

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES 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. 9018 (Reopened)
Order No. R-8170-D

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on November 17, 1988, 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 February, 1989, 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) Case 9018 was reopened pursuant to Orders R-8170-A which amended Rules 10(a), 11(a), and 11(b), and Order R-8170-C which rescinded the amendments of Rule 10(a) and 11(a) and also promulgated Rule 11(h) pertaining to the general rules for prorated gas pools as promulgated by Order R-8170.

(3) The amendment of Rule 11(b) in Order R-8170-A provided that gas wells in Northwest New Mexico could become 12 times overproduced before being required to curtail or shut-in.

(4) Order R-8170-A provided that the amendments to Rules 10(a), 11(a) and 11(b) would expire on March 31, 1989 unless further amended or extended after hearing to be held in November, 1988.

(5) The Commission sought evidence to determine if the amendment was preventing waste, protecting correlative rights, and providing operators the flexibility to better meet gas market demand.

(6) Testimony and exhibits were received from producers Tenneco Oil Company and Meridian Oil Company and gas transporters Gas Company of New Mexico and Sunterra Gas Gathering Company, all in support of continuing in effect the provisions of Rule 11(b) as amended by Order R-8170-A.

(7) No operator objected to the 12 times over limit for gas wells in Northwest New Mexico.

(8) The evidence introduced was inconclusive in addressing the correlative rights issue by comparing the 6 times overproduced limit with the 12 times overproduced limit.

(9) The record shows that Tenneco and Meridian have significant numbers of wells shut-in due to overproduction or being so near the 12 times overproduced limit that they may not have sufficient remaining allowable to meet peak demand.

(10) Gas Company of New Mexico testified that wells connected to their system are overproduced going into the winter heating season, and Gas Co. is concerned that wells may be shut-in due to overproduction.

(11) Evidence and Oil Conservation Division records indicate that there is pool-wide underproduction in the prorated pools in Northwest New Mexico.

(12) The apparent contradiction between pool underproduction and select wells being overproduced appears to be largely a result of operator decisions to produce some wells and not others because of contract situations, lack of ownership agreement to sell in the spot market or other reasons.

(13) While it is not clear that permitting a well to overproduce 12 times its allowable has created a more favorable situation than the 6 times limit, changing the overproduction limit during the high demand heating system could cause serious disruption and cause confidence of supply to be questioned by gas consumers.

(14) Additional time is necessary to determine if the increased overproduction limit improves flexibility for operators, purchasers and transporters in production and

purchasing planning and whether the interests of protecting correlative rights and preventing waste while encouraging the marketing of New Mexico gas are being served.

(15) The Director has the authority to order a moratorium on overproduction shut-in if necessary to meet high demand during the winter heating season, and therefore no shortage of supply should result because of regulatory shut-in.

(16) The effects of the amended Rule 11(b) should be considered by the Commission at a hearing to be held in March, 1990 and said amended Rule 11(b) should be extended to June 1, 1990.

IT IS THEREFORE ORDERED THAT:

(1) Rule 11(b), as amended temporarily by Order R-8170-A is hereby extended until June 1, 1990 after which, unless further extended or revised after notice and hearing, it shall revert to the rule as promulgated in Order R-8170.

(2) This case shall be reopened in March 1990 to take evidence on the following:

- (a) Whether larger overproduction limit in Northwest New Mexico established by Rule 11(b) as amended by Order R-8170-A is beneficial in preventing waste, and protecting correlative rights, while making the supply of gas available to meet interstate and intrastate demand.
- (b) The reasons for pools being underproduced when many wells are overproduced and whether or not the amendment has any affect on that issue.
- (c) Any transition mechanism which should be adopted if the Commission determines that a return to the 6 times overproduced limit is appropriate.

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

-4-

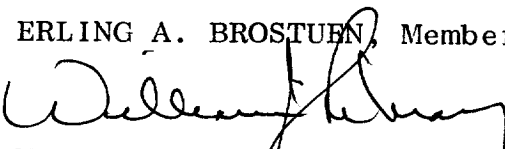
Case No. 9018 (Reopened)
Order No. R-8170-D

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUEN, Member


WILLIAM J. LEMAY, Chairman and
Secretary

S E A L

dr/