

GENERAL RULES FOR THE PRORATED  
GAS POOLS OF NEW MEXICO

OIL COMMISSION

1631t

Case No. 5749

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Submitted NMCCD COMMITTEE

Hearing Date 2/26/86

(See Special Pool Rules in each pool for rules applicable to those pools only. Special Pool Rules will be found in the same sequence as in the General Section, and unless the special rules conflict with the general rule, the general rule is applicable.)

**APPLICATION OF THESE RULES:** Any well drilled to the producing formation of a gas pool regulated by this order and within said pool or within one mile outside the boundary of that pool, and not nearer to nor within the boundaries of another designated pool producing from the same formation, shall be spaced, drilled, operated, and prorated in accordance with these rules or the special rules in effect in that pool.

**RULE 1 DEFINITIONS**

**ACREAGE FACTOR:** A GPU's "Acreage Factor" shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the GPU by a number equal to the number of acres in a standard GPU for such pool. However, the acreage tolerance provided in Rule 2(a)2 shall apply.

**AD FACTOR:** Acreage times Deliverability Factor is calculated in pools where acreage and deliverability are proration factors. The product obtained by multiplying the acreage factor by the calculated deliverability (expressed as MCF per day) for that GPU shall be known as the AD factor for that GPU. The AD factor shall be computed to the nearest whole unit.

**BALANCING DATE:** The date 7:00 a.m. April 1 of each year shall be known as the balancing date, and the twelve months following this date shall be known as the gas proration period.

**GAS POOL:** Any pool which has been designated as a gas pool by the Division after notice and hearing.

**GAS PRORATION UNIT (GPU):** The acreage allocated to a well, or in the case of an infill well or wells to a group of wells, for purposes of spacing and proration shall be known as the gas proration unit (GPU).

GPUs may be either of a standard or non-standard size as provided in these rules.

\* **GAS TRANSPORTER:** The term "gas transporter" as used in these rules shall mean any "first taker" of gas either at the wellhead, at any other point on the lease, or at any other point authorized by the Division where connection is made for gas transportation or utilization (other than that necessary for maintaining the producing ability of the well).

\* **GAS PURCHASER:** The term "gas purchaser" as used in these rules shall mean the purchaser (where ownership of the gas is first exchanged by the producer to the purchaser for an agreed value) of the gas from a gas well or GPU. In the event that two or more purchasers purchase from a particular gas well or

GPU the gas purchaser shall be the purchaser of the largest percentage of interest in the gas well or GPU.

HARDSHIP GAS WELL: 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.

INFILL WELL: An additional producing well on a GPU which serves as a companion well to an existing well on the GPU.

MARGINAL GPU: A proration unit which is incapable of producing a non-marginal allowable based on pool allocation factors. Marginal units do not accrue over or under production.

NON-MARGINAL GPU: A proration unit receiving an allowable based upon pool allocation factors. Non-marginal proration units accrue over or under production.

OVERPRODUCTION: The volume of gas produced on a GPU in any month in excess of the assigned non-marginal allowable (does not include gas used in maintaining the producing ability of the well(s) of the GPU). Overproduction accumulates month to month during the proration period.

PRORATED GAS POOL: A prorated gas pool is a gas pool in which, after notice and hearing, the production is allocated by the Division in accordance with these general rules and any applicable special pool rules.

PRORATION PERIOD: The twelve month period beginning April 1 of each year shall be the gas proration period.

UNDERPRODUCTION: The volume of assigned non-marginal allowable not produced on a GPU. Underproduction accumulates month to month during the proration period.

#### A. WELL ACREAGE AND LOCATION REQUIREMENTS

RULE 2(a)1 STANDARD GAS PRORATION UNIT SPACING: (See Special Pool Rules for applicable size of proration units.) Unless otherwise specified by the Special Pool Rules, 160-acre units shall comprise a single governmental quarter-section; 320-acre units shall comprise two contiguous quarter-sections being the N/2, S/2, E/2, or W/2 of a single governmental section; and a 640-acre unit shall comprise a single governmental section.

RULE 2(a)2 STANDARD GPU SIZE AND VARIANCE: A standard GPU shall consist of contiguous surface acreage and shall be substantially in the form of a square in pools having 160 acre or 640 acre standard GPUs, and in the form of a rectangle in pools having 320 acre standard GPUs, and shall ~~be~~ a legal subdivision of the U.S. Public Land Surveys (quarter-section, half-section, or section, as applicable). Any GPU containing acreage within the appropriate tolerance limit shown below shall be considered to contain the number of acres in a standard GPU for the purpose of computing allowables. *be*

STANDARD PRORATION UNIT

160 acres  
320 acres  
640 acres

ACREAGE TOLERANCE  
FOR STANDARD UNIT

158-162 acres  
316-324 acres  
632-648 acres

RULE 2(a)3 NON-STANDARD PRORATION UNIT APPROVAL PROCEDURE AT DISTRICT LEVEL: The District Supervisor of the appropriate district office of the Division shall have the authority to approve a non-standard GPU as an exception to Rule 2(a)2 without notice and hearing when the unorthodox size or shape of the GPU is necessitated by a variation in the legal subdivision of the U. S. Public Land Surveys and the non-standard GPU is not less than 75% nor more than 125% of a standard GPU.

The District Supervisor of the appropriate district office of the Division may approve the non-standard GPU by:

- 1) Accepting a plat showing the proposed non-standard GPU and the acreage to be dedicated to the non-standard GPU and,
- 2) Assigning an allowable to the non-standard GPU.

RULE 2(a)4 NON-STANDARD PRORATION UNIT APPROVAL PROCEDURE AT DIRECTOR LEVEL: The Director of the Division may grant an exception to the requirements of Rule 2(a)2 when the unorthodox size or shape of the GPU is necessitated by a variation in the legal subdivision of the U.S. Public Land Surveys and the non-standard GPU is less than 75% or more than 125% of a standard GPU, or where the following facts exist and the following provisions are complied with:

1) The non-standard GPU consists of quarter-quarter sections or lots that are contiguous by a common bordering side.

2) The non-standard GPU lies wholly within a governmental subdivision or subdivisions which would be a standard GPU for the well (quarter-section, half-section, or section) but contains less acreage than a standard GPU.

3) The applicant presents written consent in the form of waivers from all offset operators and from all operators owning interests in the quarter-section, half-section, or section (for 160-acre, 320-acre, 640-acre standard dedications respectively) in which the non-standard GPU is situated and which acreage is not included in said non-standard GPU.

4) In lieu of Paragraph (3) of this rule, the applicant may furnish proof of the fact that all of the foresaid operators were notified by registered or certified mail of his intent to form such non-standard GPU. The Director may approve the application if no such operator has entered an objection to the formation of such non-standard GPU within 20 days after Director has received the application.

RULE 2(b) WELL LOCATION: Each well drilled or completed on a spacing and proration unit governed by these rules, including approved non-standard GPUs, shall be located as provided below.:

(1) NORTHWEST NEW MEXICO

STANDARD PRORATION UNIT

LOCATION REQUIREMENTS

160 acres

Not closer than 790 feet to the outer boundary of the tract, nor closer than 130 feet to any quarter-quarter section or subdivision inner boundary.

320 acres

Not closer than 790 feet to the outer boundary of the quarter-section upon which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.

(2) SOUTHEAST NEW MEXICO

STANDARD PRORATION UNIT

LOCATION REQUIREMENTS

160 acres

Not closer than 660 feet to any outer boundary of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

320 acres

Not closer than 660 feet to any side boundary (long dimension) or 1980 feet to any end boundary (short dimension) of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

640 acres

Not closer than 1650 feet to the outer boundary of the tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

**RULE 2(c) UNORTHODOX WELL LOCATION:** The Division Director shall have authority to grant an exception to the well location requirements of Rule 2(b) above without notice and hearing when the necessity for such unorthodox location is based upon topographic conditions or the recompletion of a well previously drilled to a deeper horizon, provided said well was drilled at an orthodox or approved unorthodox location for such original horizon.

Applications for administrative approval of unorthodox locations shall be filed in duplicate (original to Santa Fe and one copy to the appropriate Division District Office) and shall be accompanied by plats showing the ownership of all leases offsetting the proration or spacing unit for which the unorthodox location is sought, and also all wells completed thereon. If the proposed unorthodox location is based on topography, the plat shall also show and describe the existent topographic conditions.

All operators of proration or spacing units offsetting the unorthodox location and within the minimal location footage requirements of the pool in

which the unorthodox location is sought shall be furnished a copy of the application by certified or registered mail, and the application shall state that such notification has been given. The Division Director may approve the unorthodox location upon receipt of waivers from all such offset operators or if no offset operator has entered an objection to the unorthodox location within 20 days after the Director has received the application.

The Division Director shall have authority to grant an exception to the well location requirements for wells in Southeast New Mexico on 320 acre spacing without notice and hearing when the necessity for such unorthodox location is based upon geologic conditions provided that any such unorthodox location shall be no closer than 660 feet to the nearest side boundary nor closer than 990 feet to the nearest end boundary of the GPU.

If the proposed unorthodox location is based upon geology, the application shall include appropriate geologic maps, cross-sections, and/or logs, and discussion of the geologic conditions which result in the necessity for the unorthodox location.

The Division Director may, at his discretion, set any application for administrative approval of an unorthodox location for public hearing.

#### B. NOMINATIONS AND PRORATION SCHEDULE

*Clarify*

\* RULE 3(a) NOMINATIONS: Each month each gas purchaser shall file with the Division its nomination for the amount of gas which it actually in good faith desires to "purchase" during the ensuing proration month from each gas pool regulated by this order. The purchaser may delegate the nomination responsibility to the transporter by notifying the Division's Santa Fe office. One copy of such nomination for each pool shall be submitted to the Division's Santa Fe office on Form C-121-A by the first day of the month during which the Division will consider at its allowable hearing the nominations for the succeeding month. The Division shall consider at its monthly gas allowable hearing the nominations of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste during the ensuing month.

RULE 3(b)1 SCHEDULE: The Division will issue a proration schedule setting out the amount of gas which each GPU may produce during such ensuing month, along with such other information as is necessary to show the allowable-production status of each GPU on the schedule.

RULE 3(b)2 PRORATION OF ALL GAS WELLS WITHIN A POOL: The Division shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas purchaser, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capably of handling the type of gas produced by such well.

#### C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 4 ALLOCATION OF C-102 and C-104 REQUIRED: No GPU shall be assigned an allowable prior to receipt of Form C-102 (Well Location and Acreage Dedication Plat) and the approval date of Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas).

\* **RULE 5 HOW ALLOWABLES ARE CALCULATED:** The total allowable to be allocated to each gas pool regulated by this order each month shall be equal to the sum of all gas purchasers' nominations for that pool, together with any adjustment which the Division deems advisable. A monthly allowable shall be assigned to each GPU entitled to an allowable by allocating the pool allowable among all such GPUs in that pool in accordance with the procedure set forth in these rules.

**RULE 5(a)1 MARGINAL GPU ALLOWABLE:** The monthly allowable to be assigned to each marginal GPU shall be equal to its latest available monthly production.

**RULE 5(a)2 NON-MARGINAL GPU ALLOWABLE:** The pool allowable remaining each month after deducting the total allowable assigned to marginal GPUs shall be allocated among the non-marginal GPUs entitled to an allowable in the following manner (See Special Pool Rules):

(1) In pools where acreage is the only proration factor, the remaining allowable shall be allocated to each GPU in the proportion that each GPU acreage factor bears to the total acreage factor for all non-marginal GPUs.

(2) In pools where acreage and deliverability are proration factors:

- a) A percentage as set forth in Special Pool Rules, of the pool allowable remaining to be allocated to non-marginal GPUs shall be allocated among such GPUs in the proportion that each GPU's "AD Factor" bears to the total "AD Factor" for all non-marginal GPUs in the pool; and
- b) The pool allowable remaining to be assigned to non-marginal GPUs shall be allocated among each GPUs in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPUs in the pool.

\* **RULE 5(b)1 NEW CONNECTS ASSIGNMENT OF ALLOWABLES:** Allowables to newly completed gas wells shall commence:

(A) In pools where acreage is the only proration factor, on the date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office, or the approval date of Form C-102 and Form C-104, whichever is later; or,

(B) In pools where acreage and deliverability are proration factors:

- 1) An acreage factor allowable will be assigned the later of:
  - a) The date of first delivery of gas to a gas transporter as demonstrated by an affidavit furnished by the transporter to the appropriate Division district office.
  - b) The approval date of Form C-102 and Form C-104.
- 2) A deliverability factor allowable will be assigned the later of:

- a) The date of first delivery.
- b) 90 days prior to the date of receipt of the deliverability test report at the appropriate Division district office.

**RULE 5(b)2 NEW CONNECT MAXIMUM PRODUCING PERIOD:** No well located in a pool where deliverability is an allowable factor, shall be permitted to produce more than 120 days after the date of first delivery without a deliverability test. Any well shut in for failure to file a deliverability test may be assigned producing authorization by the Division district office for purposes of conducting such test. Except as provided in Rule 9, all production following connection including the volume of test production shall be charged against the GPU's regular allowable when assigned. Any resulting allowable assigned shall be effective on the day that the delinquent deliverability test is received in the appropriate Division district office.

**RULE 6 GAS CHARGED AGAINST GPU'S ALLOWABLE:** Except as provided in the Special Pool Rules, the volume of produced gas sold from each GPU shall be charged against the GPU's allowable; and, the gas used in maintaining the producing ability of the well shall not be charged against the allowable.

**RULE 7 CHANGE IN ACREAGE:** If, during a proration month, the acreage assigned to a GPU is changed, the operator shall during such month notify the appropriate Division district office in writing of such change by filing a revised plat (Form C-102). The revised allowable assigned the GPU shall be effective on the first day of the month following receipt of the notification.

**RULE 8 MINIMUM ALLOWABLES:** After notice and hearing the Division may assign minimum allowables in order to prevent the premature abandonment of wells. (See Special Pool Rules for minimum allowable amount.)

**RULE 9(a) DELIVERABILITY TESTS:** In pools where acreage and deliverability are proration factors, deliverability tests taken in accordance with Division rules shall be used in calculating allowables for the succeeding proration period. Deliverability shall be determined in accordance with the provisions of the appropriate test manual (See Manual of Gas Well Testing Rules and Procedures).

**RULE 9(b) DELIVERABILITY FOR RECOMPLETION/WORKOVER/RETEST:** A change in a well's deliverability due to retest after recompletion or workover shall become effective the later of:

- (1) The date of redelivery of gas after workover, such date to be determined from Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas) as filed by the operator; or
- (2) 90 days prior to the date of receipt of the appropriate deliverability test report form at the appropriate Division district office.

A change in a well's deliverability due to any other retest shall become effective on the first day of the month following the month during which the retest is received in the appropriate Division district office.

RULE 9(c) EXCEPTIONS TO DELIVERABILITY TESTS: The Director of the Oil Conservation Division shall have authority to allow exceptions to the deliverability test requirement for wells on marginal GPUs where the deliverability of a well is of such volume as to have no significance in the determination of the GPU's allowable. Application for such exception may be submitted by the operator of the well and, if granted, may be revoked by the Director at any time by requesting the well to be scheduled and tested in accordance with the current "Gas Well Testing Rules and Procedures".

RULE 9(d) WELLS EXEMPT FROM TESTING-SAN JUAN BASIN: A well automatically becomes exempt from testing if the GPU's average monthly production does not exceed or is not capable of producing 250 MCF per month for Pictured Cliffs Formation wells and 2,000 MCF per month for deeper formations. (See "Gas Well Testing Rules and Procedures".)

#### D. BALANCING OF PRODUCTION

RULE 10(a) 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 into 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.

RULE 10(b) BALANCING UNDERPRODUCTION: Production during any one month of a gas proration period in excess of the allowable assigned to a GPU for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be canceled.

RULE 11(a) OVERPRODUCTION: Any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

RULE 11(b) SIX-TIMES OVERPRODUCED: If it is determined that a GPU is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, a well in a newly prorated pool or a well recently reclassified as non-marginal, six times its average monthly non-marginal allowable for the months available), it shall be shut in until its overproduction is less than six times its average monthly allowable, as determined hereinabove.

RULE 11(c) EXCEPTION TO SHUT-IN FOR OVERPRODUCTION: The Director of the Oil Conservation Division shall have authority to permit a GPU which is subject to shut-in, pursuant to Rules 11(a) or 11(b) above, to produce up to 250 MCF of gas per month upon proper showing to the Director that complete shut-in would cause undue hardship, provided however, such permission may be rescinded for any GPU produced in excess of the monthly rate authorized by the Director.

RULE 11(d) BALANCING OVERPRODUCTION: Allowable assigned to a GPU during



any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such GPU in determining the amount of overproduction which must be made up pursuant to the provisions of Rule 11(a) or 11(b) above.

RULE 11(e) EXCEPTION TO BALANCING OVERPRODUCTION: The Director may allow overproduction to be made up at a lesser rate than permitted under Rules 11(a), 11(b), or 11(d) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 11(f) HARDSHIP GAS WELLS: If a GPU containing a hardship gas well is overproduced, the operator must take the necessary steps to reduce production in order to reduce the overproduction.

Any overproduction existing at the time of designation of a well as a hardship gas well or accruing to the GPU thereafter shall be carried forward until such time as it is made up by underproduction.

No GPU containing a hardship gas well, which GPU is overproduced, shall be permitted to produce at a rate higher than the minimum producing rate authorized by the Division.

RULE 11(g) MORATORIUM ON SHUT-INS: The Director shall have authority to grant a pool-wide moratorium of up to three months of the shutting in of gas wells in a pool during periods of high demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 11(a), 11(b), or 11(f) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

## 6. CLASSIFICATION OF GPUS

RULE 12(a) CLASSIFICATION PERIOD: The proration period shall be divided into three classification periods of four months each, commencing April 1, August 1, and December 1.

RULE 12(b) RECLASSIFICATION BY THE DIRECTOR: The Director of the Oil Conservation Division may reclassify a marginal or non-marginal GPU at any time the GPU's production data, deliverability data, or other evidence as to the GPU's producing ability justifies such reclassification.

The Director may suspend the reclassification of GPUs which would be effective on August 1 and December 1 on his own initiative or upon proper showing by an interested party, should it appear that such suspension is necessary to permit underproduced GPUs, which would otherwise be reclassified, a proper opportunity to make up such underproduction.

\* RULE 13(a) RECLASSIFICATION TO MARGINAL: 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 proration period may be classified marginal if its highest single month's production during the classification period is less than its average monthly allowable during the prior four months; however, the operator of any GPU so classified, or other interested party, 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.

RULE 13(b) CANCELLATION OF UNDERPRODUCTION ON MARGINAL GPUS: A GPU which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to a GPU prior to its classification as marginal shall be canceled.

RULE 14(a) RECLASSIFICATION TO NON-MARGINAL: If, at the end of any month, a marginal GPU has produced more than the total allowable for the month which would have been assigned if such GPU had been classified non-marginal, the marginal GPU shall be reclassified as a non-marginal GPU.

RULE 14(b) REINSTATEMENT OF STATUS: An operator of a GPU being reclassified as non-marginal which GPU was classified marginal at the end of classification period may have eligible underage reinstated and its net status adjusted accordingly by demonstrating that the GPU could have produced a non-marginal allowable prior to its reclassification. (If the GPU had been classified as marginal for one proration period only, or a portion of one proration period only, any underproduction canceled as the result of such classification shall be reinstated.) All uncompensated-for overproduction accruing to the GPU while marginal shall be chargeable upon reclassification to non-marginal.

#### F. REPORTING OF PRODUCTION

\* RULE 15(a) C-111 REPORT (GAS TRANSPORTER'S MONTHLY REPORT): Each gas transporter in each of the designated gas pools regulated by this order shall submit a report, as required by General Rule 1111, to the Division so as to reach the Division on or before the 15th day of the month next succeeding the month in which the gas was taken. Such report shall be filed on Form C-111 with the wells being listed in approximately the same order as they are listed on the proration schedule. Form C-111 referred to herein shall be submitted in triplicate, the original being sent to the Division's Santa Fe office; the second copy to the Hobbs district office; and the third copy, if needed for wells in such district, to either the Artesia or Aztec district office as appropriate.

RULE 15(b) C-115 REPORT (OPERATOR'S MONTHLY REPORT): All producers shall report gas well production in accordance with Rule 1115 of the Division's general rules.

\* RULE 15(c) REPORTING OF PRODUCTION (DAYS CRITERIA): Upon approval by the Director of the Oil Conservation Division as to the specific program to be used, any producer or transporter of gas may be permitted to report metered production of gas on a chart-period basis; provided the following provisions shall be applicable to each gas well:

(1) Reports for a month shall include not less than 24 nor more than 32 reported days.

(2) Reported days may include as many as the last 7 days of the previous month but no days of the succeeding month.

(3) The total of the monthly reports for a year shall include not less than 360 nor more than 368 reported days.

(4) For purposes of these rules, the term "month" shall mean "calendar month" for those reporting on a calendar month basis, and shall mean "reporting month" for those reporting on a chart-period basis in accordance with the exception provided in this rule.

#### G. GENERAL

**RULE 16 FLARED OR VENTED GAS:** No gas produced from the gas pools regulated by this order shall be flared or vented.

**RULE 17 NON-COMPLIANCE OF RULES AND REGULATIONS:** Failure to comply with the provisions of these rules shall result in the cancellation of allowable assigned to the affected GPU. No further allowable shall be assigned to the affected GPU until all rules and regulations are complied with. The Director shall send written notice to the operator of the GPU and to the purchaser of the date of allowable cancellation and the reason therefore.

\* **RULE 18 GAS WELL DELIVERY NOTICES:** All transporters or users of gas shall file gas well delivery notices with the Division within 30 days after the date of first delivery or redelivery in accordance with the provisions of Rule 4(b).

**RULE 19 NOTICE OF MARGINAL WELL SHUT-IN:** Purchasers shall notify the Director any time it is necessary to shut in marginal wells. Such notice shall be made within 30 days following the end of such month and shall include data as may be required by the Director. This report shall not include wells shut in for required testing, connection of new wells, or wells shut in by the operator.