STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:

CASE NO. 9063
ORDER NO. R-8442

APPLICATION OF MERRION OIL AND GAS CORPORATION FOR ENFORCEMENT OF COMMON PURCHASER REQUIREMENTS OF SECTION 70-2-19 NMSA 1978 (1984 SUPPLEMENT) AND OTHER PERTINENT PROVISIONS OF THE OIL AND GAS ACT, GAVILAN-MANCOS OIL POOL, RIO ARRIBA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on March 5, 1987 at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

Now on this 7th day of May, 1987, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) Applicant seeks an order requiring El Paso Natural Gas Company (EPNG) to purchase casinghead gas from two wells in the Gavilan-Mancos Oil Pool under authority granted the Commission in the Common Purchaser provisions of the Oil and Gas Act.

(3) Said wells were completed in December, 1984 and January, 1985 and produced at curtailed rates, in order to minimize the waste of gas, until March, 1986 at which time they were shut-in because of lack of access to a market for said gas and because of the reduced revenue from crude oil sales when the crude oil price collapsed.

(4) Since the wells were shut-in the reservoir pressure in the wells has declined at least 265 psi, or 18 plus percent, indicating extremely severe drainage, impairment of correlative rights, and confiscation of property.

(5) Division records indicate there are at least fourteen wells in this pool shut-in for lack of access to gas market; 24 wells are connected to EPNG system; three wells are connected to Dugan Petroleum Corp. gathering systems; six wells are connected to Gavilan Joint Ventures gathering system; and eight wells are connected to McHugh gathering system.

(6) Division records do not reflect the actual purchaser of gas from said wells.

(7) Applicant and EPNG have conducted negotiations on said wells over a period of approximately two years without coming to agreement but applicant admits he has rejected offers that, in retrospect, should have been accepted.

(8) Rejection of reasonable offers in the past should not preclude any party from sale of gas on reasonable or mutually agreeable terms in the future.

(9) Applicant has offered to sell the gas in question to EPNG at market-clearing levels and has further offered to lay a line to the nearest point of El Paso's pipeline and other concessions designed to avoid causing the cost of such gas to exert upward pressure on El Paso's Weighted Average Cost of Gas (WACOG).

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(10) EPNG since 1983 has maintained a moratorium on new gas contracts but has released contracts, renegotiated contracts and taken other actions to minimize and avoid increasing its liability by having excess committed deliverability in relation to market demand. In so doing EPNG has added some new acreage to contracts but less than has been released and under terms designed to reduce liability and WACOG.

(11) EPNG has established a subsidiary company, El Paso Gas Marketing Company (EPMC), to market released NGPA gas through spot market sales and currently EPNG is purchasing only NGA gas, which cannot be released, for resale to core markets in California; thus no gas in the Gavilan-Mancos Oil Pool is being purchased at this time by EPNG, since none of this gas is NGA gas, although applicant alleges this is a subterfuge for EPNG to discriminate in favor of its affiliate company, Meridian Oil Co.

(12) There are other purchasers of gas in the Gavilan-Mancos Oil Pool among which are: Northwest Pipeline Co., Hadson Gas

Systems, Rocky Mountain Energy and Natural Gas Clearinghouse; but applicant has not contacted any of these.

(13) EPNG's role in the Gavilan-Mancos Oil Pool is strictly that of gatherer and transporter and not of purchaser of gas although EPNG holds contracts for purchase of gas from owners of several wells in the pool, including a subsidiary company. Those contracts have been released temporarily by EPNG and the gas is being purchased by EPMC.

(14) EPNG's nearest connection to a well is approximately three miles distant; however EPNG entered into a contract to purchase gas from part owner of one of the wells in question and another well within approximately one-half mile of the aforesaid well in question.

(15) EPNG's witness stated that an acceptable proposition would be for applicant to "pay all costs associated with the gathering line to EPNG, including the TAP and meter -- and market his gas through one of the spot market entities operating in that area" (listed in Finding No. 12).

(16) EPNG's services in transporting gas, in the "unbundling" of traditional services, involve certain charges or fees authorized and approved by the Federal Energy Regulatory Commission (FERC).

(17) In the event EPNG or EPMC purchases the gas from the wells in question, the fees chargeable as described in Finding No. 16, should be mitigated by consideration of applicant's capital outlay in gathering as outlined in Finding No 15; otherwise the price paid the applicant would be discriminatory insofar as other wells served by EPNG or EPMC which did not endure such expense or capital outlay.

(18) The Commission has accorded casinghead gas a high priority in takes, access to markets and pipeline space in order not to inhibit the production of crude oil with which casinghead gas is produced. Failure to observe this priority will either unnecessarily restrict production of oil (which is not in surplus in this country) or cause the wasteful venting or flaring of the casinghead gas.

(19) Processed casinghead gas is natural gas indistinguishable from natural gas produced from gas wells and is equally suitable for market as gas from gas wells; however gathering and processing of casinghead gas and marketing of natural gas liquids extracted therefrom causes the value of casinghead gas to vary from that of gas produced from gas wells;

sometimes higher and sometimes lower, although the BTU content is generally higher.

(20) Denial of access to pipeline and market of casinghead gas would thwart the priority established by the Commission, deny to the United States needed domestic crude oil, violate correlative rights, cause the confiscation of property without due process of law and cause waste of both oil and gas.

(21) The rapid decline of bottom hole pressures in the wells in question constitutes an emergency.

(22) The wells in question should be accorded access to a pipeline so as to permit the sale of casinghead gas without further delay.

IT IS THEREFORE ORDERED THAT:

(1) El Paso Natural Gas Co (EPNG) or other successor operator of the gathering system to which is connected the Southland Royalty Company (Meridian Oil Company) Hawk Federal Well No. 3 located in Unit K of Section 35, Township 25 North, Range 2 West, Rio Arriba County, New Mexico, shall connect, or permit to be connected, to its pipeline system the casinghead gas produced by Merrion Oil and Gas Corporation Krystina Well No. 1 in Unit K, Section 14, and its Oso Canyon Gas Com. "C" Well No. 1 in Unit E, Section 13, both in Township 24 North, Range 2 West, Rio Arriba County, and both of which are completed in the Gavilan-Mancos Oil Pool.

(2) In the event EPNG declines to install at its own expense necessary gathering facilities, applicant is hereby authorized to lay the pipeline and install related facilities including metering equipment and tap into EPNG's pipeline, all of which shall meet EPNG's standard specifications. In the alternative EPNG may install such equipment and be reimbursed by applicant.

(3) Applicant shall contact and make a diligent effort to contract for purchase of its gas from said wells with purchasers of gas named in Finding No. 12 hereinabove as well as EPMC. Applicant shall report to the Director by June 1, 1987 as to the results of such efforts, and if he is unsuccessful, a hearing shall be scheduled to provide appropriate relief.

(4) EPNG in assessing its charges for gathering or transportation of this gas shall, if applicant bears the expense and investment of the gathering facilities, give due consideration for such expense and investment.

(5) In view of the large number of wells in the same general area as the wells here in question that are unconnected to a gas gathering facility and the drainage being suffered by said wells, applicant, in order to reduce its expense and provide a more efficient system, may share the gathering system with other owners of wells presently unconnected in this general area, so as to provide a gas outlet to such wells.

(6) Casinghead gas has been granted priority in access to pipeline and to market over gas well gas by the Commission and any adverse impact on EPNG or EPMC's gas market for gas well gas as a result of this order will be addressed by the Division upon its being advised of such impacts and the specific facts.

(7) This order is authorized, and in the Commission's view mandated, by the Oil and Gas Act in order to prevent waste and protect correlative rights in the state of New Mexico and to provide needed crude oil to the state and to the nation, and the apparent rapid loss of reserves from the wells in question constitutes an emergency.

(8) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUEN, Member

WILLIAM J. LEMAY,
Chairman and Secretary

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

CASE NO. 9063
ORDER NO. R-8442-A

APPLICATION OF MERRION OIL AND GAS CORPORATION FOR ENFORCEMENT OF COMMON PURCHASER REQUIREMENTS OF SECTION 70-2-19 NMSA 1978 (1984 SUPPLEMENT) AND OTHER PERTINENT PROVISIONS OF THE OIL AND GAS ACT, GAVILAN-MANCOS OIL POOL, RIO ARRIBA COUNTY, NEW MEXICO

NUNC PRO TUNC ORDER

BY THE COMMISSION:

It appearing to the Commission that due to clerical error and inadvertence, Order No. R-8442, dated May 7, 1987, does not correctly state the intended order of the Commission:

IT IS THEREFORE ORDERED THAT:

(1) Finding No. (10) on page 2 of Order No. R-8442 is hereby amended to read in its entirety as follows:

"(10) EPNG since 1982 has maintained a moratorium on new gas contracts but has released other contracts, renegotiated contracts and taken other actions to minimize and avoid increasing its liability by having excess committed deliverability in relation to market demand. In so doing EPNG has added some new acreage to contracts but less than has been released and under terms designed to reduce liability and WACOG."

(2) All references to the order number in the heading on pages 2, 3, 4, and 5 of said Order No. R-8442 are hereby amended to read, "Order No. R-8442."

(3) The corrections set forth in this order be entered nunc pro tunc as of May 7, 1987.

DONE at Santa Fe, New Mexico, on this 4th day of June, 1987.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUEN, Member

WILLIAM J. LEMAY, Chairman and
Secretary

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