

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 10377
ORDER NO. R-9586

**GAS ALLOWABLES FOR THE PRORATED GAS
POOLS IN NEW MEXICO FOR OCTOBER, 1991
THROUGH MARCH, 1992.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on August 29, 1991, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 3rd day of October, 1991 the Commission, a quorum being present and having considered the testimony, 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) This hearing was called for the purpose of accepting nominations and other evidence and information to assist in determining October, 1991 through March, 1992 gas allowables for the prorated gas pools in New Mexico. Fourteen of the prorated gas pools are in Lea, Eddy and Chaves Counties in Southeast New Mexico and the other four prorated gas pools are in San Juan, Rio Arriba and Sandoval Counties in Northwest New Mexico.

(3) Amendments to the Gas Proration Rules approved by Commission Order No. R-8170-H in December, 1990 provide for allowables to be established for 6-month allocation periods beginning in April and October of each year. The October, 1991 through March, 1992 allocation period will be the second under the amended rules.

(4) Average monthly allowables for Oct. 91 - Mar. 92 for each pool should be based on monthly average individual pool sales for Oct. 90 - Mar. 91, with administrative adjustments where appropriate.

(5) Oil Conservation Division (OCD) personnel prepared Market Demand and Allowable Determination Schedules for the prorated gas pools in New Mexico. These contained preliminary allowable estimates for the Oct. 91 - Mar. 92 period and were developed in accordance with procedures set forth in Division Order R-8170-H, Rules 5(a)1 and 5(a)2. Producers, purchasers and transporters of gas were asked to review these preliminary allowables and to participate in the August 29, 1991 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) Revised preliminary allowable estimates for each prorated pool were submitted at the hearing by OCD as Exhibits 1 and 2. These estimates contained updated production data and differed slightly from the preliminary estimates which had been mailed out earlier.

(7) OCD Exhibit No. 3 was submitted to compare the proposed Oct. 1991 - Mar. 92 allowables to production and allowable volumes for Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91.

(8) The OCD Director of Natural Gas Marketing submitted at the time of the hearing as Exhibit No. 6 a series of graphs in slide form which showed the following:

- (a) Statewide gas production from New Mexico has increased over the last three years from 781 BCF in 1988 to over 965 BCF in 1990. Through June, 1991, year-to-date production exceeds production for the same period in 1990.
- (b) The gas producing rate is growing faster in the northwest part of the state than in the southeast due to the increase in coal seam gas production.
- (c) Statewide gas production is expected to increase during the Oct. 91 - Mar. 92 allocation period compared to Oct. 90 - Mar. 91.
- (d) Although total gas production in the northwest portion of the state has increased and is expected to continue to increase, conventional gas production has decreased since January, 1990.

(9) Hallwood Petroleum, Inc. presented exhibits and testimony to support an increase in allowable for the Catclaw Draw-Morrow Gas Pool. An increase in the monthly F1 factor for the Oct. 1991 - Mar. 1992 allocation period from 34,265, as proposed in OCD Exhibit No. 1 to 127,550 was requested. The following information was submitted to justify the increase:

- (a) The gas proration unit which contains Hallwood's Catclaw Draw Unit Well Nos. 1Y and 13 was shut-in 44 percent of the time from January, 1990 through March, 1991. The unit was over-produced 300,014 MCF as of March 31, 1991. During the above period, daily allowable averaged 764 MCF per day. Producing capability for the proration unit is 1,600 MCF per day.
- (b) Hallwood's Catclaw Draw Unit No. 9 has been worked over recently and is currently producing 5,100 MCF per day. Since May 22, 1991, the well has produced 342,000 MCF. Calculated absolute open-flow for the well was 17,658 MCF per day.
- (c) Hallwood submitted a letter from Gas Company of New Mexico indicating their willingness to purchase additional gas from the pool. Letters of support for the increased allowable from the other producers in the pool, Fasken, Hondo and Texaco were also submitted.

(10) Hallwood's information supports an increase in the allowable for the Catclaw Draw for Oct. 91 - Mar. 92. The proposed increase in F1 to 127,550 (over 4 MMCF per day for a gas proration unit with an acreage factor of one) would assign allowables in excess of the indicated producing capacity to all wells except Well No. 9 and therefore appears excessive. Allowables will by definition restrict production from the highest capability wells. The producing capacity of Well No. 9 may be expected to decline over the next few months. An F1 of 75,000 (2.46 MMCF per day) together with the overproduction limit (222,888 MCF) should provide sufficient opportunity for operators to produce their non-marginal wells. An adjustment of 95,470 (including the 14,000 adjustment) proposed by OCD in Exhibit No. 1 should be added in order to increase total monthly allowable to 242,288 MCF and increase the F1 factor to 75,000.

(11) Marathon Oil Company provided exhibits and testimony in support of an allowable increase in the Blinebry Gas Pool. Marathon wants to increase total pool allowable from 467,669 MCF per month (as proposed in OCD Exhibit No. 1) to 697,959 MCF per month for the Oct. 91 - Mar. 92 period. This would increase the monthly F1 factor from 30,746 to 50,308; the daily allowable for a gas proration unit with an acreage factor of one would increase from approximately 1 MMCF per day to 1.65 MMCF per day. Marathon based their request on the following information:

- (a) Tests from three Marathon wells in the pool were submitted showing daily per-well producing capabilities of between 1.5 and 1.9 MMCF per day.
- (b) A graph of production and allowables for Marathon's non-marginal wells shows the wells with an overproduced status for the period from January, 1989 through June, 1991. Since January, 1991, production from the wells has exceeded allowable.
- (c) Total sales from the pool (marginal and non-marginal wells of all operators) have exceeded allowables since January, 1991.
- (d) Marathon's witness testified that all operators in the Blinebry Pool had been contacted and that all except John Hendrix are in agreement with the requested increase. Marathon testified that John Hendrix preferred the Oil Conservation Division's preliminary allowable. No operator or interest owner appeared at the hearing in opposition to the Marathon request.
- (e) A Marathon marketing witness testified that there is plenty of demand on the spot market for the additional gas. The witness also testified that Northern Natural Gas would welcome the additional gas into their system.

(12) Marathon's evidence supports a daily allowable increase. Increase to approximately 1.25 MMCF per day for a Blinebry well with an acreage factor of one will allow the non-marginal wells to produce at higher rates and help determine if further increases are justified for future allocation periods. An adjustment of 152,320 (including the 73,000 adjustment proposed by OCD in Exhibit No. 1) should be added in order to increase total monthly pool allowable to 566,989 MCF and increase the F1 factor to 38,125 (1.25 MMCF per day).

(13) Chevron USA presented exhibits and testimony in strong support of the minimum allowable rates which have been established for the Eumont and Jalmat Pools. They said the minimum allowables have provided a reliable basis for planning drilling and remedial operations. Chevron expects to increase the number of producing wells in the Eumont Pool from 80 to 98 by October, 1991. Chevron's production from the Eumont Pool is expected to increase from approximately 15 MMCF to 22 MMCF per day by December, 1991.

(14) An Amoco witness recommended slight reductions in the OCD preliminary allowables for the Northwest New Mexico pools as follows:

Basin Dakota	(66,613)
Blanco Mesaverde	(16,554)
Blanco Pictured Cliffs	(8,675)
Tapacito	(3,290)

The non-marginal pool balances for the last two years and a comparison of production to allowables for April and May, 1991 were submitted to support the recommended reductions. Because allowables are based on production for the prior like period, pool balancing is not a major factor.

(15) A Unocal witness submitted data in support of the OCD revised preliminary allowable estimates for the Northwest pools. Unocal expects that pipeline constraints due to line construction over the next several months will curtail production through the Oct. 91 - Mar. 92 period and that the Oil Conservation Division allowable estimates will be adequate. Unocal is not in agreement with the reductions proposed by Amoco since they are based on April and May, 1991 production information. Unocal reduces production volumes during the summer allocation period to save allowable for the winter months.

(16) Allowables for the four Northwest pools should be consistent with the levels shown on OCD Exhibit No. 2. OCD Exhibit No. 3 shows that Oct. 91 - Mar. 92 allowables will be lower than the Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91 periods. Testimony by the Oil Conservation Division Gas Marketing Director, Amoco and Unocal indicates that OCD Exhibit No. 2 allowables should be adequate.

(17) Allowables for the Catclaw Draw and Blinebry Pools should be established as set forth in Finding Paragraph Nos. (10) and (12) above. Allowables assigned to other Southeast New Mexico Pools should be consistent with the levels shown in OCD Exhibit No. 1.

(18) Under the provisions of Order Nos. R-8170-E and R-9463, the Burton Flat-Morrow Pool is unprorated until October, 1991. A hearing has been scheduled for September 19, 1991 to evaluate the effects of the above action and determine if the pool should remain unprorated.

IT IS THEREFORE ORDERED THAT:

(1) OCD Exhibit No. 1 submitted at the time of the hearing shall be amended by adding a monthly allowable adjustment of 95,470 MCF to the Catclaw Draw-Morrow Gas Pool. This adjustment includes the 14,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(2) Said OCD Exhibit No. 1 shall be further amended by adding a monthly allowable adjustment of 152,320 MCF to the Blinebry Gas Pool. This adjustment includes the 73,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(3) OCD Exhibit No. 1, as amended by Decretory Paragraphs Nos. (1) and (2) above, and OCD Exhibit No. 2 are attached hereto as Exhibits "A" and "B", respectively, and shall be made a part hereof; further, said Exhibits shall be the basis for allowable assignments in the prorated gas pools in New Mexico for the months of Oct. 91 - Mar. 92. Allowables shall be assigned as follows:

- (a) Each marginal gas proration unit (GPU) shall be assigned a monthly allowable equal to the average monthly amount of gas produced by such GPU during the period April, 1991 through June, 1991.
- (b) Each non-marginal GPU shall be assigned a monthly allowable using the appropriate acreage allocation factor (F1) and the appropriate acreage times deliverability allocation factor (F2), if applicable, for each pool as shown on OCD Exhibit Nos. 1 and 2 attached to this order.

(4) The Oil Conservation Division is hereby directed to prepare proration schedules for the Oct. 91 - Mar. 92 allocation period in accordance with this order and other Division Rules, Regulations and Orders. Copies of this order shall be included in each proration schedule.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Bill Weiss

WILLIAM W. WEISS, Member

Gary Carlson

GARY CARLSON, Member

William J. Lemay

WILLIAM J. LEMAY, Chairman

S E A L

Exhibit "A"
Case No. 10377
Order No. R-9586

ENGP216AT-ENGP216A-01 RUN-TIME: 08:13:57	MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE PRORATED GAS POOLS - SOUTHEAST NEW MEXICO FOR OCT 91 THRU MAR 92										RUN-DATE 09/09/91	
	ATOKA PENN	BLINEBRY	BUFFALO VALLEY PENN	BURTON FLAT MORRON	CATCLAW DRAH MORRON	ELMONT MORRON	INDIAN BASIN MORRON	INDIAN BASIN UPPER PENN	JALMAT	JUSTIS 6L	TUB88	
(1) AVERAGE MONTHLY POOL SALES OCT90-MAR91 ALL VOLUME ARE IN MCF.	113,401	414,669	214,667	436,754	237,631	146,818	2,218,783	196,828	3,229,032	884,356	39,436	231,773
(2) TOTAL NOMINATIONS AVG MONTH VOL.		21,768			407,167	131,173	3,600,000	126,500	22,669			9,112
(3) ADJUSTMENTS.	27,000	152,320			56,000	95,470	204,616	4,000	328,000	319,475	6,000	35,000
(4) MONTHLY POOL ALLOWABLE OCT91-MAR92 (LINE 1 + LINE 3.)	140,401	566,989	214,667	436,754	293,631	242,288	2,423,399	200,828	3,557,032	1,203,831	45,436	266,773
(5) MONTHLY MARGINAL POOL ALLOWABLE OCT91-MAR92	32,121	157,145	118,757	183,645	213,958	92,288	1,385,423	75,247	2,542,064	801,231	14,064	154,974
(6) MONTHLY NON-MARGINAL POOL ALLOWABLES OCT91-MAR92 LINE 4 - LINE 5	108,280	409,844	95,910	253,109	79,673	150,000	1,037,976	125,581	1,014,968	402,600	31,372	111,799
(7) NUMBER OF NON-MARGINAL ACREAGE FACTORS	3.42	10.75	2.00	6.88	3.97	2.00	56.72	.86	5.49	22.00	9.00	11.00
(8) MONTHLY ACREAGE ALLOCATE FACTOR OCT91-MAR92 (LN 6 / LN 7)	11,660	38,125	47,955	36,789	20,068	75,000	18,300	146,024	184,875	18,300	3,485	10,163

F1 FACTORS FOR OTHER POOLS
BURTON FLAT STRAWN F1 = 10,000
MONUMENT NOXEE ELLEN F2 = 25,000

Exhibit "B"
Case No. 10377
Order No. R-9586

ENGP216AT-ENGP216A-01
RUN-TIME: 08:13:57

MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE
PRORATED GAS POOLS - NORTHWEST NEW MEXICO
FOR OCT 91 THRU MAR 92

	BASIN DAKOTA	BLANCO MESA VERDE	BLANCO P.C. SOUTH	TAPACITO
(1) AVERAGE MONTHLY POOL SALES OCT90-MAR91 ALL VOLUME ARE IN MCF.	8,033,542	13,999,619	1,185,220	204,195
(2) TOTAL NOMINATIONS AVG MONTH VOL.	795,852	555,611	56,094	41,426
(3) ADJUSTMENTS.		46,000		
(4) MONTHLY POOL ALLOWABLE OCT91-MAR92 (LINE 1 + LINE 3.)	8,033,542	14,045,619	1,185,220	204,195
(5) MONTHLY MARGINAL POOL ALLOWABLE OCT91-MAR92	4,180,677	6,597,257	515,312	81,801
(6) MONTHLY NON-MARGINAL POOL ALLOWABLES OCT91-MAR92 LINE 4 - LINE 5	3,852,865	7,448,362	669,908	122,394
(7) NUMBER OF NON-MARGINAL ACREAGE FACTORS	433.65	599.93	456.61	91.74
(8) NUMBER OF NON-MARGINAL ACREAGE TIMES DELIVERABILITY FACTORS	206,913	442,938	27,586	9,304
(9) MONTHLY ACREAGE ALLOCATE FACTOR OCT91-MAR92	5,330	3,103	366	333
(10) MONTHLY ACREAGE TIMES DELIVERABILITY ALLOCATE FACTOR OCT91-MAR92	7.44	12.61	18.21	9.86