

BEFORE THE NEW MEXICO
OIL CONSERVATION COMMISSION

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION TO
CONSIDER REVISIONS TO DIVISION ORDER
NO. R-8170 AS AMENDED**

Case No. 10009

Oil Conservation Division

Exhibit no. 1

Memorandum establishing the proration committee and minutes of
the meetings of the committee.

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: All Operators, Transporters and Purchasers of Gas

FROM: William J. LeMay, Director *WJL*

SUBJECT: Gas Proration Rules

DATE: December 30, 1988

Order R-8170 was entered March 28, 1986 and was effective April 1, 1986. It constituted an update of Order R-1670, as much amended, to create a more current compilation of pool rules as well as amended general rules for gas proration. The update was the result of an industry committee's deliberation and recommendation to make modifications better to meet gas market conditions of 1984-85.

As you know a profound change has taken place and is still taking place in gas gathering, transportation and marketing. There have been many suggestions that the rules devised for 1984-85 conditions are not entirely applicable in 1989-90 and should be amended to cover changed conditions.

As an example, the current rules are written so as to make it very easy for a well to be reclassified from marginal (M) to non-marginal (N), which maximizes the number of N wells. It also leads to a constant variation of the number of wells which generate allowables for N wells. For the larger pools there are three cycles each year; a low number of N wells after reclassification and a build-up until the next reclassification. With more N wells the amount of underproduction also grows and with reclassification the amount of underproduction declines, sometimes drastically. Thus the balance of the pool is in a constant state of flux.

Apparently, it is timely to convene another industry committee to exchange views and suggestions for improving the general rules for gas proration. Without intending to preclude reconsideration of any particular rule, it is believed the following rules should be reviewed for possible revision:

- Rule 1 - definitions of "gas purchaser" and "marginal GPU";
- Rule 2(a)3(2)
- Rule 3(a)
- Rule 5
- Rule 5(b)1(A)
- Rule 8
- Rule 9(d)
- Rule 10(a)

MEMORANDUM

Operators, Transporters & Purchasers of Gas

December 30, 1988

Page 2

Rule 11(a) and (b)
Rule 12(b)
Rule 14(b)
Rule 15(a)

It is desirable to have a broad representation on the committee without having an unmanageable number. Representatives of transporters, purchasers, as well as major and independent producers are desired. Vic Lyon, Chief Engineer for the OCD will chair this committee. If you are interested in being represented on the committee please furnish name and address, in writing, so as to assist in compiling a mailing list. The committee will probably schedule its first meeting in February, 1989.

WJL/VTL/ag



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87504
(505) 827-5800

TO: GAS PRORATION RULES COMMITTEE - attached list
FROM: VICTOR T. LYON, CHAIRMAN *vtl*
SUBJECT: INITIAL MEETING

Thank you for volunteering to serve on the Committee. The objective is to review the general rules to see if our present system is providing acceptable results, and to make recommendations for improvements. It is not intended to review or change any individual pool rules.

Some of our current minor problems are a result of computer programs and those that have been recognized will be corrected as soon as possible. There may be other programs that are not working as intended. If you will help us identify them we will make the necessary changes.

Alternative methods will be discussed and addressed, such as the perceived problems with rules as they relate to the excessive fluctuation of non-marginal wells. A revised system of reclassification may be in order; perhaps a return to the rules under Order R-1670.

The representatives shown with an asterisk are named to the Committee. Each of you are welcome to attend the initial meeting at which it is intended to discuss the gas marketing situation and the problems of balancing supply and demand under the guidelines of the Oil and Gas Act.

The first meeting is hereby scheduled for 9:00 a.m. on February 28, 1989, in the Division's Conference Room in Santa Fe, 310 Old Santa Fe Trail.

Thank you again for your interest in this endeavor.

GAS PRORATION RULES COMMITTEE

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>
C. A. Wood*	Amoco Production Co.	Box 800, Rm. 2144 Denver, Co. 80201
Frank Mateo	Arco Oil & Gas	Box 1610, Room 1077 Midland, Texas 79702
William F. Clark*	Blackwood & Nichols, Co. Ltd.	Box 1237 Durango, Co. 81302-1237
Robert E. Green	Chevron USA Inc.	Box 670 Hobbs, N.M. 88240
Dale Richardson*	Columbus Energy Corp.	Box 2038, Farmington, N.M. 87401
H. A. Ingram	Conoco Inc.	Box 460 Hobbs, New Mexico 88240
H. L. Kendrick*	El Paso Nat. Gas	Box 1492 El Paso, Texas 79978
Bill Duncan	Exxon USA	Box 1600 Midland, Tex. 79702-1600
David Kirkland	Gas Co. of N.M.	Box 26400 Albuquerque, N.M. 87125
Paul D. Mollo	" " " "	" " " "
W. J. Orbison*	" " " "	" " " "
Chris Kirschner	" " " "	" " " "
Allen Wilson	Marathon Oil Co.	Box 552 Midland, Texas 79702
Louis Jones*	Meridian Oil	Box 4289, Farmington, New Mexico 87499-4289
Steve Nance	" "	" "
Randy J. Lukken*	Northern Natural Gas Co.	2223 Dodge Street Omaha, Ne. 68102
Bob Glenn	Northwest Pipeline Co.	Box 8900, Salt Lake City, Utah 84108-0899

Daniel S. Nutter*	Consultant	105 E. Alicante Santa Fe, N.M. 87501
Richard Foppiano, 25 STA OC	Oxy USA Inc.	Box 3908 Tulsa, Ok. 74102
L. M. Sanders*	Phillips Petroleum Company	4001 Penbrook Odessa, Texas 79762
Frank A. Schultz	Self	2160 Lincoln Plaza Bldg. 500 N. Akard, LB-1 Dallas, Texas 75201-3318
R. F. Gray	Texaco USA	Box 728 Hobbs, N. M. 88240
Bill Hering	Unocal	Box 850 Bloomfield, N.M. 87413
David F. Boneau* 88210	Yates Petroleum	105 South 4th Artesia, New Mexico

Evelyn Downs, OCD, Hobbs
Frank Chavez, OCD, Aztec

MINUTES

The Gas Proration Rules Committee met at 9:00 a.m. February 28 in the OCD Conference Room. Attendance list is attached. Director LeMay led off with comments about the importance of the committee's work and what he hoped would be accomplished.

Jones (Meridian) commented that the Northwest allowables are continually declining because many wells are shut in for excessive overproduction and that the market is price-driven. Chavez (OCD) responded that those pools are still several times underproduced.

The Chairman asked if everybody who wanted to sell gas was able to do so. Most agreed they could, but Mr. Colvin (Shultz) commented that purchasers were not interested in dealing with suppliers of only 1-200 MCFD.

In response to the Chairman's question "why are so many wells shut in", (in December), there seemed to be several answers. Some were withholding gas for better prices, some were unable to sell because all owners were not willing to sell and, probably, some wells are uneconomic at current prices.

In drawing comparisons of unprorated versus prorated pools most agreed there was no greater difficulty selling gas from one versus the other category. There are about the same percentage of non-producing wells in unprorated pools.

Many comments were made that allowable distributed to non-producing wells held allowable back from those wells which are producing. The fluctuation of wells from N to M and back to N causes more instability of allowables as well as the amount of underproduction, than is desirable.

Orbison (Gasco) asked if there could be incentives (penalties) to keep wells producing.

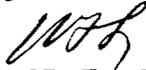
There was a comment that the high deliverability wells tended to get overproduced while low deliverability wells were hard to catch up. This is attributed to the F1 (acreage) factor.

Many good comments were received indicating where there are problems which can be addressed by the committee. A meeting of the committee was scheduled for March 16 at 9:00 in the OCD

Conference Room to begin working on possible changes.

The meeting adjourned at 12:00 noon.

Respectfully submitted,


VICTOR T. LYON

dr/

GAS PRORATION RULES COMMITTEE

2-28-89

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>	<u>PHONE NO</u>
VICTOR T. LYON	OCD	Box 2088 Santa Fe NM 87504	827-5809
H.L. BABE KENDRICK	EL PASO NATURAL GAS	Box 1492 El Paso, TX 79978	915/541-6135
Evelyn Downs	OCD	Box 1980, Hobbs NM 88240	393-6161 393-6161
Randy J. Lukkon	Northern Natural Gas	2223 Dodge St. Omaha, NE 68102	(402)633-6555
GARRY SANDERS	Phillips Petroleum	4001 Penbrook St ⁷⁹⁷⁶² ORESSA TX (915)767-7488	
JAMES C. ALLEN	Amoco Production Co.	P.O. Box 3092 Abos, Tex. (613)556-372	
E.R. Manning	EL PASO Nat. Gas	P.O. Box 1492 El Paso, TX ⁽⁹¹⁵⁾ 541-50	
DAVE BONEAU	YATES PETROLEUM	ARTESIA, NM 88210 105 SOUTH FOURTH	505-748-147
Robert Green	Chevron USA	PO Box 670, Hobbs, NM ⁸⁸²⁴⁰	505-343-4121
Bill Hering	Unocal	Box 850 Bloomfield NM ⁸⁷⁴¹³	505-632-1811
ALLEN WILSON	MARATHON	P.O. Box 552 Midland, TX ⁷⁹⁷⁰²	915-682-1624
BOB GLENN	NORTHWEST PIPELINES	P.O. Box 8900 SLC, UTAH ⁸⁴¹⁰⁸	801-584-469
Louis Jones	MERIDIAN	P.O. Box 4289 Farmington, NM ⁸⁷⁴⁹⁹	505-326-9802
STEVE NANCE	MERIDIAN	PO Box 4289 Farmington 326-9722	
William Clark	Blackwood/Nichols	PO Box 1237 Durgo CO 81302	
Alfred Wood	Amoco	P.O. Box 800 Denver, Co	303-830-4555
Gale Richardson	COLUMBUS ENERGY	P.O. Box 2038 Farmington ⁹¹⁵	505-632-8555
JERRY SILVERUD	OXY USA	PO Box 50250 MIDLAND	685-58
Rick Foppiano	OXY USA	P.O. Box 3908, Tulsa, OK 74102 2160 LINCOLN PLAZA	
AARON L. COLVIN	FRANK A. SCHULTZ	DALLAS TEX 75201	214/954-0030
F. Chavez	OCD	Aztec	
Dan W. Hall	OCD	Santa Fe	827-5781
Bridget Seiber	OCD	SF	827-5754
DAVID KIRKLAND	Gas Company of NM	PO Box 26400 ALBUQU	888-836
W.J. Buster Orbison	Gas Company of NM		
DAN NUTTER	Consultant	105 E. Alameda SF NM	482 0757

MINUTES OF MARCH 16, 1989 MEETING
GAS PRORATION RULES COMMITTEE

The meeting commenced in the Oil Conservation Division Room at 9:00 a.m.; attendance list attached. In connection with the minutes of the initial meeting, Boneau (Yates) asked correction to second sentence on page 2 to the effect that there is probably a smaller percentage of non-producing wells in unprorated than prorated pools. Others concurred.

A. Discussion began on items listed on the agenda. There seems to be a wide diversity of situations for measuring gas at the well or lease. Many pipelines measure and report volumes at a central metering point. Sometimes the operator owns and maintains the well meter. It was agreed that the party responsible for the well meter should file the C-111. The rules probably should be changed accordingly. The information on Form C-104 should also identify that party as the one responsible for reporting. The form C-104 may need revision also.

Discussion ensued on identity of purchaser (often unknown or changing too often to file a C-104 for each change) the array of transporters sometimes involved, the variety of relationships from lease to point of consumption between gatherer, pipeline(s), LDC and ultimate consumer; custody changes, and sometimes uncertainty where ownership changes. The lack of change of ownership at the lease casts some doubt on the perceived need for accurate measurement. Often several well measurements are modified and allocated to agree with measurement at the central point meter. There appeared to be general agreement that the parties involved, including non-operating interests in the wells, created sufficient incentive to measure accurately that measurement is not a problem.

There was discussion about dual names of pipelines on the proration schedule. It was not clear whether this involved dual connections (not very common) two or more pipelines taking from MWU's or some tandem arrangement involving a gasoline plant. Example: Blinbry Pool, page 3, Pipeline is "El Paso Natural Gas and Texaco" for several operators and wells, C-111 was filed by El Paso. What is Texaco's function? We should strive to make these listings reflect the party responsible for reporting the gas and consistent with C-104 information.

B. Much discussion occurred on classification of wells and issues far beyond that. The Chairman stated that this area probably has the potential of giving the greatest relief to the problems sought to be addressed by the Committee; the problem being described as too much gas going to wells which cannot or will not produce it and too little going to wells that can and

will. The other problems, that some wells are not produced at all and others only part of the time, are beyond the authority of the OCD, but the system should address that situation. Obviously in such a situation ratable taking among all wells is impossible. OCD can only set allowables equal to the market demand and distribute that allowable among the GPU's providing equitable opportunity to produce. It is not fair to "players", however, to be held back by "non-players."

C. It was agreed that enforcing priority of takes where pipelines are transporters only is very difficult. Arrangements with larger purchasers may be needed to address this very serious problem.

D. The next meeting is set for April 19 and the following topics were suggested for discussion:

1. Determining market demand.
2. Other proposals for classification and balancing.
3. Pool balancing.

Suggestions furnished by April 1 will be mailed out with these Minutes.

Respectfully submitted,

V. T. LYON,
Chairman

GAS PRORATION RULES COMMITTEE
MINUTES OF APRIL 19, 1989 MEETING

The meeting was called to order at 9:10 a.m. by the Chairman, in the OCD conference room.

An item of old business was addressed by Sanders (Phillips) who brought a series of diagrams illustrating various situations of gas wells, placement of meters, gathering systems to pipelines and the relationships of parties. The simplest diagram showed a producer delivering gas to a purchaser-transporter pipeline with custody and ownership changing at the meter. Other diagrams showed multiple pipelines, multiple producers, split connections and division of wells between pipeline sales and spot market sales. Each situation was discussed and a determination made as to who would most likely be responsible for filing form C-111. It was obvious that there is such variety of situations that the present rules do not properly identify the party responsible for reporting.

As the first agenda item Jones (Meridian) presented a series of graphs showing trend of production (markets) in U.S., New Mexico and various regions. The graphs indicate that New Mexico's production and share of the market have declined since 1983. Some of the displacement has come from Canadian gas, but not all. The presentation gave impetus to the need to address gas proration rules so as to minimize the restriction of prorated gas pools in meeting their share of market demand.

Sanders suggested producers, brokers and other parties should have input into the nominations to indicate market demand. There was no disagreement on this statement; however, the timeliness of this information appears to be somewhat questionable at this time, such that the gas proration schedule could not be published by the beginning of the schedule month.

Orbison (Gasco) stated that an estimated 15-20% of gas cannot go to market until a balancing agreement is in place. The Chairman stated the OCD stands ready and considers itself empowered to impose a balancing agreement upon application of a party seeking to protect correlative rights and prevent waste.

The Chairman passed out sheets showing:

1. data sheets to be added to the proration schedules showing F1/F2 factors for the previous 12 months;

2. sheets showing how administrative adjustments are made to (a) insert late-reported production; (b) add allowable for overproduced pools (c) subtract allowable for underproduced pools and (d) adjust for pools having an excessive proportion of the non-marginal wells shut in for excessive overproduction;
3. a calculation of the impact on F-1 factors if all wells 6 times underproduced in Southeast pools were reclassified marginal; and
4. a calculation of the impact on Tapacito PC pool if wells 12 times underproduced were reclassified marginal.

Jones stated the Chairman's proposed rule changes attached to the March 16 meeting minutes were a good start toward distributing allowable where it is needed and getting the pools in better balance. There was no dissent expressed and preparations will be made to put those, or similar, rule changes in place.

The next, and hopefully last, meeting was tentatively scheduled for 9 a.m. June 8, the day before the State of the Industry Meeting. Following the meeting the Chairman found a conflict on that date in that he will be presenting a paper at SPE Symposium in Dallas that week. A revised date of May 26 is proposed, with backup date of June 2, if there is a problem on the earlier date. Please advise if there is a problem.

The meeting adjourned at 11:45 a.m.

Respectfully submitted,



VICTOR T. LYON, Chairman

attachments:

- (1) attendance list
- (2) comments from Frank Chavez
- (3) comments from Northwest Pipeline

GAS PRORATION RULES COMMITTEE

MINUTES OF MAY 26, 1989 MEETING

The meeting in the OCD Conference Room was called to order at 9:00 a.m. There was no comment or correction to the minutes of the April 19 meeting.

Chavez, who was ill and unable to attend the previous meeting was invited to comment on the material submitted in absentia by him and included with the minutes of that meeting. He presented an amended text (att. #1) proposing that current month allowables be based on actual production during the second prior month, adjusted by a set percent (he proposed 10% as the best of several tried in his model) of the pool status; a reduction if the pool is underproduced and an increase if the pool is overproduced. He also presented curves showing that over the past 10 years nominations followed actual production more closely than did the allowables based on adjusted nominations.

Allen and Mueller (Amoco) presented curves (att. #2) of the last complete proration period (4/88-3/89) showing fluctuation of SJB pool status and allocation trends apparently running counter to production trends. The chairman explained that the data fluctuations were caused by the number of reclassifications during the year, with a sharp decrease of non-marginal GPU's at each classification date and an increase each month until the next classification date. This is due to wells being reclassified to N each month if production for the well exceeds allowable. This phenomenon is one of the primary problems in the current rules, and which is addressed in the proposed rules.

Jones presented curves (att. #3) showing that for the Dakota and Mesaverde pools, allocations are lower both in 1988 and 1989 than they were in 1985 whereas his estimate of demand in both 1988 and 1989 to date is at least as high as 1985. A curve also showed that allocations the last two years are a smaller percent of deliverability (however that is figured) than in 1985. 1987 was not cited for comparison because of the very large May 1987 allowable. Of course, 1988 was reduced to balance that over-allocation.

The Chairman announced that as of the beginning of the current proration period (April 1) the San Juan Basin pools are in good balance and South Blanco and Tapacito are overproduced and have received a significant administrative adjustment increasing June allowables. He also announced that a number of peculiar things had been done by the computer in May, such as reclassifying overproduced wells to marginal. Operators are

encouraged to review their wells and bring any mistakes to OCD's attention.

Mollo (Gas Co.) submitted two proposed amendments (att. #4) to the proposed changes circulated by the chairman. The first addressed a situation where a well entered the proration period underproduced, became 12-plus times overproduced, was shut-in and was reclassified to marginal at period-end and the overproduction cancelled. This is a glitch in the rule and the computer program, which should be corrected.

The second amendment substituted "redistributed" for "cancellation" in proposed Rule 13(B) because the latter term has an unfortunate connotation from Gas Co.'s point of view in regard to contractual interpretation. The Chairman observed that OCD is neutral on contract disputes and attempts to avoid using terms which favor either party to such a dispute.

Nutter read to the group a hand-out letter (att. #5) expressing a desire to consider other options (but had none to offer) and is strongly opposed to the proposed time schedule contained in the Chairman's call of the meeting.

Allen stated several times that he could not understand the (apparently undue) concern about keeping the pools "in balance". Both Chavez and the Chairman explained that the statute required that pool allocations were to be approximately equal to market demand, but the explanation did not appear to improve understanding of the matter.

Discussion of the proposed changes showed that the revised draft circulated with the call (5/19/89) was deficient in many respects and needed considerable additional work. Since it appeared at least one more meeting is needed, it was decided that interested parties could submit written comments and the Chairman and General Counsel could collaborate to improve the proposed changes.

The Chairman observed that both June and July are difficult months to schedule a meeting but his dates of availability would be set out with these minutes and proposed dates offered for selection by the Committee.

The meeting adjourned at 12:20 p.m.

P.S. After reviewing scheduled absences the following dates are open and suggested meeting dates in order of Chairman's preference are as follows:

June 29, July 6, 11, 18 or August 1.

Work Committee members - please send preferred date for next meeting as soon as possible.


Chairman

GAS PRORATION RULES COMMITTEE
MINUTES OF JUNE 29, 1989 MEETING

The meeting was called to order at 9:05 a.m. The Chairman announced that the July proration schedules were delayed by problems extracting data from El Paso Natural Gas Co. tapes. Four tapes were submitted before data was successfully extracted. Approximately six work days were lost so the tapes will be mailed to Hobbs June 30 and schedules will be mailed from Hobbs, probably July 6. Also, a tape of the schedule will be mailed to Socorro on Friday so that producers may get a copy from NMPRRRC in Socorro. Call Jeff Garlough at (505) 835-5812.

Oxy USA and Phillips had mailed comments prior to the meeting. Northwest Pipeline, D.S. Nutter, Gas Co. and Amoco brought comments to the meeting.

Foppiano (Oxy) was invited to explain his presentation advocating a minimum allowable. He proposed a 200 MCF/D minimum, and answered questions after his presentation.

Nutter read his letter, copy attached (#1).

Wood (Amoco) presented graphs showing declining production from prorated pools and time required to reclassify a well from "N" to "M". He advocated shifting from the current monthly allowable to a 6-month proration period, copy attached (#2). Discussion followed and considerable interest was generated.

Sanders (Phillips) commented on his proposed rule changes as did Glenn (NWPL) (#3) and Kirkland (Gasco) (#4). Motion was made to establish a sub-committee to study the Amoco proposal and draft proposed rules. Another motion was made to establish a sub-committee to recommend rules and minimum allowable levels. A third motion was made to act on the "band-aid" rule changes suggested by Phillips and the Chairman and also have the sub-committee develop rules for the 6-month period. After considerable discussion and a review of the rules [Rule 12(b)], it was the consensus that the Chairman, provided the Director concurs, should administratively reclassify wells in accordance with the rules proposed at the last (May 27) meeting.

Following lunch break, it was agreed to establish the two sub-committees: the six-month proration period sub-committee to be chaired by Alan Wood, and the minimum allowable sub-committee to be chaired by Rick Foppiano. Sign-up sheets were passed around for volunteers.

The task of determining the specific wording of proposed rule changes was begun but after a short time it was decided to defer this task to Al Wood's committee in conjunction with their effort.

It was the committee's consensus that the band-aid changes be implemented as soon as possible so as to stabilize the number of non-marginal wells. Any comments on the rules should be sent to Alan Wood and copy to the Chairman.

The meeting adjourned at 3:00 p.m.

Respectfully submitted,



V. T. LYON, Chairman

dr/

Minutes of May 23, 1990, Gas Proration Rules Committee

The Committee met at 8:30 a.m. in the OCD conference room with attendance as shown on the attached list. The Chair asked that Rick Foppiano give a report of his subcommittee on minimum allowables. The rules were discussed thoroughly and a vote was taken of the work committee resulting in a vote of three in favor, two opposed and one abstention, for adopting the proposed change in Rules 5 and 8. A vote of each company represented at the meeting was 9 in favor, 2 opposed, one abstention.

The next item of business was for a report by Al Wood of his committee on 6-month allocation periods. A slightly revised draft was passed out. Wood discussed each suggested rule change which was proposed by his committee. There were alternative suggestions for several rules but the authors of those alternatives were not present to advocate their alternatives.

The thrust of the changes is to have two allocation periods, April through September and October through March, during each of which the monthly allowables will remain constant, based on nominations and actual production from the previous year's like period. There would be four classification periods beginning April 1, July 1, October 1 and January 1. The OCD would prepare a monthly update of pool and well status and issue quarterly hard copy proration schedules and monthly computer tapes, or alternatively, issue monthly hard copy schedules as at present.

The advantage of the proposed system is that allowables will not fluctuate month to month. The disadvantage is that the allowables will not be as quickly responsive to market demand changes.

After lunch the committee examined each proposal and adopted one proposed change of rules from the alternatives offered and also polished the language. The final draft of proposed rule changes is attached hereto for your review and comment. Comments will be considered until June 15. On or about that date a hearing will be docketed and the proposed rule changes will be sent to the general mailing list.

The Chair commended the committee for their participation and diligence with special kudos to Bob Glenn for his compilation of proposed changes. The meeting adjourned at 5:00 p.m.

Respectfully submitted,



Victor T. Lyon, Chairman

CASE 10009

OIL CONSERVATION DIVISION EXHIBIT NO. 2

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87504
(505) 827-5800

MEMORANDUM

TO: ALL GAS PRODUCERS, TRANSPORTERS AND PURCHASERS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RECLASSIFICATION PROCEDURES FOR PRORATED GAS WELLS

In accordance with my memorandum dated December 30, 1988, a Gas Proration Rules Committee was formed and has had several meetings. It is the consensus of that committee that the Director should use his discretionary authority to reclassify wells under Rule 12(b) of Order R-8170. The Committee is considering a number of rule changes which will be considered at hearing when the Committee has completed its work, probably several months in the future. Because of the continual classification/reclassification which has been occurring under existing rules, the following rules which were under review by the Committee will be implemented under my discretionary authority.

RULE 13(a) RECLASSIFICATION TO MARGINAL. A Non-marginal well may be reclassified to marginal status in either of the following ways:

(1) after the production data is available for the last month of each classification period, any GPU which had an underproduced status at the beginning of the proration period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; or

(2) a GPU which is underproduced more than the overproduction limit as described in 11(b)(1) or 11(b)(2), whichever is applicable, may be classified as marginal at the discretion of the Director.

RULE 14(a) RECLASSIFICATION TO NON-MARGINAL. If, at the end of any classification period, a marginal GPU has produced more gas during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU.

"SHADOW ALLOWABLE" of a marginal GPU is the allowable assigned in the same pool to a non-marginal GPU of the same A + AD character as the marginal GPU.

It is the Committee's view, with which I concur, that the revised classification procedure will help solve one of the major problems in gas proration today; viz. that too much allowable is going to wells incapable, or owners unwilling to produce at allowable rates and too little is going to wells which are capable and whom owners are anxious to produce at full allowable rates.

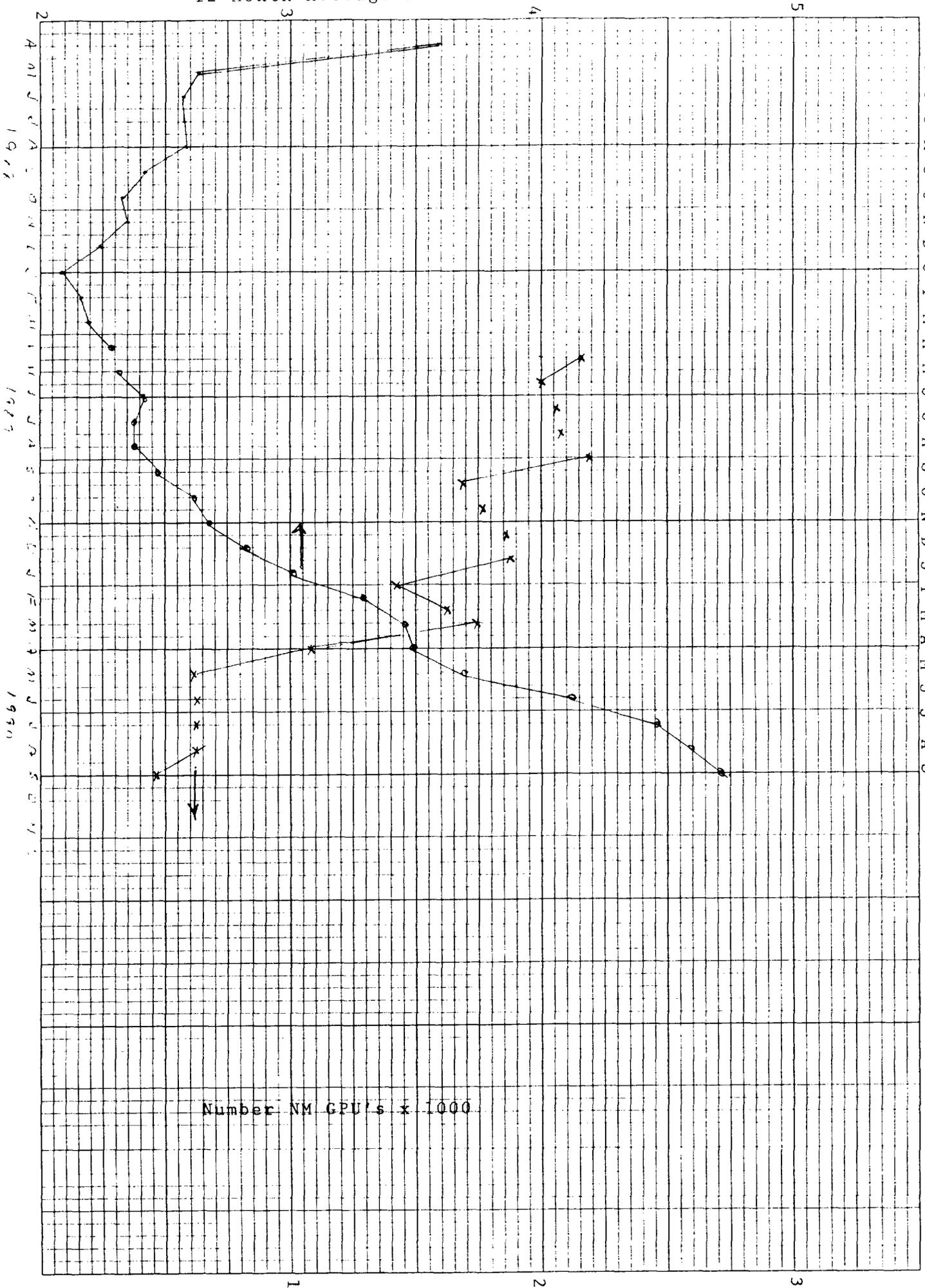
It is contemplated that a hearing will be held before year-end to consider the rule changes being proposed by the Committee.

You are being advised of this administrative change so that you may understand the changes which will be implemented in the August proration schedules.

July 5, 1989

dr/

12-Month Average F-1 x 1000



NO. 340R-1D DIETZGEN GRAPH PAPER
 10 X 10 PER INCH
 BASIN DAKOTA POOL
 DIETZGEN CORPORATION
 MADE IN U.S.A.

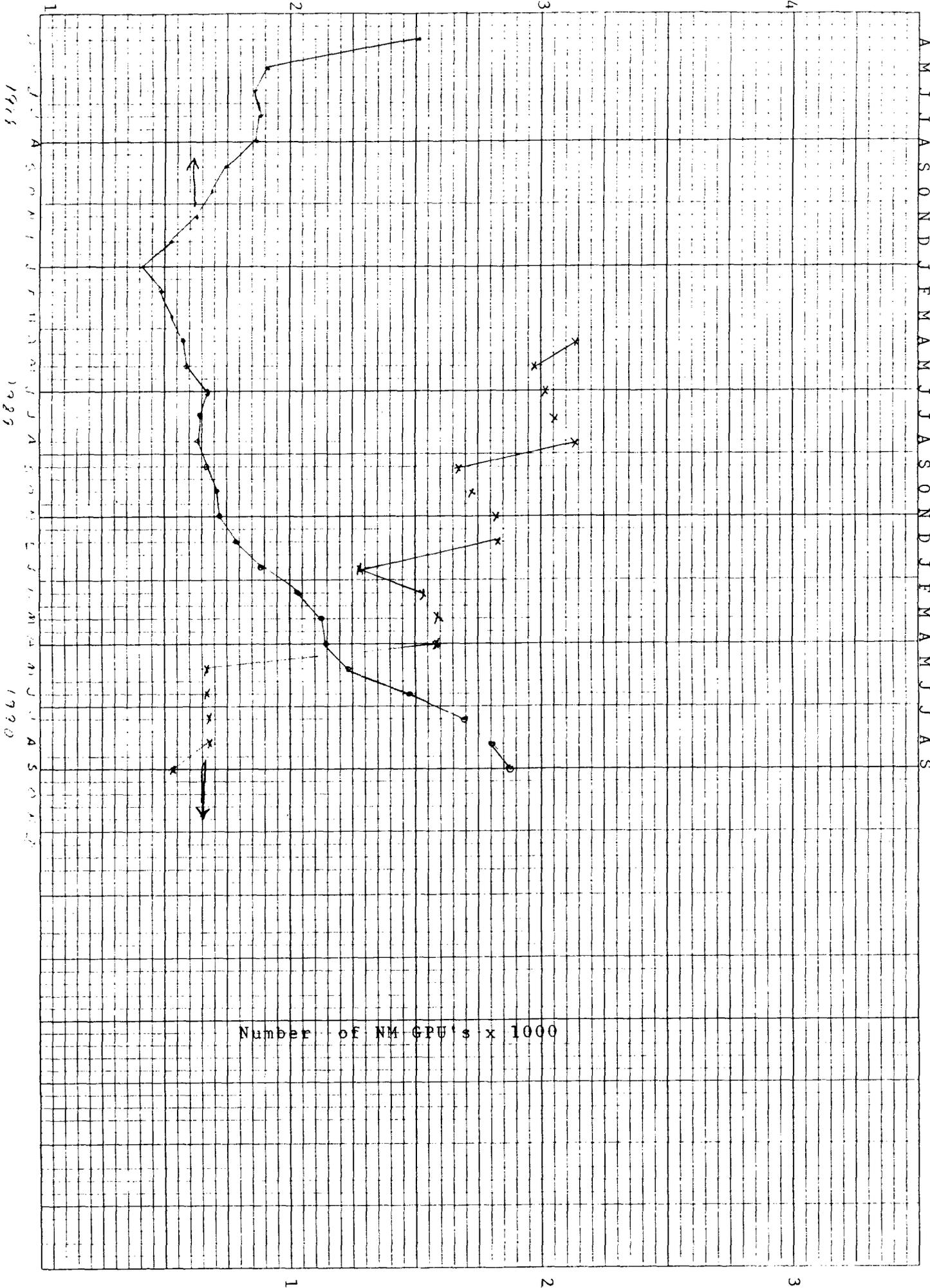
AMJJASONDJFMAMJJJASO
 1988
 Number of NM GPU's and 12-Month Average F-1
 1989
 1990

Number NM GPU's x 1000

12-Month Average F-1 x 1000

Number of NM GPU's and 12-Month Average F-1
 1988
 1989
 1990

NO. 340R-1C DIETZEN GRAPH PAPER
 15 X 10 PER INCH BLANCO MESAVARDE POOL
 DIETZEN CORPORATION
 MADE IN U.S.A.



Number of NM GPU's x 1000