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. 12537
ORDER NO. R-11637

APPLICATION OF KERR-MCGEE OIL & GAS ONSHORE L.L.C. TO EXTEND THE TIME DURING WHICH IT MAY MAKE UP UNDERPRODUCTION IN A GAS PRORATION UNIT IN THE INDIAN BASIN-UPPER PENNSYLVANIAN GAS POOL, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 16, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21st day of August, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Kerr-McGee Oil & Gas Onshore L.L.C. ("Kerr-McGee") is the operator of a certain 674.28-acre gas proration unit ("GPU") in the Indian Basin-Upper Pennsylvanian Gas Pool comprising all of Irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

(3) There are currently two active producing wells, one temporarily abandoned well and one plugged and abandoned well on this GPU, described as follows:

Well Name & Number	API No.	Well Location	Status
Conoco State No. 2	30-015-28510	800' FSL & 800' FWL (Unit M)	TA'd
Conoco State Gas Com No. 6	30-015-30925	2250' FNL & 1500' FEL (Unit G)	Active

Conoco State Gas Com No. 7	30-015-30875	1706' FNL & 1828' FWL (Unit F)	Active
Conoco State Gas Com No. 1	30-015-10619	1775' FNL & 1980' FWL (Unit F)	PA'd

(4) The subject wells and GPU are located within the Indian Basin-Upper Pennsylvanian Gas Pool, a prorated gas pool that is currently governed by Division Rules No. 601 through 605.G, and by the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*" as contained within Division Order No. R-8170, as amended.

(5) The applicant, Kerr-McGee, seeks an order allowing it until March 31, 2002 to make up 487,525 MCF of underproduced gas from the subject GPU that accrued during the allocation period from October 1, 1999 through March 31, 2000.

(6) Devon SFS Operating, Inc. appeared at the hearing through legal counsel.

(7) Division Rule No. 605.E.(1) states:

> "UNDERPRODUCTION: Any non-marginal GPU which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward in the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any underproduction carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be canceled."

(8) The applicant testified that it will be unable to produce its accrued underproduction from the subject GPU by March 31, 2001, and therefore requested that it be given an additional year in which to produce this underproduction.

(9) The applicant presented evidence that demonstrates: i) the Conoco State Gas Com Well No. 1 was drilled in 1965, cumulatively produced approximately 40 BCF of gas from the Indian Basin-Upper Pennsylvanian Gas Pool, and was plugged in June, 2000; ii) the Conoco State Well No. 2 was drilled in July, 1995, cumulatively produced approximately 7 BCF of gas from the Indian Basin-Upper Pennsylvanian Gas Pool, and was temporarily abandoned in September, 2000; iii) the Conoco State Gas Com Well No. 6 was drilled in April, 2000 and has cumulatively produced approximately 600 MMCF of gas from the Indian Basin-Upper Pennsylvanian Gas Pool; and iv) the Conoco

State Gas Com Well No. 7 was drilled in June, 2000 and has cumulatively produced approximately 60 MMCF of gas from the Indian Basin-Upper Pennsylvanian Gas Pool.

(10) The applicant presented further evidence that demonstrates:

(a) during the pertinent time period, the normal gas allowable for the subject GPU in the Indian Basin-Upper Pennsylvanian Gas Pool would have been approximately 6.6 MMCF of gas per day; however, due to a production penalty imposed on this GPU as a result of the drilling of the Conoco State Well No. 2 at an unorthodox location (see Division Order No. R-10359 dated May 2, 1995), this GPU was assigned a gas allowable of approximately 4.1 MMCF of gas per day;

(b) the subject GPU became overproduced beginning in 1996, and production was restricted from January, 1998 until mid-1999 to make up this overproduction;

(c) in July, 1999, gas production in the Indian Basin Upper-Pennsylvanian Gas Pool was curtailed due to maximum gas processing capacity being reached at the Indian Basin Gas Plant;

(d) when production from the subject GPU became balanced in October, 1999, Kerr-McGee sought to increase gas production; however, the Conoco State Well No. 2 began making water and could not produce at the same rates it had prior to being restricted; and

(e) as a result, Kerr-McGee drilled the Conoco State Gas Com Wells No. 6 and 7 to increase production from this GPU. When that was done, the Conoco State Well No. 2 was temporarily abandoned. At that time, the allowable for the GPU increased to an unpenalized rate of approximately 6.9 MMCF of gas per day (see Division Administrative Order No. NSL-4386-A (SD)).

(11) According to applicant's evidence, the subject GPU became "balanced" during October, 1999. During this period, the GPU was classified as non-marginal.

(12) During the period from October, 1999 through March, 2000, Kerr-McGee estimates that the GPU accrued underproduction in the amount of 487,525 MCF of gas.

(13) Division records demonstrate that:

(a) during the October-December, 1999 classification period, the average monthly allowable for the subject GPU was approximately 124 MMCF of gas. In December, 1999, the highest producing month during this classification period, the GPU produced approximately 51 MMCF of gas;

(b) during the January-March, 2000 classification period, the average monthly allowable for the subject GPU was approximately 124 MMCF of gas. In January, 2000, the highest producing month during this classification period, the GPU produced approximately 49 MMCF of gas;

(c) during the April-June, 2000 classification period, the average monthly allowable for the subject GPU was approximately 124 MMCF of gas. In June, 2000, the highest producing month during this classification period, the GPU produced approximately 118 MMCF of gas; and

(d) during the July-September, 2000 classification period, the average monthly allowable for the subject GPU was approximately 124 MMCF of gas. During this classification period, the GPU produced approximately 502 MMCF of gas.

(14) Division Rule No. 605.F.(2)(a) currently states:

"RECLASSIFICATION TO MARGINAL: A non-marginal well may be reclassified as marginal in either of the following ways:

After the production data is available for the last month of each classification period, any GPU which had an underproduced status at the beginning of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; however, the operator of any GPU so classified, or other affected interest owner, shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified."

(15) Division Rule No. 605.F.(3) currently states:

"CANCELLATION OF UNDERPRODUCTION FOR MARGINAL GPU: A GPU which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to a GPU before its classification as marginal shall be canceled."

(16) The evidence presented demonstrates that at the beginning of the allocation period commencing October 1, 1999, the subject GPU was still slightly overproduced, and therefore the GPU could not be reclassified to marginal at that time.

(17) During the period from October 1, 1999 through March 31, 2000, the subject GPU was properly classified as non-marginal and accrued approximately 487 MMCF of underproduction during that time.

(18) At the beginning of the allocation period commencing April 1, 2000, the subject GPU was in an underproduced status. In addition, the subject GPU met all the qualifications for reclassification to marginal during that classification period (see Findings No. (13)(c) and (14)). As a result, the subject GPU should have been reclassified to marginal on July 1, 2000, and any underproduction accrued to that point should have been canceled.

(19) Pursuant to Rule No. 605.F.(3), any underproduction for the subject GPU that may have accrued during the period from October 1, 1999, through March 31, 2000, should have been canceled.

(20) By letter dated June 13, 2001, the Division notified Kerr-McGee that the Conoco State GPU was reclassified as marginal effective July 1, 2000.

(21) More than thirty (30) days have elapsed since the notification described in Finding (20), and Kerr McKee has not submitted any evidence that the GPU was not of a marginal character on July 1, 2000, and should not have been so classified.

(22) The application of Kerr-McGee should be denied.

(23) The applicant should consult with the Santa Fe office of the Division in order to determine the current classification and producing status of the subject GPU.

IT IS THEREFORE ORDERED THAT:

(1) The application of Kerr-McGee Oil & Gas Onshore LLC for an order allowing it until March 31, 2002 to make up 487,525 MCF of underproduced gas from a certain 674.28-acre gas proration unit in the Indian Basin-Upper Pennsylvanian Gas Pool comprising all of Irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, is hereby denied.

(2) The applicant shall consult with the Santa Fe office of the Division in order to determine the current classification and producing status of the subject gas proration unit.

(3) Jurisdiction is hereby 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery

LORI WROTENBERY
Director

SEAL