

Entered December 2, 1983
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 7999
Order No. R-1670-X
and R-333-F-2-B

APPLICATION OF SOUTHERN UNION EXPLORATION
COMPANY FOR AMENDMENT OF ORDER NO. R-1670
AS APPLIED TO THE PRORATED GAS POOLS OF
NORTHWEST NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on November 16, 1983, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 2nd day of December, 1983, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Southern Union Exploration Company, seeks the amendment of Order No. R-1670 as it applies to the four prorated gas pools of Northwest New Mexico (Blanco-Mesaverde, Basin-Dakota, South Blanco-Pictured Cliffs, and Tapacito-Pictured Cliffs) to provide: 1) that proration units classified as marginal shall not be curtailed; 2) for a reduction in the minimum allowable applicable to these four prorated pools; 3) for the adoption of this reduced minimum allowable as the level of production below which a well will be classified as exempt marginal; and 4) for an annual proration classification period commencing on April 1 of each year.

(3) That in Order No. R-7236-A entered December 2, 1983, the Commission affirmed and adopted the following finding:

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"(5) That gas prorationing rules and procedures should:

(a) define that body of units with sufficient productive capacity to meet current demand while retaining the ability to produce at greater rates (non-marginal units);

(b) define that body of units which contribute to meeting current demand but retain no excess producing capacity (marginal units); and,

(c) work to the end that there are a sufficient number of non-marginal units in a pool during low demand periods in order that demand may be met without restricting production from marginal units."

(4) That the applicant in this case seeks adoption of a rule under Order No. R-1670 which would prohibit the shutting in by a pipeline of marginal gas wells.

(5) That, while it is the stated goal of the Commission that marginal wells in prorated pools should not be shut in, the evidence presented in this case demonstrated that conditions such as severely restricted demand, pipeline breaks, equipment failure or other unusual circumstances may require that such wells be shut in to avoid flaring and wasting of the gas produced therefrom.

(6) That to avoid waste, the application for a rule prohibiting pipelines from shutting in marginal wells in prorated gas pools should be denied.

(7) That to assure that said marginal wells are not being shut in without reasonable cause, pipelines taking gas therefrom should be required to notify the Director of the Oil Conservation Division when any such shut-in should occur.

(8) That Rule 11 of the General Rules and Regulations for the prorated gas pools of Northwest New Mexico, as contained in said Order No. R-1670, as amended, provides for the assignment of a minimum allowable of 1,000 MCF per month per proration unit.

(9) That said rule was adopted initially in 1962 under the provisions of Section 70-2-7 D NMSA 1978 compilation which reads as follows:

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"D. 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 the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste."

(10) That in the subject case the applicant proposes reducing said minimum allowable to 250 MCF per month.

(11) That the evidence presented established that a minimum allowable of 250 MCF per month would be high enough to return "reasonable lifting costs" for many of the wells in the effected pools.

(12) That no evidence was presented establishing that any wells would be prematurely abandoned if 250 MCF per month should be adopted as the minimum allowable.

(13) That evidence was presented which tended to show that the adoption of 250 MCF as the minimum allowable would cause the gas proration rules to function more effectively during periods of low demand.

(14) That said Rule 11 should be amended to provide for a minimum allowable of 250 MCF per month.

(15) That the applicant seeks the adoption of a production level of 250 MCF per month as the level below which prorated gas wells in Northwest New Mexico would be exempt from deliverability test requirements.

(16) That said levels are currently 2000 MCF per month for Mesaverde and Dakota pools and 1,000 MCF per month for Pictured Cliffs pools.

(17) That such testing would be needed if the applicant's additional proposal that all wells capable of producing 250 MCF per month in said pools be reclassified as non-marginal wells.

(18) That such reclassification was sought by the applicant to facilitate proper operation of the gas proration system in Northwest New Mexico including the proper distribution of allowables to marginal and non-marginal wells and the accumulation of underage to wells capable of producing 250 MCF per month or more.

(19) That the evidence presented in this case demonstrated that the gas proration system currently operating in the Mesaverde and Dakota Pools properly allocates gas

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between the wells in said pools in a fair and equitable manner with production and allowable being in reasonable balance.

(20) That no significant benefit would accrue to Mesaverde and Dakota wells or pools by such a reclassification.

(21) That the proposed reclassification of wells in the Mesaverde and Dakota Pools should not be made.

(22) That the evidence presented in this case tended to show that the gas proration system would more properly distribute allowable to wells in the Pictured Cliffs Pools if all wells capable of producing 250 MCF per month or more in said pools were reclassified to non-marginal.

(23) That such reclassification in the Pictured Cliffs Pools should be made effective at the beginning of the next proration period (April 1, 1984).

(24) That any well in the Pictured Cliffs Pools so reclassified should be deemed to have entered the period in an underproduced status for purposes of reclassification.

(25) That in order to properly distribute the allowable within the Pictured Cliffs Pools, deliverability tests will be required on those wells currently classified as exempt marginal but capable of producing more than 250 MCF per month.

(26) That since reclassification of wells in the Mesaverde and Dakota Pools is not to take place, no special deliverability tests will be needed on wells currently classified as exempt marginal therein.

(27) That no change in the production level determining exempt marginal wells should be made in the Mesaverde and Dakota Pools.

(28) That Chapter 1, Section 2, Subsection A, Part 4 of Order No. R-333-F-2, as amended, should be further amended to reflect the proposed change in the definition of exempt marginal wells in the Pictured Cliffs Pools.

(29) That any well, formerly classified as exempt marginal, required to be tested as a result of this change in definition should be tested and have such test results filed with the Aztec district office of the Division on or before March 10, 1984.

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(30) The applicant finally seeks that the period for well reclassification contained in Rule 16A of said General Rules and Regulations be extended from quarterly to annually.

(31) That the evidence presented in this case tended to demonstrate that quarterly reclassification during periods of low demand may unnecessarily deprive some underproduced wells of their opportunity to make up such underproduction.

(32) That while demand has been quite low for several months, there are indications that higher levels of demand may be expected in the future.

(33) That during periods of normal or high demand, it may be necessary to reclassify wells more frequently than annually in order to give the higher producing wells sufficient allowable to enable pools to meet market demand without generating excessive overproduction.

(34) That rather than establishing a rigid one-year reclassification rule, said Rule 16(A) should be amended to permit the Director of the Division to suspend the quarterly reclassification of wells upon a proper showing by any interested party.

(35) That entry of an order containing the terms and conditions outlined in the above findings will serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That the application of Southern Union Exploration Company for a rule prohibiting the shutting in of prorated marginal gas wells in Northwest New Mexico is hereby denied.

(2) That Rule 24 of the General Rules and Regulations for prorated gas pools in Northwest New Mexico contained in Order No. R-1670, as amended, is hereby amended to read in its entirety as follows:

"RULE 24. (A) All transporters or users of gas shall file gas well connection notices with the Commission as soon as possible after the date of connection or reconnection in accordance with the provisions of Rule 8(C) and 10(B), respectively.

(B) Transporters shall notify the Director any time it is necessary to shut in marginal wells during a month. Such notice shall be made within 30 days following the end of such month and shall include

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details on the wells shut in and the cause of such shut in as may be required by the Director."

(3) That Rule (11) of said General Rules is hereby amended to read in its entirety as follows:

"RULE 11. A minimum allowable of 250 MCF per month per proration unit will be assigned in order to prevent the premature abandonment of wells."

(4) That Chapter 1, Section 2, subsection A, part 4 of Division Order No. R-333-F-2 is hereby amended to read in its entirety as follows:

"4. Wells classified as "exempt marginal" shall not be subject to the requirements of annual or biennial deliverability tests.

Classification of wells into or out of the "exempt marginal" status shall be done once each year immediately following the reporting of September production and shall be effective for the succeeding annual test period.

Gas wells completed in the Pictured Cliffs or any shallower formation shall be classified "exempt marginal" if at least three months production history is available and the well failed to produce an average of 250 MCF or more per month during the months produced within the preceding 12-month period.

Gas wells completed in any formation deeper than the Pictured Cliffs formation shall be classified "exempt marginal" if at least three months production history is available and the well failed to produce an average of 2,000 MCF or more per month during the months produced within the preceding 12-month period.

Gas wells on multiple well proration units will not be classified "exempt marginal" unless the proration unit is marginal and all wells on the proration unit meet the qualification for "exempt marginal" status."

(5) That any Pictured Cliffs well, formerly classified as exempt marginal, required to be tested as a result of this change in definition shall be tested and have the results of

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such test reported to the Aztec district office of the Division on or before March 10, 1984.

(6) That effective April 1, 1983, all wells in the South Blanco-Pictured Cliffs Pool and the Tapacito-Pictured Cliffs Pool capable of producing 250 MCF per month or more (8 MCF per day) shall be reclassified as non-marginal.

(7) That the over or underproduced status of all non-marginal units in said Pictured Cliffs Pools ending the proration period March 31, 1984, shall not be affected by this order.

(8) That any unit reclassified from marginal to non-marginal under terms of this order shall be deemed to have entered the proration period in an underproduced status for purposes of Rule 16A of the gas proration rules contained in Division Order No. R-1670, as amended.

(9) That Rule 16 A of said General Rules and Regulations should be amended to read in its entirety as follows:

"RULE 16 (A). The proration period (as defined in Rule 13) shall be divided into four classification periods of three months each, commencing on April 1, July 1, October 1, and January 1. After the production data is available for the last month of each classification period, any well which had an underproduced status at the beginning of the proration period shall be classified marginal if its highest single month's production during the classification period is less than its average monthly allowable during said classification period; provided however, that the operator of any well so classified, or other interested party, shall have 15 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the well is not of marginal character and should not be so classified.

The Director may suspend the reclassification of wells which would take place on July 1, October 1, and January 1 on his own initiative or upon a proper showing by an interested party and it should appear that such suspension is necessary to permit underproduced wells, which would otherwise be reclassified, a proper opportunity to make up such underproduction."

(10) That the application for reclassification of wells producing between 250 MCF and 2,000 MCF per month in the

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Mesaverde and Dakota Pools as non-marginal wells is hereby denied.

(11) That the application for the amendment of the production level at which exempt marginal wells in the Mesaverde and Dakota Pools are determined is hereby denied.

(12) That the effective date of this order shall be January 1, 1984.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

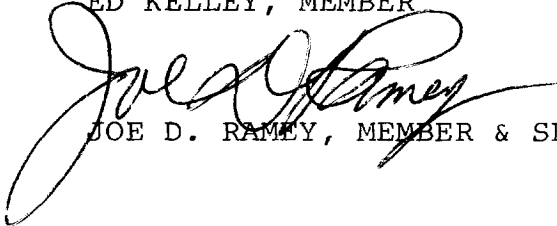
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, MEMBER



ED KELLEY, MEMBER



JOE D. RAMSEY, MEMBER & SECRETARY

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