coal seam gas continues to increase while the production from conventional wells decreases in the northwest.
- (d) New Mexico's gas reserves have increased to 19.8 Tcf which is second only to Texas for onshore reserves of natural gas.

(8) Hallwood Petroleum, Inc. presented exhibits and testimony to support their request for an F1 factor in the range of 127,000 to 149,800 for the Catclaw Draw-Morrow Gas Pool. The current (Oct. 91 - March 92) F1 factor is 127,000 and the total production from the pool is nearing 400,000 Mcf/month. Hallwood has not had any problem in marketing their gas and does not anticipate any problems in marketing for the April 92 - Sept. 92 period.

(9) The current F1 factor of 127,000 for the Catclaw Draw has allowed all of the marginal wells to produce and is limiting the production of the single non-marginal well in the pool. An adjustment for seasonal demand would result in an F1 factor of 122,000. This factor will allow the pool to be produced at or near its current levels and meet the anticipated market demand.

(10) Marathon Oil Company presented exhibits and testimony in support of their request for an allowable increase in the Blinebry Gas Pool. Preliminary estimates sent out by the OCD had recommended an F1 factor of 24,906 and Marathon is requesting an F1 factor of 45,000. The following information was presented by Marathon.

- (a) Marathon notified all of the operators in the Blinebry Pool of their intention to request an F1 factor of 45,000. Chevron and Conoco responded by stating that they did not object to Marathon's request. Mobil, Arco, Exxon and Texaco did not respond to Marathons' proposal.
- (b) A graph of sales and allowables for Marathon's four non-marginal wells showed that the wells had been overproduced since 1989 except for the month of Oct. 1990. Since that time the sales have exceeded the allowable and the wells are again overproduced.
- (c) Marathon presented a marketing witness who testified that they could sell all of the gas produced from the Blinebry Pool. He also testified that if Marathon and other New Mexico producers were not allowed to produce all of the gas that they could, New Mexico would start losing market share to Canadian gas.

(11) John Hendrix, an operator in the Blinebry Pool, had a statement read into the record that proposed a decrease in the F1 factor to 21,840. The reasons for his request are that increases in allowable will further flood the gas market and that the prices received for gas are below its replacement costs.

(12) The current (Oct. 91 - Mar. 92) F1 factor for the Blinebry Pool of 38,125 is a substantial increase over previous F1 factors. As a result of this increase, the number of non-marginal wells is decreasing but the full effect of the increase is not yet known. Making a seasonal adjustment in the F1 factor (April 92 - Sept. 92) will result in a new F1 factor of 38,000 which will allow another six months to evaluate the increased F1 factor.

(13) Marathon Oil Company presented exhibits and testimony to support their request for an F1 factor of 232,000 for the Indian Basin Upper Penn Pool. Marathon based their request on the following information:

- (a) Well work and facilities modification performed on the Indian Basin D 1 Well increased production from just under 100,000 Mcf/month to over 200,000 Mcf/month. As a result, the well has gone from marginal to non-marginal and is currently overproduced.
- (b) Marathon worked over their North Indian Basin Unit 4 Well and increased production to over 130,000 Mcf/month. Under current allowables, this well will remain a marginal well.

- (c) Marathon has spent \$775,245 working over wells, upgrading production units and installing lease wellhead compression.
- (d) Marathon's gas marketing representatives gave testimony that they had a market for all of the gas they can produce from the Indian Basin Upper Penn Pool and that they were seeking an F1 factor that would allow their best well to produce without restriction.

(14) Chevron USA presented testimony and exhibits to justify an F1 factor of 152,500 for the Indian Basin Upper Penn Gas Pool. Chevron used the following information to justify their request.

- (a) Chevron and Marathon each represented 40% of the production from Apr. 91 - Nov. 91.
- (b) A comparison chart showing Chevron's and Marathon's non-marginal well average production from April 91 - Nov. 91 as 152,953 Mcf/month. Chevron rounded this figure to 152,500 Mcf/month and made this their recommended allowable for a well with an acreage factor of 1.
- (c) Chevron plans to workover their Helbing Federal No. 1 Well in 1992 and feels that it is economically feasible with the F1 factor of 152,500.
- (d) Chevron presented a letter from their Natural Gas Supply and Marketing group which stated that the Indian Basin gas prices will probably weaken due to increased gas supplies to California.
- (e) Chevron submitted letters from Oryx and MW Petroleum Corporation, both operators in the Indian Basin Upper Penn Gas Pool, which were against the 232,000 F1 factor requested by Marathon and supported a lower factor of 152,500 to 167,310.

(15) OCD Exhibit "A" presented at this hearing had suggested an F1 factor of 160,502 for the Indian Basin Upper Penn Gas Pool. Considering the exhibits and testimony presented by Marathon and Chevron, this F1 factor is adequate. Sufficient production will be allowed to meet the market demand and to encourage additional work in the field.

(16) Amoco Production Company presented exhibits and testimony requesting higher allowables for the four prorated gas pools in the San Juan Basin. Pipeline expansions which are currently being installed in the Northwest should result in a lowering of pipeline pressures which will increase production.

(17) Union Oil Company of California presented exhibits and testimony to justify higher allowables for the Basin Dakota Pool and the Blanco Mesaverde Pool. The allowable factors presented in the Preliminary Allowable Estimates sent out by the OCD would result in less allowable for Dakota wells than for the comparable period in 1991 and slightly more allowable for Mesaverde wells than in 1991. The increased pipeline capacity out of the San Juan Basin will require higher allowable if the pipelines are to be filled.

(18) Phillips Petroleum Company presented testimony and exhibits to support their request for higher allowables in the Basin Dakota Pool.

(19) Allowables for the four prorated gas pools in the San Juan Basin should be increased. The effect of the pipeline expansions in the Northwest will be to lower line pressures and increase production. It is not known how much the production will be increased, but producers should be allowed to take advantage of the increase if the gas can be marketed.

(20) The OCD Exhibit B should be adjusted as follows:

| <u>Pool</u>                | <u>Adjustment</u>   |
|----------------------------|---------------------|
| Basin-Dakota               | 2,000,000 Mcf/month |
| Blanco Mesaverde           | 3,000,000 Mcf/month |
| So. Blanco Pictured Cliffs | 150,000 Mcf/month   |
| Tapacito Pictured Cliffs   | 100,000 Mcf/month   |

IT IS THEREFORE ORDERED THAT:

(1) OCD Exhibit A submitted at the hearing shall be amended for the Catclaw Draw Morrow Pool by correcting the average monthly pool sales to 238,675 Mcf and by changing the adjustments from 109,245 Mcf to 58,559 Mcf.

(2) Said OCD Exhibit A shall be further amended for the Blinebry Gas Pool by adding an adjustment of 157,241 Mcf/mo.

(3) OCD Exhibit B submitted at the hearing shall be amended by making the following adjustments for monthly production:

| <u>Pool</u>                       | <u>Adjustment (Mcf/mo.)</u> |
|-----------------------------------|-----------------------------|
| Basin Dakota Pool                 | 2,000,000                   |
| Blanco Mesaverde Pool             | 3,000,000                   |
| South Blanco Pictured Cliffs Pool | 150,000                     |
| Tapacito Pictured Cliffs Pool     | 100,000                     |

(4) OCD Exhibits A and B, as amended by Decretory Paragraphs Nos. (1), (2) and (3) above are attached hereto as Exhibits "A" and "B", respectively, and shall be made a part hereof. Said Exhibits shall be the basis for allowable

assignments in the prorated gas pools in New Mexico for the months Apr. 92 - Sept. 92. Allowables shall be assigned as follows:

- (a) Each marginal gas proration unit (GPU) shall be assigned a monthly allowable equal to the average monthly amount of gas produced by that GPU during the period January 1992 through March 1992.
- (b) Each non-marginal GPU shall be assigned a monthly allowable using the appropriate acreage allocation factor (F1) and the appropriate acreage times deliverability allocating factor (F2), if applicable, for each pool as shown on OCD Exhibits "A" and "B" attached to this order.

(5) The Oil Conservation Division is hereby directed to prepare proration schedules for the Apr. 92 - Sept. 92 allocation period in accordance with this order and other Division Rules, Regulations and Orders. Copies of this order shall be included in each proration schedule.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Bill Weiss*

WILLIAM W. WEISS, Member

*Gary Carlson*

GARY CARLSON, Member

*William J. Lemay*

WILLIAM J. LEMAY, Chairman

SEAL

dr/

EXHIBIT "A" CASE NO. 10450  
 MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
 PRORATED GAS POOLS - SOUTHEAST NEW MEXICO  
 FOR APR92 THRU SEP92

ENG216T--ENG216-01  
 RUN-TIME: 06:56:58

RUN-DATE 03/23/92

|                                  | ATOKA PENN | BLINEBRY | BUFFALO VALLEY PENN | BURTON FLAT MORROH | CARLSBAD HARROH | CATCLAM DRAM MORROH | ELMONT INDIAN BASIN MORROW SO | INDIAN BASIN UPPER PENN | JALMAT  | JUSTIS 6L | TUBB    |
|----------------------------------|------------|----------|---------------------|--------------------|-----------------|---------------------|-------------------------------|-------------------------|---------|-----------|---------|
| ( 1 ) AVERAGE MONTHLY POOL SALES | 89,914     | 354,110  | 157,429             | 233,629            | 238,675         | 1,936,303           | 74,035                        | 3,292,012               | 966,159 | 40,742    | 204,165 |
| APR91-SEP91                      |            |          |                     |                    |                 |                     |                               |                         |         |           |         |
| ALL VOLUME ARE IN MCF.           |            |          |                     |                    |                 |                     |                               |                         |         |           |         |

|  |         |         |         |         |         |           |        |           |         |        |         |
|--|---------|---------|---------|---------|---------|-----------|--------|-----------|---------|--------|---------|
| ( 2 ) TOTAL NOMINATIONS AVG MONTH VOL.                       |         |         |         |         |         |           |        |           |         |        |         |
| ( 3 ) ADJUSTMENTS.   | 48,000  | 157,241 | 7,000   | 100,000 | 58,559  | 169,191   |        |           |         |        | 10,000  |
| ( 4 ) MONTHLY POOL ALLOWABLE (LINE 1 + LINE 3.)              | 137,914 | 511,351 | 164,429 | 333,629 | 297,234 | 2,105,494 | 74,035 | 3,292,012 | 966,159 | 40,742 | 214,165 |
| APR92-SEP92  |         |         |         |         |         |           |        |           |         |        |         |
| ( 5 ) MONTHLY MARGINAL POOL ALLOWABLE (LINE 4 - LINE 5)      | 25,062  | 131,351 | 134,745 | 186,434 | 53,234  | 1,364,710 | 63,149 | 2,250,351 | 814,000 | 13,116 | 121,127 |
| APR91-SEP91  |         |         |         |         |         |           |        |           |         |        |         |
| ( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLES (LINE 4 - LINE 5) | 112,852 | 380,000 | 29,684  | 147,195 | 244,000 | 740,784   | 10,886 | 1,041,661 | 152,159 | 27,626 | 93,038  |
| ( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS                 | 3.78    | 10.00   | 1.00    | 4.97    | 2.00    | 40.48     | .86    | 6.49      | 8.00    | 7.00   | 9.00    |
| ( 8 ) MONTHLY ACREAGE ALLOCATE FACTOR (LN 6 / LN 7)          | 29,855  | 38,000  | 29,684  | 29,617  | 122,000 | 18,300    | 12,658 | 160,502   | 19,020  | 3,947  | 10,338  |

F1 FACTORS FOR OTHER POOLS  
 BURTON FLAT STRAWH F1 = 10,000  
 MONUMENT MCKEE ELLEN F1 = 25,000

ENGP216T--ENGP216-01  
 RUN-TIME: 06:56:58

EXHIBIT "B" CASE NO. 10450  
 MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
 PRORATED GAS POOLS - NORTHWEST NEW MEXICO  
 FOR APR92 THRU SEP92

RUN-DATE 03/23/92

BASIN BLANCO BLANCO TAPACITO  
 DAKOTA MESA VERDE P.C. SOUTH

( 1 ) AVERAGE MONTHLY 5,863,716 12,179,306 864,713 197,234  
 POOL SALES  
 APR91-SEP91  
 ALL VOLUME ARE IN MCF.

( 2 ) TOTAL  
 MONTHLY  
 AVG MONTH VOL.

( 3 ) ADJUSTMENTS. 2,000,000 3,000,000 150,000 100,000

( 4 ) MONTHLY POOL 7,863,716 15,179,306 1,014,713 297,234  
 ALLOWABLE  
 APR92-SEP92  
 (LINE 1 + LINE 3.)

( 5 ) MONTHLY MARGINAL 3,811,033 5,209,632 428,939 91,827  
 POOL ALLOWABLE  
 APR91-SEP91

( 6 ) MONTHLY 4,052,683 9,969,674 585,774 205,407  
 NON-MARGINAL  
 POOL ALLOWABLES  
 APR92-SEP92  
 LINE 4 - LINE 5

( 7 ) NUMBER OF 289.09 567.72 326.02 78.68  
 NON-MARGINAL  
 ACREAGE FACTORS

( 8 ) NUMBER OF 151,820 351,062 18,945 5,808  
 NON-MARGINAL  
 ACREAGE TIMES  
 DELIVERABILITY  
 FACTORS

( 9 ) MONTHLY ACREAGE 8,411 4,390 449 653  
 ALLOCATE FACTOR  
 APR92-SEP92

(10) MONTHLY ACREAGE 10.68 21.30 23.19 26.52  
 TIMES  
 DELIVERABILITY  
 ALLOCATE FACTOR  
 APR92-SEP92