

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 9016
Order No. R-8361

APPLICATION OF THE OIL CONSERVATION DIVISION ON ITS OWN MOTION
FOR THE ADOPTION OF A NEW RULE 414 TO REGULATE SALES OF GAS BY
SEPARATE OWNERS IN A WELL.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock a.m. on
October 23 and November 20, 1986, at Santa Fe, New Mexico,
before the Oil Conservation Commission of New Mexico,
hereinafter referred to as the "Commission."

NOW, on this 18th day of December, 1986, the
Commission, a quorum being present, having considered the
testimony presented and 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) The Oil Conservation Division (Division) seeks the
adoption of a new Rule 414 to regulate the sales of gas from
wells by owners of less than 100 percent of the working owners.

(3) An industry committee had recommended that the
Division examine such sales to determine if rules therefor were
necessary to protect the correlative rights of the owners in
such a well.

(4) When such sales occur, it may be possible for an
owner to sell more than his share of the gas from a well,
thereby violating the correlative rights of the other owners in
the well.

(5) When such sales occur, a small percentage interest
owner may overproduce a well causing it to be shut in under the
gas proration rules and at a time when the other owners in the
well might otherwise be able to sell their share.

(6) A special study committee appointed by the Division Director considered four proposed rules as follows:

RULE 414. PROPOSAL NO. 1.

Where there are separate owners in a well, no gas sales may commence or be made from such well until all owners have agreed to a single well operator with authority to commit 100 percent of the gas therefrom.

The well operator must provide the Division with a statement attesting to such agreement before any allowable will be assigned or before any authorization to produce will be made.

RULE 414. PROPOSAL NO. 2.

Where there are separate owners in a well, no gas sales may commence or be made from such well unless such owners have entered into a gas balancing agreement. Such balancing agreement must provide for each owner to receive his just and equitable share of the gas from the well(s) covered thereunder.

The well operator must provide the Division with a statement attesting to such agreement before any allowable will be assigned or before any authorization to produce will be made.

RULE 414. PROPOSAL NO. 3.

Where there are separate owners in a well and where there is no gas balancing agreement providing for each such owner to receive his just and equitable share of the gas therefrom, no individual owner may sell a volume of gas in any month greater than his percentage interest in the well's current allowable or purchasers per well allocation.

In pools with assigned allowables, the volume to be sold may be determined by multiplying the appropriate percentage interest times the allowable. In pools without assigned allowables, the volume to be sold will be that volume which is produced in that period of time found by multiplying the number of days in the month by the appropriate percentage interest.

RULE 414. PROPOSAL NO. 4

When there are separate owners in a well and where any such owner's gas is not being sold with current production from such well, such owner may, if necessary to protect his

correlative rights, petition the Division for a hearing seeking appropriate relief.

(7) The special study committee could not agree on or recommend proposals No. 1, 2, or 3.

(8) The committee did recommend proposal No. 4 in that it would advise owners how they could seek relief from the Division if less than one hundred percent of the owners of the production from a well authorized the sale of gas from a well and such sale threatened the correlative rights of an unconsenting interest owner.

(9) Such a hearing process would permit owners in wells where such a sale occurs the opportunity to seek protection of their correlative rights and permit the Division, through the adversarial process, to gain the problem-specific knowledge to better deal with problems relating to sales by less than one hundred percent of the owners of a well.

(10) Committee proposal No. 4 should be adopted effective January 1, 1987.

IT IS THEREFORE ORDERED THAT:

(1) Effective January 1, 1987, a new Rule 414 is hereby adopted to read in its entirety as follows:

"RULE 414 GAS SALES BY LESS THAN ONE HUNDRED PERCENT OF THE OWNERS IN A WELL

When there are separate owners in a well and where any such owner's gas is not being sold with current production from such well, such owner may, if necessary to protect his correlative rights, petition the Division for a hearing seeking appropriate relief."

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

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Case No. 9016

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

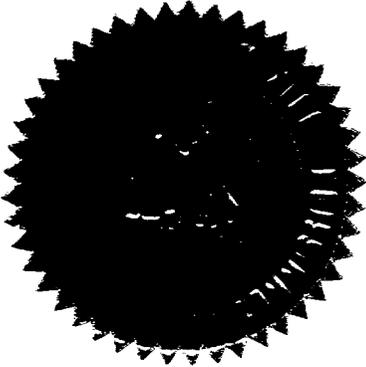
JIM BACA, Member



ED KELLEY, Member



R. L. STAMETS, Chairman and
Secretary



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