

Entered April 25, 1983
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7817
Order No. R-7268

APPLICATION OF TEXACO INC. FOR
AN EXCEPTION TO THE MAXIMUM
ALLOWABLE BASE PRICE PROVISIONS
OF THE NEW MEXICO NATURAL GAS
PRICING ACT, EDDY COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 2, 1983, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 25th day of April, 1983, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Texaco Inc., requested an order exempting the production from its Cotton Draw Unit Well No. 65 located in Section 2, Township 25 South, Range 31 East, NMPM, Eddy County, New Mexico, from the maximum allowable base price provisions of the New Mexico Natural Gas Pricing Act and the establishment of the maximum allowable base price set by Section 107 of the Natural Gas Policy Act of 1978 and regulations promulgated thereunder for production enhancement gas as the appropriate ceiling price for natural gas produced by this well.

(3) That the New Mexico Natural Gas Pricing Act, Section 62-7-1 et. seq., NMSA 1978, establishes a maximum allowable base price for sales of natural gas which pricing provision is applicable to the Cotton Draw Unit Well No. 65.

(4) That Section 62-7-6.1, NMSA 1978, provides:

"A. The oil conservation division may, by rule, regulation or order, prescribe a maximum allowable base price, applicable to any high-cost natural gas, which exceeds the otherwise applicable maximum allowable base price, to the extent that the higher price is necessary to provide reasonable incentives for the production of such high-cost natural gas.

B. As used in this section, 'high-cost natural gas' means natural gas, determined by the oil conservation division to be:

- (1) produced from geopressurized brine;
- (2) occluded natural gas produced from coal seams;
- (3) produced from Devonian shale; or
- (4) produced under such other conditions as the division determines to present extraordinary risks or costs.

C. In promulgating any rule, regulation or order under this section, the oil conservation division shall consider any similar action taken by the federal energy regulatory commission under Section 107 of the federal Natural Gas Policy Act of 1978, P.L. 95-621, which action, but for the provisions of Section 62-7-6 NMSA 1978, would allow a higher price for natural gas subject to the Natural Gas Pricing Act."

(5) That the Division has considered the action of the Federal Energy Regulatory Commission in establishing higher maximum allowable base prices for qualified production enhancement gas, set forth in 18 Code Federal Regulation §271.704, promulgated under Section 107 of the Natural Gas Policy Act of 1978.

(6) That the above cited regulations define qualifying "production enhancement work" as including the installation of equipment necessary for removal of excessive water, brine or condensate from the wellbore in order to establish, continue or increase production of gas from the well.

(7) That Applicant has caused such equipment to be installed on its Cotton Draw Unit Well No. 65.

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(8) That the use of said equipment will result in the recovery of a greater percentage of the original gas in place under said well.

(9) That this installation of said equipment causes an extraordinary increase in the costs of operating the subject well which costs if not compensated for will cause the premature abandonment of said well with a consequent decrease in ultimate recovery of natural gas therefrom.

(10) That the proposed exemptions from the New Mexico Natural Gas Pricing Act will result in the recovery of otherwise unrecoverable hydrocarbons, thereby preventing waste.

IT IS THEREFORE ORDERED:

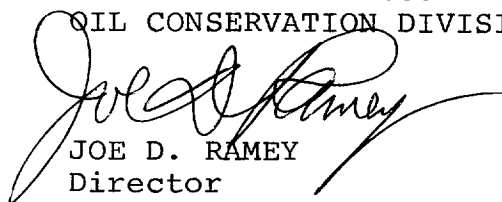
(1) That the applicant, Texaco Inc., is hereby granted an exemption from the maximum allowable base price provisions of the New Mexico Natural Gas Pricing Act for all natural gas produced by the Cotton Draw Unit Well No. 65 located in Section 2, Township 25 South, Range 31 East, NMPM, Eddy County, New Mexico, for so long as the applicant produces said well with the aid of equipment necessary for the removal of excess produced water.

(2) That this exemption shall be valid only for sales made by applicant from this well which are subject to the maximum allowable base price provisions of Section 107 of the Natural Gas Policy Act of 1978.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

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