



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



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

Case 10009

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SANTA FE, NEW MEXICO 87504
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MEMORANDUM

TO: CHARLES D. ENGELKE

FROM: L. O. VAN RYAN 

SUBJECT: CALCULATION OF SIX AND TWELVE TIMES OVER/UNDER PRODUCTION

Order No. R-8170-H

Rule 11(b)(1) and 11(b)(2) Clarification

The January allowable referred to in the subject rules should be the newest January allowable available (i.e. for Apr - Sept '91 period, January '91 allowable is used. For Oct - Mar '92 period, January '92 allowable is used).

cc: Dave Nelson

September 30, 1992

dr/

STATEMENT OF TEXACO INC.
SEPTEMBER 24, 1990 COMMISSION HEARING
CASE 10009 - NEW MEXICO OIL CONSERVATION DIVISION
REVISIONS TO DIVISION ORDER NO. R-8170, AS AMENDED
GENERAL RULES FOR THE PRORATED GAS POOLS OF NEW MEXICO

Texaco Inc. and its wholly owned affiliate Texaco Producing Inc. are major producers and aggressive marketers of New Mexico oil and gas. We believe that a gas proration system can be designed to

prevent waste through good reservoir management principles,
protect correlative rights of producers and royalty interests,
and

fully satisfy market demand for New Mexico gas.

We recognize the record of the Oil Conservation Division in meeting the first two design conditions. Adoption of the amendments being proposed by the Division in this rulemaking will be a major step toward meeting the third objective. The following comments will include some suggested additional amendments which we believe would lengthen that step.

RULE 1: DEFINITION

We support the division of the one-year proration period into two allocation periods and reduction of length of the classification period from four to three months. These changes, coupled with those proposed in Section E for reclassification of gas proration units, will help to make the system more responsive to changes in well producing capability and thus more able to allocate non-marginal allowables to meet market demand.

SECTION B: NOMINATIONS AND PRORATION SCHEDULE

Gas nominations have been notoriously inaccurate in the past, and the Division is suggesting that the District Director be given the authority to suspend the requirement for nominations if he decides that they are of little or no value. Texaco recommends eliminating this requirement now. Section 70-2-16 NMSA 1978 (Allocation of Allowable Production in Field or Pool) requires in Subsection D that the Division shall consider purchaser nominations, but does not bind the Division to use them. It does not bind the Division to require them to be submitted by every purchaser for every pool; it only states that the Division must consider those nominations which are submitted. We recommend that gas nominations be made an optional method for purchasers, transporters, etc. to furnish information, on any significant gas demand changes, which they have reason to believe the Division does not already have. Rule 3(a) could be amended to read:

Rule 3(a) GAS PURCHASERS OR GAS TRANSPORTERS MAY NOMINATE: Each gas purchaser or each gas transporter as herein provided may file with the Division its nomination for the amount of gas which it in good faith desires to purchase and/or expects to transport during the ensuing allocation period from any gas pool regulated by this order. The purchaser may delegate the nomination authority to the transporter, operator, or broker by notifying the Division's Santa Fe office. One copy of each such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider, at its allocation hearing, the nominations for the succeeding allocation period. The Division shall consider at its allocation hearing the nominations received, actual production, and such other factors that may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing allocation period.

SECTION C: ALLOCATION AND GRANTING OF ALLOWABLES

The Division's proposed language for Rule 5 places a new emphasis on meeting market demand. We concur with this need. Texaco suggests, however, that it may not be adequate to simply equate pool allowables to estimated market demand. Past experience indicates that most marginal wells - and many wells classified as non-marginal - can not consistently produce their assigned allowables. A simple mathematical equating of anticipated market demand to each pool will inevitably result in insufficient non-marginal allowable assignment to meet actual market demand in many cases. In some instances, the proposed adjustments to compensate for overproduction, etc. may not be adequate. We recommend that Rule 5 be amended to require assignment of sufficient allowable to each pool to actually satisfy market demand. Rule 5 could be amended to read:

Rule 5 HOW ALLOWABLES ARE CALCULATED: The total allowable to be allocated each allocation period to each gas pool regulated by this order shall be equal to the estimated market demand as determined by the Division, plus any adjustments to the total pool allowable the Director deems necessary to satisfy the estimated market demand. The Director may make such adjustments as he deems necessary to compensate for overproduction, underproduction, and other circumstances which may necessitate such adjustment so as to provide sufficient pool allowable to satisfy the anticipated market demand. The estimated market demand for each pool shall be established from any information the Director requires and can consist of nominations from purchasers, transporters, or other parties having knowledge of market demand for gas from such pools, actual past production figures, seasonal trends, or any other factors deemed necessary to establish estimated market demand.

The Director shall not be bound to use all the information requested and can establish market demand by any method so approved. A monthly allowable shall be assigned to each GPU entitled to an allowable by allocating the pool allowable among all such GPU's in that pool in accordance with the procedure set forth in the following paragraphs of this Order.

Texaco agrees with the setting of marginal GPU allowable based on average production over an extended period rather than using the latest available monthly production. This will tend to stabilize marginal allowables and bring them more closely into line with actual production. We disagree with using the allowable from the same allocation period of the previous year. Marginal well production should be relatively free from seasonal impacts and will often be on a decline. We therefore recommend that Rule 5(a)1 read:

Rule 5(a)1 MARGINAL GPU ALLOWABLE: The monthly allowable to be assigned to each marginal GPU shall be equal to its average monthly production from the latest available classification period.

We further recommend that Rule 5(a)1 be expanded to clarify the effect of overproducing a marginal GPU. Suggested additional language is as follows:

In the event a marginal GPU overproduces its monthly allowable, its allowable for that month shall be adjusted upward to cover that overproduction but shall not exceed its shadow allowable for that month.

As a matter of note, we have used the term "shadow allowable" to mean the allowable which would be assigned to the well if it were non-marginal. This term, also used in the Division's proposed change for Rule 14(a), should be defined in Rule 1.

We concur with the remaining Division proposals for this Section, especially the expansion of Rule 8 (Minimum Allowables).

SECTION E: CLASSIFICATION OF GPU'S

As already mentioned, Texaco concurs with division of the proration period into two allocation periods and four classification periods. This should allow more timely reclassification of wells but provide a sufficiently long period for averaging to determine capacity. We suggest that the Division may need to be still more aggressive in reclassifying non-marginal GPU's to marginal. Texaco strongly believes that market demand can best be satisfied by ensuring that only capable wells share in the allocation of non-marginal pool allowable. The Division is recommending that a GPU must be underproduced at the beginning of an allocation period to be eligible for reclassification to marginal under the first of its

two tests. We believe that each classification period is long enough to be handled independently, and we recommend that Rule 13(a)(1) read:

- (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 classification 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; however, the operator of any GPU so classified, or other interested party, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified; or...

We agree with the remainder of the changes proposed by the Division for this Section.

Texaco appreciates the opportunity to offer its recommendations and comments to the Commission.

KELEHER & McLEOD, P. A.

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October 24, 1990

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
525 Camino de los Marquez
Santa Fe, New Mexico 87501

Attention: Mr. William J. LeMay, Director

Dear Mr. LeMay:

Please find enclosed GCNM's comments to changes to R-8170. If you have any questions, please call or write.

Sincerely,

KELEHER & McLEOD, P.A.

By: _____ /SS
Clyde F. Worthen

Enc: a/s
HWC/35

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OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION COMMISSION

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OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 10009
Docket No. 27-90

COMMENTS OF GAS COMPANY OF NEW MEXICO

INTRODUCTION

During its hearing of September 24, 1990 in Docket No. 27-90, the Oil Conservation Commission received comment and testimony regarding the above-entitled matters. During the hearing, Commissioner William J. LeMay allowed the parties 30 days to comment on cases considered in that docket. Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., hereby files its comments regarding Case No. 10009. GCNM operates gathering, transmission and distribution facilities for the sale of natural gas within New Mexico. GCNM is a common purchaser of natural gas as defined in §70-2-19 NMSA 1978 and in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division"). As a purchaser of natural gas from prorated pools in New Mexico, GCNM is an interested party in Case 10009. GCNM will not comment regarding other matters considered in Docket No. 27-90.

However, any absence of comment regarding other cases in this docket should not necessarily be viewed as acquiescence to or agreement with these individual proceedings and rules issuing therefrom. GCNM reserves any right it may have for future comment in all cases considered in Docket No. 27-90.

GCNM's PROPOSED ADDITION TO RULE 5

GCNM makes the following suggestions and amendments to proposed changes in R-8170.

5()() CHANGES IN ALLOWABLE DURING AN ALLOCATION PERIOD

During any allocation period any person may present evidence to the Director that the total allowable for the allocation period is causing or could cause waste. Upon evidence showing that the total allowable is substantially in excess of or less than current market demand, the Director shall have authority to raise or lower the total allowable to such demand for the remaining allocation period.

GCNM's COMMENT AS TO RULE 8

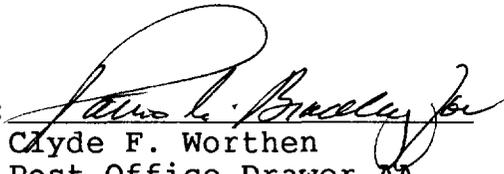
GCNM requests that Rule 8 stay as presently written. The present rule is designed to prevent waste.

The proposed rule as written could increase drilling, for reasons beyond the intent of the statute to prevent waste. By injecting arbitrary economic factors and not limiting the rule to solely preventing

premature abandonment of wells; the OCD may set minimum allowables in excess of current consumption as outlined in 70-2-4 N.M.S.A. Therefore, to the extent the proposed rule could set a minimum allowable that exceeds the "reasonable market demand" as defined in 70-2-4, it would be in violation of the statute.

Respectfully submitted this ____ day of October, 1990.

KELEHER & McLEOD, P.A.

By: 
Clyde F. Worthen
Post Office Drawer AA
Albuquerque, New Mexico 87103

Attorneys for Gas Company of
New Mexico, a division of
Public Service Company of
New Mexico

HWC/35



October 23, 1990

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State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Case No. 10009
Proration Rules Hearing, September 24, 1990

Gentlemen:

After working with the New Mexico Oil Conservation Division rules and regulations for many years and having served on many committees for the Division, I feel that I somewhat understand the rules and regulations for gas proration. With this thought in mind, I respectfully submit the following suggestions to the Division for their consideration.

When this latest committee was first convened to study the need for gas proration rule changes, there were some members of the committee that felt there should be a wholesale change in the existing rules. As the meetings of the committee continued, there became a decided difference in the opinions expressed by the members. Near the end of the committee meetings, it seemed evident that there were not a lot of things that needed to be changed.

A change to a six month allowable looks good at the start and may be an easy way to start. I do have problems in seeing how much benefit will occur to the industry as we progress through time and try to keep the pools in balance. Another state has already tried this six month allowable assignment and now they are looking for a better way to do their proration allocation.

New Mexico has had a good proration system for many years. It has been the state with the best proration rules for natural gas. Minor adjustments have been necessary at times throughout the years to meet certain changes that have occurred in the industry. These changing conditions have been weathered without wholesale change to what has been the rules of progress.

Allowables for natural gas wells can be assigned under the present system of gas proration in New Mexico that will give the necessary relief to operators and producers and will continue to permit the gas from New Mexico to meet its competition in the market place.

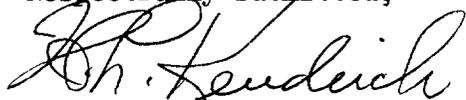
State of New Mexico
Santa Fe, New Mexico 87504
Case No. 10009 - Proration Rules Hearing,
September 24, 1990

October 23, 1990

Page II

I believe that if we start today to remake the proration system of New Mexico, before we can get it in operation and the bugs worked out and the industry educated to what are now the rules to follow, we will be turning around in our tracks to rebuild the system to one that is much as we have it today.

Respectfully submitted,



H. L. Kendrick
Engineer, State Conservation

/je



OIL CONSERVATION DIVISION
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Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

Eric L. Nitcher
Attorney

October 19, 1990

Mr. William J. LeMay, Director
New Mexico Energy, Minerals
and Natural Resources Department
Oil Conservation Division
P. O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87504

Re: Written Comments to Case No. 10009

Dear Mr. LeMay:

Enclosed please find Amoco Production Company's (Amoco) written comments concerning the proposed rule changes as set forth in Case No. 10009.

Amoco supports the proposed rule changes, and would respectfully request Amoco's written statement be spread upon the record of Case No. 10009.

If you have any additional questions concerning Amoco's position or comments, please feel free to contact me.

Yours very truly,

Eric L. Nitcher

ELN:lls

Amoco Production Company Statement on Case 10009

Amoco Production Company appreciates the opportunity to provide written comments in this matter. Amoco supports the proposed rule changes and believes they will help solve several of the current problems occurring in the prorated pools. We commend the committee, for it took significant effort by the producers, pipelines/transporters, and the Division to develop the required changes necessitated by the dramatic change in the gas marketing environment. Although some of the committee members favored additional changes such as shortening the Proration Period, accelerating the classification to marginal, reducing the allowable rather than shutting in an overproduced well, and allowing interim adjustments to the six month allowable, the proposed changes reflect a position that was supported by the committee.

The following are some of the anticipated benefits to be realized by adopting the proposed changes:

- Allows ample time for knowledgeable parties to prepare nominations
- Allows proration system to be utilized as a "long term" planning tool
- Allows the NMOCD and industry groups to examine and incorporate market trends
- Reduces administrative burden on the NMOCD and industry
- Reduces computer and mailing expenses
- Provides better insight on status of pool balance when allowables are being assigned

Some additional suggestions and comments we would like the NMOCD to consider are:

- All of the proposed rule changes should become effective on April 1, 1991 since the summer is a low demand period and any initial problems with the implementation of the changes can be rectified before the winter period. The NMOCD should pursue all options to ensure that the rule changes are made by April 1, 1991. If necessary, the industry may be willing to supply or fund programming assistance to the NMOCD. It is critical that the rules be implemented as a package because several of the rules are interrelated and will not be as effective if implemented separately.
- The proposed changes will allow the NMOCD to go from a monthly to a quarterly publication of GPU allowables and over/under status. We believe a quarterly report is acceptable as long as all of the necessary monthly information is provided in electronic form (e.g., tapes or preferably diskettes). If a monthly report is still required to meet the needs of the industry, then an abbreviated report could be generated that only includes the essential information such as current GPU over/under status to prevent illegal gas production. A considerable cost savings could be realized by the NMOCD if the monthly reports are eliminated or reduced in size.
- If the NMOCD believes an administrative adjustment of a pool's allowable is necessary to correct a pool's imbalance, then the correction should not be in excess of 10% of the imbalance. The committee suggested this as a guideline rather than a requirement to allow the director some flexibility. However, it is Amoco's opinion that the 10% guideline should be adhered to, if possible, because a larger correction will cause significant swings in the pool's allowable without improving the pool's imbalance. This effect has been verified by computer modeling of past allowables, which can be provided to the NMOCD upon request.

- The Classification Period is a necessary part of the proposed changes since it is used to trigger the classification of wells to marginal and it allows for the timely publication of the reclassifications. Production for the just completed Allocation or Classification Period will not be known at the time of the Allowable Hearing, so reclassifications have to be made based on the second previous Allocation or Classification Period's production. By having a Classification Period in addition to the Allocation Period, the reclassification delay is reduced from six months to three months.
- The committee elected to recommend January for the base month to determine whether a GPU was 6 or 12 times over/underproduced since it would most likely be the highest allowable month for the Proration Period. Also, by using January as the basis it gives the director the flexibility to assign monthly allowables as either a six month average or allow them to vary depending on seasonal demand. It is important for the over/under limit to remain fixed for the year so operators can determine if the GPU is close to the limit. The limit in the current rules varies each month and can cause GPUS to exceed the limit even though their latest monthly status did not change.
- Modifications to the general rules may require some changes to the specific pool rules. The specific pool rules were not addressed by the committee.

Amoco believes the proposed rule changes are a significant first step in updating the New Mexico proration system. Several of the inequities currently existing in the prorated pools can be overcome and several benefits can be achieved by adopting the proposed changes. Amoco supports the proposed rule changes and urges that they be approved and implemented by April 1, 1991.

STATEMENT OF OXY USA Inc., Midland, TX
9-24-90

My name is Richard E. Foppiano. I represent OXY USA Inc., a major producer of oil and natural gas in Southeast New Mexico. We actively participated in the efforts of the Gas Rules Committee to analyze gas proration problems in New Mexico and propose solutions.

OXY supports the proposed changes, with some reservations. The way the rules are interpreted and put into practice by the Commission staff is critical to achieving the benefits envisioned by the participants in the Committee. As Vic Lyons pointed out in the minutes of the last Committee meeting, there are pros and cons in these proposed rules. The 64,000 dollar question is "What is the net effect?". The answer depends in large part on how the proposed changes are put into practice to determine the market demand and apportion it between the wells in the pool .

I am not saying that something was mistakenly "left out" of the proposed rule changes. Quite the contrary, the Committee members did an outstanding job in redesigning the gas proration system and drafting rule changes to implement it. The concerns we have are about the next step, the "interpretation" phase. OXY believes the door should be left open to "fine tune" the rules or procedures after they have been in practice and everyone has had a chance to see the net effect of the changes. For this reason, we propose that if these rules are adopted, they be adopted on a trial basis. A review hearing should be set up one year after the new system has been installed, to hear comments and suggestions on how to "fine tune" the proration system.

Just a few technical observations. OXY doesn't understand why nominations are still being required, particularly since they serve no greater purpose under the proposed rules as they did under the current proration system. It is unnecessary paperwork, and should be eliminated if they are not going to be used. Also, we recommend a change to Rule 5(a)1, as proposed. This rule defines how much allowable will be assigned to a marginal well, specifically, its average production during the same allocation period of the previous year. As we all know, gas wells decline in production, even marginal gas wells. To avoid adversely affecting the non-marginal allowable by assigning more allowable than necessary to marginal wells, OXY recommends that Rule 5(a)1 be changed to provide that a marginal well is assigned an allowable equal to its average production during the last classification period.

OXY worked on a special subcommittee to address the minimum allowable issue. The idea of a minimum allowable was originally proposed by OXY at one of the Committee meetings. Our purpose was to provide a base level of allowable in prorated gas pools that is necessary to encourage further development, workovers of existing wells, compression installation, etc. Our analysis of one particular field indicated that the proration system was sometimes causing allowables to be so low that operators were not drilling new wells or reworking old wells, because the low allowables prevented recovery of one's investment. Also, some operators of marginal wells were avoiding the expense of compression installation, because of the low non-marginal allowables. The suggested change to Rule 8 was designed to allow operators to adopt a minimum allowable that recognizes the economics of drilling and operating gas wells in a prorated pool. We recommend that it be adopted.

We complement the OCD for tackling a difficult problem such as prorating gas in today's gas market conditions. As you probably know, other states are grappling with similar issues, and it appears that New Mexico is blazing a path for others to follow.

That is all I have to offer today. I'll be happy to answer questions, if you have any.

Thank You.

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING ON ITS OWN MOTION:

CASE NO. 10009

REVISIONS TO DIVISION ORDER
NO. R-8170, AS AMENDED.

**DOYLE HARTMAN'S COMMENTS ON PROPOSED CHANGE TO RULE 8 OF
DIVISION ORDER NO. R-8170**

Doyle Hartman is an operator of natural gas wells and a working interest owner in substantial oil and gas leaseholds in Southeast New Mexico, particularly the Eumont and Jalmat Gas Pools. As such, he submits these comments in support of the New Mexico Oil Conservation Division's proposed change to Rule 8 of Division Order No. R-8170. He takes no position at this time as to the other changes to that Order proposed by the Division at this time.

I. The Commission Has the Statutory Authority to Set Minimum Allowables

It is not only the power, but the duty of the New Mexico Oil Conservation Commission (Commission) and the New Mexico Oil Conservation Division (OCD) to prevent waste and protect correlative rights as provided in the Oil and Gas Act. NMSA 1978, §§ 70-2-11(A). -2-1 et seq. In the act, the term "waste", of course, has its ordinary meaning and also indicates the inefficient use or dissipation of reservoir energy and

production in excess of reasonable market demand, inter alia. NMSA 1978, §70-2-3. Correlative rights of an owner of property in a pool encompass "the opportunity to produce his just and equitable share of the oil or gas, or both, in a pool" NMSA 1978, § 70-2-17(A) (emphasis added).

In order to prevent waste, the OCD, "upon a reasonable basis and recognizing correlative rights" may fix total allowable production of wells in a gas pool at less than the pool could produce if no restrictions were imposed and may consider acreage, pressure, open flow, porosity, permeability, deliverability, and gas quality and "such other pertinent factors as may from time to time exist" . NMSA 1978, § 70-2-16(C) (emphasis added).

In conjunction with these powers, the Division is expressly authorized to set minimum allowables:

Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect, to the end that production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

NMSA 1978, Section 70-2-17(D).

Thus, the Commission and Division have full power and authority in exercising their statutory mandate to amend Rule 8 of Order No. R-8170 to expressly provide for establishment of minimum allowables that will protect the ultimate recovery of hydrocarbons from a pool, thereby preventing waste and protecting each producers' right to recover his share of that ultimate recovery. Although the rule change is not necessary to the Commission's exercise of authority to establish minimum allowables for

its gas pools, depending on the unique circumstances of each such case, the rule change clarifies that it is willing to consider such applications and points to those factors that are particularly important to its determination. It thus may encourage such applications and thereby enhance the growth and development of New Mexico's most valuable resource industry.

II. A Mechanism for Establishment of Minimum Allowables Is Necessary

Since the Federal Energy Regulatory Commission's adoption in 1985 of Order No. 436 and in 1987 of Order No. 500 and its progeny, providing for open access on interstate natural gas pipelines, the natural gas industry has rapidly transmuted from a government-controlled distribution system to a competitive marketplace. Natural gas pipelines are no longer the firm and sole purchasers of producers' gas; now, they have almost completely relinquished their function as merchants and serve as gatherers and transporters. Producers must arrange their own sales, or aggregate with others through marketers and brokers.

In this competitive system, market demand for a producers' gas is no longer determined by pipeline purchases and contracts but is now price-driven and constrained only by the capacity of processing, gathering and transportation facilities. The demand for a producer's gas is largely a matter of his own choice to sell at a given price.

As a result, as this Commission knows, the use of pipeline nominations to determine market demand and establish pool allowables is no longer reliable. In June of

1987, the Division began setting allowables by taking the previous month's pool production, making a small seasonal adjustment, and implementing it for the next month.

This "Historical Factor Method" has also proved to be unreliable. In theory, if a producer's production increases, his allowable two months down the road will also increase. However, each producer is still constrained by over-production limits: just as he increases production, he will become overproduced and be forced to shut-in his well. This decreases pool production, concomitantly limiting or reducing the ensuing pool allowable, creating a vicious cycle. Moreover, with price-driven market demand, there is not necessarily any reasonable relationship between what amount of gas was sold two months ago and what will be sold in any following month.

Whatever the reason, the allowable system has not operated in a consistent and reasonable fashion during the past seven years, and particularly since 1987. This is graphically demonstrated by the chart attached to these comments as Appendix I. The transformation of consistent and somewhat predictable allowable trends for the Eumont and Jalmat pools into wildly fluctuating limits leaps from the page. Producers are facing not only the vagaries and changes of a competitive marketplace, they unnecessarily face the added burden of unpredictable government restraints.

These fluctuations and depressed allowable levels discourage not only drilling, but recompletion and remedial projects as well. They irreparably harm producer economics resulting in slower and inefficient development of potentially vast reserves. This in turn denies the state revenues and depresses local economies, particularly in regions such as Southeast New Mexico. Most important, they waste through the inefficient recovery and

possible prevention of ultimate recovery of gas reserves. Moreover, the system as it operates now impairs correlative rights by hampering and delaying producers' opportunities to recover their share of reserves.

New Mexico producers cannot wait another three years to see if and how the allowable system works in this continually changing environment. Something must be done now to enable them to drill, develop and sell their gas before they are squeezed out by their competitors in other states.

III. Minimum Allowables Can Substantially Contribute to Solving Allowable Problems

Establishment of minimum allowables in pools suffering such adverse effects can be a substantial solution to the problems clouding the current proration system. By assuring a stable level of permissible production as a floor on allowables set by the Division, minimum allowables can provide sufficient assurance to producers that they should be able to effectively recover costs at a rate appropriate to the industry and will encourage and enhance development. It will provide producers with an opportunity to produce their reserves rather than deny them this right. No producer will be artificially constrained from selling into a market simply because his neighbor chooses to forego his opportunity to produce at a particular time. Minimum allowables permit the competitive natural gas market to operate as it is intended under the Federal Energy Commission's Orders: supply and production, by the producers' business choice and acumen, will necessarily be a function of price and demand.

By the same token, however, minimum allowables would not de-prorate pools. The existence of an allowable applicable to each well's production based on acreage or acreage and deliverability, as the case may be, will prevent helter-skelter field development and continue to provide for orderly drilling and production.

It is apparently contemplated by the proposed change to Rule 8 that the setting of a minimum allowable would be performed on a case-by-case basis, and that the minimum allowable would operate just like any allowable set by the Commission, but would in essence, provide a floor. This is entirely appropriate and necessary; the floor allowable would depend on pool or field characteristics.

Indeed, Texaco, Inc., has pending an application to establish a minimum allowable for the Eumont Pool which was heard by the Division's Hearing Examiner on September 19, 1990. The hearing on that application provides an excellent assemblage of testimony and evidence fully clarifying the need for establishment of minimum allowables in one particular instance. Doyle Hartman therefore urges the Commission to review and take administrative notice of the transcript and exhibits in that proceeding as support for adoption of the proposed amendments to Rule 8 of Division Order No. R-8170, and respectfully requests that the Commission adopt the proposed change to that Rule.

Respectfully submitted,

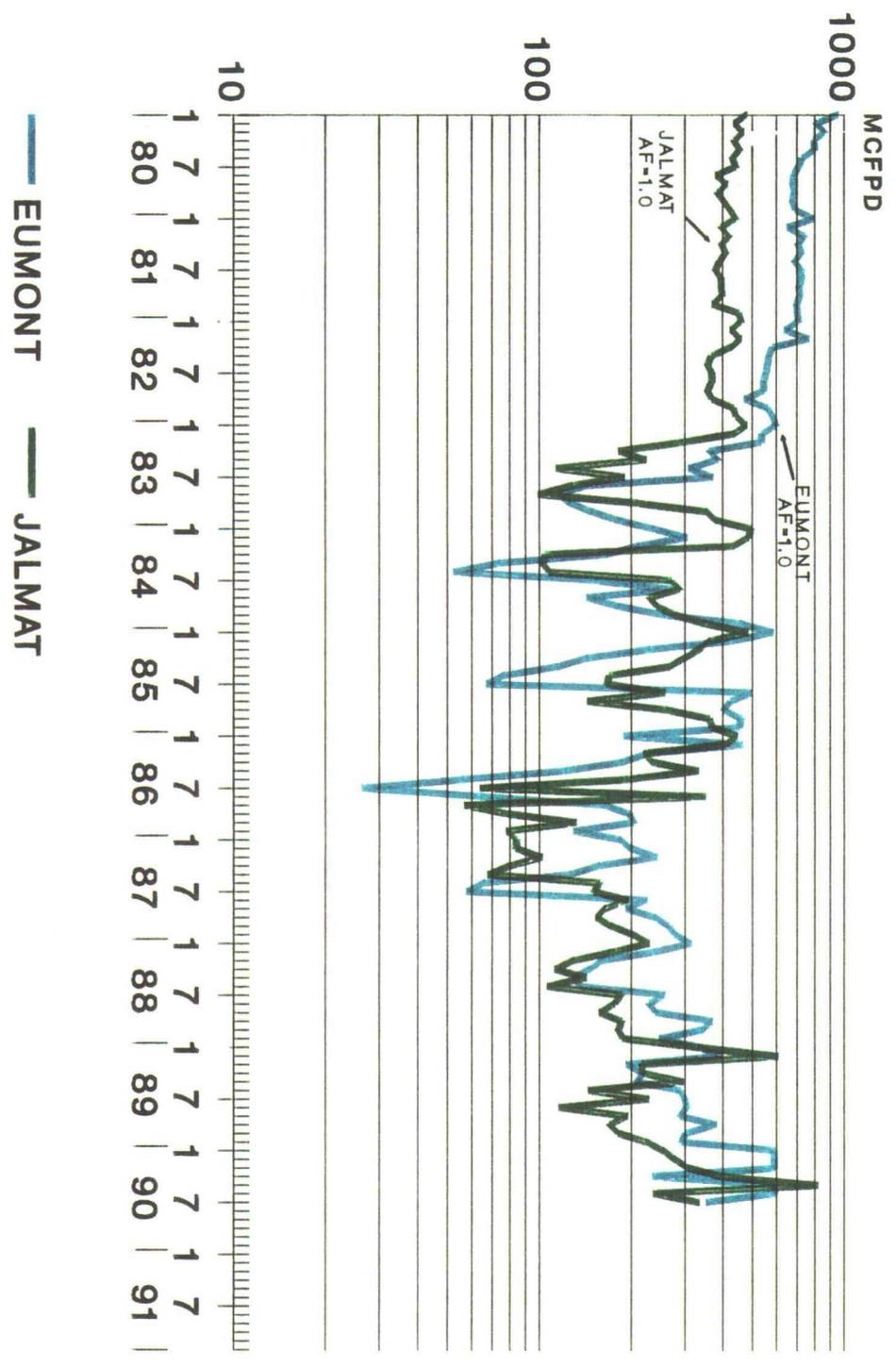
GALLEGOS LAW FIRM, P.C.

By 
JOANNE REUTER

141 East Palace Avenue
Santa Fe, New Mexico 87501
(505) 983-6686

ATTORNEYS FOR DOYLE HARTMAN

EUMONT AND JALMAT NON-MARGINAL ALLOWABLE ACREAGE FACTOR = 1.0



EUMJALPD/NOME/571



Mark K. Mosley
Division Manager
Midland Division
Exploration and Production

Conoco Inc.
10 Desta Drive West
Midland, TX 79705-9982
(915) 686-5400

20 AUG 31 AM 9 20

August 22, 1990

Mr. William J. LeMay
State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
P.O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87504

Case 10009

Dear Mr. LeMay,

In response to your Gas Proration Rule Change Proposals, attached are Conoco's written comments. We also plan to attend the hearing on September 27th.

Please contact Mr. Mike Zimmermann at (915) 686-6584 if you would like to discuss any of our comments.

Yours very truly,

M. K. Mosley
Division Manager

MWZ\dw
8-8.ltr

GAS PRORATION RULE CHANGE PROPOSALS

WRITTEN COMMENTS

RULE 1 * CONOCO SUPPORTS THE PROPOSED 6 MONTH ALLOCATION PERIOD WITH CONSTANT ALLOWABLES.

RULE 3(A) * THE RELIABILITY OF PIPELINE NOMINATIONS IS QUESTIONABLE DUE TO CHANGES IN
RULE 5 GAS MOVEMENT. FOR EXAMPLE, OVER 85% OF EL PASO'S THRUPUT IS NOW MOVED AS TRANSPORTATION GAS. THEREFORE, EL PASO DOES NOT HAVE AS TRUE A PICTURE OF THE GAS ON ITS SYSTEM AS IT DID WHEN IT PURCHASED THE GAS. IN ADDITION, THE MAJORITY OF EL PASO'S THRUPUT COMES FROM SOURCES NOT METERED BY THEM AT THE WELLHEAD, I.E., THRU NON-EL PASO PLANTS AND INTERCONNECTING PIPELINES.

MANY TIMES NOMINATIONS APPEAR TO HAVE LITTLE CORRELATION TO PRODUCTION. FOR EXAMPLE, APRIL'S NOMINATIONS FOR THE EUMONT POOL WERE 42.2 MMCFPD WHILE PRODUCTION WAS 52.8 MMCFPD. THIS IS A DIFFERENCE OF 10.6 MMCFPD. APRIL'S NOMINATIONS FOR THE JALMAT POOL WERE ONLY 5.0 MMCFPD WHILE ACTUAL PRODUCTION WAS 29.6 MMCFPD. PRODUCTION EXCEEDED NOMINATIONS BY 24.6 MMCFPD OR 592%!

TOTAL THRUPUT ON EL PASO AND TRANSWESTERN WOULD GIVE A TRUER PICTURE OF MARKET DEMAND THAN PIPELINE NOMINATIONS. BOTH MAINLINES RUN CLOSE TO 100% OF CAPACITY NEARLY ALL THE TIME. THIS IS THE TRUE ESTIMATE OF MARKET DEMAND. IT IS THE CONSUMER AND PRODUCER WHO SHOULD DETERMINE HOW MUCH GAS WILL BE PRODUCED THROUGH MARKET FORCES.

WHEN NEW MEXICO GAS IS SHUT-IN DUE TO ALLOWABLE CONSTRAINTS, TEXAS GAS AT WAHA AND PLAINS AS WELL AS ANADARKO GAS DISPLACES NEW MEXICO GAS. THIS SITUATION REDUCES NEW MEXICO SEVERANCE TAX REVENUES, STATE AND FEDERAL ROYALTY PAYMENTS, AND AFFECTS THE LOCAL ECONOMIES AS WELL.

THE MARKET(PRODUCERS AND CONSUMERS) SHOULD DETERMINE WHO CHOOSES TO PRODUCE AND AT WHAT RATE. CORRELATIVE RIGHTS SHOULD BE PROTECTED THRU AN ALLOWABLE SYSTEM BASED ON DELIVERABILITY. FOUR POINT TESTS AND ANNUAL SHUT-IN PRESSURE TESTS ARE REQUIRED TO BE SUBMITTED TO THE NMOCD YET THIS VALUABLE INFORMATION IS NOT BEING INCORPORATED INTO THE ALLOWABLE SYSTEM.

CURRENTLY, WHEN WELLS ARE SHUT-IN TO REDUCE THEIR CUMULATIVE OVERAGE AFTER THE PEAK WINTER DEMAND PERIOD, THE AVERAGE ALLOWABLE IS REDUCED EACH MONTH BECAUSE TOTAL POOL PRODUCTION DECLINED. THIS "RATCHETING DOWN" OF ALLOWABLES CREATES A "CATCH 22" SITUATION - OVERPRODUCED WELLS MUST BE SHUT-IN TO BUILD UP ALLOWABLES BUT EACH MONTH THEY ARE SHUT-IN THEIR ASSIGNED ALLOWABLE DECREASES. THE F1 FACTOR SHOULD BE BASED ON DELIVERABILITY RATHER THAN LAST MONTH'S PRODUCTION TIMES A SEASONAL ADJUSTMENT FACTOR. THIS SYSTEM WOULD GIVE EACH OWNER ACCESS TO HIS SHARE OF THE POOL RESERVES WHILE PROTECTING THE OTHER OWNER'S CORRELATIVE RIGHTS VIA THE OVERPRODUCED LIMIT.

- RULE 8 * CONOCO STRONGLY SUPPORTS A MINIMUM ALLOWABLE FOR ALL PRORATED POOLS. A REALISTIC MINIMUM ALLOWABLE WILL ENABLE PRODUCERS TO PROPOSE NEW DRILLING WELLS, RECOMPLETIONS, AND REMEDIAL WORK. CONOCO WILL ALSO SIGNIFICANTLY INCREASE CURRENT PRODUCTION THRU THE LOWERING OF GATHERING SYSTEM PRESSURES IF A REALISTIC MINIMUM ALLOWABLE IS APPROVED FOR THE EUMONT POOL.
- RULE 9(d) * CONOCO RECOMMENDS CHANGING THE DELIVERABILITY TEST EXEMPTION FOR PICTURED CLIFFS WELLS FROM 250 MCF PER MONTH (8.3 MCFPD) TO 1,500 MCF PER MONTH (50 MCFPD). THIS CHANGE WOULD SAVE PIPELINES AND WELL OPERATORS CONSIDERABLE EXPENSE AND TIME WHILE HAVING LITTLE IF ANY AFFECT ON THE ALLOWABLE SYSTEM DUE TO THE LOW VOLUMES INVOLVED.
- RULE 12(A) * SEMI-ANNUAL RECLASSIFICATION SEEMS SUFFICIENT SINCE ANY UNDERAGE IS REINSTATED UPON RECLASSIFICATION TO NON-MARGINAL. QUARTERLY RECLASSIFICATION PERIODS SHOULD RESULT IN NUMEROUS RECLASSIFICATIONS WITH LITTLE APPARENT BENEFITS.

GALLEGOS LAW FIRM

A Professional Corporation

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Santa Fe, New Mexico 87501
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*File Gas Pro.
Case file*

J. E. Gallegos
George F. Bingham*
Michael L. Oja**
Joanne Reuter
Mary E. Walta †
Harry T. Nutter
Mary Ann R. Burmester***

July 5, 1990

Our File No. 90-1.32 and 89-1.14

Robert Stovall
General Counsel
Oil Conservation Division
State Land Office Building
P.O. Box 2088
Room. 206
Santa Fe, New Mexico 87504

Case 10009

RE: Gas Proration Rule Change Proposal

Dear Bob:

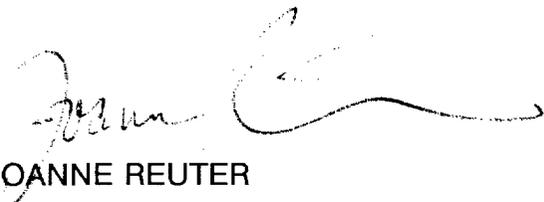
This letter will confirm our telephone conversations of Tuesday, July 3, 1990. Based on those conversations, it is my understanding that the Gas Proration Rule Change Proposals distributed to all producers by Director LeMay's memorandum of June 27, 1990 will be called on the Commission's July 19, 1990 docket, but that hearing will be postponed until September 27, 1990. Comments will also not be due until September 27, 1990.

I was relieved to hear that the Commission's hearing would be postponed, as it would have been practically impossible to provide meaningful comments on the proposed rules by July 19. Should there be any other scheduling changes, please let me know.

Thank you for your assistance in this matter.

Sincerely,

GALLEGOS LAW FIRM

By 

JOANNE REUTER

JR:ap

*Also admitted in the District of Columbia

**Also admitted in California

***Also admitted in Texas

† Admitted only in Colorado

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 Production Rules Committee Meeting 4-19-89

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>
W.J. "BUSTER" ORBISON	GAS CO. OF N.M.	ALBUQ.
Alan Wood	Amoco	Denver
DAN NUTTER	CONS. ENGR	SANTA FE
Franky Lucken	Northern Natural Gas Co	Durham
LARRY M SANDERS	Phillips Petroleum	Odeesa, NY
H.L. BABE KENDRICK	EL PASO NATURAL GAS	EL PASO, TX
Louis D. JONES	MERIDIAN OIL	FARMINGTON
L.M. THURMON	Amoco Production Co.	Denver
DAVE BONEAU	YATES PETROLEUM	ARTESIA, NM
BOB GLENN	NORTHWEST PIPELINE	SALT LAKE CITY, UTAH
DAVID KIRKLAND	Gas Co. of New Mexico	ABQ
William Clark	Blackwood: Nichols	Burango
Wale Henderson	Columbus Energy Corp	FARMINGTON NM
Richard Foppiana	OXY USA, P.O. Box 3908, Rm 25 STA-0C, Tulsa, OK 7410	
Bob Hunt	OXY USA P.O. Box 56250 MIDLAND, TX 79710	
Alice Duggen	OCD, 1000 Rio Brazos Rd.	Aztec, N.M. 87410
Evelyn Downs	OCD Box 1980, Hobbs, N.M. 88240	
STEVE NANCE	MERIDIAN OIL	FARMINGTON, NM
Bill Duncan	EXXON Co., U.S.A.	Midland, Texas
Vic Lyon	O.C.D.	SF.
Bob Stovall	OCD	SF
DAN HALL	OCD	SF

In studying our current proration problems we need to look at proration in both theory and practice.

Theory

Theory is pretty much determined by engineering, regulation, and statute. (See attachments) Basically, the OCD is required to "determine reasonable market demand and make allocations of production". (70-2-16C) The process to do this must protect correlative rights as defined by 70-2-17A. The main objectives under proration are to prevent "waste" (Rule 601 and 70-2-3E) and to protect correlative rights (70-2-11A and 70-2-12B(7)). These rules and statutes are derived from a history which shows the gross unfairness of the "Rule of Capture". Evidence has shown that without proration in some pools the operator with a better market or pipeline position will drain gas from adjoining properties. The OCD can consider "acreage, pressure, open flow, porosity, permeability, deliverability, and quality of gas" and "other pertinent factors" to "prevent drainage between producing tracts." (70-2-16C) Allowables should reflect the proportion of an individual well's recoverable reserves to the recoverable reserves in the entire pool. (70-2-17A)

Practice

The latest method of determining market demand is to use the historical relationship of a month's production to the production two month's previous and calling it a seasonal adjustment factor (SAF). For example: "What has been the historical relationship of March's production to January's production?"

Graph 5 shows the average of these relationships for 1978 thru 1988 for the 4 prorated pools in the northwest. A question that should be asked is "How good a predictor is this method?" Graphs 6-9 show how production varied month to month as a percentage of total annual production for the last 6 years. On a bi-monthly basis we see a wide variation through the years, however, an expected pattern does develop during the year of higher production during the colder months. An advantage of this method is that it anticipates production changes through the year. A disadvantage is that averaging historical production is not necessarily appropriate in today's dynamic gas market. Market changes during the current year will be averaged with earlier years and reflected next year.

Another method that has been used is straight nominations. Graphs 1-4 show a comparison between nominations and production. Interestingly, since 1977 total nominations have been closer to actual production than the total OCD

assigned allowables for the same time period. The following table shows how nominations and OCD allowables compare for the last ten, five, and last year. Except for odd values in the South Blanco PC and given that the last two years' nominations have been incomplete, they have still been rather accurate.

	BASIN DK	BLANCO MV	SB PC	TAP PC
SUM OF ALL-PRO 77-88	59703388	115526452	12261328	5038260
SUM OF NOM-PRO 77-88	16381750	43018487	12826786	2909170
SUM OF ALL-PRO 84-88	65271460	103100830	7973717	1329324
SUM OF NOM-PRO 84-88	-36294649	-89018270	-20167821	-1070431
SUM OF ALL-PRO 88	-5547784	-21405649	-1190208	-154634
SUM OF NOM-PRO 88	-5417141	-43358240	-11298018	-335611

Regardless of the predictor used it is still an estimate subject to the effects of changing market forces. One method which would more accurately assign allowable equal to production on a yearly basis is using actual production as allowable. For example: January production would be assigned as March allowable, etc. This method reacts more quickly to seasonal market changes than SAF's. On a month to month basis it is just as accurate as nominations and over time more accurate.

Balancing

Any method that is used will either under or over estimate production. What do we do with the difference? If too little allowable is assigned, the pool will be over-produced and more allowable will have to be added to later allowable for the pool. Inversely, if too much allowable is assigned in any month, allowable will have to be reduced in following months. Without balancing, pools can accumulate too much under or over-production. The following formula shows how balancing can be done:

- P = Production two month previous
- A = Allowable for current month
- S = Pool status two months previous
- A = P - 10%S

Graph 11-13 shows how a 10% adjustment can help keep a pool in some degree of balance.

Several factors enter into analyzing pool status. First, pool status is the sum of the individual status of the non-marginal wells. This can lead to a situation where a pool can underproduce the total allowable yet be over-produced for the month. For example:

Total Pool Allowable = 1000 MCF
Marginal Well Allocation = 500 MCF
Non-Marginal Well Allocation = 500 MCF

If the pool produces 900 MCF but the Marginal wells produce 300 MCF and the Non-Marginal wells produce 600 MCF the pool is actually under-produced but the pool status will show it is over-produced.

A second factor is that as new wells are added to the pool or as individual well allowables are amended by changes in deliverability, reclassification, etc. the calculations are based on factors derived without these wells or with these wells in a different status.

Another issue that has arisen is that many Non-Marginal wells are not being produced for many different reasons. Under our existing rules Marginal wells are defined as wells which cannot produce their regularly assigned allowable.

I propose that Non-Marginal wells have an under-produced limitation after which a portion (perhaps one month) of allowable is automatically cancelled and cannot be reinstated. This means that by assigning an allowable and allowing a well a certain time to produce it, we will have satisfied the definition of correlative rights.

The following is a mathematical model of how proration can be done in a pool by using production as allowable and balancing each month:

Definitions

- A = Monthly allowable
- AF = Acreage factor, the amount of acreage dedicated to a well in proportion to field requirements.
- AD = The acreage factor of a well multiplied by the deliverability.
- A% = Percentage of pool non-marginal allowable allocated to acreage.
- D% = Percentage of pool non-marginal allowable allocated to deliverability.
- MA = Marginal allocation or allowable equal to the amount of gas produced by the marginal wells in a pool 2 months previous.

NMA= Non marginal well allocation, that amount of the total pool allowable assigned to the non-marginal wells.

NMAF The sum of the acreage factors of the non-marginal wells.

NMAD- The sum of the acreage factor times deliverability for all non-marginal wells in the pool.

P = Sales from the pool 2 months previous.

%S = A percentage of the O/U pool status 2 months previous. Make pool allowable equal to production less adjustment for balancing:

- (1) $A = P - \%S$
If the pool is over-produced more allowable is added and if the pool is under-produced allowable will be taken away.

The monthly allowable is also the sum of the allowables of the marginal and non-marginal wells.

(2) $A = MA + NMA$

(3) $NMA = A - MA$
Substituting from equation (1)

(4) $NMA = P - \%S - MA$
If the NMA is allocated on percentages of acreage and deliverability then

(5) $A\% + D\% = 100\%$

(6) $NMA = (A\%*NMA) + (D\%*NMA)$
Substituting from equation (4) yields

(7) $NMA = [A\%*(P-\%S-MA)] + [D\%*(P-\%S-MA)]$
In order to determine individual well allowables we have to calculate the allowables per whole acreage factor. For example, in 320 acre pools a well with 320 acre dedication will have an acreage factor of 1.00. The acreage portion of the NMA must then be distributed among all the non-marginal wells.

(8) $[A\%*(P-\%S-MA)]/NMAF = F_1$
This is multiplied by the well acreage factor to determine the allowable a non-marginal well will receive on the basis of acreage.

(9) $AF \cdot F_1 =$ Acreage allowable of individual well.
Next, we have to calculate the allowable per MCF of deliverability per well.

(10) $[D\% \cdot (P - \%S - MA)] / NMAD = F_2$
This is multiplied by the well AD to determine the allowable a non-marginal well will receive on the basis of deliverability.

(11) $AD \cdot F_2 =$ Deliverability allowable of individual well.

(12) $(AF \cdot F_1) + (AD \cdot F_2) =$ An individual well monthly allowable. Substituting terms we get:

(13) $AF \cdot [A\% \cdot (P - \%S - MA)] / NMAF + AD \cdot [D\% \cdot (P - \%S - MA)] / NMAD =$
Allowable of an individual well.

In a system such as this all that an operator needs to know on a monthly basis are:

- (1) P
- (2) %S
- (3) MA
- (4) NMAF
- (5) NMAD

The other terms are fixed or known well ahead of time.

If all transporters complied with Rule 1111 (Ha-Ha) these factors could be available from the OCD before the 20th of each month so that operators could use them to calculate the amount of gas available for market.

I am proposing to our Gas Marketing Bureau that they set up or otherwise locate a computer bulletin board to which this and other information could be posted for access by operators.

Finally, NMAF and NMAD do not change significantly month to month and any large changes come about with reclassifications every four months. With pool balancing %S does not change very much. Given these circumstances it is possible to come up with estimated allowables based on how accurate an operator can estimate P and MA.

RULE 601. ALLOCATION OF GAS PRODUCTION

When the Division determines that allocation of gas production in a designated gas Pool is necessary to prevent waste, the Division, after notice and hearing, shall consider the nominations of purchasers from that gas pool and other relevant data, and shall fix the allowable production of that pool, and shall allocate production among the gas wells in the pool delivering to a gas transportation facility upon a reasonable basis and recognizing correlative rights. The Division shall include in the proration schedule of such pool any gas well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well.

RULE 602. PRORATION PERIOD

The proration period shall be at least six months and the pool allowable and allocations thereof shall be made at least 30 days prior to each proration period.

RULE 603. ADJUSTMENT OF ALLOWABLES

When the actual market demand from any allocated gas pool during a proration period is more than or less than the allowable set by the Division for the pool for the period, the Division shall adjust the gas proration unit allowables for the pool for the next proration period so that each gas proration unit shall have a reasonable opportunity to produce its fair share of the gas production from the pool and so that correlative rights shall be protected.

RULE 604. GAS PRORATION UNITS

Before issuing a proration schedule for an allocated gas pool, the Division after notice and hearing, shall fix the gas proration unit for that pool.

70-2-3. Waste; definitions.

As used in this act the term "waste," in addition to its ordinary meaning, shall include:

E. the production in this state of natural gas from any gas well or wells, or from any gas pool, in excess of the reasonable market demand from such source for natural gas of the type produced or in excess of the capacity of gas transportation facilities for such type of natural gas. The words "reasonable market demand," as used herein with respect to natural gas, shall be

construed to mean the demand for natural gas for reasonable current requirements, for current consumption and for use within or outside the state, together with the demand for such amount as are necessary for building up or maintaining reasonable storage reserves of natural gas or products thereof, or both such natural gas and products;

70-2-11. Power of commission and division to prevent waste and protect correlative rights.

A. The division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the division is empowered to make and enforce rules, regulations and orders, and to do whatever may be reasonably necessary to carry out the purpose of this act, whether or not indicated or specified in any section hereof.

70-2-12. Enumeration of powers.

B. Apart from any authority, express or implied, elsewhere given to or existing in the oil conservation division by virtue of the Oil and Gas Act or the statutes of this state, the division is authorized to make rules, regulations and orders for the purposes and with respect to the subject matter stated in this subsection:

(7) to require wells to be drilled, operated and produced in such manner as to prevent injury to neighboring leases or properties;

70-2-16. Allocation of allowable production in field or pool.

C. Whenever, to prevent waste, the total allowable natural gas production from gas wells producing from any pool in this state is fixed by the oil conservation division in an amount less than that which the pool could produce if no restrictions were imposed, the division shall allocate

the allowable production among the gas wells in the pool delivering to a gas transportation facility upon a reasonable basis and recognizing correlative rights and shall include in the proration schedule of the pool any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by that well. In protecting correlative rights, the division may give equitable consideration to acreage, pressure, open flow, porosity, permeability, deliverability and quality of the gas and to such other pertinent factors as may from time to time exist and, insofar as is practicable, shall prevent drainage between producing tracts in a pool which is not equalized by counter drainage. In allocating production pursuant to the provisions of this subsection, the division shall fix proration periods of not less than six months. It shall, upon notice and hearing, determine reasonable market demand and make allocations of production during each proration period. Insofar as is feasible and practicable, gas wells having an allowable in a pool shall be regularly produced in proportion to their allowables in effect for the current proration period. Without approval of the division or one of its duly authorized agents, no natural gas well or pool shall be allowed to produce natural gas in excess of the allowable assigned to such source during any proration period; provided that during an emergency affecting a gas transportation facility, a gas well or pool having high deliverability into the facility under prevailing conditions may produce and deliver in excess of its allowable for the period of emergency, not exceeding ten days, without penalty. The division may order subsequent changes in allowables for wells and pools to make fair and reasonable adjustment for overage resulting from the emergency. The provisions of this subsection shall not apply to any wells or pools used for storage and withdrawal from storage of natural gas originally produced not in violation of the Oil and Gas Act [70-2-1 to 70-2-36 NMSA 1978] or the rules, regulations or orders of the division.

D. In fixing the allowable of a pool under Subsection C of this section, the oil conservation division shall consider nominations of purchasers but shall not be bound thereby and shall fix pool allowables to prevent unreasonable discrimination between pools served by the same gas transportation facility by a purchaser purchasing in more than one pool.

E. Natural gas produced from gas wells within the allowable as determined as provided in Subsection C of this section shall be referred to in the Oil and Gas Act as "legal gas" and natural gas produced in excess of the allowable shall be referred to as "illegal gas".

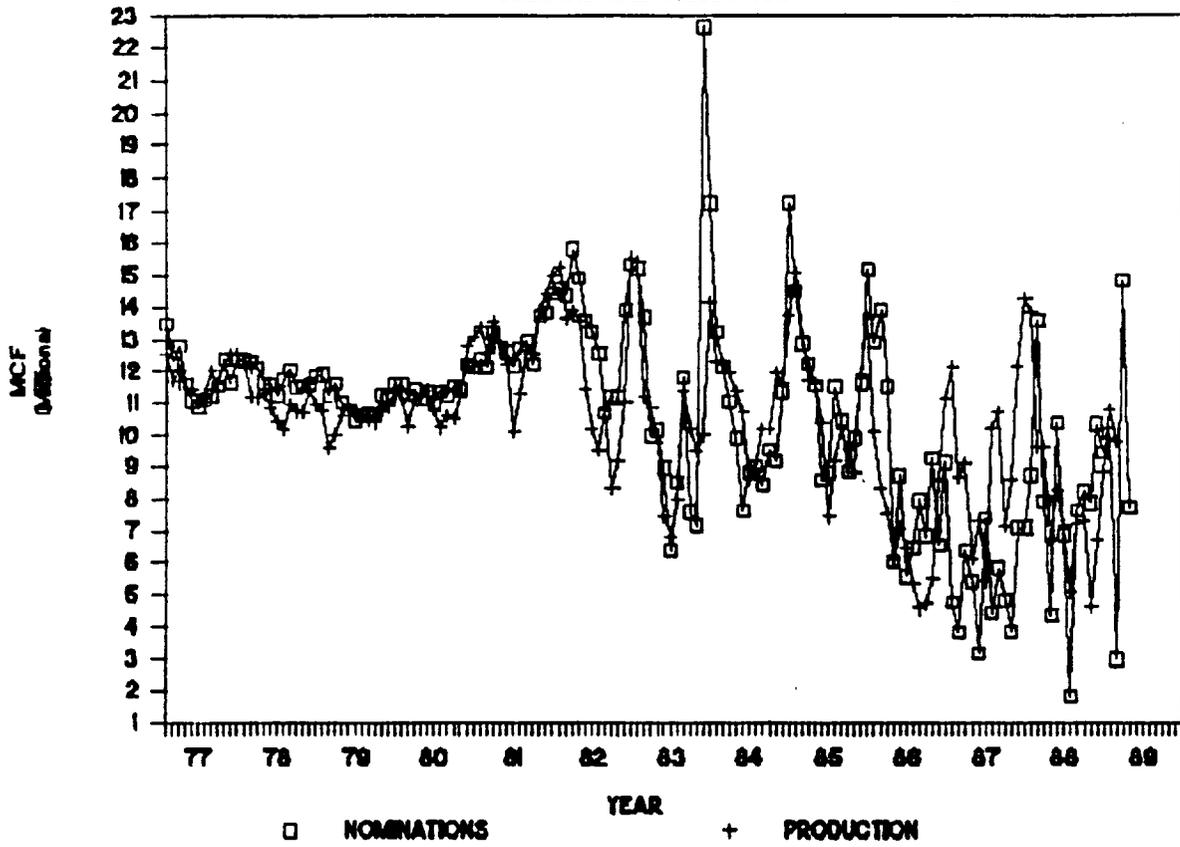
70-2-17. Equitable allocation of allowable production; pooling; spacing.

A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as such can be practicably obtained without waste, substantially in the proportion that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

BASIN DAKOTA

NOMINATIONS & PRODUCTION

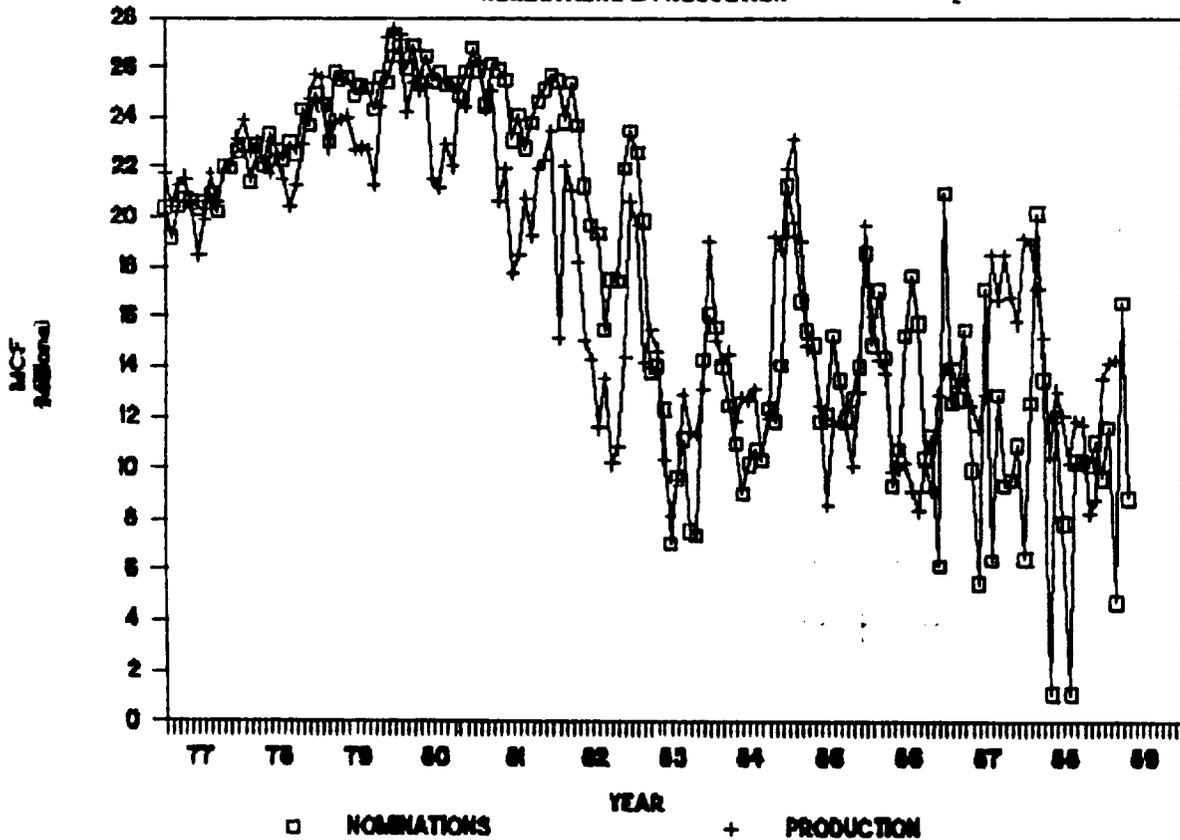
Graph 1



BLANCO MESAVERDE

NOMINATIONS & PRODUCTION

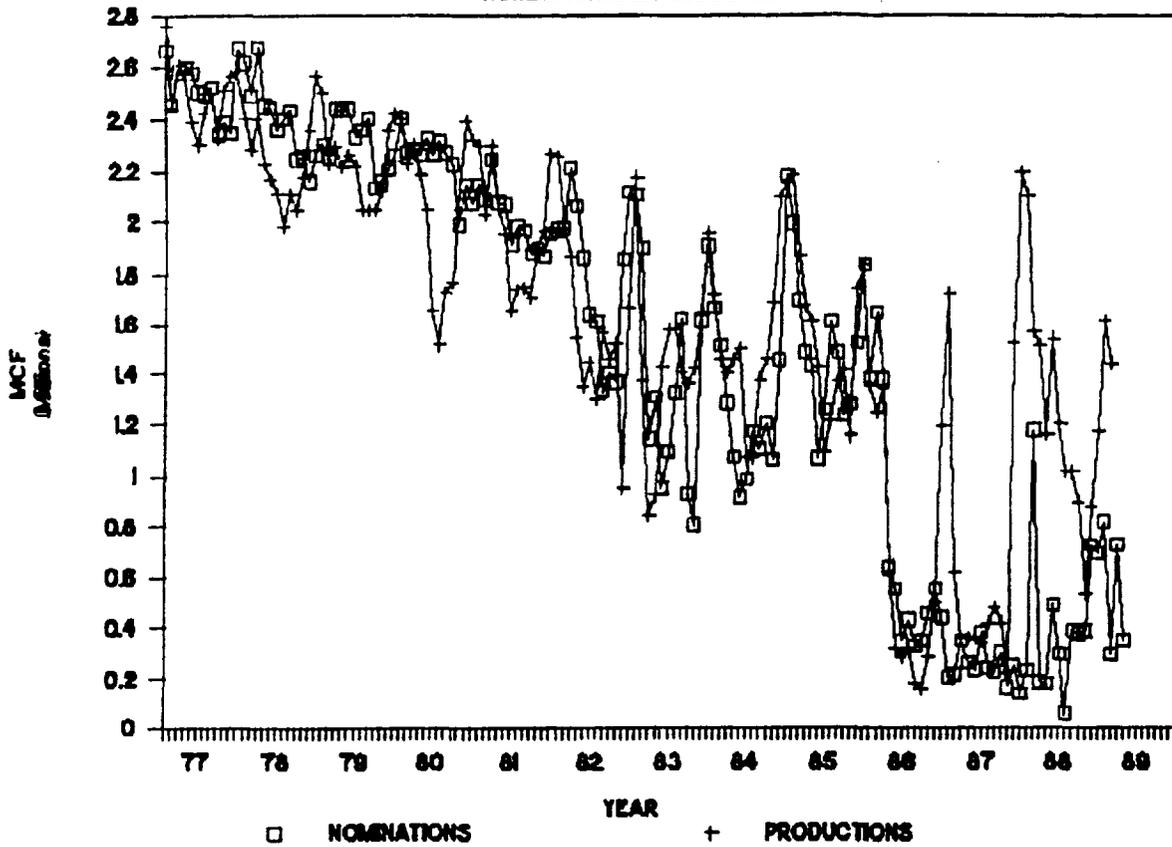
Graph 2



SOUTH BLANCO PICTURED CLIFFS

NOMINATIONS & PRODUCTION

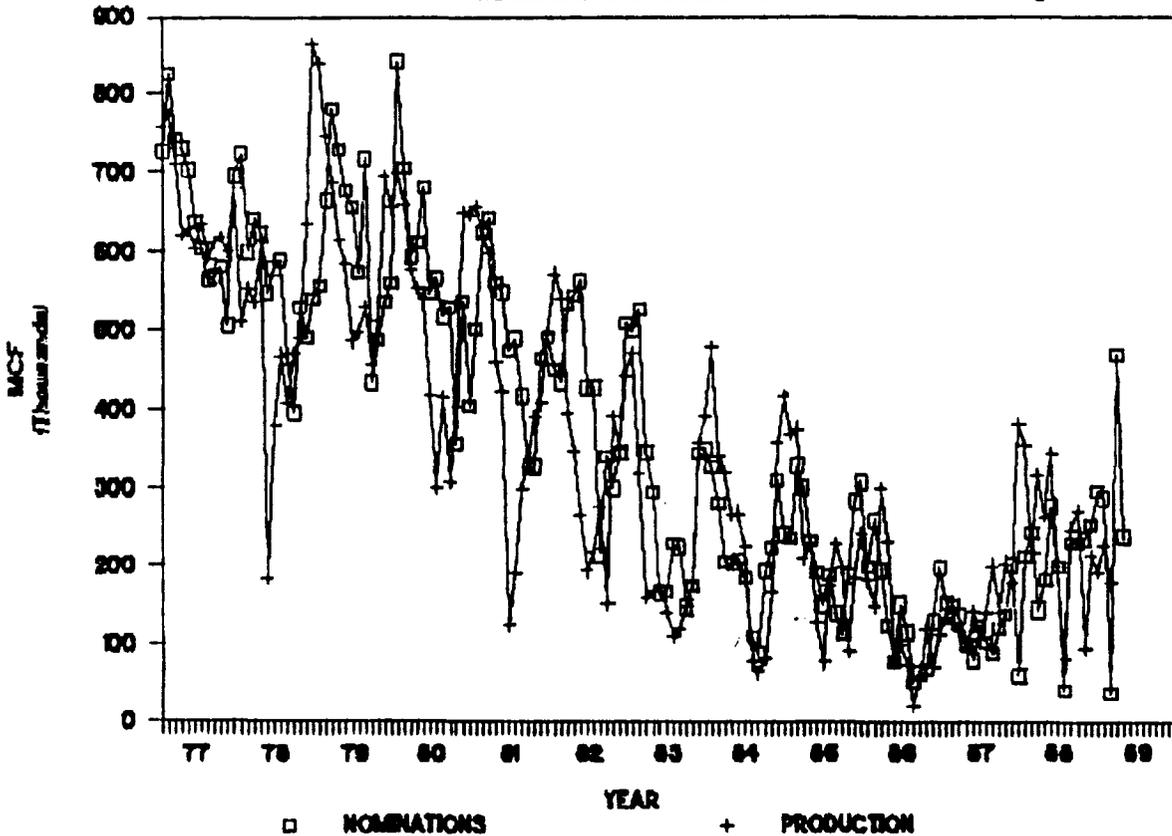
Graph 3



TAPACITO PICTURED CLIFFS

NOMINATIONS & PRODUCTION

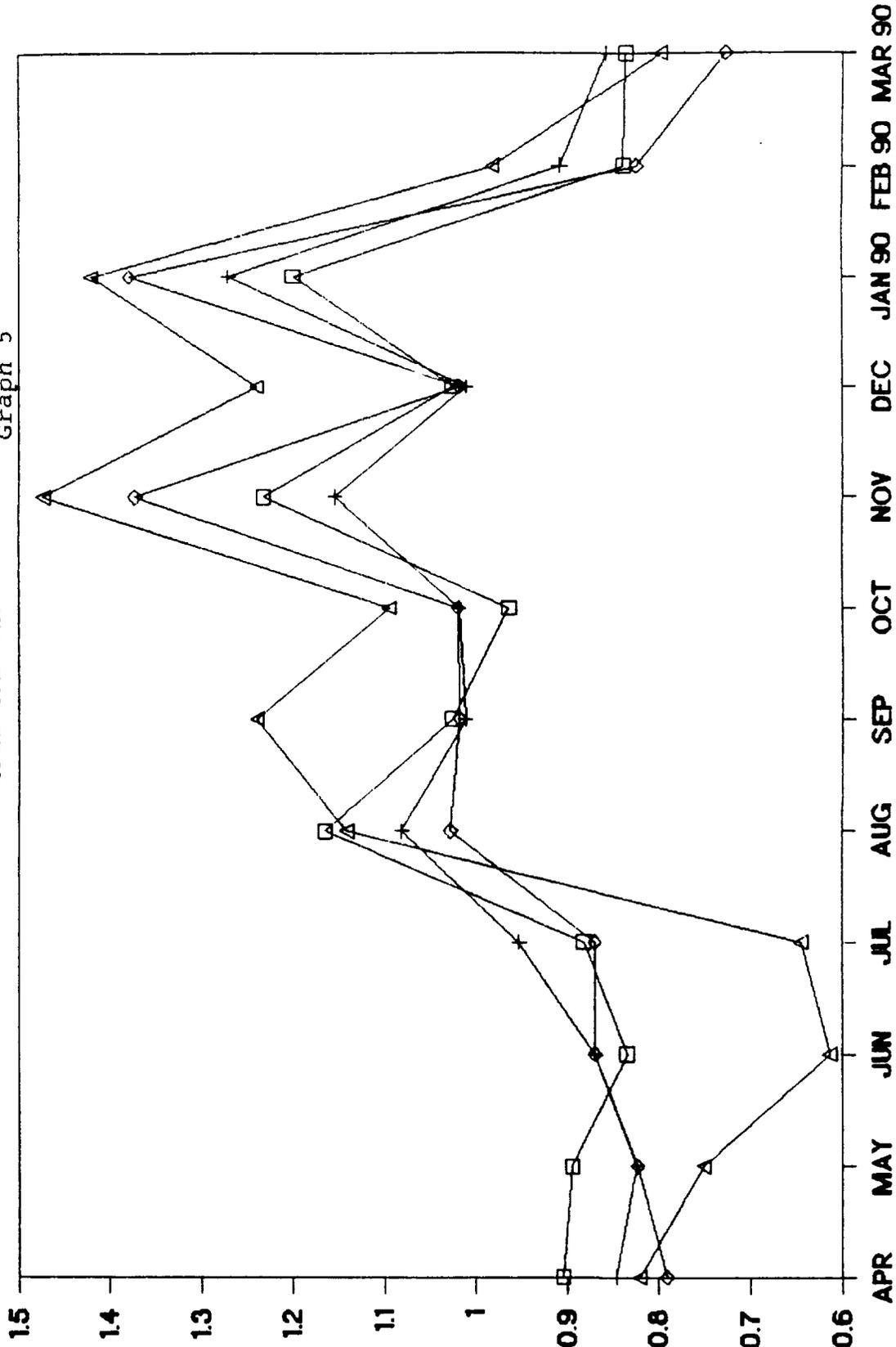
Graph 4



1989-1990 S A F'S

SAN JUAN BASIN

Graph 5



MONTH

◇ S BLANCO PC

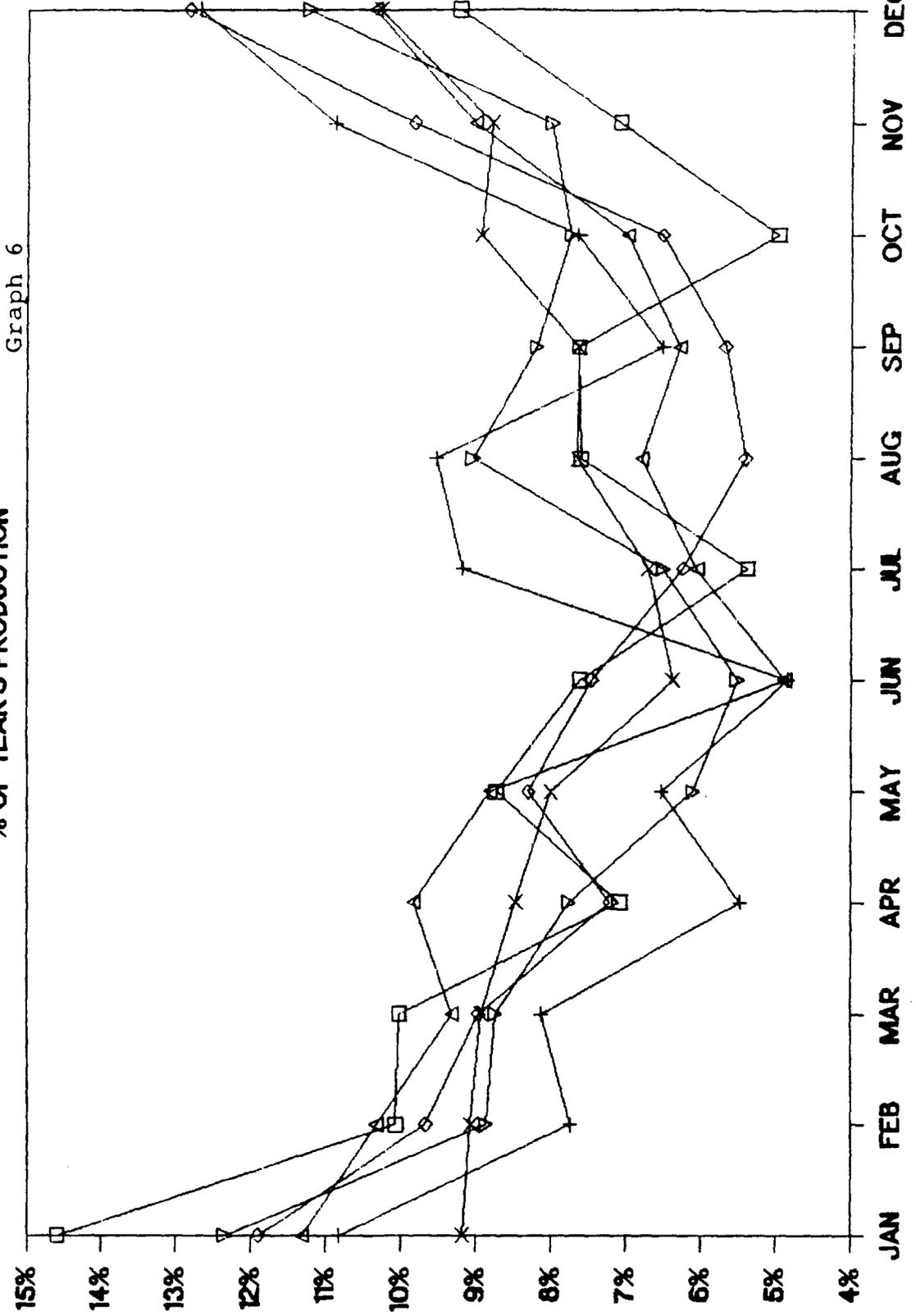
+ BLANCO MV

DK

△ TAPACITO PC

BASIN DAKOTA POOL

% OF YEAR'S PRODUCTION

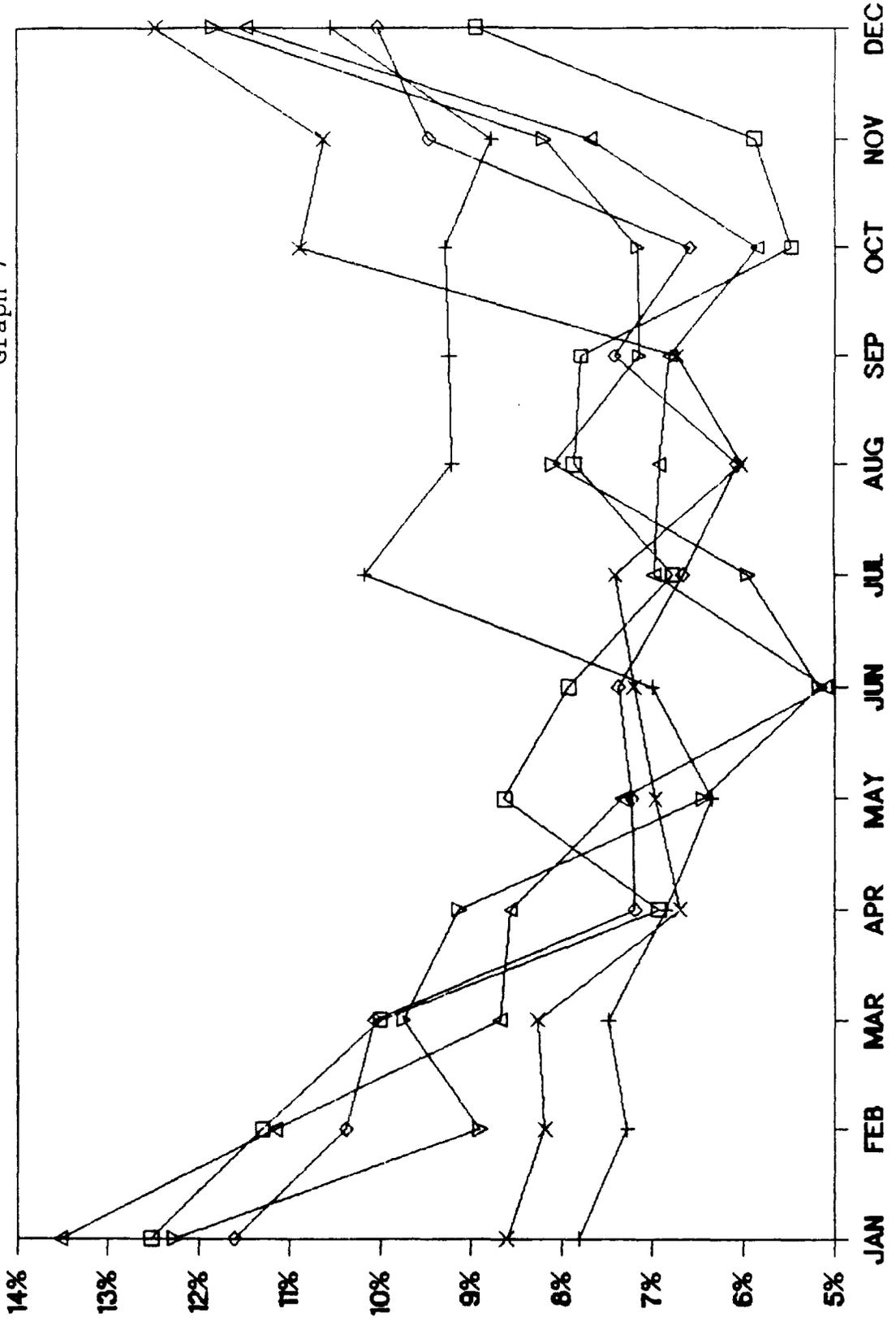


MONTH'S PERCENTAGE OF YEAR'S PRODUCTION

MONTH

BLANCO MESAVERDE POOL

% OF YEAR'S PRODUCTION
Graph 7



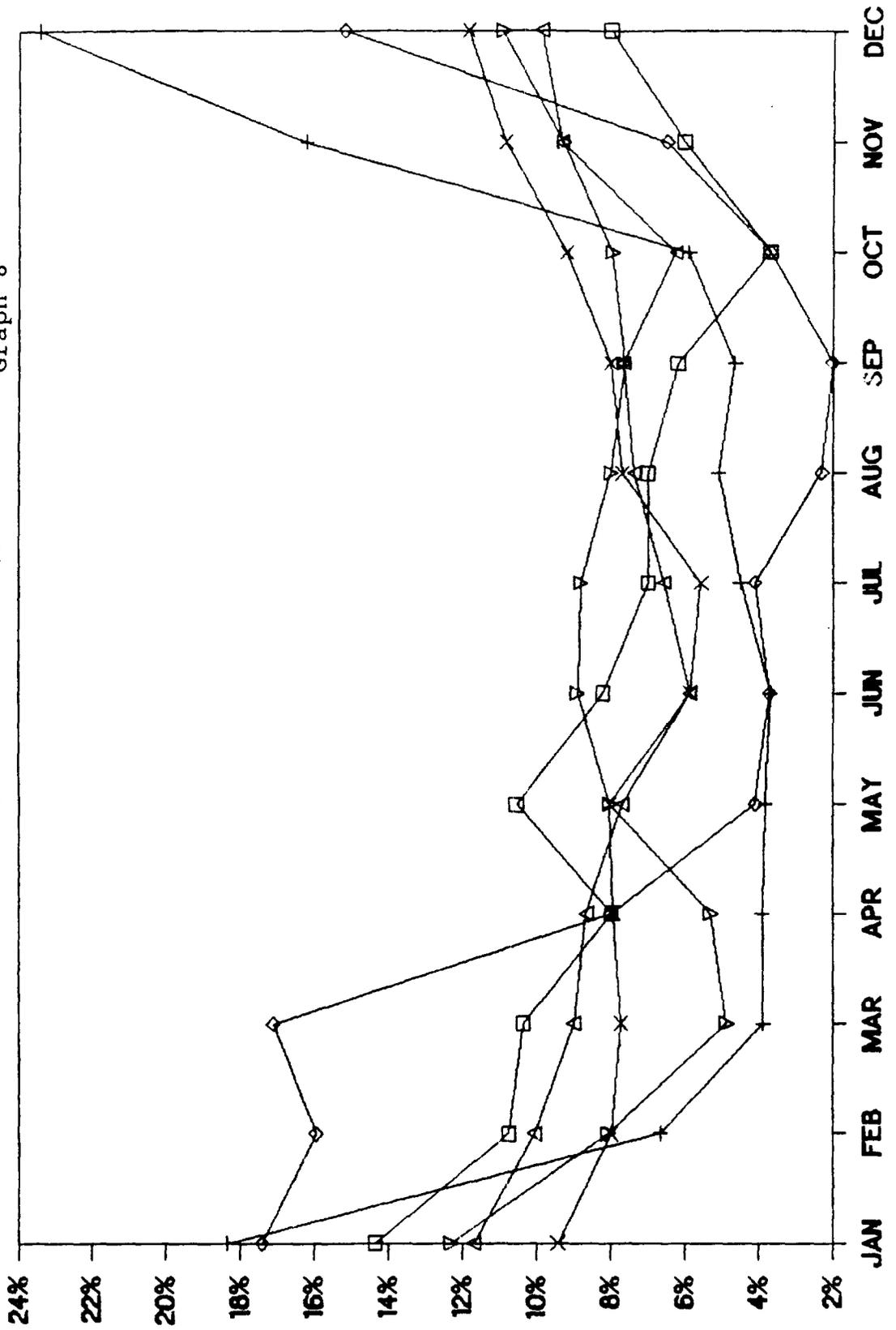
MONTH

+ 1967 ◊ 1966 △ 1965 × 1964 ▽ 1963

SOUTH BLANCO PC POOL

% OF YEAR'S PRODUCTION

Graph 8



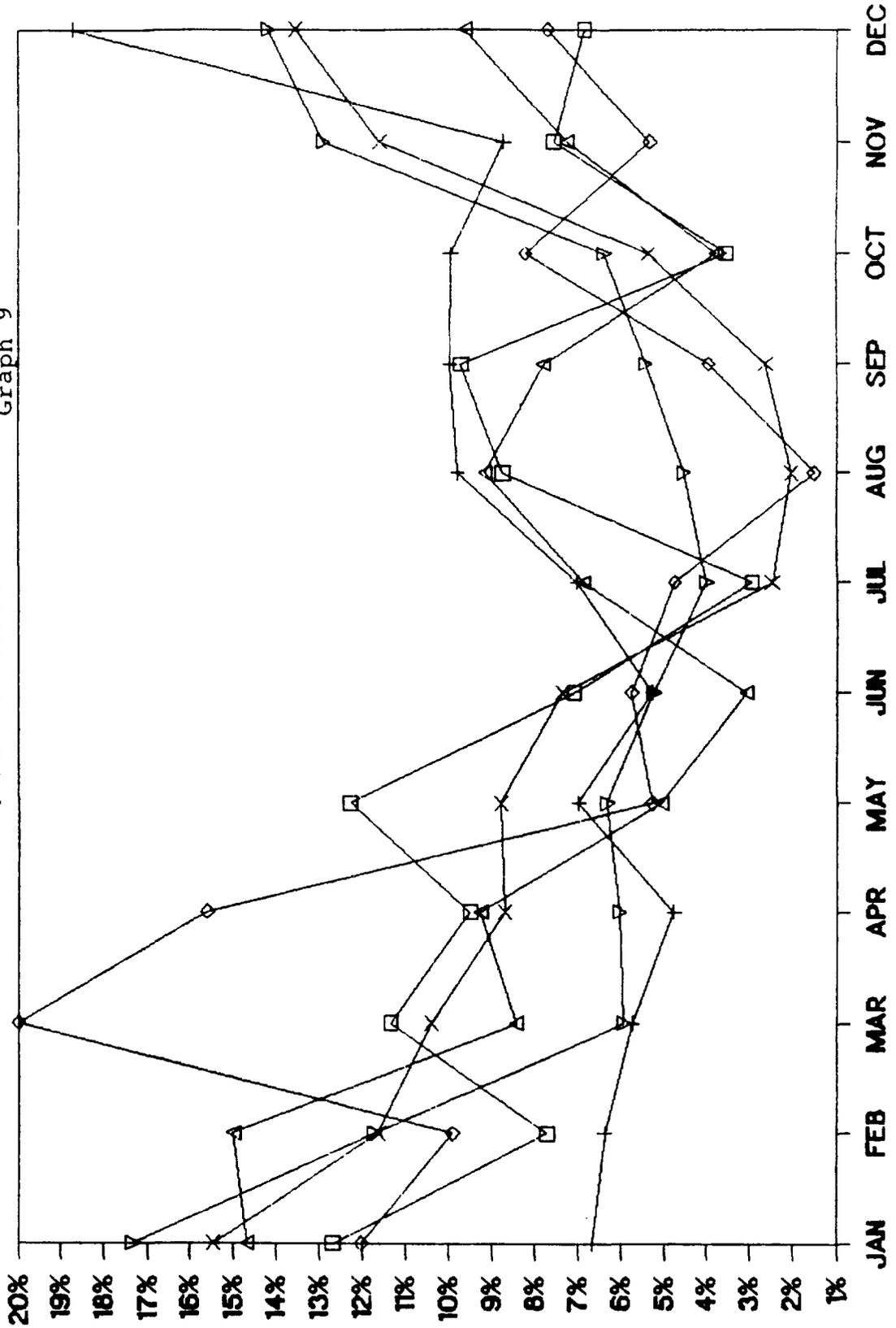
MONTH

+ 1967 ◊ 1966 △ 1965 × 1964 ▽ 1963

TAPACITO PC POOL

% OF YEAR'S PRODUCTION

Graph 9



MONTH

1983

1984

1985

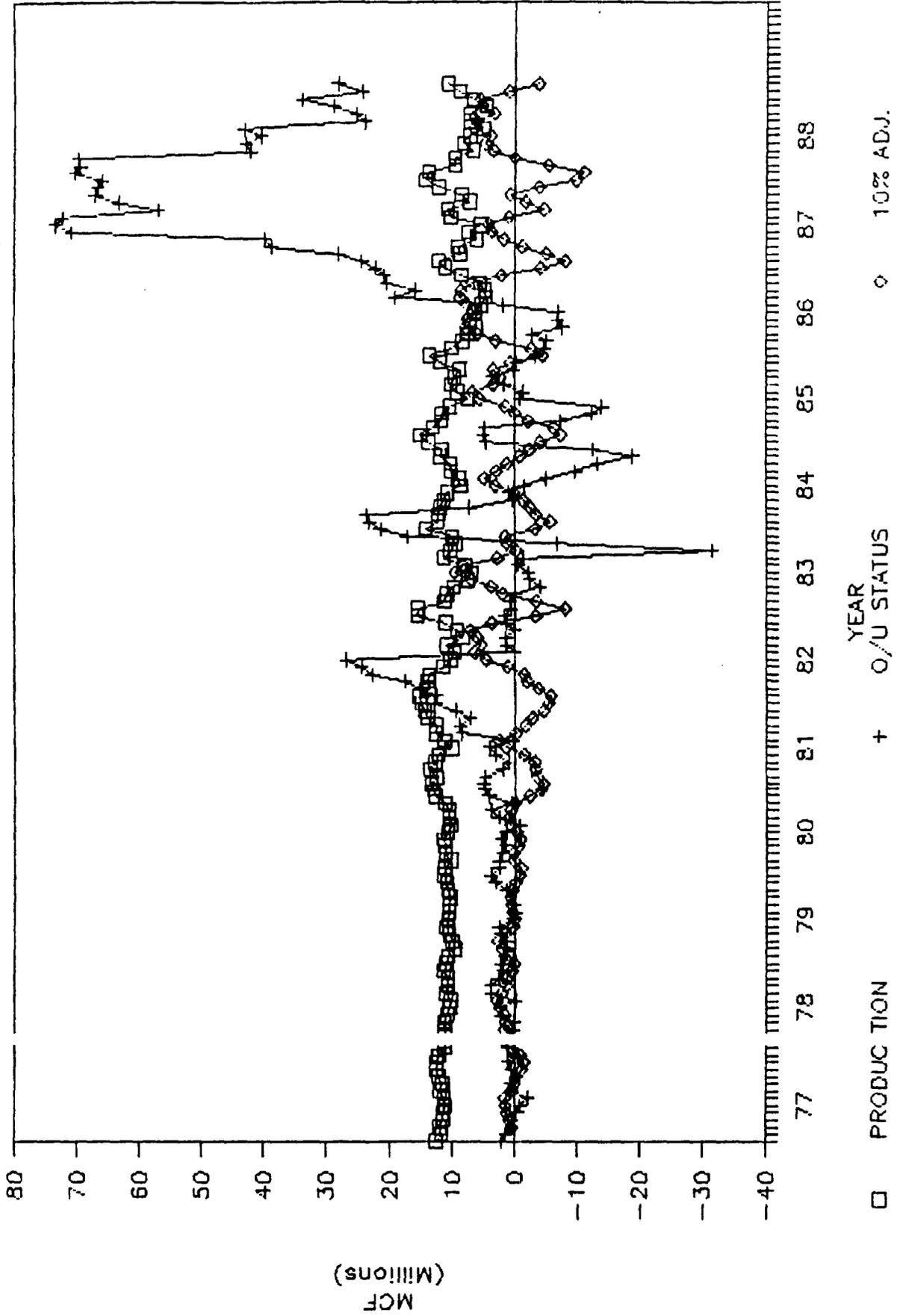
1986

1987

BASIN DAKOTA

MONTHLY PRODUCTION & POOL STATUS

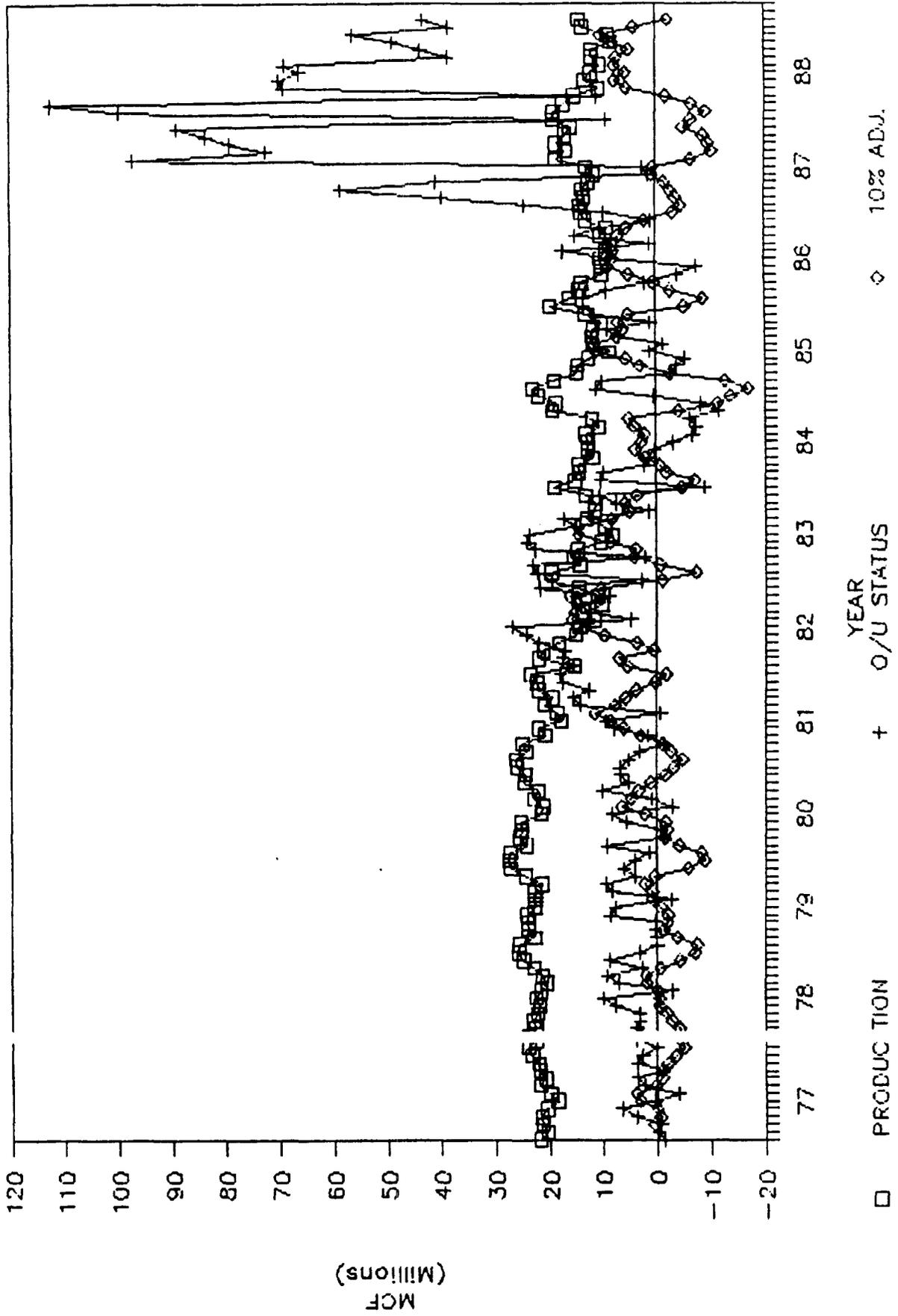
Graph 10



BLANCO MESAVERDE

MONTHLY PRODUCTION & POOL STATUS

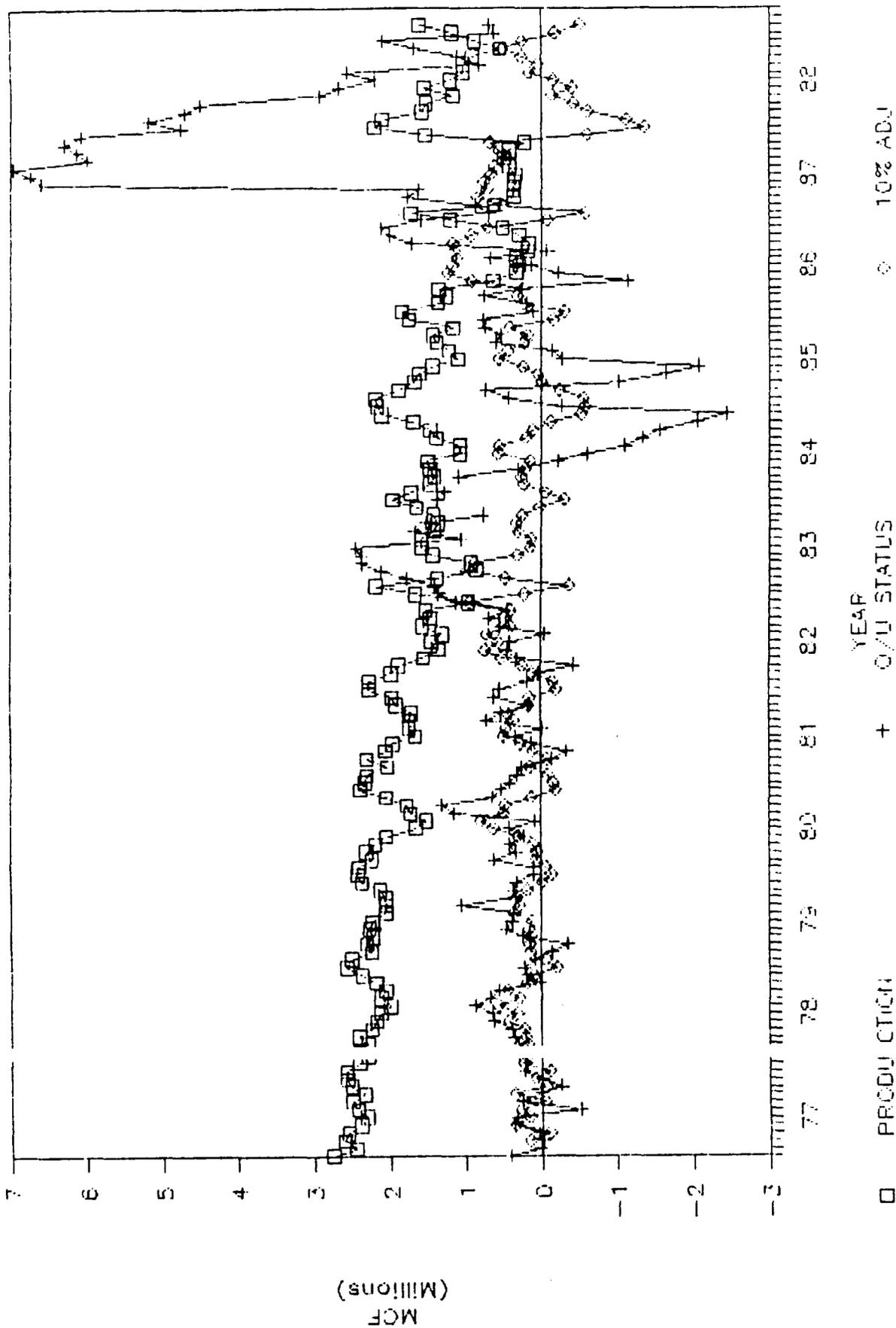
Graph 11



SOUTH BLANCO PICTURED CLIFFS

MONTHLY PRODUCTION & POOL STATUS

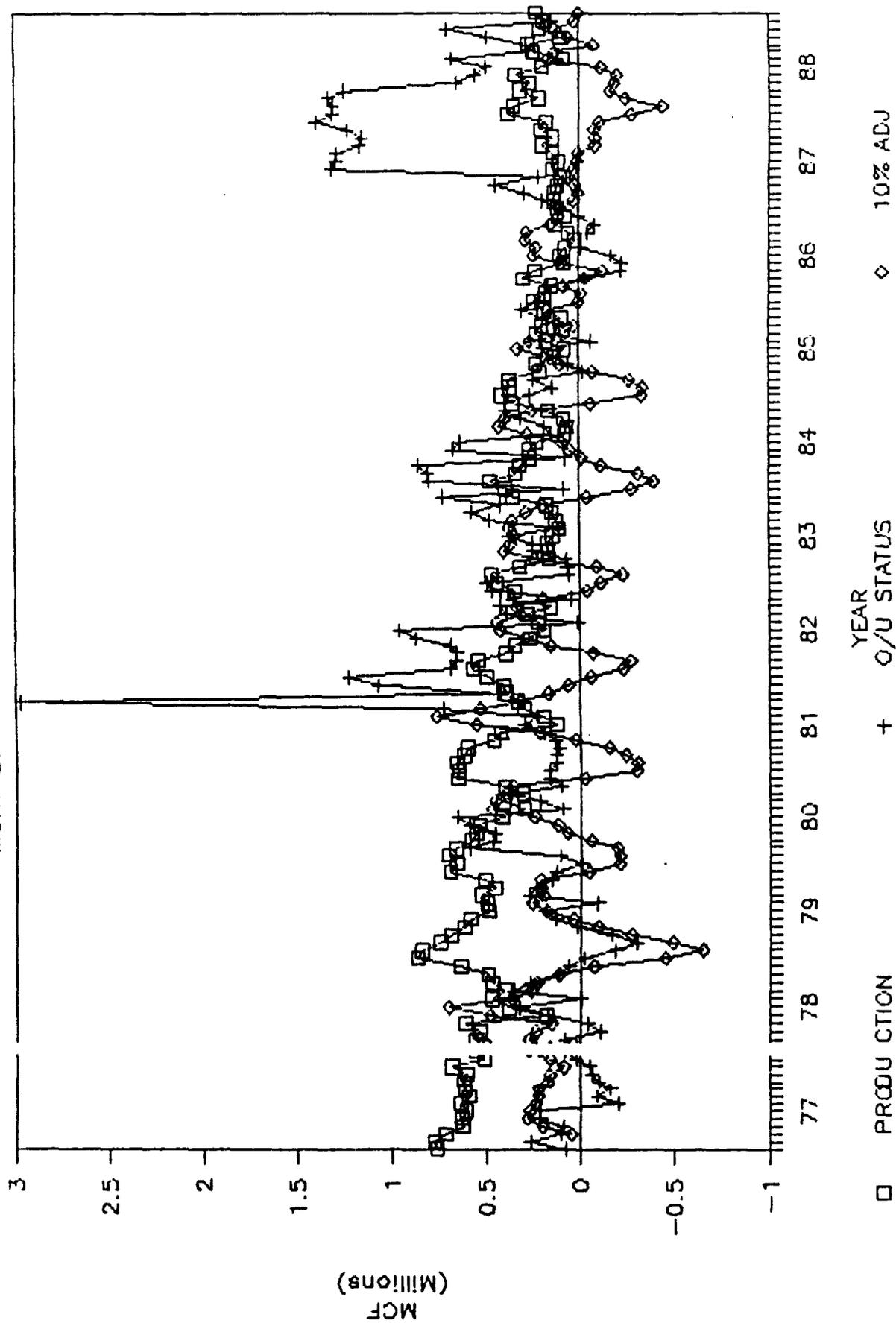
Graph 12



TAPACITO PICTURED CLIFFS

Graph 13

MONTHLY PRODUCTION & POOL STATUS



NORTHWEST PIPELINE CORPORATION 
ONE OF THE WILLIAMS COMPANIES

P.O. BOX 8900
SALT LAKE CITY, UTAH 84108-0900
801 583 8800

April 13, 1989

Mr. Victor T. Lyon
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

Dear Vic:

Re: New Mexico Oil Conservation Division Proration Rules

At the last Proration Rules Committee meeting, sections of the rules were identified and individual members were requested to submit suggestions or changes to these sections. The following are my suggestions and changes:

1. Define Market Demand - The market is where the need for natural gas is located throughout the country. Open-access operation of the pipeline companies has changed the opportunities for the producers gas to be produced and transported to a market. Now producers must find a market for their gas. The market, which the pipeline companies had, has diminished considerably.
2. Over and Under Production - The present rules will handle the problem the state is faced with in today's environment. The protection of correlative rights can still be obtained. However, if a producer is unwilling to sell his gas at the market rate, the Oil Conservation Division cannot force the producers to market their gas which may be necessary to protect correlative rights. Depending on the amount of time this producer is unwilling to sell, it is possible that they could lose their allowable.
3. Pool Balancing - To ensure production is handled from each pool at the proper allocation, the Oil Conservation Division will be required to enforce the penalties currently established in the rules. This may cause some producers problems in continuing to produce their gas. They could lose their allowable.
4. Measurement (Rule 15[a]) - I believe that this should be done at the first-custody transfer point and reporting (C-111) to the state will be done by the party doing the measurement at the point of first-custody transfer.

Mr. Victor T. Lyon
April 12, 1989
Page 2

5. Nominations - In reviewing the current San Juan Basin proration schedule, it appears the nominations are not meeting the needs of the state. The rules require nominations be received by the first of each month. If the nomination process cannot be defined to provide more useful information to the state, then elimination of the requirement should be considered.

Sincerely,

NORTHWEST PIPELINE CORPORATION


Robert L. Glenn, Supervisor
Proration & Special Projects