

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION TO
CONSIDER THE APPLICATION OF:**

**CASE NO. 10450
ORDER NO. R-9656-A**

**GAS ALLOWABLES FOR THE PRORATED GAS
POOLS IN NEW MEXICO FOR APRIL 1992
THROUGH SEPTEMBER 1992**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 27, 1992,, at Santa Fe, New Mexico before the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 16th day of February, 1993, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and further considering comments submitted pursuant to request of the Commission, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) Order R-9656 was entered by this Commission on March 31, 1992, establishing allowables for the prorated gas pools in New Mexico for the period April 1, 1992 through September 30, 1992.
- (3) Marathon Oil Company (Marathon) requested the Commission set the market demand for production from the Indian Basin Upper Penn Gas Pool at 3,756,031 MCF/month or an F1 factor of 232,000. The Commission set the market demand for that pool at 3,292,012 MCF/month or an F1 factor of 160,502.
- (4) Marathon Oil Company appealed the decision of the Commission to the District Court of Eddy County, New Mexico, which Court entered an order remanding the case back to

the Commission to enter a supplemental order with additional findings to support its rejection of Marathon's request for a higher pool allowable.

(5) The prevention of waste requires setting of allowables for any prorated pool based upon the reasonable market demand for all gas produced by all operators within the pool, and necessarily requires the limitation of production if all the gas cannot be marketed; the protection of correlative rights requires the allocation of the limited production between the wells in the pool.

(6) The Oil Conservation Division, as the agency responsible for administering the proration system, submitted a recommendation for setting the pool allowable at 3,292,012, which was the production for the prior like proration period.

(7) *Neither Marathon nor Chevron presented any evidence about whether production at the rates requested by Marathon might impair the correlative rights of any other operator in the pool by permitting the high capacity wells to produce more than their fair share of the gas underlying the pool. Nor did either party provide any evidence about any structural or other geologic advantage any well or wells held in the pool which might affect correlative rights.*

FINDING: Because the high producing rates of the best wells in the pool could cause harm to correlative rights, the allowable requested by Marathon should not be granted until further evidence is taken with respect to the issues of drainage area, structural advantage and other technical issues that address correlative rights.

(8) The only evidence presented about "reasonable market demand" was conflicting testimony by Marathon and Chevron as producers and the Division's actual prior production information.

(9) *Marathon presented evidence that the pool allowable should be increased because it had performed remedial work on six of its wells which increased the producing ability of those wells. The engineering witness did not state at what rate the reworked wells could produce on a sustained basis. On cross-examination that witness testified that the allowable requested by Marathon would be higher than the producing ability of the best well in the pool which is operated by Marathon, and that no wells in the pool would be restricted by that allowable. Marathon's witness did not say that the Division's proposed allowable would prevent it from producing its share of gas in the reservoir.*

FINDING: The pool allowable requested by Marathon is in excess of the producing capacity of the pool and is not necessary to allow operators in the pool to produce their proportionate share of gas in the pool.

(10) Chevron U.S.A., Inc., (Chevron) requested an F1 factor of 152,000 per month. (Its monthly pool allowable data was incorrect due to inaccurate preliminary schedules provided by the Division.) The Chevron witness testified that the company had performed remedial work on some of its wells and that at least two wells were capable of producing in excess of 160,000 MCF/month.

(11) *The Marathon gas marketing witness testified that Marathon had a marketing arrangement through which it could sell all of the gas which it produced from the pool. A witness for Chevron U.S.A. (Chevron), which also operates wells in the pool testified that it considered its market for natural gas to be unstable and expressed reservations about Chevron's ability to market its gas at the higher allowable level.*

FINDING: Under current market conditions, the market for natural gas is not uniform and consistent for all operators in this pool and allowables cannot be set based upon the marketing arrangements of any one party in the pool. The reasonable market demand for natural gas from the pool is somewhere between the levels recommended by Chevron and Marathon.

(12) There was no evidence presented about whether the Indian Basin Upper Penn Gas Pool is rate sensitive and whether high rates of production might cause underground waste by reducing cumulative recovery.

(13) If the allowable is set at an F1 factor of 160,502, Marathon will be able to produce its best well at capacity without reaching the over-production limit for the pool. It will be able to meet its market and gather some of the rate effect information not presented at this hearing. If the higher production rates are met, that will be evidence of higher demand and capability for future allowable hearings. Furthermore, there will still be underproduced wells which could benefit from workover to raise the production rates for the pool.

(14) Reducing allowables for the pool to the level requested by Chevron is not necessary to prevent waste and protect correlative rights. Granting the allowable requested by Marathon could cause waste or impair correlative rights. In considering all the evidence presented, and given that the pool is operated competitively, the allowable recommended by the Division is a level at which the pool has produced and at which all the operators in the pool will be allowed to meet their reasonable market demand without waste and recover their proportionate share of gas underlying the reservoir, and it will protect correlative rights by fairly allocating the pool allowable between the wells in the pool.

Case No. 10450
Order No. R-9656-A
Page 4

IT IS THEREFORE ORDERED THAT:

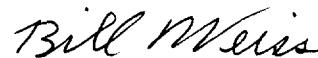
- (1) The pool allowable for the Indian Basin Upper Penn Gas Pool for the period April 1, 1992, through September 30, 1992, shall remain at 3,292,012.
- (2) Jurisdiction of this cause is retained for entry of such further orders as the Commission may deem necessary.

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

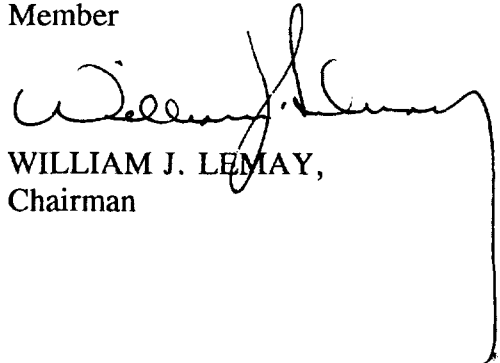
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



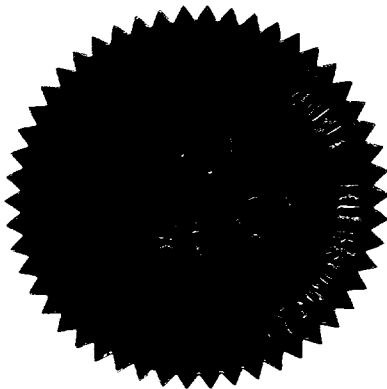
GARY CARLSON,
Member



WILLIAM W. WEISS,
Member



WILLIAM J. LEMAY,
Chairman



S E A L