

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



November 26, 1986

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Milton F. Lechner
380 R. 4990
Bloomfield, New Mexico 87413

Dear Mr. Lechner:

Your letter of November 5 has been received and duly noted.

It seems your problem is not at all unique as we are finding more and more often. Unfortunately, the situation you describe is a matter of contract over which this agency has no control. Your lease is a contract which requires the lessee to account to you for any production and sale. There also is a contract between producer and purchaser/transporter of gas. It has long been a practice that individual working interest owners may ratify the sales contract of operator or enter into his own contract with the same or another purchaser. Finally, there is a contract between working interest owners in a tract or well providing the operator, at his option, may market the production from the well and account for same to the other working interest owners. It also usually provides that each working interest owner will pay his own royalty and tax obligations.

This agency is seeking authority to handle situations such as yours by promulgating rules and, perhaps seeking statutory authority if our present authority is inadequate. At the present time the action taken by Mr. Chavez is all we can do, but this does not provide you a share of income from the well.

At such time as we assume authority we will be happy to place your complaint on the docket for hearing if this is your desire. We regret the fact we can do nothing further until then.

Yours very truly,

A handwritten signature in cursive script, appearing to read "R. L. Stamets".

R. L. STAMETS, Director

cc: Frank Chavez
Amoco Production Co. - Denver

November 5, 1986

Mr. Richard L. Stamets, Chairman
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87502-2088

Re: Proposed New Rule 414

Dear Mr. Stamets:

I wish to offer my support for a rule which will protect my rights.

On February 2, 1984, Amoco Production Company began producing the Abrams Gas Com G #1 in which I own 40 acres of minerals. After a few months, I had not received any division orders for my royalty interest for the Pictured Cliffs zone. (I have leased my oil and gas minerals). After many conversations with Amoco, I had a meeting with Mr. Rusty Henderson in Tulsa, Oklahoma. He told me that Amoco was only selling their portion of the gas from the well and that my lessees were responsible for selling my royalty portions of the gas.

This didn't seem fair to me so in January of 1985, I went to see Mr. Chavez in your Aztec office. He made some telephone calls to Amoco and then shut the well down. The well has not produced since then, and I have not received one cent for my royalty in the gas that was produced. I have received no division orders from Amoco although they keep telling me that they are on the way, and there has been no money escrowed in San Juan County to my benefit.

My understanding is that I am due royalty for every bit of gas sold from the well. If this is not so then please tell me. Royalty payments should be automatic and should not need any hearings or law suits to force legitimate operators to pay them.

I am sorry that I cannot attend the hearing. Please have my letter read into the record of this hearing as an unsworn statement.

Sincerely,

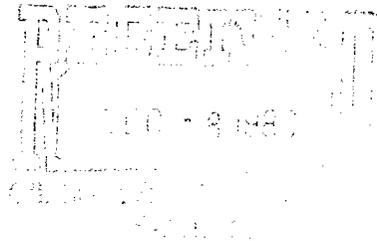


Milton F. Lechner
380 R. 4990
Bloomfield, NM 87413

*did you
submit?*

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1700 • MIDLAND, TEXAS 79702-1700 • (915) 685-9648



December 3, 1986

PRODUCTION DEPARTMENT
SOUTHWEST/ROCKY MOUNTAIN DIVISION

R. F. HICKMAN
JOINT INTEREST MANAGER

NMOCD Case No. 9016
Proposed Addition to Compulsory
Pooling Order

R. L. Stamets, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501-2088

Dear Mr. Stamets:

Exxon is seriously concerned that adding the attached language to future NMOCD orders for compulsory pooling will have a strongly adverse effect on those who own a working interest in the pooled well. We recommend against adopting this proposed language for the following reasons:

- 1) Requiring the operator to sell all owners' gas could cause those joint operations in New Mexico to be considered associations taxable as corporations. If this happens, net income from production would be taxed as operating income at the unit or joint operating level and again as dividend income at the working interest owner level. This "double taxation" should be contrasted with the current situation where income from production taken in kind is taxed only at the working interest owner level.
- 2) The proposed language may remove the ability to be excluded from partnership status and thus require the filing of annual partnership tax returns for each well.
- 3) It is doubtful whether the operator's gas purchaser is obliged to take other working interest owners' gas under the operator's contract.

Based upon these points, we believe no change is much more desirable than the proposed language.


Richard D. Goddard

RDG:dt
Attachment

PROPOSAL FOR ADDITION TO COMPULSORY POOLING ORDER

After payout, the Operator shall continue to sell the gas for all pooled owners unless any such owner elects, by giving written notice to the Operator, to make his own arrangements for disposal of such gas.

SPLIT SALES SUBCOMMITTEE
OCD GAS ADVISORY COMMITTEE

L. J. Seeman, District Engineer
Texaco USA
Midland Operations Division
P. O. Box 728
Hobbs, NM 88240

Dan Girand
Harvey E. Yates Co.
P. O. Box 1933
Roswell, NM 88201

D. George Lipford
Coordinator, Regulatory Services
Conoco Inc.
CH 1016, P. O. Box 2197
Houston, TX 77252

Marta Henderson, Gas Engineer
ARCO Oil & Gas Company
P. O. Box 1610
Room 660
Midland, TX 79701

Aaron L. Colvin
2160 Lincoln Plaza
500 North Akard Street
Dallas, TX 75201

J. Glenn Turner, Jr.
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Perry Pearce
Montgomery & Andrews
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Santa Fe, NM 87504

Robert G. Stovall
Dugan Production Corp.
P. O. Box 208
Farmington, NM 87499

Julian Huzyk
Amoco Production Company
P. O. Box 800
Denver, CO 80201

Bill Duncan
Exxon Co.
P. O. Box 1600
Midland, TX 79702

Bruce Williams
Amoco Production Company
501 Airport Drive
Farmington, NM 87401

Larry Larson
Northwest Pipeline Corp.
P. O. Box 8900
Salt Lake City, UT 84108-0900

Randy Patterson
Yates Petroleum Corp.
207 South 4th Street
Artesia, NM 88210

Larry Sanders
Phillips Petroleum
3001 Penbrook
Odessa, TX 79762

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November 17, 1986

Mr. Richard L. Stamets, Chairman
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87502-2088

Re: Proposed Rule 414

Dear Mr. Stamets:

Our property was force pooled in 1962 by Pioneer Production Corp. We didn't received any money for several years until we got our own contract with the pipeline. Pioneer said that they weren't allowed to sell gas because of Federal law so the gas they were producing was only their gas for exchange purposes, and therefore, they didn't owe us any money. No money was ever escrowed for us as was required by your order R-2334. We have never received any reports to balance out the amount of gas that was sold before we got a contract ourselves.

We support your writing a rule that would prevent this type of situation from occurring again.

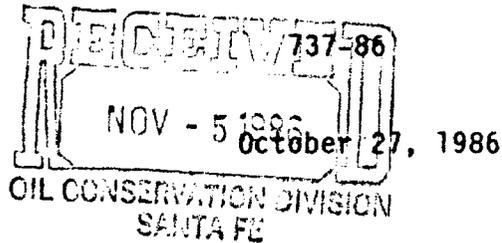
If we cannot attend the hearing, please have this letter read into the record as an unsworn statement.

Sincerely,

Lavean Clayton
2102 N. Lee Ave
Farmington, N.M. 87401
tel- 325-4695

NORTHWEST PIPELINE CORPORATION
ONE OF THE WILLIAMS COMPANIES

LAND DEPARTMENT



P. O. BOX 8900
SALT LAKE CITY, UTAH 84108-0900
801-584-6669
801-584-7215

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
Page -4-

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 D. Curtis
Manager, Land/Proration

WOC:js



November 11, 1986

**Sun Exploration and
Production Company**
Four NorthPark East
5656 Blackwell
P O Box 2880
Dallas TX 75221-2880
214 890 6000

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

Attn: Mr. R. L. Stamets, Director

RE: Comments on Proposed Rules

Dear Mr. Stamets:

Please accept the following as Sun Exploration and Production Company's formal comments on the proposed rule additions and amendments which are set for hearing on November 20, 1986.

Case 9010
Adoption of New Rule 118

Paragraph A:

1. The phrase "known H₂S producing area" is vague and could lead to abuse of this rule. Clarification should be included by rule or policy which specifies how a "known H₂S producing area" is designated. Consideration should be given to publication of a list of the current "known H₂S producing areas."

2. The term "dangerous concentrations" is vague as used in this paragraph. According to the remaining parts of this rule, one could assume 500 ppm. Clarification of this term and the intent should be set forth in this paragraph.

Paragraph B:
No comment.

Paragraph C.1:

1. Sun currently has signs posted on many of our New Mexico leases with similar wording to the required "Danger-Poisonous Gas". However, our signs are printed with the colors black, red and white instead of the required black and yellow coloring. Some signs use the word "Caution" instead of "Danger". Wording such as "unless an existing sign is in place" or "any other color acceptable to the Director" should be added to this paragraph to allow flexibility for sign installation as long as the sign indicates an existence of a potential hazard.

Paragraph C.2:

1. It is our understanding that the purpose of the sign required by this paragraph is to make the public aware of an eminent danger if they are trespassing around our tank batteries. It is not appropriate to require "a second sign at the foot of the battery stairway stating "Fresh Air Breathing Equipment Required Beyond This Point" when such equipment is not indeed required. Operators are not required to and do not carry such equipment, but in many cases are assigned personal H₂S monitors that will alarm at 20 ppm. Sun suggests that no requirement or recommendation be made for such a sign, but suggests an alternative sign which reads, "DO NOT ENTER. AUTHORIZED PERSONNEL ONLY-POISON GAS PRESENT".

Paragraph C.3:

1. The fact that all three requirements of this paragraph must be met prior to requiring automatic detection equipment should be clarified.

2. The phrase "as much as 10 MCFPD of H₂S" should be clarified. It is our understanding that this phrase means 10 MCF per day of 100% H₂S.

Paragraph D:

No Comment.

Case 9012
Amendment of Rule 701 B and D

Sun recommends adoption of these amendments as published which eliminate the requirement for a hearing for certain disposal well applications.

Case 9016
Adoption of New Rule 414

Sun recommends that no action be taken on these new rules designed to regulate sales of gas by separate owners in a well. Sun requests that Case 9016 be dismissed.

Thank you for this opportunity to respond by written comment.

Yours very truly,


Allen R. Tubb
Conservation Attorney

ART:laa

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

RECEIVED

OCT 22 1986

OIL CONSERVATION DIVISION

October 21, 1986

Comments on Proposed Rules
New Mexico Oil Conservation
Division

Mr. R. L. Stamets
NM Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Case 9016

The following comments are offered on selected rule changes which will be considered by the New Mexico Oil Conservation Division on October 23, 1986.

Proposed Rule 414. Alternative No. 1

This alternative requires that a single operator be designated and given the authority to sell 100% of the working interest gas stream on behalf of all working interest owners. Alternative No. 1 should not be adopted because it pre-empts the right of each WIO to negotiate the best price on its behalf and to make a conscious decision to sell (or not).

Proposed Rule 414. Alternative No. 2

This alternative would prohibit split sales without a gas balancing agreement. One interest owner could dictate terms by preventing any production from the well. Alternative 2 should not be adopted as written.

Proposed Rule 414. Alternative No. 3

Alternative No. 3 would limit production from a well where only part interest is sold unless there is a gas balancing agreement. This alternative should not be adopted because a limitation would be very difficult to administer. The State could set an "effective allowable" equal to top allowable times the working interest of those selling, but this would result in allowables which vary according to which purchaser has demand (could change daily). A production limit as a percentage of reserves would require agreement on reserves and this is unlikely. More likely is percentage of pressure depletion, but this would add surveillance cost.

Although none of these rule proposals are acceptable as written, we do suggest that the Division adopt a rule which requires an operator to have a gas balancing agreement included with the Joint Operating Agreement for compulsory pooled wells. A lessee would be protected from being forced into a well without a gas balancing agreement, then having its gas reserves depleted with only civil court available as a recourse for damages.

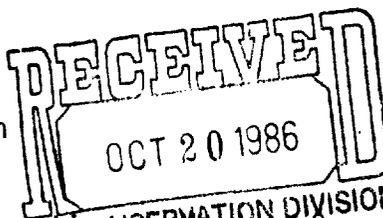
Please call Bill Duncan (915-686-4105) if you have any questions about our comments.



Richard D. Goddard

RDG:dt

Members of Split Sales Subcommittee
Gas Advisory Committee
New Mexico Oil Conservation Division



Case 9016

In preparation for the committee's meeting on Monday, Conoco has reevaluated its position on the issue of split sales and would like to recommend the following language as a springboard for the Committee's recommendation on Rule 414.

Beginning six months after approval of this rule, where there are separate owners in a well, no gas sales may commence or be made from such well unless such owners have entered into a gas balancing agreement.

Such balancing agreement must provide for each owner to receive his just and equitable share of the gas from the well(s) covered thereunder.

Such balancing agreements shall only be required to be agreed upon by the interest owners:

- a. in accordance with the voting procedures as outlined in the Joint Operating Agreement, or where no JOA exist;
- b. the Agreement shall require 75% or more of the voting interest consisting of at least two parties provided if any party at any time owns more than 25% voting interest, such party shall be bound by the unanimous vote of the other parties if the combined interest of the other parties constitute a majority interest.

Advantages:

1. Requires parties to work out equitable gas balancing agreements.
2. Protects underproduced parties.

Disadvantages:

1. Some interest owners may not be able to flow their gas.
2. Administrative burden on companies with large numbers of contracts.

Conoco continues to oppose the concept of limiting production to the aggregate percent of working interest owners desiring to sell gas. Though there are several advantages to this concept, Conoco opposes it for the following reasons:

1. Administrative and operational difficulties, especially for operators with large numbers of wells.
2. Possible well damages, violating the state's statutory obligation to prevent waste.
3. Agreement on reserves.
4. Within a given price pipelines may prioritize takes based on the percentage of time the well flows. Thus many small interest owners would not be able to sell their gas at a market price because they would be too far down on the pipeline's priority list.

If you have questions or other suggestions, please contact me at 713-293-3394 or telecopy at 713-293-1720.

A handwritten signature in cursive script, appearing to read "D. George Lipford".

D. George Lipford
Conoco Inc.

FRANK A. SCHULTZ
LINCOLN PLAZA
SUITE 2160 LB-1
500 NORTH AKARD
DALLAS, TEXAS 75201-3318

214/954-0030

December 8, 1986

Oil Conservation Division
P. O. Box 2008
Stateland Office Building
Santa Fe, New Mexico 87501-2088

Re: Split Stream Gas Sales
San Juan Basin, New Mexico

At the November 20, meeting of the Oil Conservation Division, producers and other parties were asked to comment on or before December 15, to the subject of split stream gas sales from individual wells. The commission is and was apparently seeking the consensus of opinion as to a proper procedure for administering sales where one party sells gas on the spot market from a well and other interest owners do not desire to do so and the purchaser takes the full 100% stream of the well.

It has been the writer's opinion throughout the controversy now existing in this connection that the Operating Agreements in vogue in the San Juan Basin in the State of New Mexico give the operator the right, but not the obligation, to sell the gas in situations of this kind and remit to the non-willing party for his proportion of the proceeds based upon the price the operator gets for the production.

The Operating Agreement failed also to give this right to the non-operators; it being very explicit that the operator is the one that is given this right. This provision was made to enable any party to sell his share of the production, irrespective of the other party's desire, and failure on the part of the other party, as used in this instance, to purchase the desiring party's interest, the other party is then bound by the terms of the Operating Agreement wherein the Operator has the right to make this sale for the desiring party.

The Operating Agreement also provides for the orderly handling of all matters pertaining to the operation of the well and the disposition of production.

You will note from a study of the existing Operating Agreements in the San Juan Basin that the entire subject matter of gas sales is based on the production from the well. It is not burdened with responsibility or other matters pertaining to the gas in place or the reserves; just the production. Until such times as the gas is brought to the surface and placed into a pipeline, the ownership is constant in the ground and once the well begins producing, the produced gas is owned by the various interest owners in the proportions set forth in the Operating Agreement and other papers.

Oil Conservation Division
Re: Split Stream Gas Sales
December 8, 1986

Page 2.

At such time as a well goes on production and the pipeline begins to purchase the gas, the pipeline has submitted division orders wherein it states that the production from the well is owned by the interest owners in the proportion set forth therein and in the majority of the Division Orders that the writer has observed, particularly the El Paso Natural Gas Company Division Order, the wording is that such production referred to above and its ownership as set forth, shall be paid for by the pipeline company at the price set out in the contract between the interest owner and the pipeline company.

To further strenghten my comments concerning the operators right to market the gas in the instances set forth above, a reference to existing gas balance agreements in other areas (up until this matter became a common occurence, the writer knew of no gas balancing agreements in the San Juan Basin), such gas balancing agreements placed the onus on the operator for all reporting, disposition, record-keeping, etc.

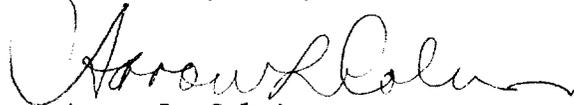
On all the gas balancing agreements submitted to the writer to date, including gas balancing agreements for Township units and other communitized tracts and individual wells in the San Juan Basin, each one of them also places this responsibility upon the operator.

All these facts, in the writer's opinion, further strenghten the point that the operator is the party charged with this responsibility in existing contracts and agreements.

In connection with the State of New Mexico's responsibility of policing the wells drilled in the State and the marketing of production therefrom, all of the States communitization agreement approvals and unit agreement approvals is predicated upon the production from the well and the operator's responsibility for maintaining proper records and performing the obligatory functions to keep the wells producing under the terms and conditions set forth by the regulations of the State of New Mexico.

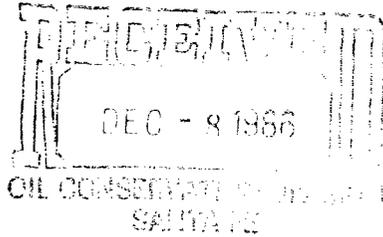
In the writer's opinion, the State of New Mexico only needs to see that the Operator of the wells perform in accordance with existing contracts and agreements between the party. It is recognized that this is not the responsibility of the OCD to police situation of this kind, but if regulation is considered for such control, it is the writer's opinion that the groundwork has already been laid for such actions.

Yours very truly,



Aaron L. Colvin
Office of Frank A. Schultz

ALC/db



Amoco Production Company

Houston Region
501 WestLake Park Boulevard
Post Office Box 3092
Houston, Texas 77253

R. E. Ogden
Regional Engineering
Manager

December 3, 1986

File: JCA-986.51NM-8202

Re: Written Comments on NMOCD Case No. 9016
(New Rule 414)

Case File

Mr. R. L. Stamets, Director
New Mexico Oil Conservation Division
Energy and Minerals Department
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Stamets:

Amoco Production Company wishes to submit these comments on the NMOCD's proposed new Rule 414 pertaining to split natural gas sales.

Amoco urges the NMOCD to not adopt any of the four alternatives proposed as Rule 414. In the event that some form of this rule is to be adopted, however, Amoco recommends that Alternative No. 4 be the one to be included in the NMOCD regulations.

Proposed Alternatives 1 and 2 are legally questionable with respect to the Division statutory authority. They further open the Division to possible legal action if an operator were to sell (Alternative 1) another working interest owner's gas against that owner's will to comply with the Division's Rules or (Alternative 2) prevent the marketing of gas by one or more working interest owners simply because some owner will not subscribe to a specific balancing agreement.

Alternative No. 3 is also undesirable. Limiting an owner's sales to his percentage ownership in the well's allowable would reduce the rate at which the out-of-balance production accumulates, but does not prevent an out-of-balance from occurring. Also, we can foresee instances where it is necessary and/or desirable to produce the full allowable, but not possible because only part of the interest has been contracted.

File: JCA-986.51NM-8202
December 3, 1986
Page 2

Amoco appreciates this opportunity to voice its opinion. We believe that proposed Rule 414 should be stricken from further consideration.

Very truly yours,

A handwritten signature in cursive script that reads "R. E. Ogden". The signature is written in dark ink and is positioned below the typed name.

JWC/rr/7.009

November 17, 1986

Mr. Richard L. Stamets, Chairman
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87502-2088

Re: Proposed Rule 414

Dear Mr. Stamets:

Our property was force pooled in 1962 by Pioneer Production Corp. We didn't received any money for several years until we got our own contract with the pipeline. Pioneer said that they weren't allowed to sell gas because of Federal law so the gas they were producing was only their gas for exchange purposes, and therefore, they didn't owe us any money. No money was ever escrowed for us as was required by your order R-2334. We have never received any reports to balance out the amount of gas that was sold before we got a contract ourselves.

We support your writing a rule that would prevent this type of situation from occurring again.

If we cannot attend the hearing, please have this letter read into the record as an unsworn statement.

Sincerely,

Lavean Clayton
2102 N. Lee Ave
Farmington, N.M. 87401
tel- 325-4695

ATWOOD, MALONE, MANN & TURNER

A PROFESSIONAL ASSOCIATION
LAWYERS

JEFF D. ATWOOD [1883-1960]
ROSS L. MALONE [1910-1974]

P. O. DRAWER 700
SUNWEST CENTRE
ROSWELL, NEW MEXICO 88202
[505] 622-6221

CHARLES F. MALONE
RUSSELL D. MANN, P. A.
BOB F. TURNER
JOHN W. BASSETT
ROBERT E. SABIN
BRIAN W. COPPLE
ROBERT H. STRAND
STEVEN L. BELL
WILLIAM P. LYNCH
RODNEY M. SCHUMACHER
JOHN S. NELSON

R. TRACY SPROULS
FREDDIE J. ROMERO
LEE M. ROGERS, JR.
TIMOTHY A. LUCAS
ARTHUR P. BROCK
SUSAN ZELLER

*Case File
9016*

December 5, 1986

Mr. R. L. Stamets, Director
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

RE: Your Memorandum of November 26, 1986
(Estate of Olga M. Atwood)

Dear Mr. Stamets:

In behalf of the devisees under the Last Will and Testament of Olga M. Atwood, deceased, whom we represent, I am writing to urge that the Oil Conservation Division issue the regulation contemplated in your Memorandum, i.e., that the operator of a gas well be required to give other owners in the well notice when a sale of less than 100% of the gas from the well is begun.

The Atwood devisees have non-operating working interest ownership in one or more gas wells upon which the establishment of such a regulation could serve as protection of their rights, in certain circumstances.

We respectfully request that a regulation of this type be established.

Thank you for your kind attention, and with regards, I am,

Very truly yours,



Charles F. Malone

CFM:meg

V
November 5, 1986

Mr. Richard L. Stamets, Chairman
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87502-2088

Re: Proposed New Rule 414

Dear Mr. Stamets:

I wish to offer my support for a rule which will protect my rights.

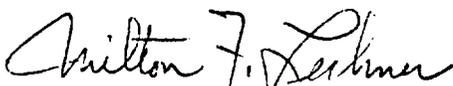
On February 2, 1984, Amoco Production Company began producing the Abrams Gas Com G #1 in which I own 40 acres of minerals. After a few months, I had not received any division orders for my royalty interest for the Pictured Cliffs zone. (I have leased my oil and gas minerals). After many conversations with Amoco, I had a meeting with Mr. Rusty Henderson in Tulsa, Oklahoma. He told me that Amoco was only selling their portion of the gas from the well and that my lessees were responsible for selling my royalty portions of the gas.

This didn't seem fair to me so in January of 1985, I went to see Mr. Chavez in your Aztec office. He made some telephone calls to Amoco and then shut the well down. The well has not produced since then, and I have not received one cent for my royalty in the gas that was produced. I have received no division orders from Amoco although they keep telling me that they are on the way, and there has been no money escrowed in San Juan County to my benefit.

My understanding is that I am due royalty for every bit of gas sold from the well. If this is not so then please tell me. Royalty payments should be automatic and should not need any hearings or law suits to force legitimate operators to pay them.

I am sorry that I cannot attend the hearing. Please have my letter read into the record of this hearing as an unsworn statement.

Sincerely,



Milton F. Lechner
380 R. 4990
Bloomfield, NM 87413

ALBERT BOYD LOGAN

ATTORNEY AT LAW

411 LAKEWOOD CIRCLE - SUITE B711
COLORADO SPRINGS, COLORADO 80910
(303) 574-2082

November 21, 1986

Jeff Taylor, Esq.
c/o Oil Conservation Division
State Lands Office
Old Santa Fe Trail
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 8014; Order No. R-7588-A
Cedar Hill-Fruitland Basal Coal Pool
San Juan County, New Mexico

Dear Mr. Taylor:

I am a royalty owner (lessor) under Lease (FLAC No. 150857) to Amoco Production Company involved in the above-entitled proceeding.

The effect of that Decision is to deprive me of a vested royalty interest in a tract of 160 acres, ordering me to divide my royalty income with some landowners included in the expanded 320 acre spacing unit.

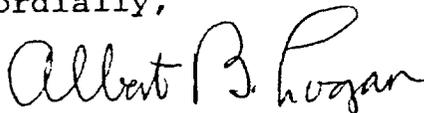
Although the temporary Decision was entered July 9, 1984, we did not receive Notice thereof until Amoco demanded reimbursement of previously paid dividends on August 29, 1986!

I would be most grateful if you could send to me copies of (1) Affidavit or Certificate of publisher, if notice was given by publication, and (2) New Mexico Statute authorizing service of notice upon non-resident parties.

Also, could you advise (if we are parties to the proceeding) how much time we have to appeal from the Order dated March 7, 1986.

I believe you can understand our dilemma in finding ourselves denied royalty income upon which our need for living expenses was so summarily terminated.

Cordially,



ALBERT B. LOGAN

ABL:mm

cc: Patricia Logan Pitney



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

November 7, 1986

Dugan Production Corp.
P. O. Box 208
Farmington, New Mexico 87499-0208

*Case File
Case 9016*

Attention: Mr. Robert G. Stovall

Re: Your proposed Rule 414

Dear Mr. Stovall:

We are in receipt of your letter dated October 29, 1986 where you transmitted a proposed Rule 414. We believe that your proposed rule affords any aggrieved party the opportunity to have a hearing before the Oil Conservation Division which we believe he does not have at this time. It also does not mandate a gas balancing agreement. It may cause, however, a gas balancing agreement to be negotiated before the Commission in any hearing that may take place. We feel that the number of problems that will actually go to hearing will be very small. We concur with your proposal and will support it before the OCD if that becomes necessary.

We also like your proposal for the addition of the compulsory pooling order. We believe it is unfair for a party who has been pooled under the statute to be forced into gas balancing upon payout. Your proposal gives that pooled party the option to do so if he wishes, however.

Thank you for your work on this subject and we look forward to working with you and this committee in the future.

Very truly yours,

YATES PETROLEUM CORPORATION

Randy G. Patterson
Land Manager

RGP/mw

Enclosure

cc: Richard L. Stamets
Director, OCD
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

William F. Carr
Campbell & Black, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Split Sales Subcommittee
OCD Gas Advisory Committee

SPLIT SALES SUBCOMMITTEE
OCD GAS ADVISORY COMMITTEE

L. J. Seeman, District Engineer
Texaco USA
Midland Operations Division
P. O. Box 728
Hobbs, NM 88240

Dan Girand
Harvey E. Yates Co.
P. O. Box 1933
Roswell, NM 88201

D. George Lipford
Coordinator, Regulatory Services
Conoco Inc.
CH 1016, P. O. Box 2197
Houston, TX 77252

Marta Henderson, Gas Engineer
ARCO Oil & Gas Company
P. O. Box 1610
Room 660
Midland, TX 79701

Aaron L. Colvin
2160 Lincoln Plaza
500 North Akard Street
Dallas, TX 75201

J. Glenn Turner, Jr.
Turner Production Co.
4925 Greenville Avenue
Suite #852
Dallas, TX 75201

Perry Pearce
Montgomery & Andrews
P. O. Box 2307
Santa Fe, NM 87504

Robert G. Stovall
Dugan Production Corp.
P. O. Box 208
Farmington, NM 87499

Julian Huzyk
Amoco Production Company
P. O. Box 800
Denver, CO 80201

Bill Duncan
Exxon Co.
P. O. Box 1600
Midland, TX 79702

Bruce Williams
Amoco Production Company
501 Airport Drive
Farmington, NM 87401

Larry Larson
Northwest Pipeline Corp.
P. O. Box 8900
Salt Lake City, UT 84108-0900

Randy Patterson
Yates Petroleum Corp.
207 South 4th Street
Artesia, NM 88210

Larry Sanders
Phillips Petroleum
3001 Penbrook
Odessa, TX 79762

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

218 MONTEZUMA

POST OFFICE BOX 2068

SANTA FE, NEW MEXICO 87504-2068

(505) 982-4554

200 CENTURY PLAZA
POST OFFICE BOX 3580
MIDLAND, TEXAS 79702
(915) 683-4691

1700 TEXAS AMERICAN BANK BUILDING
POST OFFICE BOX 12118
AMARILLO, TEXAS 79101
(806) 372-5569

700 UNITED BANK PLAZA
POST OFFICE BOX 10
ROSWELL, NEW MEXICO 88201
(505) 622-6510

LEWIS C. COX
PAUL W. EATON
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
OWEN M. LOPEZ
DOUGLAS L. LUNSFORD
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD*
RICHARD E. OLSON
RICHARD A. SIMMS
RICHARD R. WILFONG*
STEVEN D. ARNOLD
JAMES J. WECHSLER
NANCY S. CUSACK
JEFFREY L. FORNACIARI
JEFFREY D. HEWETT*
JAMES BRUCE

JERRY F. SHACKELFORD*
JEFFREY W. HELLBERG*
ALBERT L. PITTS
FRED W. SCHWENDIMANN
THOMAS D. HAINES, JR.
THOMAS M. HNASKO
MICHAEL F. MILLERICK
FRANKLIN H. MCCALLUM*
ALLEN G. HARVEY
GREGORY J. NIBERT
JUDY K. MOORE*
DAVID T. MARKETTE*
JAMES R. MCADAMS*
JAMES M. HUDSON
MACDONNELL GORDON
REBECCA J. NICHOLS
PAUL R. NEWTON
WILLIAM B. JOHNSON*
CHRISTOPHER S. RAY

November 6, 1986

OF COUNSEL
ROY C. SNODGRASS, JR.
O. M. CALHOUN
MACK EASLEY
JOE W. WOOD
STEPHEN L. ELLIOTT

CLARENCE E. HINKLE (1904-1955)
W. E. BONDUJANT, JR. (1913-1973)
ROBERT A. STONE (1905-1961)

*NOT LICENSED IN NEW MEXICO

R. L. Stamets, Chairman
New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87504

Re: Proposed OCD Rule 414;
OCC Case No. 9016

Dear Mr. Stamets:

We represent BHP Petroleum (Americas) Inc., and entered an appearance on behalf of BHP at the October 23, 1986 hearing on the above matter. With respect to Rule 414 Alternatives 1 and 2, BHP suggests that, to make the rule workable, some type of compulsory process will be needed against non-consenting interest owners so that gas can be sold and correlative rights protected.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


James Bruce

JGB:jr

Case File
Case 9016

ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION



November 26, 1986

TONY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Milton F. Lechner
380 R. 4990
Bloomfield, New Mexico 87413

Dear Mr. Lechner:

Your letter of November 5 has been received and duly noted.

It seems your problem is not at all unique as we are finding more and more often. Unfortunately, the situation you describe is a matter of contract over which this agency has no control. Your lease is a contract which requires the lessee to account to you for any production and sale. There also is a contract between producer and purchaser/transporter of gas. It has long been a practice that individual working interest owners may ratify the sales contract of operator or enter into his own contract with the same or another purchaser. Finally, there is a contract between working interest owners in a tract or well providing the operator, at his option, may market the production from the well and account for same to the other working interest owners. It also usually provides that each working interest owner will pay his own royalty and tax obligations.

This agency is seeking authority to handle situations such as yours by promulgating rules and, perhaps seeking statutory authority if our present authority is inadequate. At the present time the action taken by Mr. Chavez is all we can do, but this does not provide you a share of income from the well.

At such time as we assume authority we will be happy to place your complaint on the docket for hearing if this is your desire. We regret the fact we can do nothing further until then.

Yours very truly,

A handwritten signature in dark ink, appearing to read "R. L. Stamets", written over the typed name.

R. L. STAMETS, Director

cc: Frank Chavez
Amoco Production Co. - Denver

Memo

From
FRANK T. CHAVEZ
District Supervisor

To Dick

Will this help on Rule 414?

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Oil Conservation

Aztec, New Mexico

Sincerely,

Milton F. Lechner

Milton F. Lechner
380 R. 4990
Bloomfield, NM 87413

ILLEGIBLE

November 5, 1986

Mr. Richard L. Stamets, Chairman
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87502-2088



Re: Proposed New Rule 414

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I wish to offer my support for a rule which will protect my rights.

On February 2, 1984, Amoco Production Company began producing the Abrams Gas Com G #1 in which I own 40 acres of minerals. After a few months, I had not received any division orders for my royalty interest for the Pictured Cliffs zone. (I have leased my oil and gas minerals). After many conversations with Amoco, I had a meeting with Mr. Rusty Henderson in Tulsa, Oklahoma. He told me that Amoco was only selling their portion of the gas from the well and that my lessees were responsible for selling my royalty portions of the gas.

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