

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

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

**CASE NO. 11935
Order No. R-10998**

**APPLICATION OF CHEVRON U.S.A. PRODUCTION
COMPANY FOR REINSTATEMENT OF UNDER-
PRODUCTION FOR ITS FEDERAL COM '33" WELL
NOS. 1 AND 2 GAS PRORATION UNIT, INDIAN BASIN-
UPPER PENNSYLVANIAN GAS POOL, EDDY
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 5, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 15th day of June, 1998, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) Division Case Nos. 11935, 11936, 11937 and 11938 were consolidated at the time of the hearing for the purpose of testimony.
- (3) The applicant, Chevron U.S.A. Production Company (Chevron), is the current operator of the Federal Com "33" Well No. 1 (API No. 30-015-10580) and Federal Com "33" Well No. 2 (API No. 30-015-28953) located respectively in Units J and G of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico. These wells are currently dedicated to a standard 640-acre gas spacing and proration unit (GPU) in the Indian Basin-Upper Pennsylvanian Gas Pool comprising all of Section 33.

(4) Pursuant to Rules No. 14(a) and 14(b) of the General Rules for the Prorated Gas Pools of New Mexico, set forth in Division Order No. R-8170, as amended, Chevron seeks to reclassify the subject GPU to non-marginal in the Indian Basin-Upper Pennsylvanian Gas Pool. The applicant further seeks the reinstatement of underproduction for the subject GPU in the amount of 265,528 MCFG for the proration period from April 1, 1995 to March 31, 1996.

(5) The evidence and testimony presented in this case indicates that:

- a) Prior to July, 1996, the subject GPU was capable of marginal gas production only in the Indian Basin-Upper Pennsylvanian Gas Pool, that production originating from the Federal Com "33" Well No. 1;
- b) In May-June, 1996, the applicant drilled and completed its Federal Com "33" Well No. 2 in the Indian Basin-Upper Pennsylvanian Gas Pool. The well came on line in July, 1996, at which time the subject GPU became capable of non-marginal gas production in the Indian Basin-Upper Pennsylvanian Gas Pool; and,
- c) the subject GPU was never reclassified to non-marginal by the Division.

(6) Rule No. 14(a) provides that: "If, at the end of any classification period, a marginal GPU has produced more gas during the proration period to that time than its shadow allowable for that same period, the GPU shall be reclassified as a non-marginal GPU."

(7) The evidence presented indicates that at the end of the October-December, 1996 classification period, the GPU had produced 1,831,736 MCFG during the proration period. The GPU's shadow allowable for the same period was 1,800,000 MCFG.

(8) Pursuant to Rule No. 14(a), the GPU should have been reclassified to non-marginal on January 1, 1997.

(9) Rule No. 14(b) provides that: "[A] GPU reclassified to non-marginal under the provisions of Rule 14(a) shall have reinstated to it all underproduction which accrued or would have accrued as a non-marginal GPU from the current production period, underproduction from the prior proration period may be reinstated after notice and hearing. All uncompensated-for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal [Emphasis added].

(10) Chevron's interpretation of Rule No. 14(b) is that the subject GPU is eligible for reinstatement of underproduction from the proration period from April 1, 1995 to March 31, 1996.

(11) The evidence and testimony presented in this case indicates that:

- a) a "marginal GPU" as defined by Division Order No. R-8170, as amended, is "a proration unit which is incapable of producing or has not produced the non-marginal allowable based on pool allocation factors. Marginal GPU's do not accrue over-or under-production." [Emphasis added]
- b) the subject GPU was classified as a marginal GPU during the proration period from April 1, 1995 to March 31, 1996; therefore, it was not entitled to, nor did it accrue underproduction during that proration period pursuant to the gas proration rules;
- c) there is no evidence to show that this GPU was **capable** of non-marginal production during the proration period from April 1, 1995 through March 31, 1996;
- d) the Division's interpretation of Rule 14(b) is that in order for a GPU to be eligible for "reinstatement" of underproduction from a prior production period, it would have had to have earned or been awarded such underproduction (which was subsequently canceled) pursuant to the gas proration rules;
- e) although it had the opportunity to drill a second well to fully utilize its GPU's gas allowable, Chevron chose not to do so until July, 1996, at which time the Federal Com "33" Well No. 2 was drilled and came on line;
- f) since the Federal Com "33" Well No. 2 came on line, Chevron has overproduced the subject GPU in the amount of 93,848 MCFG, which in part, has necessitated its request for reinstatement of underproduction; and,

- g) approval of the subject application would in effect grant Chevron additional gas allowable in the Indian Basin-Upper Pennsylvanian Gas Pool to which it is not entitled, and would violate the correlative rights of other operators in the pool.

(12) The application of Chevron to reinstate underproduction for the Indian Basin-Upper Pennsylvanian Pool GPU comprising all of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, for the proration period from April 1, 1995 to March 31, 1996 in the amount of 265,528 MCFG is not in the best interest of prevention of waste and protection of correlative rights and should therefore be denied.

(13) The subject GPU should be reclassified as non-marginal effective January 1, 1997.

(14) Any adjustments to the subject GPU's over/under production status as a result of such reclassification should be made administratively by the Division's Artesia District Office.

IT IS THEREFORE ORDERED THAT:

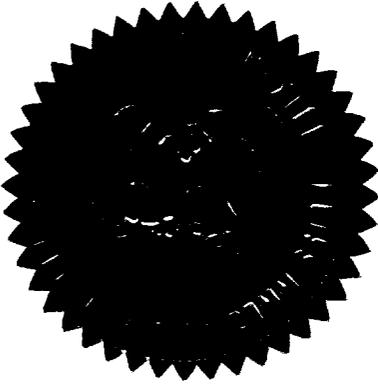
(1) The application of Chevron U.S.A. Production Company to reinstate underproduction for the Indian Basin-Upper Pennsylvanian Gas Pool GPU comprising all of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, for the proration period from April 1, 1995 to March 31, 1996 in the amount of 265,528 MCFG is hereby denied.

(2) Effective January 1, 1997, the subject GPU, to which the Federal Com "33" Well No. 1 (API No. 30-015-10580) and Federal Com "33" Well No. 2 (API No. 30-015-28953) located respectively in Units J and G of Section 33, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, are dedicated, is hereby reclassified as a non-marginal GPU in the Indian Basin-Upper Pennsylvanian Gas Pool.

(3) Any adjustments to the subject GPU's over/under production status as a result of such reclassification shall be made administratively by the Division's Artesia District Office.

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

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



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrottenbery

LORI WROTENBERY
Director