

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 FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 10526
Order No. R-9734

GAS ALLOWABLES FOR THE PRORATED GAS
POOLS IN NEW MEXICO FOR OCTOBER, 1992
THROUGH MARCH, 1993.

ORDER OF THE COMMISSION

BY THE COMMISSION:

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

NOW, on this 1st day of October, 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 October, 1992, through March, 1993 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 October, 1992 through March, 1993 allocation period will be the fourth under the amended rules.

(4) Average monthly allowables for October 92 - March 1993 for each pool should be based on monthly average individual pool sales for October 91 - March 92, 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 schedules contained production information from the period October 1991 - March 1992, without adjustments. Producers, purchasers and transporters of gas were asked to review these preliminary allowables and to participate in the August 27, 1992 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) The Director of the Office of Interstates Natural Gas Markets submitted a graph showing New Mexico's natural gas production for the years 1989, 1990, 1991 and 1992 through June. Production has been increasing each of these years but 1992 has shown an exceptionally large increase in production and is not reflecting the normal seasonal trend established in prior years.

(7) Meridian Oil Inc. presented exhibits and testimony showing an increase in market demand and production for the Basin-Dakota, Blanco Mesaverde and the South Blanco Pictured Cliffs pools. The following information was presented:

- (a) Production for the April through July period for 1992 compared to the same period for 1991 was up 41% for Basin-Dakota, up 17% for Blanco-Mesaverde and up 39% for South Blanco Pictured Cliffs.
- (b) Reasons for the increased production are: 1) increased pipeline capacity out of the San Juan Basin resulting in lower line pressures, and; 2) increases and firming of natural gas prices.

(8) Meridian requested the following adjustments for pools in Northwest New Mexico:

- (a) Basin Dakota-2,000,000 Mcf/mo.
- (b) Blanco Mesaverde-3,000,000 Mcf/mo.
- (c) South Blanco Pictured Cliffs-150,000 Mcf/mo.

(9) Amoco presented testimony that the increased pipeline capacity out of the San Juan Basin had resulted in production increases and that the increases would continue through the proration period October 1992 to March 1993.

(10) Amoco requested the following adjustments for pools in Northwest New Mexico:

- (a) Basin-Dakota-2,000,000 Mcf/mo.
- (b) Blanco-Mesaverde-3,000,000 Mcf/mo.
- (c) South-Blanco Pictured Cliffs-150,000 Mcf/mo.
- (d) Tapacito-Pictured Cliffs-100,000 Mcf/mo.

(11) Phillips Petroleum presented exhibits and testimony in support of higher allowables for the Basin-Dakota Pool showing that:

- (a) Volumes produced during the October 1991 through March 1992 period were low because of low natural gas prices and transportation constraints, and;
- (b) Higher gas prices and increased pipeline capacity will result in increased production during the October 1992 through March 1993 period.

(12) Phillips requested an adjustment of 1,805,273 Mcf/mo. for the Basin-Dakota pool.

(13) Allowables for the four prorated pools in the San Juan Basin should be increased above the production levels of October '91 through March '92. Increased pipeline capacity and higher natural gas prices will result in an increase in market demand for New Mexico produced gas and the ability of San Juan Basin producers to satisfy that demand.

(14) Meridian Oil Inc. presented testimony and exhibits requesting an increased allowable for the Justis-Glorieta Pool because:

- (a) There is a market for increased production from this field.
- (b) Additional gas will be recovered from the pool if allowables are increased sufficiently to economically justify infill drilling and other workovers.
- (c) The gas gathering system can handle additional volumes of gas without having adverse affects on any other wells within the pool.

- (d) All of the operators of wells in this pool were notified of Meridian's position and no one expressed any opposition.

(15) Allowables for the Justis-Glorieta Pool are too low and should be increased.

(16) Marathon Oil Company requested an F1 factor of 42,000 for the Blinebry Pool.

(17) The Blinebry Pool F1 factor for the Oct. '91 through April '92 allocation period was 38,125 for a pool allowable of 566,989 Mcf/mo. Average pool sales for the same period was only 454,535 Mcf/mo. indicating that the pool allowable was not produced. Additional allowable in excess of an F1 factor of 38,125 is not justified at this time.

(18) Chevron supported the Oil Conservation Division's preliminary F1 factor of 173,328 for the Indian-Basin Upper Penn Pool. Their justification was as follows:

- (a) This F1 factor is high enough to allow for workovers and other investments in the pool.
- (b) High capacity wells, if allowed to produce at too high a rate, could drain more than their fair share of gas from the pool.
- (c) MW Petroleum had addressed a letter to the Commission in favor of the 173,328 F1 factor. MW Petroleum operates four wells and has an interest in fourteen other wells in the pool.

(19) Marathon Oil Company requested an F1 factor of 197,600 for the Indian-Basin Upper Penn. Their request was based on the following:

- (a) An F1 factor of 197,600 would allow Marathon to benefit from successful workover operations on its wells performed during the past two years and additional work it plans for the upcoming year.
- (b) The higher F1 factor will allow Marathon to produce their wells at capacity and not be overproduced.
- (c) Marathon has a market for all the gas they can produce.

(20) Oryx requested an F1 factor of 197,600 for the Indian-Basin Upper Penn Pool. They supported this request with the following information:

- (a) Oryx has conducted a successful workover program on four of its wells. The requested increase in allowable is reasonable because operators have enhanced their wells' performance through capital expenditures and the requested allowable increase would justify additional workover expenditures in the future.
- (b) Oryx's wells could produce 851,200 Mcf/mo. for the Oct. '92 - March '93 allocation period.
- (c) Oryx has the market for the additional gas production.

(21) The Indian Basin-Upper Penn Pool was given an F1 factor of 184,875 for the Oct. '91 - March '92 allocation period and the pool was underproduced at the end of this period. Additional allowable would allow the higher capacity wells to drain more gas from marginal proration units, thus violating the correlative rights of marginal gas interest owners. The F1 factor for this field should remain at the recommended level of 178,372.

IT IS THEREFORE ORDERED THAT:

(1) Exhibit "A" attached to and incorporated herein is hereby adopted for the purpose of making allowable assignments for the prorated gas pools in Southeast New Mexico for the months Oct. '92 - March '93.

(2) Exhibit "B", attached to and incorporated herein is hereby adopted for the purpose of making allowable assignments for the prorated gas pools in Northwest New Mexico for the months Oct. '92 - March '93.

(3) The Oil Conservation Division is hereby directed to prepare proration schedules for the Oct. '92 - March '93 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.

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

Case No. 10526
Order No. R-9734
Page 6

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

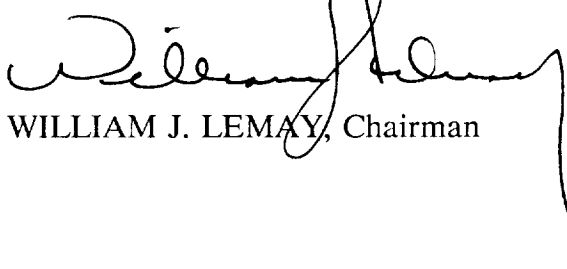
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



GARY CARLSON, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman

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