

NEW MEXICO OIL CONSERVATION COMMISSION  
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M E M O R A N D U M

TO: A. L. PORTER, Jr., SECRETARY-DIRECTOR

FROM: ELVIS A. UTZ, GAS ENGINEER

SUBJECT: SUGGESTED REVISION OF GAS PRORATION PROCEDURES

The following suggested gas proration procedure will not require any changes in the present proration rules inasmuch as it involves only a change in the pool allowable calculation procedure which has never been set out in any rule of the Commission anyway.

Present Pool Allowable Calculation Procedure

Each month after the gas purchasers' nominations have been reported at the allowable hearing and the gas purchasers' production reports have been received, each prorated gas pool's allowable is determined in accordance with the procedure illustrated below:

Current Nominations		10,000 MCF
First Previous Month's Nominations	9,000 MCF	
First Previous Month's Allowable	<u>- 9,500 MCF</u>	
Adjustment, First Previous Month		- 500 MCF
Second Previous Month's Production	8,000 MCF	
Second Previous Month's Beginning		
Net Allowable	<u>- 9,000 MCF</u>	
Adjustment, Second Previous Month		<u>-1,000 MCF</u>
Current Month Allowable		8,500 MCF
Less Estimated Marginal Allowable*		<u>2,000 MCF</u>
Non-marginal Pool Allowable		<u>6,500 MCF</u>

\*This marginal allowable is the monthly average production during the last six month proration period from all wells which are currently classified as marginal. This estimate is used only to obtain a total estimated marginal allocation figure to deduct from the current allowable in order to derive the non-marginal pool allowable. When production from a marginal well for a given month is reported, the production becomes the well's allowable.

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### Suggested Pool Allowable Procedure

Each month the sum of the purchasers' nominations for gas from a given pool during the following month would be considered the pool's current allowable for that month, provided however, that the Commission would adjust these nominations if, in its opinion, the nominations did not truly reflect actual expected production during that month.

The adjustments, if made, would be on the basis of a pool's past production, allowable, over- and under-production, and any other current or historical data which may be a valid consideration for maintaining a balanced pool status.

### Advantages of Suggested Revision

1. This procedure will assign pool allowables more consistent with actual production and therefore eliminate the severe fluctuations that have been prevalent in the past.
2. When pool allowables are more consistent, the so-called "six-times" overproduction rule will work more effectively. This is Rule 15(A) for Southeast New Mexico and Rule 15(B) for Northwest New Mexico of Order No. R-1670.
3. When the "beginning net allowable" is not used in setting pool allowables, the underage carried on individual wells does not affect the current pool's allowable. Therefore the cancellation of underage by classification to marginal becomes unimportant with respect to setting current pool allowables.
4. When the cancellation of well underproduction is accomplished by the usual cancellation rules of Order No. R-1670, Rules Nos. 14(A) and 14(B), the operator is afforded a reasonable opportunity to produce his well's assigned allowable.
5. The purpose of the present balancing, cancellation and redistribution procedure is to allow certain wells in a pool to produce allowable which cannot be produced by certain other wells in the pool. This is done to help the pool meet its market demand. The overproduced wells are then balanced by the redistribution of the underproduction in accordance with the pool formula. This process however should be an internal pool process and should not affect the assigned pool allowable. By permitting underproduction to be redistributed directly to the non-marginal wells and not to be considered in determining current pool allowable (current pool allowable would be based on nominations only, as adjusted) the recommended method of assigning pool allowables should give our balancing

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procedures an opportunity to better accomplish their purpose.

6. When assigning allowables in this manner, the necessity for classifying wells to marginal so closely to the well's "probable ability to produce" is not necessary. Thus, wells will not fluctuate from marginal to non-marginal as often and less administrative and supplemental paperwork on everyone's part is involved.

7. By placing more emphasis on consistent pool allowables and six-month balancing and cancellation procedures, the administrative load for purchaser, producer, and the Commission is reduced.

8. The proposal is consistent with the Commission's obligation to protect the correlative rights of the gas producers and is the proper first step toward improving our gas proration procedures.

It is my intention to testify concerning this revised allowable procedure at the December 2 hearing of Case No. 4436, the application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing prorated gas pools.

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