

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY  
THE OIL CONSERVATION DIVISION ON ITS  
OWN MOTION TO CONSIDER THE AMENDMENT OF  
ORDER No. R-8170, INCLUDING RELAXATION OF  
BALANCING RULES IN NORTHWEST NEW MEXICO  
AND THE CREATION OF GAS ALLOWABLE BANK.

CASE NO. 9018  
ORDER NO. R-8170-C

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on October 23 and November 20, 1986 and on March 5, 1987 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico hereinafter referred to as "Commission".

NOW, on this 7th day of May, 1987, 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) In October, 1985, the Director appointed a committee to review various perceived problems with gas proration which committee was divided into sub committees which deliberated over specific types of solutions including possible changes of gas proration procedures.

(3) Case 9018 was set for hearing on October 23, 1986 to consider proposals by the committee for relaxing certain rules of Order No. R-8170 as applied to the San Juan Basin only; more specifically, Rules 10(a), 11(a) and 11(b).

(4) Testimony and statements both in support of and in opposition to the proposed changes were received at the hearing, as well as testimony for other possible changes including the creation of a gas allowable bank.

(5) Further hearing on the proposed rule changes and on the proposed gas bank was held November 20 at which time additional statements and testimony were received.

(6) Under date of December 4, 1986, Order No. R-8170-A was entered which amended temporarily until March 31, 1989, Rule 11(b) of Order No. R-8170 effective December 1, 1986; and further, amended Rules 10(a) and 11(a) effective March 1, 1987; and further, continued until January 8, 1987 further consideration of the gas allowable bank.

(7) The Director, at the conclusion of the hearing November 20, 1986, requested a committee be formed to study the gas allowable bank in addition to other possible courses of action involving gas proration.

(8) The committee at the meeting on December 16, 1986, declined to endorse the gas allowable bank or any other proposal considered at the meeting.

(9) Memorandum 1-87 under date of January 9, 1987 issued by the Acting Director proposed an alternative to the gas allowable bank.

(10) Hearing was held March 5 at which further testimony on the gas allowable bank, the alternative to the gas allowable bank and the changes adopted by Order No. R-8170-A was presented and statements, both oral and written, were received.

(11) In Order No. R-8170-A amended Rule 11(b) provided that in the Northwest area gas wells should be permitted to produce until twelve times overproduced whereas in the Southeast area gas wells should be permitted to overproduce only six times the average allowable.

(12) Amended Rules 10(a) and 11(a) provided that in the Northwest area underproduced and overproduced wells, respectively, could make up such imbalance over two successive proration periods, whereas in the Southeast area such wells must make up the imbalance in only one succeeding proration period.

(13) Because of the much lower permeability and pressure communication between wells which prevails in the gas reservoirs of the San Juan Basin a greater imbalance can be tolerated without endangerment of correlative rights as compared to the gas reservoirs in the southeast portion of the state.

(14) The efficient operation of a gas proration system requires that wells be balanced and properly classified periodically so that allowable is not given to wells in excess of their ability to produce.

(15) Order No. R-8170 extended the length of the proration period from six months to one year and the classification periods from three months to four months, effective April 1, 1986 and should be permitted to operate.

(16) The abrupt decline of gas prices, the unbundling of services by pipeline companies and other extraordinary changes brought upon the traditional process of gas marketing has resulted in great disarray among producers so that many wells are being curtailed or shut-in due to lack of access to markets with the consequence that correlative rights are being impaired.

(17) Provisions should be made to permit wells which have had limited access to the market a reasonable opportunity to make up through overproduction allowables which were denied or cancelled due to circumstances beyond the control of the operator, during a five-year period commencing April 1, 1986.

(18) Such provisions should permit restoration of allowable cancelled or denied through reclassification during the five-year period, such restoration to occur when the well is threatened with curtailment or shut-in due to excessive overproduction.

(19) Adoption of such provisions will serve to protect correlative rights and will tend to prevent rather than cause waste.

(20) With adoption of such provisions it will not be necessary to provide two-year balancing periods for wells in the northwest portion of the state and therefore, temporary amendments to Rules 10(a) and 11(a) should be rescinded.

(21) As provided in Order No. R-8170-A the temporary amendment of Rule 11(b) should be reviewed at a hearing to be held in November, 1988 to determine if the overproduction limit for wells in the northwest should be reduced to six times the average monthly allowable as applies to wells in the southeast.

IT IS THEREFORE ORDERED THAT:

(1) The amendment of Rules 10(a) and 11(a) of the "General Rules for the Prorated Gas Pools of New Mexico" contained in Order No. R-8170-A are hereby rescinded and the said rules contained in Order No. R-8170 are hereby restored.

(2) Said General Rules contained in said Order No. R-8170 are hereby amended by the insertion of Rule 11(h) as follows:

Rule 11(h). Beginning April 1, 1986 and for a period of five years thereafter, unless further extended or shortened by the Director after notice and hearing, the Director may reinstate allowable to wells which suffered cancellation of allowable under Rules 10(a) or 13(b), or loss of allowable due to reclassification of a well under Rule 13(a), if such cancellation or loss of allowable was caused by non-access or limited access to the average market demand in the pool rather than inability of the well to produce. Upon petition, together with a showing of circumstances which prevented production of the non-marginal allowable, and evidence that the well was capable of producing at allowable rates during the period for which reinstatement is requested, the allowable may be reinstated in such amounts needed to avoid curtailment or shut-in of the well for excessive overproduction. Such petition shall be approved administratively or docketed for hearing within 30 days after receipt in the Division's Santa Fe office.

(3) At a hearing to be called in November 1988, the Commission shall consider rescinding Rules 11(b)(1) and 11(b)(2) contained in Order No. R-8170-A and reinstating Rule 11(b) as contained in Order No. R-8170 to the end that allowed overproduction shall be consistent in all prorated pools in the state.

(4) At a hearing to be called in November, 1990, unless called at an earlier date, the Commission shall consider whether Rule 11(h) should be continued or rescinded.

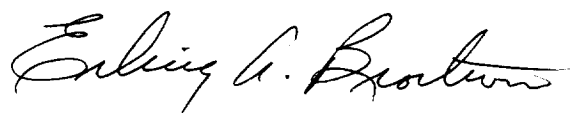
(5) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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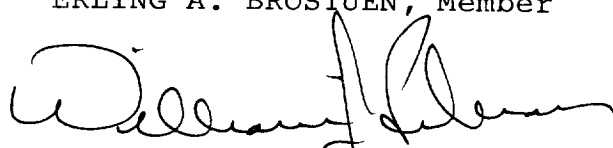
DONE at Santa Fe, New Mexico, on the day and year  
hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES, Member



ERLING A. BROSTUEN, Member



WILLIAM J. LEMAY,  
Chairman and Secretary

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