

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 FOR THE ADOPTION OF NEW RULES 315, 413 AND 903 TO ESTABLISH A GAS PRIORITY PRODUCTION SCHEDULE TO APPLY IN TIMES OF SEVERELY RESTRICTED DEMAND FOR GAS AND TO CONSIDER THE APPLICATION OF SUCH RULES ON PURCHASERS WITH MARKETING AFFILIATES.

CASE NO. 9015
Order No. E-8441

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 hearings, 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) Under date of February 18, 1983 the then Director of the Oil Conservation Division issued a memorandum to "all operators and all gas purchasers" establishing a priority system and hierarchy of curtailment to be followed during periods of low gas demand.

(3) By Order No. R-7453 dated March 3, 1984 general rules 408 through 412 were promulgated for designation of qualifying wells as "hardship wells" which are entitled to priority access to pipeline capacity and sales.

(4) By decision handed down January 22, 1986 by the U. S. Supreme Court in "Transcontinental Gas Pipe Line Corp. v. State Oil and Gas Board of Mississippi et al" the Board's order requiring an interstate pipeline to purchase and transport gas of an uncontracted party was overturned because it had the effect of increasing the cost of gas to the consumer.

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(5) The Director in Case 9015 proposed that the priority schedule be revised and elevated to the status of general rules by adding Rules 315, 413 and 903 directed at oil producers, gas producers and gas purchasers/transporters, respectively.

(6) The Federal Energy Regulatory Commission (FERC) by various orders has encouraged the separation of traditional purchaser/transporter roles of interstate pipelines so that purchaser, gatherer and transporter may not be the same entity as has been the case in the past.

(7) The spot gas market has grown in its importance and currently constitutes a larger share of the overall gas market nationwide; therefore greater effort is required to market gas, particularly for sellers lacking large packages of gas supply to attract a market.

(8) There are areas in the state where connections to casinghead gas gathering lines are being denied or are not readily available to oil wells, resulting in curtailment of oil production or flaring of casinghead gas, or both situations, which are wasteful.

(9) There have been several instances in recent months where residue gas from processed casinghead gas was threatened with denial of access to a market, which denial would require either shutting in wells supplying the plants, the flaring of casinghead gas at the leases, the flaring of such gas at the plant or the flaring of natural gas after processing at the plant, all of which are wasteful.

(10) This matter was set for hearing after due notice and was heard in its original form by the Commission on October 23 and on November 20, 1986.

(11) A committee composed of representatives of producers, purchasers and transporters met on December 16, 1986 to consider the proposed general rules and any alternative form of promulgating a priority schedule.

(12) The committee agreed to a priority schedule to prevent waste and protect correlative rights but was not in agreement on which of three possible forms for establishment of the priorities was preferable; namely another memorandum, an order of the Commission, or the promulgation of general rules as proposed in the notice for Case 9015.

(13) A further hearing by an entirely new Commission was held March 5, 1987 at which testimony was received in addition to that presented at the two hearings in October and November, 1986, and at which statements were received and opportunity was extended for written statements to be filed during a two-week period immediately following the hearing so that all interested parties were given the opportunity to make their positions known on this matter.

(14) The Commission and its staff have concluded that the priority schedule as set out by the 1983 memorandum should be amended; it should be elevated to the status of an order of the Commission being supported by testimony and statements received at three separate hearings; and it should apply to all producers, gatherers, processors, transporters and purchasers of gas produced from oil wells, gas wells or processing plants in New Mexico.

(15) The priority for production, gathering, transportation and purchasing should extend to well classifications as follows:

- a. first priority to wells classified as hardship gas wells as provided in General Rules 408 through 412.
- b. second priority to casinghead gas from Division-approved waterflood, pressure maintenance or tertiary recovery projects.
- c. third priority to casinghead gas not covered in b. above.
- d. fourth priority to downhole commingled wells involving one or more gas zones and one or more oil zones.
- e. fifth priority to gas produced from gas wells in designated associated pools.
- f. sixth priority to marginal and underproduced wells in prorated gas pools.
- g. seventh priority to gas wells in unprorated pools.
- h. eighth priority to overproduced wells in prorated pools.

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(16) The priority for gas should extend through the processing plant so that the residue gas after processing shall carry the same priority as the gas produced from the well.

(17) It is the intent of the Commission that all gas of a lower priority should be shut in before any curtailment is imposed on gas of a higher priority in the production and taking of gas; first priority being the highest and eighth priority being the lowest.

(18) In order to protect correlative rights, each transporter of gas destined for spot market sales should take appropriate steps to insure that the gas it transports enters its system in compliance with the priority schedule adopted in this order.

(19) It is not intended by this order to interfere with contractual rights; however, in order to enjoy the benefit of the priority schedule each seller of gas from a well or processing plant must be willing to sell the gas at market-clearing or other prices mutually acceptable to the purchaser and seller so that the price of gas to the consumer is not increased due to enforcement of this order.

(20) The promulgation of the revised priority schedule is necessary to prevent waste and protect correlative rights within the State of New Mexico.

IT IS THEREFORE ORDERED THAT:

(1) In order to prevent waste and protect correlative rights when excess of gas supply over demand requires curtailment of gas purchases, each operator, producer or other party controlling the flow of wells, and each gatherer, plant operator and transporter for sale of gas, and each purchaser under jurisdiction of the Commission shall observe and comply with the following priority schedule in the movement of gas from the wellhead to its ultimate use or consumption:

- (a) First priority is to wells classified as hardship gas wells under provisions of General Rules 408 through 412.
- (b) Second priority is to casinghead gas produced from Division-approved waterflood, pressure maintenance or tertiary recovery projects.
- (c) Third priority is to casinghead gas not included in b. above or d. below.

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- (d) Fourth priority is to downhole-commingled wells involving one or more zones which produce oil and casinghead gas and one or more zones which produce dry gas.
- (e) Fifth priority is to gas produced from gas wells in associated pools designated by OCD Orders R-5353 through R-5353-H.
- (f) Sixth priority is to marginal and underproduced wells in prorated gas pools.
- (g) Seventh priority is to gas wells in unprorated gas pools.
- (h) Eighth priority is to overproduced wells in prorated pools.

(2) To the extent it is feasible, in implementing this priority system, all wells in a lower priority status are to be shut in before any wells having a higher priority status are curtailed on any lease, or into any gathering system, processing plant or trunkline; first priority being the highest and eighth priority being the lowest.

(3) Each transporter of gas to the spot market shall insure that gas entering its system shall do so in conformance with the priority schedule contained in this order.

(4) The priority stated above shall extend to each category of gas through a processing plant and apply with equal weight at the tailgate of the plant as applied to said gas at the wellhead.

(5) It is not intended by this order to interfere with or impair contractual rights between buyer and seller nor to have any impact to increase or reduce the price of gas either to buyer, seller or consumer; however, to enjoy the benefit of the above priority schedule the seller must be willing to sell his gas at market-clearing levels or at other price mutually agreeable to buyer and seller.

(6) Exceptions to the above requirements may be granted on a temporary basis by the Director for good cause shown or the Director, at his discretion, may set the matter for hearing after notice.

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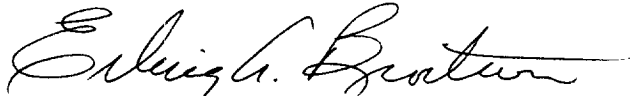
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(7) The Commission shall retain jurisdiction over this cause to extend, amend, modify or suspend the provisions hereof as in its discretion is necessary.

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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