

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 9018
Order No. R-8170-A

THE APPLICATION OF THE OIL CONSERVATION
DIVISION ON ITS OWN MOTION TO CONSIDER
THE AMENDMENT OF ORDER NO. R-8170.

ORDER OF THE COMMISSION

BY THE COMMISSION:

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

NOW, on this 4th day of December, 1986, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The Oil Conservation Division (Division) seeks the amendment of Rule 10(a), 11(a) and 11(b) of the General Rules for the Prorated Gas Pools of New Mexico to provide for two-year balancing periods and for a twelve times overproduced limit for the prorated gas pools of northwest New Mexico, all as shown on Exhibit "A" attached to this order.

(3) The proposed amended rules were proposed and recommended as two year temporary rules by a committee appointed by the Division Director to determine if any Division rules were unnecessarily interfering with producers' abilities to compete on the spot market for the sale of natural gas.

(4) Since early 1985, the spot market for natural gas has grown from being a very small percentage of natural gas sales to the predominant percentage.

(5) Some producers have actively participated in the spot market while others have withheld their gas and still others (those with NGA gas) have been precluded by FERC regulations from entry into the spot market.

(6) Producers participating in the spot market are now finding significant numbers of their wells subject to being shut in under provisions of Rule 11(b) of the General Rules for the Prorated Gas Pools of New Mexico (Rules) promulgated by and contained in Division Order No. R-8170.

(7) Said Rule 11(b) provides that any GPU (gas proration unit) which is overproduced in an amount exceeding six times its average monthly allowable must be shut in until the overproduction is reduced below such six times figure.

(8) In addition to the build up of overproduction as a result of participation in the spot market, overproduction is exacerbated by generally low overall gas demand and the build up of pool underproduction which tends to reduce or limit the volume of new allowable assigned in any month.

(9) One producer participating in the spot market testified that while the change from a six times to a twelve times overproduction limit would provide temporary relief from shut in, longer term solutions are needed.

(10) In the second portion of its application in this case, the Division seeks to create a "Gas Bank" wherein allowable not used today may be accumulated for future use and protected from cancellation during periodic well reclassifications.

(11) The proposed "Gas Bank" may represent one facet of the needed long term solution.

(12) The Division requested and was allowed to continue the "Gas Bank" portion of this application for needed further study until a hearing on January 8, 1987.

(13) No other long term solutions were proposed to the Commission.

(14) The proposed two-year temporary rules were proposed for Northwest New Mexico only, rather than as Statewide rules, in that the Committee felt that the generally longer-lived, tighter nature of the gas reservoirs therein should preclude drainage between wells and leases as a result of 12 times overproduction and subsequent balancing.

(15) No party presented compelling evidence that the doubling of the overproduction limit and the over/under production make up periods to 12 months and 24 months would result in waste or violation of correlative rights.

(16) Said Rule 11(b) should be amended to provide for a twelve times overproduced limit for wells in the prorated pools in Northwest New Mexico effective immediately in order to provide temporary relief to producers while longer term solutions to gas proration problems are sought.

(17) Said Rule 10(a) and 11(a) should be amended to provide for a 24 month period to make up overproduction and underproduction in said pools beginning March 1, 1987, unless, after notice and hearing, alternative proposals should be adopted.

(18) These amended rules should apply through the gas proration year ending March 31, 1989, unless earlier amended, and this portion of this case should be reopened at a Commission hearing in November, 1988.

IT IS THEREFORE ORDERED THAT:

(1) Effective December 1, 1986, Rule 11(b) of the General Rules for the Prorated Gas Pools of New Mexico contained in Oil Conservation Division Order No. R-8170 is hereby amended to read in its entirety as shown on Exhibit "A" attached to this order.

(2) Effective March 1, 1987, Rule 10(a) and Rule 11(a) of said Rules are hereby amended to read in their entirety as shown on Exhibit "A" attached to this order.

(3) The above temporary rule changes shall be effective only through the gas proration year ending March 31, 1989, unless earlier amended or extended, and this portion of this case will be reopened at a Commission hearing in November, 1988.

(4) That portion of this case seeking creation of a "Gas Bank" is hereby continued to a Commission hearing scheduled for January 8, 1987, at which time this and any other longer term solution to gas proration problems may be considered.

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

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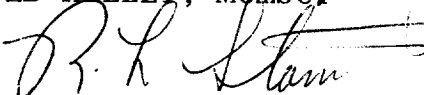
Order No. R-8170-A

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member


ED KELLEY, Member


R. L. STAMETS, Chairman and
Secretary

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RULE 10(a)(1) UNDERPRODUCTION, NORTHWEST: For the prorated gas pools of Northwest New Mexico, a non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next two gas proration periods and may produce such underproduction in addition to the allowable assigned during the next two succeeding periods. Any underproduction carried forward for two gas proration periods and remaining unproduced at the end of the second gas proration period shall be cancelled.

RULE 10(a)(2) UNDERPRODUCTION, SOUTHEAST: For the prorated gas pools of Southeast New Mexico, any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 11(a)(1) OVERPRODUCTION, NORTHWEST: For the prorated gas pools of Northwest New Mexico, any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the two succeeding gas proration periods. Any GPU which has not made up the overproduction carried into such second gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(a)(2) OVERPRODUCTION, SOUTHEAST: For the prorated gas pools of Southeast New Mexico, any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(b)(1) TWELVE-TIMES OVERPRODUCED, NORTHWEST:
For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, a well in a newly prorated pool or a well recently reclassified as non-marginal, twelve times its average monthly non-marginal allowable for the months available), it shall be shut in until its overproduction is less than twelve times its average monthly allowable, as determined hereinabove.

RULE 11(b)(2) SIX-TIMES OVERPRODUCED, SOUTHEAST: For the prorated gas pools of Southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, a well in a newly prorated pool or a well recently reclassified as non-marginal, six times its average monthly non-marginal allowable for the months available), it shall be shut in until its overproduction is less than six times its average monthly allowable, as determined hereinabove.

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Exhibit "A"