

El Paso Natural Gas Company

El Paso, Texas 79909

March 13, 1970

TO: Gas Producers of New Mexico

We have recently received Memo No. 1-70 from the New Mexico Oil Conservation Commission advising of a meeting to be held on March 18, 1970 to consider a suggested revision of gas proration procedures for New Mexico.

The Commission agreed to come forth with this suggested revision after having verbally suggested it at the time of a February 3, 1970 meeting in Santa Fe called by El Paso to which all the producers and purchasers in the San Juan Basin area had been invited. This meeting was called by El Paso to discuss, among other things, changes in the rules applicable to San Juan Basin fields which we considered necessary "to make proration work" under the demand conditions that had been experienced and were anticipated to continue in the San Juan Basin.

The Commission has chosen to broaden the call of their meeting to cover the whole State of New Mexico.

The conditions which cause concern in the San Juan Basin have not yet occurred in the Southeast New Mexico gas pools. Briefly, the condition in the San Juan Basin which is causing concern is the inability to meet the market demand within the allowable limits prescribed by existing rules under circumstances when the demand for gas approaches the total delivery capacity of the wells. Undoubtedly, this condition will some day be experienced in the Southeast New Mexico, consequently consideration by the operators in areas other than the San Juan Basin of the remedy to this problem is desirable.

At the time of the meeting called by El Paso on February 3rd, El Paso proposed amendments to Rule 9 B and Rule 9 C-3 of Order No. R-1670 applicable to the San Juan Basin area. We also submitted a memorandum pertaining to calculations of allowable in the San Juan Basin which we proposed that the Commission issue upon adoption of the revised rules. This memorandum explained the details relating to the care of marginal wells as we visualized they would be handled under the provision of the revised rules. At the time of this meeting it was suggested that El Paso revise their submittals and include the provisions of the memorandum within the rules themselves. You will find attached the revision of the suggestions made by El Paso.

At the time El Paso studied the problems in the San Juan Basin leading up to the preparation of our recommendations, we analyzed various approaches to car-

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

El Paso EXHIBIT NO. 4

CASE NO. 4436

TO: Gas Producers of New Mexico

March 13, 1970

Page Two

ing for the needs in the San Juan Basin, including the method which has now been suggested by the Commission. We concluded that our recommended procedure was the best means that we could conceive of caring for the problems that were being faced in the San Juan Basin and at the same time "maintain proration as we know it".

We have carefully analyzed the suggested revision of gas proration procedures for New Mexico and have again concluded that our suggested revision is superior.

As we understood at the time of our meeting, the Commission's suggestion was made because it was considered to relieve the Commission of some of the costly burden of machine operation and schedule preparation and dissemination. We believe that our suggestion will necessitate more changes in existing machine programs than the Commission's suggestion, however, once in operation we believe there will be less cost and fewer schedules required under our suggestion. The Commission has wisely programmed the proration calculations into their machine in a modular fashion. This will permit changes to be made with a minimum of effort.

We trust that each party who will be present at the called meeting will compare the merits of the two proposals in view of the needs that exist. We believe that the maximum benefit will be gained from this meeting through this procedure.

Because of the urgency of the San Juan Basin situation, we urge San Juan Basin operators to be prepared to proceed with deliberations if the Southeast New Mexico producers should indicate that consideration of this matter is not timely in their area.

Very truly yours,


F. NORMAN WOODRUFF, Manager
Gas Proration Operations

FNW:ps
attachment

PROPOSED CHANGES TO RULES OF ORDER R-1670 AND ORDER R-1670-C:

RULE 9 (A). Same as existing 9 (A).

The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF/D) for that well shall be known as the "AD Factor" for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160 in pools with 160 acre standard proration units and by 320 in pools with 320 acre standard gas proration units. However, the acreage tolerances provided in Rule 5 (A) shall apply. The AD Factor shall be computed to the nearest whole unit.

RULE 9 (B). New.

No well shall be assigned a monthly allowable in excess of its actual producing ability as determined from its average daily producing ability for the latest preceding three months available to the Commission.

1. A non-marginal well is a well which is capable of producing its calculated allowable as determined by the field allocation formula.
2. A marginal well is a well which is incapable of producing its calculated allowable as determined by the field allocation formula.

RULE 9 (C). Replaces existing 9 (B).

The allowable to be assigned to each marginal well shall be equal to the number of days in the month times the average daily producing ability of the well for the preceding three months except as provided in special pool rules. (The Tapacito Special Pool Rules should be amended to comply with this change.)

Such information concerning the average daily producing ability for the preceding three months shall be furnished to the Commission monthly by pipeline gatherer or first taker of gas for each individual well. In case of a new or reworked well not having the three

1985 J.W.V.
months production history, state deliverability tests will be used until the three months production is available.

RULE 9 (D). Same as existing 9 (C).

The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the following manner:

- 1) Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's "AD Factor" bears to the total "AD Factor" for all non-marginal wells in the pool.
- 2) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's acreage factor bears to the total acreage factor for all non-marginal wells in the pool.

RULE 9 (E). Added, replaces Rule 17, which is deleted.

1. A marginal well shall not be allowed to accumulate underproduction and shall be charged with overproduction only if it produces in excess of its non-marginal calculated allowable.

2. If a marginal well's current monthly production, plus its latest cumulative overproduction is less than its calculated formula allowable, it will be assigned its production plus its latest cumulative overproduction. The well will never receive a current allowable greater than its calculated formula allowable. Therefore, if a marginal well's current monthly production plus its latest cumulative overproduction is more than its calculated formula allowable, it will be assigned its calculated formula allowable.

3. If any underage is accrued prior to its marginal classification, such underage will be carried forward during the balancing period and is subject to the balancing provisions

of underproduction (Rule 14) provided, however, this underage will not be included when determining pool status for allowable calculations. If any overage that has accrued while the well was classified non-marginal still remains after adjustments are made under Rule 9 (E) 2 above, it will be carried forward during the balancing period and is subject to the balancing rules for overproduction (Rule 15).

RULE 9 (F). Same as existing 9 (D).

Annual deliverability tests taken each year shall be used in calculating allowables for wells in the gas pools regulated by this order for the 12-month period beginning February 1st of the following year.

Delete Rule 16 (A) from Order R-1670 and Order R-1670-C. Rule 16 (B) then becomes Rule 16.

Delete Rule 17 in its entirety.

RULE 17. Added (replaces existing Rule 18).

Should a well lose allowable as the result of being classified marginal during a current gas proration period or the preceding gas proration period and ends the current period in an overproduced status, the Commission, upon the request of the operator, will offset such overproduction to the extent of the allowable lost during the time of marginal classification.

Rule 19 becomes Rule 18.

Rule 20 becomes Rule 19.