

Entered March 2, 1984
JCP

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 8077
Order No. R-7453

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION
COMMISSION ON ITS OWN MOTION TO CONSIDER THE ESTABLISHMENT OF A
CLASSIFICATION OF NATURAL GAS WELLS TO BE KNOWN AS "HARDSHIP
GAS WELLS" WHICH WELLS WILL BE ENTITLED TO PRIORITY ACCESS TO
NATURAL GAS PIPELINE TRANSPORTATION FACILITIES.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on
February 16, 1984, at Santa Fe, New Mexico, before the Oil
Conservation Commission of New Mexico, hereinafter referred to
as the "Commission."

NOW, on this 2nd day of March, 1984, the Commission, a
quorum being present, having considered the testimony presented
and the exhibits received at said hearing, and being fully
advised in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Commission has jurisdiction of this cause and the
subject matter thereof.

(2) That the Oil Conservation Division, hereinafter
referred to as the "Division", proposes the establishment of a
classification of natural gas wells to be known as "hardship
gas wells" which wells would be entitled to priority access to
the available gas market.

(3) That beginning in the month of May, 1982, the market
for gas from New Mexico became severely depressed.

(4) That in the last eight months of 1982 gas takes were
down from 9.8 percent to 28.5 percent on a monthly basis.

(5) That the restriction in demand continued into 1983.

(6) That because of the reduced demand, pipeline companies were forced to curtail takes from wells connected to their transportation facilities.

(7) That this curtailment was in the form of reduced flow rates or the actual periodic shutting in of wells.

(8) That the Division and the pipelines received numerous requests from operators for exception from shut-in or curtailment below set limits of wells which would be "damaged" thereby.

(9) That the nature of such alleged damage included: loss of producing capacity, loss of reserves, increased operational costs which might result in premature abandonment, all as a result of well shut-in or curtailment below the minimum sustainable producing rate.

(10) That to avoid the waste of gas reserves which could result from such shut-in or curtailment, operators petitioned the Division to devise some mechanism to keep the affected wells on production.

(11) That to permit such wells to continue to produce while wells on offset proration units were shut-in or curtailed could prevent waste but could also result in drainage across proration unit or lease lines not offset by counter drainage thereby damaging correlative rights.

(12) That to avoid correlative rights and ratable problems which might result from shutting or curtailing some wells in a pool while wells subject to damage were allowed to produce, the gas pipeline companies petitioned the Division to formulate a set of rules to deal with this matter.

(13) That the Division Director appointed a committee to study this matter and to make recommendations as to any rules or procedures which should be adopted therefor.

(14) That the study committee recommended that the Division adopt rules establishing a hardship gas well category for wells for which "underground waste" would occur if such wells were shut-in or curtailed as described in earlier findings.

(15) The committee further proposed that such hardship gas wells be clearly defined; that an application process be established, that notice and processing rules be established; that an emergency classification procedure be established; and, that limits on hardship well classification be established.

(16) That the recommendations of the committee are embodied in new proposed Division Rules 408, 409, 410, 411, and 412 as shown on Exhibit "A" attached to this order and on the proposed "Application for Classification as Hardship Gas Well" form attached to this order as Exhibit "B".

(17) That adoption of these proposed rules and form will serve to prevent the loss of gas reserves which might result from well damage or premature abandonment resulting from the shutting-in of gas wells or curtailment of their production below the minimum sustainable rate.

(18) That proposed Rule 412 D provides a vehicle by which any affected party may seek to protect its correlative rights from damage which might result from the approval of a well as a hardship gas well.

(19) That to assure a sufficient period of time in which the Division might process a potential "backlog" of hardship gas well applications, the Division Director should be granted the authority to permit an additional 90-day Emergency Hardship Gas Well classification for any well for which an application is received within 60 days after the date of this order.

(20) That the proposed rules and form will serve to prevent waste and will permit operators the opportunity to protect their correlative rights and should be adopted.

IT IS THEREFORE ORDERED:

(1) That new Division Rule 408, 409, 410, 411, and 412, as shown on Exhibit "A" attached to this order, are hereby adopted.

(2) That the "Application for Classification as Hardship Gas Well" form as shown on Exhibit "B" attached to this order is hereby adopted.

(3) That the Division Director may grant an additional 90-day Emergency Hardship Gas Well classification to any well for which an application is received within 60 days after the date of this order, when the applicant has requested an emergency classification and when the application cannot be processed before the end of the 90-day emergency classification period.

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

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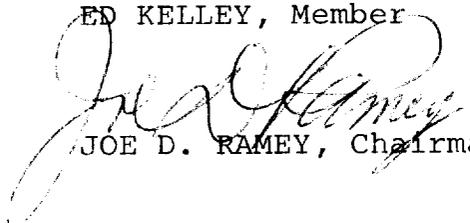
DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member



ED KELLEY, Member



JOE D. RAMEY, Chairman and Secretary

S E A L

408. HARDSHIP GAS WELL

- A. Hardship gas well is defined as a gas well wherein "underground waste" will occur if the well should be shut-in or curtailed below its minimum sustainable flow rate.

No well shall be classified as a hardship gas well except after notice and hearing or upon appropriate administrative action of the Division.

Wells approved as hardship gas wells under Rule 409 and/or Rule 410 shall be given priority access (over other gas wells) to the current available gas market to the extent that they might otherwise be restricted below the approved minimum flow rate.

409. APPLICATION FOR HARDSHIP GAS WELL CLASSIFICATION

- A. Application for hardship gas well classification shall be made in the form prescribed by the Division and shall include the following:
- (1) a narrative description of the problem(s) which leads the applicant to believe that underground waste will occur if the well is shut-in or curtailed below its minimum sustainable flow rate;
 - (2) documentation that the applicant has made all reasonable and economic attempts to eliminate or correct the problems(s) or an explanation and justification as to why such attempts were not made;
 - (3) a wellbore sketch;
 - (4) historical data such as permanent loss of productivity after shut-in, frequency and actual cost of swabbing after shut-in or curtailment including length of swab time required, actual cost figures showing the inability to continue operations without special relief, or any other data which would show that shut-in or curtailment would cause underground waste;
 - (5) if failure to obtain a hardship gas well classification would result in premature abandonment of the well, a calculation of the reserves which would be lost thereby;

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- (6) the minimum sustainable producing rate as determined by a minimum flow or "log-off" test or documentation of well production history;
 - (7) a plat and/or map showing the proration unit dedicated to the well and the ownership of the offsetting acreage;
 - (8) the name of the authorized transporter (and purchaser if different) of gas; and,
 - (9) any other data the applicant considers relevant.
- B. Applications for hardship gas well classification shall be made in duplicate with the original copy being filed at Santa Fe and a copy being filed with the appropriate Division district office.

In addition, the applicant will notify the transporter and purchaser of gas from the well and all offset operators of the application and the requested minimum producing rate and shall so certify to the Division in his application.

410. PROCESSING OF APPLICATIONS FOR HARDSHIP GAS WELLS

- A. The Director of the Division may administratively approve any application for hardship gas well classification or he may set such matter for notice and hearing.
- B. (1) Applications which are to be approved administratively shall be listed in the Dockets of Division or Commission hearings which are issued from time to time.
- (2) If no affected party has filed written objection to any such proposed administrative action within 20 days following the date of the hearing for which the Docket is issued, the application may be approved. If any such party shall file an objection before or within such 20 day period, the application will be set for hearing unless withdrawn by the applicant.
- (3) The Director of the Division, on his own or upon the request of an affected party, may require a minimum flow (log-off) test on the well for which the hardship classification is being sought. The

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applicant shall give notice to the Division, the gas transporter and purchaser and the requesting affected party of any minimum flow test conducted following such a request, in order that such test may, at the option of the Division or said parties, be witnessed.

Notice of any minimum flow test conducted prior to submitting a hardship gas well application shall be given to the appropriate Division district office, the gas transporter and purchaser, and offset operators in order that such test may, at the option of said parties, be witnessed.

411. EMERGENCY HARDSHIP GAS WELL CLASSIFICATIONS.

The supervisor of the appropriate Division district office may grant emergency approval of a hardship gas well classification upon receipt of a copy of the application form and attachments and a request by the applicant.

Approval of such emergency classification shall be made in writing to the Director of the Division, the applicant, and the purchaser. Emergency approval shall be given for 90 days and on a one time only basis.

412. LIMITS ON HARDSHIP GAS WELL CLASSIFICATION.

- A. No hardship gas well classification shall be retained for a period in excess of one year unless the applicant shall annually request an extension thereof and certify that the condition of the well has not substantially changed.
- B. The Division on its own motion may require that the applicant show cause why approval of a hardship gas well classification should not be rescinded in cases of suspected abuse, changed market conditions, or for any other reason.
- C. Any well classified as a hardship gas well located in a prorated gas pool shall accumulate over or under production. No well which is classified as a hardship gas well shall be shut in for reason of over production.

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- D. Affected parties may petition the Division for a hearing for the purpose of offsetting any ratable take advantage which might be gained by the operator of a hardship gas well.

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APPLICATION FOR CLASSIFICATION AS HARDSHIP GAS WELL

Operator _____ Contact Party _____
Address _____ Phone No. _____
Lease _____ Well No. _____ UT _____ Sec. _____ TWP _____ RGE _____
Pool Name _____ Minimum Rate Requested _____
Transporter Name _____ Purchaser (if different) _____

Are you seeking emergency "hardship" classification for this well? _____ yes _____ no

Applicant must provide the following information to support his contention that the subject well qualifies as a hardship gas well.

Provide a statement of the problem that leads the applicant to believe that "underground waste" will occur if the subject well is shut-in or is curtailed below its ability to produce. (The definition of underground waste is shown on the reverse side of this form)

- 2) Document that you as applicant have done all you reasonably and economically can do to eliminate or prevent the problem(s) leading to this application.
 - a) Well history. Explain fully all attempts made to rectify the problem. If no attempts have been made, explain reasons for failure to do so.
 - b) Mechanical condition of the well(provide wellbore sketch). Explain fully mechanical attempts to rectify the problem, including but not limited to:
 - i) the use of "smallbore" tubing; ii) other de-watering devices, such as plunger lift, rod pumping units, etc.

Present historical data which demonstrates conditions that can lead to waste. Such data should include:

- a) Permanent loss of productivity after shut-in periods (i.e., formation damage).
 - b) Frequency of swabbing required after the well is shut-in or curtailed.
 - c) Length of time swabbing is required to return well to production after being shut-in.
 - d) Actual cost figures showing inability to continue operations without special relief
- 4) If failure to obtain a hardship gas well classification would result in premature abandonment, calculate the quantity of gas reserves which would be lost
 - 5) Show the minimum sustainable producing rate of the subject well. This rate can be determined by:
 - a) Minimum flow or "log off" test; and/or
 - b) Documentation of well production history (producing rates and pressures, as well as gas/water ratio, both before and after shut-in periods due to the well dying, and other appropriate production data).
 - 6) Attach a plat and/or map showing the proration unit dedicated to the well and the ownership of all offsetting acreage.
 - 7) Submit any other appropriate data which will support the need for a hardship classification.
 - 8) If the well is in a prorated pool, please show its current under- or over-produced status.
 - 9) Attach a signed statement certifying that all information submitted with this application is true and correct to the best of your knowledge; that one copy of the application has been submitted to the appropriate Division district office (give the name) and that notice of the application has been given to the transporter/purchaser and all offset operators.

GENERAL INFORMATION APPLICABLE TO HARDSHIP GAS WELL CLASSIFICATION

1) Definition of Underground Waste.

"Underground Waste as those words are generally understood in the oil and gas business, and in any event to embrace the inefficient, excessive, or improper use or dissipation of the reservoir energy, including gas energy and water drive, of any pool, and the locating, spacing, drilling, equipping, operating, or producing, of any well or wells in a manner to reduce or tend to reduce the total quantity of crude petroleum oil or natural gas ultimately recovered from any pool, and the use of inefficient underground storage of natural gas."

- 2) The only acceptable basis for obtaining a "hardship" classification is prevention of waste with the burden of proof solely on the applicant. The applicant must not only prove waste will occur without the "hardship" classification, but also that he has acted in a responsible and prudent manner to minimize or eliminate the problem prior to requesting this special consideration. If the subject well is classified as a "hardship" well, it will be permitted to produce at a specified minimum sustainable rate without being subject to shut-in by the purchaser due to low demand. The Division can rescind approval at any time without notice and require the operator to show cause why the classification should not be permanently rescinded if abuse of this special classification becomes apparent.
- 3) The minimum rate will be the minimum sustainable rate at which the well will flow. If data from historical production is insufficient to support this rate (in the opinion of the Director), or if an offset operator or purchaser objects to the requested rate, a minimum flow ("log off") test may be required. The operator may, if he desires, conduct the minimum flow test, and submit this information with his application.
- 4) If a minimum flow test is to be run, either at the operator's option or at the request of the Division, the offset operators, any protesting party, the purchaser and OCD will be notified of the date of the test and given the opportunity to witness, if they so desire.
- 5) Any interested party may review the data submitted at either the Santa Fe office or the appropriate OCD District Office.
- 6) The Director can approve uncontested applications administratively if, in his opinion, sufficient justification is furnished. Notice shall be given of intent to approve by attaching such notice to the regular examiner's hearing docket. Within 20 days following the date of such hearing, the affected parties will be permitted to file an objection. If no objection has been filed, the application may be approved.
- 7) Should a protest be filed in writing, the applicant will be permitted to either withdraw the application, or request it to be set for hearing.
- 8) An emergency approval, on a temporary basis for a period not to exceed 90 days, may be granted by the District Supervisor, pending filing of formal application and final action of the OCD Director. This temporary approval may be granted only if the District Supervisor is convinced waste will occur without immediate relief. If granted, the District Supervisor will notify the purchaser.
- 9) After a well receives a "hardship" classification, it will be retained for a period of one year unless rescinded sooner by the Division. The applicant will be required to certify annually that conditions have not changed substantially in order to continue to retain this classification.
- 10) Nothing here withstanding, the Division may, on its own motion, require any and all operators to show cause why approval(s) should not be rescinded if abuse is suspected or market conditions substantially change in the State of New Mexico.
- 11) A well classified as a "hardship well" will continue to accumulate over and under production (prorated pools). Should allowables exceed the hardship allowable assigned, the well will be permitted to produce at the higher rate, if capable of doing so, and would be treated as any other non-hardship well. Any cumulative overproduction accrued either before or after being classified "hardship" must, however, be balanced before the well can be allowed to produce at the higher rate.