

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

26 February 1986

COMMISSION HEARING

IN THE MATTER OF:

Application of the Oil Conservation
Commission on its own motion to res-
cind Order No. R-1670, as amended.

CASE
8749

Application of Northwest Pipeline
Corporation to amend Oil Conserva-
tion Division Rule 403, Rule 1100,
Rule 1111, and Form C-111.

CASE
8792

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

1
2 MR. STAMETS: At this time,
3 then, we will call again Case 8749, which is the application
4 of the Commission relative to rescinding Order No. R-1670 to
5 recodify and amend the General Rules of the -- for the pro-
6 rated gas pools.

7 At the conclusion of this
8 hearing last month I asked Mr. H. L. Kendrick of El Paso
9 Natural Gas Company to chair a small committee to look into
10 two issues which cropped up at that time relating to the de-
11 finition of transporter and gas purchaser, and also to the
12 test procedure for wells on units with infill wells in the
13 San Juan Basin.

14 And at this time I'd like for
15 Mr. Kendrick to take the stand and report on the activities
16 of that committee.

17 I would point out that Mr. Ken-
18 drick has previously been qualified and sworn in this case.

19 Mr. Kendrick, you may proceed
20 when you're ready.

21 MR. KENDRICK; We have two ex-
22 hibits today. This is, hopefully, the conclusion or wrap-up
23 of the statewide rules and the special pool rules that have
24 been under observation for the past two years with this com-
25 mittee.

1 MR. STAMETS: Mr. Kendrick, be-
2 fore you proceed, let me -- let me take a look here. I
3 would guess that, judging by your Exhibit Number One, that
4 Case 8792 is also involved in your report, so let's go ahead
5 and also call Case 8792, being the application of Northwest
6 Pipeline Company to amend Rules 403, 1100, 1111, and Form C-
7 111, and having done that, why, you can proceed.

8 MR. KENDRICK: Thank you.
9 Copies of these exhibits are available on the table down at
10 the front.

11 Exhibit Number One is identi-
12 fied as Case Number 8749, which may be actually better iden-
13 tified as the other case, but in this particular exhibit we
14 are trying to set forth the difference in the purchaser, the
15 transporter, the nominator of gas from the various pools in
16 the State of New Mexico.

17 It is my understanding that the
18 statutes say that the purchaser of the gas will be the one
19 to make nominations, and in two committee meetings of this
20 group, we think we have batted this around enough that we
21 believe that the actual organization that might be better
22 qualified to make nominations would be the transporter of
23 the gas.

24 But in lieu of that, it has
25 been marked that the purchaser would be the one to make nom-

1 inations and that he may delegate that duty to the trans-
2 porter or to someone else that can do that.

3 This seems to be a very diffi-
4 cult situation at this time. I believe the natural gas in-
5 dustry is changing faster today than it has ever changed in
6 the history of the industry, and that anything that we could
7 do to try to stay up-to-date with today's happenings would
8 be real mark of progress.

9 The Form C-111, as prescribed
10 under Rule 1111, which is listed in this Exhibit Number One,
11 is talking about the transporter's monthly report and I be-
12 lieve this Exhibit One pretty well identifies all of the
13 changes that are necessary in the language to cause C-111 to
14 be properly filed; however, in the last paragraph of this
15 Exhibit One, in the first line, the statement is made,
16 "Where gas is taken by the producer and utilized by him for
17 any of the above uses ..." I think it would be more appro-
18 priate to take the word "him" out of that and insert the
19 words "the producer", such that that would read, "Where gas
20 is taken by the producer and utilized by the producer for
21 any of the above uses ...".

22 With that, I think that would
23 clear up Exhibit Number One.

24 MR. STAMETS: While we're right
25 there, Mr. Kendrick, let me ask Warren Curtis, who's here

1 today and testified on behalf of Northwest Pipeline last
2 month, if they have any objection to this change?

3 MR. CURTIS: No, we do not.

4 MR. STAMETS: Thank you.

5 MR. KENDRICK: Exhibit Two in
6 this case is labeled General Rules for the Prorated Pools of
7 New Mexico.

8 I believe a hearing or two ago
9 we had some general rules that had been worked out through
10 both the northwest and southeast parts of New Mexico, trying
11 to get the rules in as near the same order as possible to be
12 able to identify the rules in various pools in the same man-
13 ner, and I think this is pretty well done. With the general
14 rules covering as much of the rules as is possible and the
15 special rules coming into play where there is something par-
16 ticularly important about a particular pool.

17 Going through the Exhibit Two,
18 there are asterisks in the left margin where some changes
19 have been represented and this again is talking about the
20 gas transporter.

21 On the first page, the second
22 paragraph from the bottom, "the term 'gas transporter' as
23 used in these rules shall mean any 'first taker' of gas
24 either at the wellhead, or at any other point on the lease,
25 or at any other point authorized by the Division where con-

1 nection is made for gas transportation or utilization (other
2 than that necessary for maintaining the producing ability of
3 the well)."

4 This may be described as the
5 point where the ownership of the gas may change hands or at
6 least it's the first place that gas is measured, where the
7 records are made and maintained for the gas from wells.

8 The gas purchaser in the next
9 paragraph as used in these rules shall mean the purchaser,
10 where ownership of the gas is first exchanged by the pro-
11 ducer to the purchaser for an agreed value, of the gas from
12 a gas well or gas proration unit.

13 And there is definitely a dis-
14 tinction between the gas transporter and the gas purchaser.
15 It's still going back to the reasoning behind who makes nom-
16 inations and it might be felt that at time gas transporter
17 and gas purchaser might need to be used loosely or inter-
18 changeably so that nominations can be made in the proration
19 gas pools by the person that -- or by the party that best
20 knows what the nominations should be for the next period.

21 I believe this exhibit has de-
22 finitions pretty well for all of the things that we think
23 might be necessary at today's date in order to prorate gas.

24 On page two, in the last para-
25 graph, there is a typo change that needs to be made in the

1 fourth line of the last paragraph. The third word down from
2 the righthand end of the line is the word "by" E-Y, and that
3 should be B-E.

4 MR. STAMETS: "-- shall be a
5 legal subdivision"?

6 MR. KENDRICK: Yes, sir.

7 On the third page of this exhi-
8 bit in the next to the last paragraph, in the second line of
9 what is labeled as paragraph 4), the word is written as
10 "foresaid", and I would like to read this in the manner that
11 we would like to have this worded: "In lieu of Paragraph
12 (3) of this rule, the applicant may furnish proof of the
13 fact that all of the aforesaid offset operators were noti-
14 fied by registered or certified mail of his intent to form
15 such non-standard gas proration unit."

16 On page five, the center of the
17 page right under the heading of B. Nominations and Prora-
18 tion Schedule, you see an asterisk in front of Rule 3(a) for
19 Nominations:

20 It says, "Each month each gas
21 purchaser shall file with the Division its nomination for
22 the amount of gas which it actually in good faith desires to
23 'purchase' during the ensuing proration month from each gas
24 pool regulated by this order."

25 Reading further, "The purchaser

1 may delegate the nomination responsibility to the trans-
2 porter by notifying the Division's Santa Fe office."

3 I think in actuality we have to
4 leave the word "purchaser" in in the first sentence due to
5 the statutes of the State, but then the opportunity to dele-
6 gate that to the transporter for the transporter to file the
7 nomination, I think, is the key thing about this that wher-
8 ever we can get the best figure nomination is where we feel
9 that that nomination should be submitted from.

10 MR. STAMETS: Mr. Kendrick, I
11 wonder, in that sentence if after the word "gas purchaser",
12 I don't know if this is necessary, but it might be worth a
13 thought, if the phrase "or each gas transporter as herein-
14 after provided", if that would help that, if that would make
15 it more clear that the gas transporters could nominate.

16 MR. KENDRICK: I have no qualm
17 with that. The main thing that the committee felt on that
18 was that, really, we may need someone other than the pur-
19 chaser making nominations. In that, a specific example was
20 brought to light recently where the one well has 60 pur-
21 chasers of gas from that well. It was our thought that the
22 Commission might not really wish to get 60 nominations for
23 that particular well, and I'd say very long discussion was
24 held between transporter and purchaser and maybe none of us
25 really know, but the general consensus was that maybe the

1 transporter knows more about what gas will be taken from
2 what pool than anyone else would know at that late date, or
3 a date near enough to the taking date that -- to make nomi-
4 nations for that gas.

5 MR. STAMETS: Let me -- let me
6 make another suggestion that perhaps we should start this
7 out with a sentence that says, "Gas purchasers or gas trans-
8 porters shall nominate as provided in this rule", and then
9 go through with the rest of the rule, which would explain
10 how that works.

11 MR. KENDRICK: I think that
12 would be a capable way of doing it, yes, sir.

13 We need all the help we can
14 get.

15 MR. STAMETS: Thank you.

16 MR. KENDRICK: I did not find
17 any other typos or anything in this rule, or in this exhi-
18 bit. I do not know if there are any other comments about
19 this at this time.

20 MR. STAMETS: Does that con-
21 clude your testimony this morning?

22 MR. KENDRICK: It does for --
23 to close up this committee's work, I believe.

24 MR. STAMETS: Do you have any
25 comments on -- any additional comments on anything that has

1 been presented in this case for that?

2 MR. KENDRICK: I do have some
3 comments for some continuing work going on with the commit-
4 tee that was established in January of this year to try to
5 solve some of the problems in assignment of allowables in
6 some of the pools where infill drilling has occurred.

7 We have had two meetings to
8 date and we are still in the beginning but hopefully we can
9 in the near future come to a conclusion of what might be
10 best in a manner of prorating and allocating the gas to the
11 various gas proration units.

12 There are at the present time,
13 as far as I know, four committees operating under the
14 jurisdiction of the Division and maybe two of them can be
15 completed very hurriedly, one being the general rules
16 committee, which I think did an outstanding job in all the
17 help that we've had in various parts of the state in putting
18 this together, and with the deliverability test committee
19 that if the chairman of that committee would ever get
20 started, he could finish that up, probably, in a couple of
21 days and you'd have a test booklet available for the San
22 Juan Basin.

23 And, hopefully, the third
24 committee will get some answers shortly on the assignment of
25 allowables for the infill drilled wells.

1 MR. STAMETS: Are there any
2 questions of Mr. Kendrick today?

3 He may be excused.

4 Does anybody have anything they
5 wish to add in either of these cases at this time?

6 All right, the Commission would
7 like to announce its decision in these cases at this time so
8 that these general rules and special individual gas pool
9 rules can be effective beginning the new gas proration per-
10 iod on April 1, 1986.

11 The Commission will, as expedi-
12 tiously as it can write an order which adopts the general
13 rules for the prorated gas pools as shown on Exhibit Two,
14 the special committee Exhibit Two presented here today.

15 Incorporated in that would be
16 the changes which Mr. Kendrick has mentioned and then some
17 further clarification in Rule B 3(a).

18 In addition to that, the
19 special rules for the individual pools, Basin Dakota, Jalmat
20 Pool, and so on, will be adopted as they were previously
21 presented in this case and shown on exhibits in the case.

22 In Case Number 8792 the Commis-
23 sion will adopt the proposed rule changes for Rule 403, Rule
24 1100, Rule 1111, and Form C-111, along with the change that
25 Mr. Kendrick recommended this morning, and again those will

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO
HEREBY CERTIFY the foregoing Transcript of Hearing before
the Oil Conservation Division (Commission) was reported by
me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability.

Sally W. Boyd CSR