

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. 10450  
Order No. R-9656

GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR APRIL, 1992  
THROUGH SEPTEMBER, 1992.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 27, 1992, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 31st day of March, 1992, 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 April, 1992, through September, 1992 gas allowables for the prorated gas pools in New Mexico. Thirteen 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 April, 1992 through September, 1992 allocation period will be the third under the amended rules.

(4) Average monthly allowables for April 92 - Sept. 92 for each pool should be based on monthly average individual pool sales for April 91 - Sept. 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 April 92 - Sept. 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 February 27, 1992 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 A and B. These estimates contained updated production data and differed from the preliminary estimates which had been mailed out earlier.

(7) The OCD Director of Natural Gas Marketing submitted at the time of the hearing as Exhibits Nos. 1 through 8 a series of graphs in slide form which showed the following:

- (a) New Mexico natural gas production has increased steadily from 1985 through 1991. The preliminary estimate for 1991 production is one trillion cubic feet.
- (b) Monthly gas production in New Mexico reflects seasonal trends with the period April through September having lower production than the period October through March. This trend has flattened out in recent years but still exists and is expected to continue in 1992.
- (c) The number of completions and the production from the coal seam gas continues to increase while the production from conventional wells decreases in the northwest.
- (d) New Mexico's gas reserves have increased to 19.8 Tcf which is second only to Texas for onshore reserves of natural gas.

(8) Hallwood Petroleum, Inc. presented exhibits and testimony to support their request for an F1 factor in the range of 127,000 to 149,800 for the Catclaw Draw-Morrow Gas Pool. The current (Oct. 91 - March 92) F1 factor is 127,000 and the total production from the pool is nearing 400,000 Mcf/month. Hallwood has not had any problem in marketing their gas and does not anticipate any problems in marketing for the April 92 - Sept. 92 period.

(9) The current F1 factor of 127,000 for the Catclaw Draw has allowed all of the marginal wells to produce and is limiting the production of the single non-marginal well in the pool. An adjustment for seasonal demand would result in an F1 factor of 122,000. This factor will allow the pool to be produced at or near its current levels and meet the anticipated market demand.

(10) Marathon Oil Company presented exhibits and testimony in support of their request for an allowable increase in the Blinebry Gas Pool. Preliminary estimates sent out by the OCD had recommended an F1 factor of 24,906 and Marathon is requesting an F1 factor of 45,000. The following information was presented by Marathon.

- (a) Marathon notified all of the operators in the Blinebry Pool of their intention to request an F1 factor of 45,000. Chevron and Conoco responded by stating that they did not object to Marathon's request. Mobil, Arco, Exxon and Texaco did not respond to Marathons' proposal.
- (b) A graph of sales and allowables for Marathon's four non-marginal wells showed that the wells had been overproduced since 1989 except for the month of Oct. 1990. Since that time the sales have exceeded the allowable and the wells are again overproduced.
- (c) Marathon presented a marketing witness who testified that they could sell all of the gas produced from the Blinebry Pool. He also testified that if Marathon and other New Mexico producers were not allowed to produce all of the gas that they could, New Mexico would start losing market share to Canadian gas.

(11) John Hendrix, an operator in the Blinebry Pool, had a statement read into the record that proposed a decrease in the F1 factor to 21,840. The reasons for his request are that increases in allowable will further flood the gas market and that the prices received for gas are below its replacement costs.

(12) The current (Oct. 91 - Mar. 92) F1 factor for the Blinebry Pool of 38,125 is a substantial increase over previous F1 factors. As a result of this increase, the number of non-marginal wells is decreasing but the full effect of the increase is not yet known. Making a seasonal adjustment in the F1 factor (April 92 - Sept. 92) will result in a new F1 factor of 38,000 which will allow another six months to evaluate the increased F1 factor.

(13) Marathon Oil Company presented exhibits and testimony to support their request for an F1 factor of 232,000 for the Indian Basin Upper Penn Pool. Marathon based their request on the following information:

- (a) Well work and facilities modification performed on the Indian Basin D 1 Well increased production from just under 100,000 Mcf/month to over 200,000 Mcf/month. As a result, the well has gone from marginal to non-marginal and is currently overproduced.
- (b) Marathon worked over their North Indian Basin Unit 4 Well and increased production to over 130,000 Mcf/month. Under current allowables, this well will remain a marginal well.

- (c) Marathon has spent \$775,245 working over wells, upgrading production units and installing lease wellhead compression.
- (d) Marathon's gas marketing representatives gave testimony that they had a market for all of the gas they can produce from the Indian Basin Upper Penn Pool and that they were seeking an F1 factor that would allow their best well to produce without restriction.

(14) Chevron USA presented testimony and exhibits to justify an F1 factor of 152,500 for the Indian Basin Upper Penn Gas Pool. Chevron used the following information to justify their request.

- (a) Chevron and Marathon each represented 40% of the production from Apr. 91 - Nov. 91.
- (b) A comparison chart showing Chevron's and Marathon's non-marginal well average production from April 91 - Nov. 91 as 152,953 Mcf/month. Chevron rounded this figure to 152,500 Mcf/month and made this their recommended allowable for a well with an acreage factor of 1.
- (c) Chevron plans to workover their Helbing Federal No. 1 Well in 1992 and feels that it is economically feasible with the F1 factor of 152,500.
- (d) Chevron presented a letter from their Natural Gas Supply and Marketing group which stated that the Indian Basin gas prices will probably weaken due to increased gas supplies to California.
- (e) Chevron submitted letters from Oryx and MW Petroleum Corporation, both operators in the Indian Basin Upper Penn Gas Pool, which were against the 232,000 F1 factor requested by Marathon and supported a lower factor of 152,500 to 167,310.

(15) OCD Exhibit "A" presented at this hearing had suggested an F1 factor of 160,502 for the Indian Basin Upper Penn Gas Pool. Considering the exhibits and testimony presented by Marathon and Chevron, this F1 factor is adequate. Sufficient production will be allowed to meet the market demand and to encourage additional work in the field.

(16) Amoco Production Company presented exhibits and testimony requesting higher allowables for the four prorated gas pools in the San Juan Basin. Pipeline expansions which are currently being installed in the Northwest should result in a lowering of pipeline pressures which will increase production.

(17) Union Oil Company of California presented exhibits and testimony to justify higher allowables for the Basin Dakota Pool and the Blanco Mesaverde Pool. The allowable factors presented in the Preliminary Allowable Estimates sent out by the OCD would result in less allowable for Dakota wells than for the comparable period in 1991 and slightly more allowable for Mesaverde wells than in 1991. The increased pipeline capacity out of the San Juan Basin will require higher allowable if the pipelines are to be filled.

(18) Phillips Petroleum Company presented testimony and exhibits to support their request for higher allowables in the Basin Dakota Pool.

(19) Allowables for the four prorated gas pools in the San Juan Basin should be increased. The effect of the pipeline expansions in the Northwest will be to lower line pressures and increase production. It is not known how much the production will be increased, but producers should be allowed to take advantage of the increase if the gas can be marketed.

(20) The OCD Exhibit B should be adjusted as follows:

<u>Pool</u>	<u>Adjustment</u>
Basin-Dakota	2,000,000 Mcf/month
Blanco Mesaverde	3,000,000 Mcf/month
So. Blanco Pictured Cliffs	150,000 Mcf/month
Tapacito Pictured Cliffs	100,000 Mcf/month

IT IS THEREFORE ORDERED THAT:

(1) OCD Exhibit A submitted at the hearing shall be amended for the Catclaw Draw Morrow Pool by correcting the average monthly pool sales to 238,675 Mcf and by changing the adjustments from 109,245 Mcf to 58,559 Mcf.

(2) Said OCD Exhibit A shall be further amended for the Blinebry Gas Pool by adding an adjustment of 157,241 Mcf/mo.

(3) OCD Exhibit B submitted at the hearing shall be amended by making the following adjustments for monthly production:

<u>Pool</u>	<u>Adjustment (Mcf/mo.)</u>
Basin Dakota Pool	2,000,000
Blanco Mesaverde Pool	3,000,000
South Blanco Pictured Cliffs Pool	150,000
Tapacito Pictured Cliffs Pool	100,000

(4) OCD Exhibits A and B, as amended by Decretory Paragraphs Nos. (1), (2) and (3) above are attached hereto as Exhibits "A" and "B", respectively, and shall be made a part hereof. Said Exhibits shall be the basis for allowable

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assignments in the prorated gas pools in New Mexico for the months Apr. 92 - Sept. 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 that GPU during the period January 1992 through March 1992.
- (b) Each non-marginal GPU shall be assigned a monthly allowable using the appropriate acreage allocation factor (F1) and the appropriate acreage times deliverability allocating factor (F2), if applicable, for each pool as shown on OCD Exhibits "A" and "B" attached to this order.

(5) The Oil Conservation Division is hereby directed to prepare proration schedules for the Apr. 92 - Sept. 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.

(6) 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 DIVISION

*Bill Weiss*

WILLIAM W. WEISS, Member

*Gary Carlson*

GARY CARLSON, Member

*William J. Lemay*

WILLIAM J. LEMAY, Chairman

S E A L

dr/

ENGP216T--ENGP216-01  
RUN-TIME: 06:56:58

EXHIBIT "A" CASE NO. 10450  
MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
PRORATED GAS POOLS - SOUTHEAST NEW MEXICO  
FOR APR92 THRU SEP92

RUN-DATE 03/23/92

ATOKA PENN BLINBERRY BUFFALO BURTON FLAT CARLSBAD CATCLAW DRAW EUMONT INDIAN BASIN INDIAN BASIN JALMAT JUSTIS GL TUBB											
VALLEY PENN MORROM MORROM MORROM MORROM SO UPPER PENN											
( 1 ) AVERAGE MONTHLY POOL SALES APR91-SEP91 ALL VOLUME ARE IN MCF.	89,914	354,110	157,429	233,629	238,675	1,936,303	74,035	3,292,012	966,159	40,742	204,165
( 2 ) TOTAL NOMINATIONS AVG MONTH VOL.											
( 3 ) ADJUSTMENTS.	48,000	157,241	7,000	100,000	58,559	169,191					10,000
( 4 ) MONTHLY POOL ALLOWABLE APR92-SEP92 (LINE 1 + LINE 3.)	137,914	511,351	164,429	333,629	297,234	2,105,494	74,035	3,292,012	966,159	40,742	214,165
( 5 ) MONTHLY MARGINAL POOL ALLOWABLE APR91-SEP91	25,062	131,351	134,745	186,434	53,234	1,364,710	63,149	2,250,351	814,000	13,116	121,127
( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLES APR92-SEP92 LINE 4 - LINE 5	112,852	380,000	29,684	147,195	244,000	740,784	10,886	1,041,661	152,159	27,626	93,038
( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS	3.78	10.00	1.00	4.97	2.00	40.48	.86	6.49	8.00	7.00	9.00
( 8 ) MONTHLY ACREAGE ALLOCATE FACTOR APR92-SEP92 (LN 6 / LN 7)	29,855	38,000	29,684	29,617	122,000	18,300	12,658	160,502	19,020	3,947	10,338

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

ENSP216T--ENSP216-01  
RUN-TIME: 06:56:58

EXHIBIT "B" CASE NO. 10450  
MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
PRORATED GAS POOLS - NORTHWEST NEW MEXICO  
FOR APR92 THRU SEP92

RUN-DATE 03/23/92

BASIN BLANCO BLANCO TAPACITO  
DAKOTA MESA VERDE P.C. SOUTH

( 1 ) AVERAGE MONTHLY 5,863,716 12,179,306 864,713 197,234  
POOL SALES  
APR91-SEP91  
ALL VOLUME ARE IN MCF.

( 2 ) TOTAL  
NOMINATIONS  
AVG MONTH VOL.

( 3 ) ADJUSTMENTS. 2,000,000 3,000,000 150,000 100,000  
( 4 ) MONTHLY POOL 7,863,716 15,179,306 1,014,713 297,234  
ALLOWABLE  
APR92-SEP92  
( LINE 1 + LINE 3.)

( 5 ) MONTHLY MARGINAL 3,811,033 5,209,632 428,939 91,827  
POOL ALLOWABLE  
APR91-SEP91

( 6 ) MONTHLY 4,052,683 9,969,674 585,774 205,407  
NON-MARGINAL  
POOL ALLOWABLES  
APR92-SEP92  
LINE 4 - LINE 5

( 7 ) NUMBER OF 289.09 567.72 326.02 78.68  
NON-MARGINAL  
ACREAGE FACTORS

( 8 ) NUMBER OF 151,820 351,062 18,945 5,808  
NON-MARGINAL  
ACREAGE TIMES  
DELIVERABILITY  
FACTORS

( 9 ) MONTHLY ACREAGE 8,411 4,390 449 653  
ALLOCATE FACTOR  
APR92-SEP92

(10) MONTHLY ACREAGE 10.68 21.30 23.19 26.52  
TIMES  
DELIVERABILITY  
ALLOCATE FACTOR  
APR92-SEP92