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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

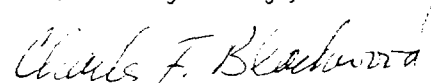
or being shut-in because of a contract dispute over price.

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.

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)

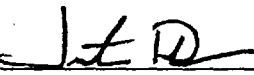
The Committee recommended that Division Order R-8170 be amended to extend the balancing period for production variances to two years. In addition, Rules 11(a)(1) and (2) and Rule 11(b)(1) and (2) would be amended to allow for twelve times over production prior to well shut-in. GCNM supports these proposed 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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