

NORTHWEST PIPELINE CORPORATION 
ONE OF THE WILLIAMS COMPANIES

LAND DEPARTMENT

737-86

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801-584-6669
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October 27, 1986

State of New Mexico
Oil Conservation Commission
Attn: Richard L. Stamets
P. O. Box 2088
Santa Fe, NM 87501

Dear Dick:

At your suggestion, Northwest respectfully submits its comments to you regarding Case Nos. 9015, 9016, 9017 and 9018. We hope that by so doing, Northwest can call to the Commission's attention our concerns and suggest various proposals in a manner that will help expedite the hearings.

It is our understanding and opinion that the impetus behind the general meeting in June, the subsequently established committees and the above mentioned cases was the desire to get New Mexico Gas flowing again. Northwest strongly feels that if all industry entities were to work together, this goal can be accomplished in an expeditious and beneficial manner.

The industry seems to be changing faster than almost anyone can keep up with. These changes are challenging but can be exciting and worthwhile. One change that has occurred, which has left many confused and frustrated, is the dominant role that market forces currently play in almost every decision producers and pipelines make. It is Northwest's opinion that the market will dictate the winners and losers during the next decade. Market responsive decisions, and the institutional frameworks within which these decisions are made, are paramount for anyone to survive these tumultuous times.

It appears that many producers are unable and unwilling to accept the reality that the market will play such a dominant role in the future. Until the producers are able to accept this fact, it will be very difficult for New Mexico's natural gas to compete with competing energy sources in our traditional market areas.

Although several progressive market oriented rules were proposed at the hearings, many producers were unwilling to accept any rule that does not carry with it the implication of state enforcement of regulations requiring pipelines to accept gas into their systems for which there is no market. This attitude is counter productive for the producer and defeats the State of New Mexico's goal for increasing the production and marketing of its energy reserves. Again, the key must be to promulgate rules that will facilitate the production and flow of gas to markets.

Northwest reiterates its concern that no rule should be adopted that has the effect of shutting in gas which could be marketed.

CASE 9015

Northwest supports, with modification, the rules espoused in Rule 315, Rule 413 and Rule 903. The priority production would have the effect of preventing waste where the parties are willing to market their gas. Proposed rule 903(b) effectively reiterates a portion of the statute found in N.M.S.A. §§70-2-19(F) which in its entirety states "Nothing in the Oil and Gas Act [70-2-1 to 70-2-36 N.M.S.A. 1978] shall be construed or applied to require, directly or indirectly, any person to purchase gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his gas transportation facilities then in service." Note the language states that the rule applies not just to Ratable Take language but to N.M.S.A. §§70-2-1 thru 70-2-36 which covers the full spectrum of proration, common purchaser, etc.

Not only is this a sensible statute but corresponds with the decision made recently by the United States Supreme Court in Mississippi vs. Transco case wherein the demarcation of authority between the FERC and state conservation laws was reiterated.

Thus, Northwest feels that rule 903(b) should be retained as stated to clarify the intent of rule 903.

However, Northwest feels that 903(c) is not necessary. The purchaser is in constant communication with the well operator who is responsible for turning the well on and shutting the well in as required. A requirement to notify the operator in writing that this has occurred is redundant and burdensome.

Northwest recommends amending Rule 903 by striking, in its entirety, subsection (c).

CASE 9016

Northwest recognizes the fact that split stream sales exist and will continue to exist in the future. We also feel that one of the changes to our industry that will continue with us for many years to come is that at various times less than 100% of the parties in a well will be willing or able to sell their portion of the gas. This is a reality that needs to be addressed.

In analyzing the proposed alternatives, Northwest feels that Alternative #1 which requires all interest owners in a well to designate one party to sell 100% of the gas would potentially shut in gas that is marketable. Also this alternative raises serious questions concerning; first, the authority of an operator to market another interest owners gas if sold at spot sale prices,

and second, the method and responsibility for payment of taxes and royalty. Alternative #3 does not address the problem of balancing the gas and could still allow a minority interest owner to become several times out of balance in a short time period with potential injury to correlative rights.

Alternative #2 most nearly addresses the current problems. It is Northwest's opinion that a gas balancing agreement is a necessity. We also feel that no gas should be shut in for a lengthy period of time if it is marketable. Thus, Northwest proposes the following language for the suggested Rule 414:

Rule 414

Effective May 1, 1987, where there are separate owners in a well, no gas sales may commence or be made from such well unless either:

- a) Such owners have entered into a gas balancing agreement or,
- b) The Division has entered an order establishing a gas balancing agreement which has been approved by a majority of the working interest of the well.

The well operator must provide the Division with a statement attesting to such agreement or order before any allowable will be assigned or before any authorization to produce will be made.

In principle, Northwest believes that gas balancing should be regarded as any other question affecting unit or well operations. No one wants to encourage further government regulation if it stifles anyone's ability to transact business. If regulations are promulgated, keeping in mind that rules should help industry transact their business, then all parties can be benefitted. Gas needs to flow and no order should be issued that would allow a minority interest owner to tie up well production, effectively shutting in the total production and leaving gas in the ground that has a market to which it can be sold.

Northwest realizes that there may be questions as to whether the existing statute gives the Commission authority or jurisdiction to involve themselves in gas balancing. If this is a genuine issue, we recommend that the Commission work with the Legislature to enact a statute, giving the Commission authority to order forced gas balancing and then issue the above mentioned order.

CASE 9017

Please note the comments above for Case 9015. Northwest sees no reason for amending rule 902 to include subsection (d). Notice is given to operators

Richard L. Stamets
October 27, 1986
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when a well is turned on or shut in. Additional notice should not be required. Also ratable take should be measured at year end and not on a shorter period. Lastly, by requiring notice to the operator, you may not be notifying all those who are interest holders in the well.

CASE 9018

Although Northwest feels that the changes suggested to rules 10(a), 11(a) and 11(b) which extend the make up period for over or under production and increase the six times over produced rule to twelve times over produced may be helpful, Northwest questions whether the rules should be permanent.

A suggested alternative is to issue an additional rule which would state:

The Division Director, upon determination that changes to rules 10(a), 11(a) and 11(b) are necessary and upon statewide notice, may temporarily change rules 10(a) and 11(a) to increase the make up period, not to exceed two years, and may temporarily change rule 11(b) to increase the overproduced status requiring shut in of wells, not to exceed twelve times over produced. The Division Director will by statewide notice, indicate when conditions exists that rules 10(a), 11(a) and 11(b) would return to their standard status.

Vic Lyon's suggestion of a Gas (Allowable) Bank is very interesting and deserves further study. Northwest is willing to assist the Commission in any way we can to work out the details of such a proposal and analyze the benefits of implementing the concept.

In conclusion, Northwest encourages all aspects of the industry to work together to develop rules or procedures that will facilitate the production of natural gas in the State of New Mexico in the highly competitive environment which faces all of us.

Sincerely,

NORTHWEST PIPELINE CORPORATION



Warren O. Curtis
Manager, Land/Proration

WOC:js

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE
PROPOSED CHANGES OF THE
RULES AND REGULATIONS
OF THE OIL CONSERVATION
DIVISION

CASE Nos. 9015, 9016, 9017 and
9018

COMES NOW Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., and files its comments in response to the Proposed Changes in Division Rules of October 1, 1986 and Hearing held on October 23, 1986. GCNM is a common purchaser for natural gas as defined in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division") and as such is an "interested party" in the above-entitled matter. GCNM desires to comment regarding Case Nos. 9015, 9016, 9017 and 9018. An absence of comment regarding other cases in this proceeding should not necessarily be viewed as acquiescence to or agreement with these individual recommendations. GCNM reserves its right of future comment and anticipates attendance and participation in the Division's next scheduled hearing of November 20, 1986.

I. RULES 315, 413 AND 903
REGARDING PRIORITIES OF PRODUCTION
(CASE NO. 9015)

In its first draft of proposed Rules, the Gas Advisory

Committee ("Committee") recommended that purchasers of natural gas adhere to a priority of production schedule which would call for restricted production of natural gas in the following order: (1) gas wells, (2) downhole commingled wells involving one or more gas zones and one or more oil zones, (3) casinghead gas and (4) hardship gas wells as designated by the Division under Rules 410 and 411. It is GCNM's understanding that these proposed rules would require restriction or curtailment of production of gas according to its designation under the recommended priorities. It is imperative that the Commission understand the operational difficulties that forced purchase of higher priority gas could impose on a local distribution company's system.

Preliminarily, GCNM's comments in this matter will generally address casinghead gas, although many concerns could also apply to hardship gas wells.

1. Operational Difficulties with High Priority Gas.

It is not uncommon for natural gas to enter GCNM's system supply without processing and dehydration. Casinghead gas, with its high liquid content, could cause freezing problems in winter months if it is introduced to GCNM's system without processing. In addition, casinghead gas' high liquidity may condense in the pipeline, causing slugs that jeopardize the integrity of GCNM's gas supply as it passes through the company's transmission and distribution systems. A forced priority could

result in a high proportion of such low quality gas causing operational problems.

GCNM currently complies with the priority schedule to the extent allowed by the ongoing operations of its pipeline system. However, casinghead gas is already somewhat unattractive to GCNM and other purchasers due to its low pressure, unpredictable reserves and low deliverability. Under an order of priority, takes of casinghead gas would be so inflexible that purchasers may refuse to contract for additional amounts of this gas.

GCNM is not opposed to the inclusion of such priorities so long as operational exceptions are considered as proposed in Section 903(b).

2. Exceptions to Priority Provisions. It is GCNM's understanding that nothing in the proposed revisions is meant to force the purchase of "gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his transportation facilities then in service." (Proposed Rule 903(b)). GCNM strongly supports inclusion of this subsection if Case 9015 priorities are adopted. The Company's system cannot operate without operational relief from strict adherence to the proposed curtailment order.

3. Notice Requirements of the Recommended Rules. Subsection (c) requires that:

Should any purchaser be unable to take gas in accordance with the schedule prescribed in

paragraph (a) of this Rule because of any of the conditions described in paragraph (b) above, such purchasers shall, in writing, notify the operator of the affected wells of such condition(s).

GCNM believes that the requirement of written notification to all producers is unworkable, burdensome and serves no useful purpose. Currently, GCNM notifies producers of temporary shut in or changes in purchased volumes according to a universally understood schedule provided by GCNM. Many curtailments are only for a few hours' duration. Written notification of such curtailment would be of little use to producers. Finally, Section 903(c) is vague because it does not specify whether written reports are to be made annually, monthly or instantaneously. As such, GCNM is opposed to proposed Section 903(c).

II. RULE 414 REGARDING SPLIT NATURAL GAS SALES (CASE NO. 9016)

GCNM concurs with the Committee recommendation that the alternatives listed in Case 9016 not be considered by the Commission because they are unworkable, vague and possibly unenforceable. GCNM recommends that all proposals in Case No. 9016 be rejected.

III. RULE 902 RATEABLE TAKE NOTIFICATION (CASE NO. 9017)

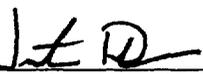
Subsection (d) of Rule 902 as proposed would require purchasers to notify operators of affected wells of rateable take variances due to economic and operational considerations. Gas rateability is currently dispatched and handled on an

banking proposal currently being drafted by the Division. GCNM reserves the right to comment on the banking arrangement when a draft is proposed.

In general, GCNM believes that as long as a few purchasers dominate the nominations process the Division Director should have reasonable flexibility and discretion in applying Division rules so that New Mexico gas production is maximized and fairness is achieved for all producers and purchasers.

Respectfully submitted this tenth day of November, 1986.

KELEHER & McLEOD, P. A.

By 
Jonathan Duke
Post Office Drawer AA
Albuquerque, New Mexico 87103
(505) 842-6262

Attorneys for Gas Company of
New Mexico, a division of
Public Service Company of
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7065D

NORTHWEST PIPELINE CORPORATION
ONE OF THE WILLIAMS COMPANIES

P. O. BOX 8900
SALT LAKE CITY, UTAH 84108-0900
801-583-8800

155-87

March 13, 1987

State of New Mexico
Oil Conservation Commission
Attn: William J. LeMay
P. O. Box 2088
Santa Fe, NM 87501

Re: Case 9015

Dear Bill:

STATEMENT OF NORTHWEST PIPELINE CORPORATION

Northwest supports any Commission rule or order that encourages the production and flow of natural gas to the markets. Northwest encourages all aspects of the industry to work together to develop rules or procedures that will facilitate the production of natural gas in the State of New Mexico in the competitive open access environment which faces all of us. We caution the Commission not to issue an order that would be counter productive to the goal of producing New Mexico gas. Also care should be taken not to promulgate rules that contradict current state statutes or that would conflict with federal regulation.

As a specific example, let me quote a portion of the statute found in Section 70-2-19(F) of the New Mexico Oil and Gas Act:

"Nothing in the Oil and Gas Act shall be construed or applied to require, directly or indirectly, any person to purchase gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his gas transportation facilities then in service."

Substantial discussion has been directed to this provision at hearings similar to the hearing held on March 5. We would be in error to think that this language could be interpreted to require any purchaser of natural gas to purchase gas that cannot be economically utilized by the purchaser or the market.

Market forces currently play a dominant role in the decisions producers and pipelines make. It is Northwest's opinion that the market will dictate the winners and losers during the next decade. Market responsive decisions and the legal and institutional frameworks within which these decisions are made, are paramount for anyone to survive these tumultuous times.

*WJL
to: J/LC, J/LC, J/LC, J/LC, J/LC*

William J. LeMay
March 13, 1987
Page -2-

Not only must current regulation consider the market forces but any regulation that comes from this body must be sensitive to the demarcation of authority between FERC and state oil and gas conservation laws.

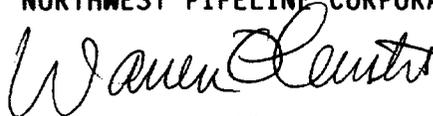
Of potential concern is the recommended language in Subsection B of the proposed language. With the outstanding FERC's Notice of Inquiry on marketing affiliates, Northwest feels that it is an inappropriate time for New Mexico to require that a pipeline create a marketing affiliate.

In summary, Northwest will continue to endeavor to suggest positive solutions and support rules that enhance the competitive production of New Mexico natural gas. Northwest is committed to adhere to practices that prevent waste. We further believe that all parties (producer and pipeline, etc.) share in this responsibility. Northwest supports any action which enhances the flexibility of suppliers to independently respond to the market.

Northwest encourages the Commission to promulgate rules that give industry the flexibility to produce gas and let the various parties work together to accomplish this goal in the most beneficial way to all involved.

Sincerely,

NORTHWEST PIPELINE CORPORATION



Warren O. Curtis
Manager, Land & Price Administration

WOC:js

cc: L. C. Randolph
K. J. Stracke
D. C. Sticklely
D. M. Draper
L. N. Hemingway

BENSON-MONTIN-GREER DRILLING CORP.

221 PETROLEUM CENTER BUILDING, FARMINGTON, NM. 87401 505-325-8874



March 10, 1987

New Mexico Oil Conservation Division
Box 2088
Santa Fe, NM 87501

Re: CASE 9015:
PRODUCTION PRIORITIES FOR GAS WELLS

Gentlemen:

This letter is to evidence Benson-Montin-Greer's support for priorities to be assigned in the taking of gas from gas and oil wells; and this priority should be that proposed by the Oil Conservation Division in Case 9015 heard March 5, 1987.

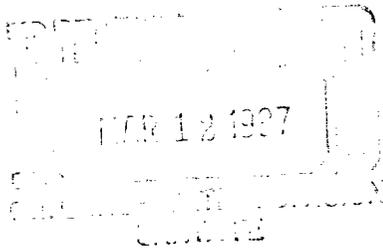
Yours truly,

BENSON-MONTIN-GREER DRILLING CORP.

BY:


Albert R. Greer, President

ARG/tlp



ROBERT L. BAYLESS

PETROLEUM PLAZA BUILDING
P. O. BOX 168
FARMINGTON, NEW MEXICO 87499
(505) 326-2659

March 11, 1987

New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

ATTN: William B. LeMay

RE: Case 9015

Gentlemen:

I, as well as other independent producers in the Farmington area, feel that the proposal to adopt the production priorities in Case 9015 is a positive move and we strongly support it.

Yours truly,

ROBERT L. BAYLESS

RLB/eh

KELEHER & McLEOD, P. A.

ATTORNEYS AND COUNSELORS AT LAW

PUBLIC SERVICE BUILDING

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March 19, 1987

(1140-005)

HAND DELIVERED

Mr. William LeMay, Director
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87503-2088

RE: Commission Case Nos. 9015 and 9018

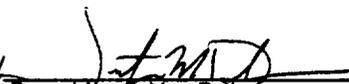
Dear Mr. LeMay:

Enclosed please find an original and three copies of Gas Company of New Mexico's comments in the above entitled matters. If you have any questions regarding this filing, please don't hesitate to contact me.

Very truly yours,

KELEHER AND McLEOD, P.A.

By


Jonathan M. Duke

cc: Phyllis Bourque
Buster Orbison
Tommy Sanders

JD/pmg

3551R

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE)
ADOPTION OF NEW RULES 315, 413)
AND 903,)

Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

COMMENTS OF GAS COMPANY OF NEW MEXICO

INTRODUCTION

During its hearing of March 5, 1987 in Docket No. 8-87, the Oil Conservation Commission received comment and testimony regarding the above-entitled matters. During the hearing, Commissioner William J. LeMay allowed the parties two weeks to comment on cases considered in that docket. Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., hereby files its comments regarding Case Nos. 9015 and 9018. GCNM operates gathering, transmission and distribution facilities for the sale of natural gas within New Mexico. GCNM is a common purchaser of natural gas as defined in §70-2-19 NMSA 1978 and in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division"). As a purchaser of natural gas from prorated pools in New Mexico, GCNM is an interested party in Cases 9015 and 9018. GCNM will

not comment regarding other matters considered in Docket No. 8-87. However, an absence of comment regarding other cases in this docket should not necessarily be viewed as acquiescence to or agreement with these individual proceedings and rulings issuing therefrom. GCNM reserves any right it may have for future comment in all cases considered in Docket No. 8-87.

CASE NO. 9015, PRIORITIES OF PRODUCTION:

GCNM submitted comments regarding Case No. 9015 and other matters on November 10, 1986. The Company requests that the Commission take official notice of this filing. In its previous comments, GCNM explained the operational difficulties that result when unprocessed gas of a high Btu content is introduced into the Company's system. When natural gas of either a heavy hydrocarbon content or a high heat value enters GCNM's transmission lines, numerous problems may result. GCNM would prefer, in the absence of processing, to take gas with the lowest Btu/cf content possible into its transmission system. The reason for this is that lower Btu content gas contains less liquid that could condense in the Company's pipelines. As the Commission is aware, the resulting condensation tends to pool and accumulate in sag bends of the transmission lines. This liquid resides there until the force of gas flow is strong enough to move the liquid component. When the liquid finally moves, it does so at a high velocity. There is a potential that any delivery point could be overwhelmed by the receipt of a large slug of such liquid.

The highest Btu content gas that GCNM takes from its northwest supply system is casinghead gas. The heat value of this gas can be up to 1,600 Btu's per cubic foot. By contrast, gas well gas has a Btu content from 1,120 Btu's to 1,200 Btu's per cubic foot. The safe and efficient operation of gas transmission and distribution facilities dictates that BTU levels of flowing gas should not substantially exceed 1140 BTUs. It is for this reason that GCNM contracts for natural gas processing to reduce BTU levels and has recently assisted in the acquisition of the Kutz and Lybrook Processing Plants by an affiliate company.

Unfortunately, casinghead gas is often located downstream from processing plants. Therefore, this high Btu gas must enter into GCNM's transmission lines in its raw form. A forced priority could result in a high proportion of such low quality gas entering GCNM's system resulting in operational difficulties.

GCNM currently complies with the priority schedule to the extent allowed by its transmission and distribution operations. However, as the Company mentioned in its previous comments, casinghead gas is already somewhat unattractive due to its low pressure, unpredictable reserves and low deliverability. GCNM fears that a strict order of priority would cause many purchasers to refuse to contract for additional amounts of casinghead gas as the only means to address any inflexibility in the rule.

In its first draft of proposed rules, the Gas Advisory Committee recommended that exceptions to priority provisions be

allowed so that a purchaser would not be required to take ". . . gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his transmission facilities then in service." GCNM does not desire that the Commission adopt exceptions based on economic need so much as it wishes that operational conditions be addressed. The Company strongly urges the Commission to adopt regulations or procedures that will address operational constraints of common purchasers. This is of particular importance to GCNM because its natural gas purchases go directly from producers and through its system for consumption by New Mexico end-users.

Alternatively, if the Commission desires to adopt changes to Rules 315, 413 and 903 without inclusion of operational exceptions, GCNM urges that it do so in the form of a memo rather than an order. This would allow the Commission to establish the policy of priorities of production without tying its own hands in recognizing exceptions. In any event, the Company believes that the Commission should allow for variance procedures, either through written petitions or hearings, that would allow a purchaser variances to any adopted priority schedule to recognize system constraints and operational difficulties.

CASE NO. 9018, PROPOSED AMENDMENT OF RULES 10(a), 11(a)
AND 11(b) OF THE GENERAL RULES FOR PRORATED GAS POOLS:

It is GCNM's understanding that the appeals of Blackwood and Nichols Co., Ltd. and Tenneco Oil Company were withdrawn with respect to the twelve times over-production limit. Because no petition for rehearing dealing with this matter was considered by the Commission, GCNM understands that the twelve times limit will remain in effect. In passing, GCNM would submit to the Commission that absent a twelve times provision, the Company would have great difficulty in serving its firm New Mexico load from New Mexico sources. The increase from the six times to the twelve times limit was necessary to allow the Company to continue its winter service without relying on "back-up" or contingent supplies from outside New Mexico, and was not needed merely to allow GCNM to increase its activity in the spot market.

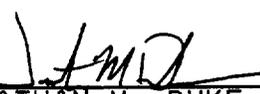
GCNM urges the Commission to allow for a reasonable balancing period when over production in any pool occurs. In carrying out its statutory duty to prevent waste and protect correlative rights, the Commission should not ignore market realities nor hinder producers who want to sell their gas. This is especially true when the nominations process is dominated by a very few number of purchasers. Mr. Vic Lyons, in testimony for the Division, stated that loss of oil production to other countries was a form of waste. This is also true with respect to loss of gas production. Those markets, once satisfied, are rarely available again and thus contribute to wells being

shut-in. GCNM believes that the Commission should seek to prevent waste and protect the rights of producers, but also seek to maximize New Mexico's share of the nation's natural gas production. As Tenneco's witness, Mr. Jones testified at the rehearing, New Mexico's share of California natural gas consumption has dwindled steadily the past few years. GCNM hopes that the Commission will pursue a permanent solution that will consider all of these factors. Absent such as provision, the current practice of allowing reasonable variances and balancing periods should be left in place. This problem must be effectively addressed by participants in Commission proceedings and ultimately by the Commission. GCNM appreciates this opportunity to present these comments.

Respectfully submitted this 19th day of March, 1987.

KELEHER & McLEOD, P. A.

By



JONATHAN M. DUKE
Post Office Drawer AA
Albuquerque, New Mexico 87103
(505) 842-6262

Attorneys for Gas Company of
New Mexico, a division of
Public Service Company of
New Mexico

3135E

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
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Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Gas Company of New Mexico's comments to Department of Energy and Minerals Oil Conservation Commission was mailed by first class mail, postage prepaid, to the following:

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Oil Conservation Division
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Santa Fe, NM 87504

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Farmington, NM 87499

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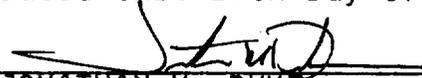
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295 Chipeta Way
Salt Lake City, UT 84108

J. Scott Hall
Campbell & Black, P.A.
P.O. Box 2208
Santa Fe, NM 87504-2208

Dated this 19th Day of March, 1987



JONATHAN M. DUKE

JD/pmg



PHILLIPS PETROLEUM COMPANY

ODESSA, TEXAS 79762
4001 PENBROOK

EXPLORATION AND PRODUCTION GROUP

March 17, 1987

RECEIVED
MARCH 20 1987
SANTA FE

Oil Conservation Division
Proposed Rules 315, 413, and 903

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Case 9015

Attention: William J. LeMay, Director

Gentlemen:

Phillips Petroleum Company recommends the proposed rules be adopted as Statewide Rules as opposed to an order or memorandum. Attached are copies of Phillips' proposed rules as presented to the gas priorities committee in December, 1986. We again submit these proposals for consideration.

Sincerely,

Larry M. Sanders, Supervisor
Regulation and Proration
Permian Basin Region

LMS:dg

Attachments

PHILLIPS PETROLEUM COMPANY'S
PROPOSED ALTERNATIVE TO RULE 315
PRIORITIES OF PRODUCTION

Rule 315: Priorities of Production

- A. To prevent waste, every person now engaged or hereafter engaged in the business of producing gas from gas wells or casinghead gas from oil wells shall observe the following priority production schedule:
- (1) Gas from all wells designated under a hardship classification by the Division under Rules 410, 411, or after hearing shall have first priority;
 - (2) casinghead gas from Division approved waterflood, pressure maintenance, or certified tertiary recovery projects shall have second priority;
 - (3) casinghead gas shall have third priority;
 - (4) gas from downhole commingled wells involving one or more gas zones and one or more oil zones shall have fourth priority;
 - (5) gas from wells classified as gas wells in associated pools shall have fifth priority;
 - (6) gas from wells in non-associated pools shall have sixth priority.
 - a. Wells with accumulated underproduction shall be given priority over wells with accumulated overproduction.
- B. The priority production schedule shall be observed by giving all highest priority gas an opportunity to produce before giving gas with the next highest priority the opportunity to produce and so on throughout the priority schedule until the demand for gas is met. In the schedule listed above, the highest priority gas is (1) and the lowest priority is (6).
- C. To prevent waste, whenever a common purchaser is unable to take all gas legally produced or available from wells connected to its system the curtailment schedule shall be the reverse order of the priority production schedule. The lowest priority (6) should be curtailed first and the highest priority (1) curtailed last.

PHILLIPS PETROLEUM COMPANY'S
PROPOSED ALTERNATIVE TO RULE 413
PRIORITIES OF PRODUCTION

Rule 413: Priorities of Production

- A. To prevent waste, every person now engaged or hereafter engaged in the business of producing gas from gas wells or casinghead gas from oil wells shall observe the following priority production schedule:
- (1) Gas from all wells designated under a hardship classification by the Division under Rules 410, 411, or after hearing shall have first priority;
 - (2) casinghead gas from Division approved waterflood, pressure maintenance, or certified tertiary recovery projects shall have second priority;
 - (3) casinghead gas shall have third priority;
 - (4) gas from downhole commingled wells involving one or more gas zones and one or more oil zones shall have fourth priority;
 - (5) gas from wells classified as gas wells in associated pools shall have fifth priority;
 - (6) gas from wells in non-associated pools shall have sixth priority.
 - a. Wells with accumulated underproduction shall be given priority over wells with accumulated overproduction.
- B. The priority production schedule shall be observed by giving all highest priority gas an opportunity to produce before giving gas with the next highest priority the opportunity to produce and so on throughout the priority schedule until the demand for gas is met. In the schedule listed above, the highest priority gas is (1) and the lowest priority is (6).
- C. To prevent waste, whenever a common purchaser is unable to take all gas legally produced or available from wells connected to its system the curtailment schedule shall be the reverse order of the priority production schedule. The lowest priority (6) should be curtailed first and the highest priority (1) curtailed last.

PHILLIPS PETROLEUM COMPANY'S
PROPOSED ALTERNATIVE TO RULE 903
PRIORITIES OF PRODUCTION

Rule 903: Priorities of Production

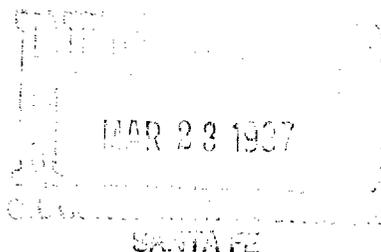
- A. To prevent waste, any common purchaser taking gas produced from gas wells or casinghead gas produced from oil wells, from a common source of supply, shall observe the following priority production schedule:
- (1) Gas from all wells designated under a hardship classification by the Division under Rules 410, 411, or after hearing shall have first priority;
 - (2) casinghead gas from Division approved waterflood, pressure maintenance, or certified tertiary recovery projects shall have second priority;
 - (3) casinghead gas shall have third priority;
 - (4) gas from downhole commingled wells involving one or more gas zones and one or more oil zones shall have fourth priority;
 - (5) gas from wells classified as gas wells in associated pools shall have fifth priority;
 - (6) gas from wells in non-associated pools shall have sixth priority.
 - a. Wells with accumulated underproduction shall be given priority over wells with accumulated overproduction.
- B. The priority production schedule shall be observed by giving all highest priority gas an opportunity to produce before giving gas with the next highest priority the opportunity to produce and so on throughout the priority schedule until the demand for gas is met. In the schedule listed above, the highest priority gas is (1) and the lowest priority is (6).
- C. To prevent waste, whenever a common purchaser is unable to take all gas legally produced or available from wells connected to its system the curtailment schedule shall be the reverse order of the priority production schedule. The lowest priority (6) should be curtailed first and the highest priority (1) curtailed last.
- D. Any gas transporter connected to a well, lease, or field facility, which provides transportation to the spot market, shall provide an affiliate or associate marketing service. Such marketing service shall provide the opportunity for sale of gas from wells in the above priority production schedule from the highest priority to the lowest priority to the extent of available demand.
- E. Definition of a system:

REG/PR01/priority

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

March 18, 1987



PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

NMOCD Case No. 9015
Gas Priority Production Schedule

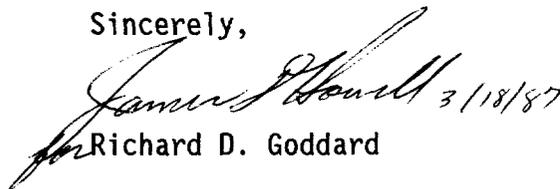
Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Lemay:

Exxon Corporation appreciates having had the opportunity to work with other industry representatives on the Gas Bank/Priorities Study Committee which met on December 16, 1986. This committee jointly recommended that if any gas priority schedule is adopted by NMOCD rule or memorandum, it should be the priority schedule contained in Part A of the memorandum language originally proposed for the January 8, 1987 hearing (Attachment 1). As Exxon provided input through this Committee, we did not plan to make a statement at the March 5, 1987 Commission hearing, and were surprised to learn of several statements offered by other producers in support of the priority schedule contained originally in a February 28, 1983 memorandum from Joe D. Ramey (Attachment 2).

We believe the committee's recommended schedule corrects a significant failing of Mr. Ramey's schedule by removing the requirement that "high capacity wells in unprorated gas pools" be placed in the lowest priority category along with overproduced wells in prorated gas pools. An overproduced well in a prorated pool has produced gas in excess of an allowable assigned by the Division to prevent waste and to protect correlative rights in that pool. No parallel situation exists in unprorated pools, since the Commission has not found that proration is needed, and has not imposed a suitable method of allocating allowable production. The "capacity" of a well in an unprorated pool only indicates ability to produce, not whether the well has produced more or less than some "fair share" of the pool's past market demand. Giving "low capacity" wells a priority over "high capacity" wells under any arbitrary definition does not consider past production with respect to the remainder of the pool, and therefore does not serve to protect correlative rights within an unprorated pool. We urge you not to carry this failing forward into a future order or rule.

Sincerely,


for Richard D. Goddard

RDG:dt
Attachments

ATTACHMENT 1

MEMORANDUM

TO: ALL GAS PRODUCERS, PURCHASERS, TRANSPORTERS
AND INTERESTED PERSONS

FROM: R. L. STAMETS, DIRECTOR

SUBJECT: JANUARY 8, 1987 HEARINGS ON CASE NO. 9015 (PRIORITY PRODUCTION SCHEDULE) AND
CASE NO. 9018 (GAS BANK)

On December 18, 1986, a committee met to further study priority production schedule and gas bank proposals.

The following represents some of the results and questions arising from their work. Also, an alternative to the Gas Bank proposal was brought forth following the committee meeting and is presented herein.

I encourage all interested parties to review this material and be prepared to present appropriate testimony at the January 8, 1987, Commission hearing.

Case 9015 Priority Production Schedule

It was suggested that this be retained as a memorandum by the Director for the time being. The following is language which has been proposed to be included in such a memorandum and/or as findings in the order in this case:

To prevent the waste of gas which might result from the shutting in or curtailment of certain wells in New Mexico, the Priority Production Schedule outlined below is hereby established.

In order for a seller of gas to enjoy the benefit of the priorities established hereinbelow it may be necessary to sell gas at market-clearing levels or other terms mutually acceptable to the purchaser and seller. This is not to be interpreted in any respect as an interference or impediment to existing contractual rights or an impairment of one party's rights to institute or maintain litigation over alleged breaches of those contractual rights. Any value paid and volumes taken may have the effect of mitigating damages under such alleged breaches. Refusal to sell gas under current market conditions is regarded as a decision not to mitigate damages and also should not impair an injured party's rights to pursue recovery of damages in a court of law. Such matters are not within the authority of the Division. The Division's role is limited to prevention of waste and protection of correlative rights by allocating the gas market equitably between wells in a pool, establishing priorities of takes within each system and taking appropriate action where a purchaser or transporter is discriminating unreasonably in the taking of gas between pools or between wells in a pool.

- A. To prevent waste, every person now engaged or hereafter engaged in the business of (producing, transporting, purchasing) gas from gas wells or casinghead gas from oil wells shall observe the following priority production schedule:
- (1) Gas from all wells designated under a hardship classification by the Division under Rules 410, 411, or after hearing shall have first priority;
 - (2) casinghead gas from Division approved waterflood, pressure maintenance, or certified tertiary recovery projects shall have second priority;
 - (3) casinghead gas shall have third priority;
 - (4) gas from downhole commingled wells involving one or more gas zones and one or more oil zones shall have fourth priority;
 - (5) gas from wells classified as gas wells in associated pools shall have fifth priority;
 - (6) gas from wells in non-associated pools shall have sixth priority.

- B. Any gas transporter connected to a well, lease or field facility, which transporter provides transportation to the spot market, shall provide an affiliate or associate marketing service. Such marketing service shall provide the opportunity for sale of gas from wells in the above priority schedule from the highest to lowest to the extent of available demand.
- C. The schedule shall be observed by giving all highest priority gas an opportunity to produce before giving gas with the next highest priority the opportunity to produce and so on throughout the priority schedule until the demand for gas is met. In the schedule listed above, the lowest priority is number 3 and the highest is number 1.

.

Your opinion is solicited on the following questions:

- (1) Is continuation of the schedule by memorandum a reasonable alternative?
- (2) Should all associated pool gas wells enjoy a special priority or only those in the Tubb and Binebry Oil and Gas Pools? Other associated allowables are equal to casinghead allowables.
- (3) As waste has not been tied to well capacity at this point, underproduced or low capacity gas wells have received no special priority. Is this appropriate?
- (4) Are the priorities in the correct order? If not, why not?

Comments on any other portion of the proposal will be appreciated.

Case #018 Gas Bank

In Case #018 the docket for the November 20 Commission hearing contained proposed rules for a gas allowable bank. In summary, the bank is divided into two parts, primary and secondary. The primary bank would permit operators of wells which are capable of non-marginal production to withdraw their wells from the gas market and accumulate equivalent allowable for future make-up. The deferred allowable then would be distributed to non-banked wells resulting in increased current allowables to those wells. Essentially it distributes current allowable to the wells able and willing to sell in the current market. The banked allowable offers only the opportunity to make up the allowable "loaned" to producing wells by overproducing at a later date when they choose to re-enter the market.

The secondary bank merely records allowable cancelled by underproduction due to lack of adequate market or producing opportunity in the current market situation and makes it available for make-up when the market improves.

The proposal was reviewed by the committee and has not received strong support. There is fear on one hand that too many wells would go into the gas bank so that current demand cannot be met. On the other hand no representative indicated a desire to use the primary gas bank.

Certainly the Division will not propose adoption of a program that nobody wants to use. Unless some parties support the concept and indicate a desire to use the primary gas allowable bank, it will be dropped and attention will be given only to handling cancelled underproduction allowable so that it can be made up in happier times.

Any party supporting the gas bank proposal should be prepared to testify in its favor on January 8th.

Gas Bank Alternative

An alternative to the proposed gas bank would be a change to the rules which would allow for reinstatement of allowable for up to 5 years beginning April 1, 1988. Under this plan, underproduced wells would be reclassified and allowables cancelled as contemplated by the rules. However, any operator could petition the Division for assignment of all or a portion of the non-marginal allowable which would have been assigned during the period from April 1, 1988 to March 31, 1991, remaining after subtraction of actual production. Such assignment could be credited as needed such as when a well reached the six or twelve times overproduced limit. To qualify an operator would have to demonstrate that the well involved was capable of non-marginal production during the five-year period.

This last proposal enjoys some of the advantages of the gas bank but should be simpler to administer. Again your comments are invited.



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONY ANAYA
GOVERNOR

ATTACHMENT 2

POST OFFICE BOX 2028
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-3800

M E M O R A N D U M

TO: ALL OPERATORS AND ALL GAS PURCHASERS
FROM: JOE D. RAMEY, DIVISION DIRECTOR *JDR*
SUBJECT: PRIORITIES OF GAS PRODUCTION AND PURCHASES

During periods of low demand for New Mexico gas, the following curtailment schedule should be observed:

1. Overproduced non-marginal and high capacity non-prorated gas wells
2. Non-marginal gas wells
3. Marginal and low capacity non-prorated gas wells
4. Exempt marginal gas wells
5. Casinghead gas
6. Gas wells which will be damaged by being shut-in or will require swabbing to produce after being shut-in

Those operators with wells in category No. 6 must furnish the Division with substantial proof before they will qualify for this category.

Anyone wishing to comment on this curtailment schedule should submit written comments to this office by February 28, 1983.

February 18, 1983
fd/

ILLEGIBLE



March 19, 1987

Mr. William J. LeMay, Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
State Land Office Building
Santa Fe, New Mexico 87503

File: NWA-117- 986.511

Case 9015 Priority Production Schedule

Amoco Production Company welcomes this opportunity to provide comments on proposed new Rules 315, 413, and 903. As stated at the March 5, 1987, hearing on this matter, it is our recommendation that proposed Rules 315, 413, and 903 not be adopted and that the Director issue any required gas priority schedule in memorandum form.

The essential purpose of a priority production schedule is to prevent subsurface waste by identifying a hierarchy of curtailment based on the potential of subsurface waste. It should not interfere with existing contracts or interfere with the actions of the market place. It is our opinion that the February, 1983 memorandum from the Director was effective in that it properly addressed the hierarchy of curtailment for the prevention of waste without affecting the intricacies of the market. The proposed revision of rules, however, goes far beyond the prevention of waste in trying to address complex market problems.

Certainly it can be stated that the gas market has changed and is currently undergoing changes brought on by the oversupply of gas. These changes may continue and ultimately prove to be long lasting, but they may also dissipate once the oversupply of gas diminishes. It is our opinion that the adoption of a new rule to address what may very well be a short term problem is inappropriate, [especially when there is no testimony that any producer, gatherer, or purchaser is currently violating the current memorandum and causing waste.] The fact that market conditions are so volatile would also invariably result in the constant tinkering of the rule to react to untold problems that we cannot anticipate. A process that would result in the rule being constantly out of alignment with the market. Addressing the required prevention of waste through a memorandum form would allow additional

Amoco Production Company

Denver Region
1670 Broadway
P.O. Box 800
Denver, Colorado 80201
303-830-4040

FEDERAL EXPRESS

RECEIVED

MAR 20 1987

OIL CONSERVATION DIVISION

WJR

True

not exactly true!

True

flexibility to react to changes in the market conditions. *Order also*

The primary concern of the Division staff which led them to recommend the adoption of the proposed rules as opposed to the retention of a memorandum was the apparent enforceability of a rule, regulation, or order as opposed to a memorandum from the Director. It is our opinion that the Division has the ability to call any purchaser, operator, or transporter to a hearing on its own motion to explain why the memorandum is not being followed and to investigate whether waste is occurring. If in fact waste is found to have occurred or is occurring, the Division has ample legal authority to take appropriate action.

It is our recommendation that Case 9015 be dismissed and that the Director issue a memorandum setting forth the priority production schedule as recommended by the Long Term Solutions Committee. It is also our recommendation that the preamble and paragraph B presented at the March 5th hearing, which were not developed by the Long Term Solution Committee, be deleted from any memorandum or adopted rule so that only language as recommended by the Long Term Solutions Committee be retained.]

Very truly yours,



C. A. Wood
Region Proration and Unitization Manager

CAW/bjw

cc: D. R. Currens - Houston
K. J. Lund

NOV 12 1986
OIL CONSERVATION DIVISION

BLACKWOOD & NICHOLS Co., LTD.

1310 FIRST NATIONAL CENTER WEST
OKLAHOMA CITY, OKLAHOMA 73102

405 235.8505

November 10, 1986

State of New Mexico
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Attn: R. L. Stamets, Director

Re: Proposed Rule Changes

Dear Mr. Stamets:

The hearing October 23, 1986 brought up several ideas for rule changes which were good. We were particularly pleased to hear that an "Allowable Bank" idea was being considered. This idea, if properly implemented, could greatly aid in protecting correlative rights between producers. It is hoped that this basic idea will be brought forth in each committee or sub-committee hearing on rules in the future.

Mr. William Clark, Blackwood & Nichols Co., Ltd., in the Durango office will be available to serve on rules committees or sub-committees. I will also be glad to offer suggestions to the various committees. Please let us know when the committees are to meet on the various proposed rule changes.

The following suggestions are offered concerning Docket numbers 9015 - 9018 heard October 23, 1986 and continued to November 20, 1986.

Docket No. 9015

Rule 315 Priorities of Production

We recommend the adoption of these priorities as printed in your memorandum dated October 1, 1986.

Rule 903 Priorities of Production

We recommend adoption of section (a). We oppose adoption of section (b). We recommend adoption of section (c), with the wording changed to read as follows:

"Should any purchaser be unable to take gas in accordance with the conditions described in paragraph (a) of this rule, such purchaser shall write the operator of the affected wells and explain the reason."

Docket No. 9017

Rule 902 Ratable Take

We oppose adding the additional paragraph proposed in the memorandum of October 1, 1986.

Docket No. 9016

Rule 414

We believe that if the conditions of Alternative Nos. 1 and 2 have been satisfied as between the Operator and the W.I. Owners of a well, then the Oil Conservation Division should allow the well to be produced and assign it a proper allowable. There would seem to be no disagreement as to property rights under these two plans.

We recommend that the Oil Conservation Division limit the amount any W.I. Owner be allowed to be overproduced to two years of their proportionate share of allowable, from any well.

The rule could be worded in such a manner to make the Operators responsible for controlling the gas deliveries and balancing.

Docket No. 9018

Rule 10 (a) should be amended in its entirety. The "Allowable Bank" idea needs to be implemented in each of the subdivisions of this rule. It is recommended that the reasons for underproduction be stated for each well and that the allowables be directly connected to the well's physical capability of producing gas. The following Rule 10 is recommended:

Rule 10 (a) (1) Underproduction, Northwest:

For the prorated gas pools of northwest New Mexico, a 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 two gas proration periods and may produce such underproduction in addition to the allowable assigned during the next two succeeding periods. Any underproduction carried forward for the two gas prorative periods and remaining unproduced shall be cancelled if the reason for underproduction was the well's physical inability to produce the allowable quantities of gas.

Rule 10 (a) (2) Underproduction, Southeast:

For the prorated gas pools of southeast New Mexico, 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 remaining underproduced at the end of such gas proration period shall be cancelled if the reason for underproduction was the well's physical inability to produce the allowable quantities of gas.

Rule 10 (a) (3) Reasons for Underproduction:

No well's allowable will be cancelled for lack of market

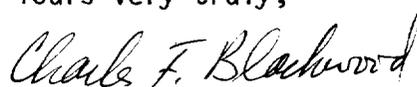
or being shut-in because of a contract dispute over price.

Allowables will only be cancelled because of a well being physically unable to produce gas in volumes sufficient to sell its allowable.

These suggestions are not intended to be "sacrosanct," but do represent what we believe to be fair to all parties involved in the production, sales, and purchases of natural gas in New Mexico.

Please let us know if you have any questions about these recommendations.

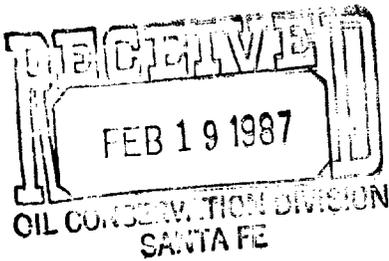
Yours very truly,



Charles F. Blackwood

CFB:sp

CC: Victor Lyon, Chief Engineer
F.T. Chavez, District III Supervisor
William F. Clark, Blackwood & Nichols Co., Ltd./Durango, CO.



February 16, 1987

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Attention: William J. LeMay
Director

Subject: Request for Comments
Case No's. 9015 and 9018

Mesa Operating Ltd Partnership (Mesa), one of the larger natural gas producers in the State of New Mexico, would like to offer comments on the following cases:

Case No. 9015 - Priority Production Schedule

Mesa has reviewed the language and the schedule of gas production priorities as proposed in R. L. Stamet's memorandum of December 15, 1986, and finds the "proposal" to be workable and acceptable in its present form.

Case No. 9018 - Gas Bank

Mesa has reviewed the language and workings of the proposed "Gas Bank Rule" and its "Alternative" as presented in R. L. Stamet's memorandum of December 15, 1986. Also, Mesa received and reviewed the "Proposed Amendment to Order R-8170" as outlined in Charles E. Roybal's memorandum of January 9, 1987, and finds that this latest proposal is workable and acceptable in its present form.

Thank you for the opportunity to comment on these proposed rules.

Sincerely,

R. L. Goggin
Supervisor, Regulatory Compliance/Safety

dp

NORTHWEST PIPELINE CORPORATION
ONE OF THE WILLIAMS COMPANIES

P.O. BOX 8900
SALT LAKE CITY, UTAH 84108-0900
801-583-8800

NOV 18 1987

*Copies to: Commission
JH & Vic & Charles*

November 10, 1987

Case 9015

Mr. William J. LeMay
Oil Conservation Commission
P. O. Box 2088
Santa Fe, NM 87504

Re: Order No. R-8441 Establishing a Gas
Priority Production Schedule

Dear Mr. LeMay:

This letter is written as a matter of courtesy to you and to request that the New Mexico Oil Conservation Commission amend or withdraw the captioned Order. In so doing, Northwest's desire is to act as a good citizen of the State of New Mexico, and to promote the well being of the State and the industry.

Northwest notes that the Commission cited Transcontinental Gas Pipeline Corp. v. State Oil & Gas Board of Mississippi in Order R-8441 and that the Commission is concerned with the proper balance between state and federal regulation. In light of the case of ANR Pipeline Company v. Corporation Commission of Oklahoma (Western District Oklahoma, 1986), Northwest wonders if the Transco decision can be limited as the Commission stated in its Finding No. 4. The Order also presents other problems:

As an example only, Section 2 of the Order commences "To the extent it is feasible,..." This presents an ambiguous and equivocal standard which may vary from well to well, and for each producer, operator or transporter. The word "feasible" makes too vague a standard for knowledgeable compliance with the stated priorities; Northwest's counsel has advised it that the rule violates the due process clause and is, therefore, unconstitutional.

Section 3 imposes upon the transporter the duty to "insure that gas entering its system shall do so in conformance with the priority schedule contained in the Order." Northwest is currently gathering 64 MMcf/d of gas for approximately 11 producers that is being delivered to El Paso Natural Gas Company at La Jara for spot sales to end-users and local distribution companies, mostly in California. Northwest does not know, and in fact has no way of "insuring" that these producers are complying with the Order. More

William J. LeMay
November 10, 1987
Page -2-

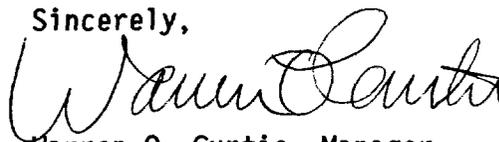
importantly, if Northwest terminates this service, it would have a substantial adverse financial impact on the producers, Northwest and the state of New Mexico.

Section 5 provides that "it is not intended by this Order to interfere with or impair contractual rights between buyer and seller...." One of the obvious questions presented by this section is whether or not the production priority schedule is subject to the provisions in contracts obligating Northwest to take specified quantities of gas. As a specific example, in order to settle a dispute with a producer which was being litigated in New Mexico courts, Northwest entered into a settlement agreement and contract amendment wherein it agreed to purchase gas from the producer's wells 100% of the time for a given period. Pursuant to that settlement agreement, Northwest is producing 3.4 MMcf/d of gas from some 62 wells. Approximately 0.6 MMcf/d of this volume is produced from 21 wells in priorities which may not always be produced under the Order. In informal discussions with the Commission, Northwest was orally advised that it is not relieved from compliance with the priority production schedule by that agreement. If this be so, is compliance with the priority production schedule an act of force majeure, which effects the take-or-pay provisions of its contracts? Apparently not, for that would be interference with or impairment of contractual rights. There are other instances on Northwest's system which create similar concerns.

Thus, Northwest must comply with both its private contractual obligations as well as the priorities established by the Order. If Northwest did so, the cost of gas to Northwest and its customers would increase by an estimated \$30,000,000 annually. Increased costs are specifically prohibited by the Transco case.

Northwest is most concerned with its financial exposures under the Order and sincerely believes that something must be done to resolve the problem. As the Commission retained jurisdiction to "amend, modify or suspend the provisions (thereof) as in its discretion is necessary", Northwest respectfully requests that the Commission amend or withdraw the Order. Absent resolution of the problem by the Commission, Northwest must take action to protect its interests.

Sincerely,



Warren O. Curtis, Manager
Land and Price Administration

WOC:js

KELEHER & MCLEOD, P. A.

ATTORNEYS AND COUNSELORS AT LAW

PUBLIC SERVICE BUILDING

P. O. DRAWER AA

ALBUQUERQUE, NEW MEXICO 87103

W. A. KELEHER

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JOHN B. TITTMANN

OF COUNSEL

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CAROL LISA SMITH
JUDITH L. OURZO
THOMAS J. ZIMBRICK
JONATHAN M. DUKE
THOMAS F. BLUEHER
LYNDA LATTA
DOUGLAS E. BRYAN

March 19, 1987

(1140-005)
HAND DELIVERED

Mr. William LeMay, Director
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87503-2088

RE: Commission Case Nos. 9015 and 9018

Dear Mr. LeMay:

Enclosed please find an original and three copies of Gas Company of New Mexico's comments in the above entitled matters. If you have any questions regarding this filing, please don't hesitate to contact me.

Very truly yours,

KELEHER AND MCLEOD, P.A.

By 
Jonathan M. Duke

cc: Phyllis Bourque
Buster Orbison
Tommy Sanders

JD/pmg

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STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE)
ADOPTION OF NEW RULES 315, 413)
AND 903,)

Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

COMMENTS OF GAS COMPANY OF NEW MEXICO

INTRODUCTION

During its hearing of March 5, 1987 in Docket No. 8-87, the Oil Conservation Commission received comment and testimony regarding the above-entitled matters. During the hearing, Commissioner William J. LeMay allowed the parties two weeks to comment on cases considered in that docket. Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., hereby files its comments regarding Case Nos. 9015 and 9018. GCNM operates gathering, transmission and distribution facilities for the sale of natural gas within New Mexico. GCNM is a common purchaser of natural gas as defined in §70-2-19 NMSA 1978 and in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division"). As a purchaser of natural gas from prorated pools in New Mexico, GCNM is an interested party in Cases 9015 and 9018. GCNM will

not comment regarding other matters considered in Docket No. 8-87. However, an absence of comment regarding other cases in this docket should not necessarily be viewed as acquiescence to or agreement with these individual proceedings and rulings issuing therefrom. GCNM reserves any right it may have for future comment in all cases considered in Docket No. 8-87.

CASE NO. 9015, PRIORITIES OF PRODUCTION:

GCNM submitted comments regarding Case No. 9015 and other matters on November 10, 1986. The Company requests that the Commission take official notice of this filing. In its previous comments, GCNM explained the operational difficulties that result when unprocessed gas of a high Btu content is introduced into the Company's system. When natural gas of either a heavy hydrocarbon content or a high heat value enters GCNM's transmission lines, numerous problems may result. GCNM would prefer, in the absence of processing, to take gas with the lowest Btu/cf content possible into its transmission system. The reason for this is that lower Btu content gas contains less liquid that could condense in the Company's pipelines. As the Commission is aware, the resulting condensation tends to pool and accumulate in sag bends of the transmission lines. This liquid resides there until the force of gas flow is strong enough to move the liquid component. When the liquid finally moves, it does so at a high velocity. There is a potential that any delivery point could be overwhelmed by the receipt of a large slug of such liquid.

The highest Btu content gas that GCNM takes from its northwest supply system is casinghead gas. The heat value of this gas can be up to 1,600 Btu's per cubic foot. By contrast, gas well gas has a Btu content from 1,120 Btu's to 1,200 Btu's per cubic foot. The safe and efficient operation of gas transmission and distribution facilities dictates that BTU levels of flowing gas should not substantially exceed 1140 BTUs. It is for this reason that GCNM contracts for natural gas processing to reduce BTU levels and has recently assisted in the acquisition of the Kutz and Lybrook Processing Plants by an affiliate company.

Unfortunately, casinghead gas is often located downstream from processing plants. Therefore, this high Btu gas must enter into GCNM's transmission lines in its raw form. A forced priority could result in a high proportion of such low quality gas entering GCNM's system resulting in operational difficulties.

GCNM currently complies with the priority schedule to the extent allowed by its transmission and distribution operations. However, as the Company mentioned in its previous comments, casinghead gas is already somewhat unattractive due to its low pressure, unpredictable reserves and low deliverability. GCNM fears that a strict order of priority would cause many purchasers to refuse to contract for additional amounts of casinghead gas as the only means to address any inflexibility in the rule.

In its first draft of proposed rules, the Gas Advisory

allowed so that a purchaser would not be required to take ". . . gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his transmission facilities then in service." GCNM does not desire that the Commission adopt exceptions based on economic need so much as it wishes that operational conditions be addressed. The Company strongly urges the Commission to adopt regulations or procedures that will address operational constraints of common purchasers. This is of particular importance to GCNM because its natural gas purchases go directly from producers and through its system for consumption by New Mexico end-users.

Alternatively, if the Commission desires to adopt changes to Rules 315, 413 and 903 without inclusion of operational exceptions, GCNM urges that it do so in the form of a memo rather than an order. This would allow the Commission to establish the policy of priorities of production without tying its own hands in recognizing exceptions. In any event, the Company believes that the Commission should allow for variance procedures, either through written petitions or hearings, that would allow a purchaser variances to any adopted priority schedule to recognize system constraints and operational difficulties.

CASE NO. 9018, PROPOSED AMENDMENT OF RULES 10(a), 11(a)
AND 11(b) OF THE GENERAL RULES FOR PRORATED GAS POOLS:

It is GCNM's understanding that the appeals of Blackwood and Nichols Co., Ltd. and Tenneco Oil Company were withdrawn with respect to the twelve times over-production limit. Because no petition for rehearing dealing with this matter was considered by the Commission, GCNM understands that the twelve times limit will remain in effect. In passing, GCNM would submit to the Commission that absent a twelve times provision, the Company would have great difficulty in serving its firm New Mexico load from New Mexico sources. The increase from the six times to the twelve times limit was necessary to allow the Company to continue its winter service without relying on "back-up" or contingent supplies from outside New Mexico, and was not needed merely to allow GCNM to increase its activity in the spot market.

GCNM urges the Commission to allow for a reasonable balancing period when over production in any pool occurs. In carrying out its statutory duty to prevent waste and protect correlative rights, the Commission should not ignore market realities nor hinder producers who want to sell their gas. This is especially true when the nominations process is dominated by a very few number of purchasers. Mr. Vic Lyons, in testimony for the Division, stated that loss of oil production to other countries was a form of waste. This is also true with respect to loss of gas production. Those markets, once satisfied, are rarely available again and thus contribute to wells being

shut-in. GCNM believes that the Commission should seek to prevent waste and protect the rights of producers, but also seek to maximize New Mexico's share of the nation's natural gas production. As Tenneco's witness, Mr. Jones testified at the rehearing, New Mexico's share of California natural gas consumption has dwindled steadily the past few years. GCNM hopes that the Commission will pursue a permanent solution that will consider all of these factors. Absent such as provision, the current practice of allowing reasonable variances and balancing periods should be left in place. This problem must be effectively addressed by participants in Commission proceedings and ultimately by the Commission. GCNM appreciates this opportunity to present these comments.

Respectfully submitted this 19th day of March, 1987.

KELEHER & McLEOD, P. A.

By 

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STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
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Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Gas Company of New Mexico's comments to Department of Energy and Minerals Oil Conservation Commission was mailed by first class mail, postage prepaid, to the following:

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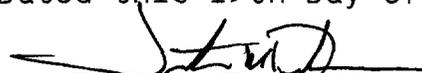
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Dated this 19th Day of March, 1987



JONATHAN M. DUKE

JD/pmg

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE
PROPOSED CHANGES OF THE
RULES AND REGULATIONS
OF THE OIL CONSERVATION
DIVISION

CASE Nos. 9015, 9016, 9017 and
9018

COMES NOW Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., and files its comments in response to the Proposed Changes in Division Rules of October 1, 1986 and Hearing held on October 23, 1986. GCNM is a common purchaser for natural gas as defined in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division") and as such is an "interested party" in the above-entitled matter. GCNM desires to comment regarding Case Nos. 9015, 9016, 9017 and 9018. An absence of comment regarding other cases in this proceeding should not necessarily be viewed as acquiescence to or agreement with these individual recommendations. GCNM reserves its right of future comment and anticipates attendance and participation in the Division's next scheduled hearing of November 20, 1986.

I. RULES 315, 413 AND 903
REGARDING PRIORITIES OF PRODUCTION
(CASE NO. 9015)

In its first draft of proposed Rules, the Gas Advisory

Committee ("Committee") recommended that purchasers of natural gas adhere to a priority of production schedule which would call for restricted production of natural gas in the following order: (1) gas wells, (2) downhole commingled wells involving one or more gas zones and one or more oil zones, (3) casinghead gas and (4) hardship gas wells as designated by the Division under Rules 410 and 411. It is GCNM's understanding that these proposed rules would require restriction or curtailment of production of gas according to its designation under the recommended priorities. It is imperative that the Commission understand the operational difficulties that forced purchase of higher priority gas could impose on a local distribution company's system.

Preliminarily, GCNM's comments in this matter will generally address casinghead gas, although many concerns could also apply to hardship gas wells.

1. Operational Difficulties with High Priority Gas.

It is not uncommon for natural gas to enter GCNM's system supply without processing and dehydration. Casinghead gas, with its high liquid content, could cause freezing problems in winter months if it is introduced to GCNM's system without processing. In addition, casinghead gas' high liquidity may condense in the pipeline, causing slugs that jeopardize the integrity of GCNM's gas supply as it passes through the company's transmission and distribution systems. A forced priority could

result in a high proportion of such low quality gas causing operational problems.

GCNM currently complies with the priority schedule to the extent allowed by the ongoing operations of its pipeline system. However, casinghead gas is already somewhat unattractive to GCNM and other purchasers due to its low pressure, unpredictable reserves and low deliverability. Under an order of priority, takes of casinghead gas would be so inflexible that purchasers may refuse to contract for additional amounts of this gas.

GCNM is not opposed to the inclusion of such priorities so long as operational exceptions are considered as proposed in Section 903(b).

2. Exceptions to Priority Provisions. It is GCNM's understanding that nothing in the proposed revisions is meant to force the purchase of "gas of a quality or under a pressure or under any other condition by reason of which such gas cannot be economically and satisfactorily used by such purchaser by means of his transportation facilities then in service." (Proposed Rule 903(b)). GCNM strongly supports inclusion of this subsection if Case 9015 priorities are adopted. The Company's system cannot operate without operational relief from strict adherence to the proposed curtailment order.

3. Notice Requirements of the Recommended Rules. Subsection (c) requires that:

Should any purchaser be unable to take gas in accordance with the schedule prescribed in

paragraph (a) of this Rule because of any of the conditions described in paragraph (b) above, such purchasers shall, in writing, notify the operator of the affected wells of such condition(s).

GCNM believes that the requirement of written notification to all producers is unworkable, burdensome and serves no useful purpose. Currently, GCNM notifies producers of temporary shut in or changes in purchased volumes according to a universally understood schedule provided by GCNM. Many curtailments are only for a few hours' duration. Written notification of such curtailment would be of little use to producers. Finally, Section 903(c) is vague because it does not specify whether written reports are to be made annually, monthly or instantaneously. As such, GCNM is opposed to proposed Section 903(c).

II. RULE 414 REGARDING SPLIT NATURAL GAS SALES (CASE NO. 9016)

GCNM concurs with the Committee recommendation that the alternatives listed in Case 9016 not be considered by the Commission because they are unworkable, vague and possibly unenforceable. GCNM recommends that all proposals in Case No. 9016 be rejected.

III. RULE 902 RATEABLE TAKE NOTIFICATION (CASE NO. 9017)

Subsection (d) of Rule 902 as proposed would require purchasers to notify operators of affected wells of rateable take variances due to economic and operational considerations. Gas rateability is currently dispatched and handled on an

annualized basis. This precludes GCNM from notifying purchasers of non-rateable takes until year-end. It is understood that variances in rateability are temporary in nature and may be corrected by year-end. In addition, production reports are readily available to producers from the Division.

GCNM's current dispatch model performs rateable takes to the extent that spot sales do not override the program. An exception to this guideline occurs with respect to the monthly allocation of oil allowables which are dependant upon casinghead purchases for their production. The Case 9017 proposal would require discontinuance of the annualized rateability calculation which is advantageous to purchasers and producers. Finally, GCNM's compliance under the proposed rule would be of little consequence if other purchasers take natural gas other than ratably.

IV. PROPOSED CHANGES TO THE GENERAL RULES FOR PRORATED GAS POOLS (CASE NO. 9018)

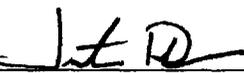
The Committee recommended that Division Order R-8170 be amended to extend the balancing period for production variances to two years. In addition, Rules 11(a)(1) and (2) and Rule 11(b)(1) and (2) would be amended to allow for twelve times over production prior to well shut-in. GCNM supports these proposed rule amendments, recognizing that an immediate need for a temporary solution exists. It is GCNM's understanding that these amendments would be implemented in conjunction with the five-year

banking proposal currently being drafted by the Division. GCNM reserves the right to comment on the banking arrangement when a draft is proposed.

In general, GCNM believes that as long as a few purchasers dominate the nominations process the Division Director should have reasonable flexibility and discretion in applying Division rules so that New Mexico gas production is maximized and fairness is achieved for all producers and purchasers.

Respectfully submitted this tenth day of November, 1986.

KELEHER & McLEOD, P. A.

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November 10, 1986

(01140-005)

Mr. R. L. Stamets
Energy and Minerals Department
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

*Florence
put a copy
in each case file*

Re: Proposed Changes of OCD Rules and Regulations

Dear Mr. Stamets:

Enclosed herewith for filing, please find an original and ten copies of Gas Company of New Mexico's Comments in Response to the Proposed Changes of the Rules and Regulations of the Oil Conservation Division.

Thank you very much for your consideration.

Very truly yours,

KELEHER & McLEOD, P. A.

By *JMD*
Jonathan M. Duke

JMD:lcb

Enclosures

cc: W. J. Orbison
Sarah Smith