



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

February 16, 1993

KELLAHIN, KELLAHIN & AUBREY
Attorneys at Law
P. O. Drawer 2265
Santa Fe, New Mexico 87504

RE: CASE NO. 10450
ORDER NO. R-9656-A

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Sally E. Leichtle
Sally E. Leichtle
Administrative Secretary

cc: BLM - Carlsbad, Roswell, Farmington
Ned Kendrick
William Carr
OCD Aztec Office
Ernest Padilla



**Marathon
Oil Company**

2-10-92

CONSERVATION DIVISION

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P.O. Box 552
Midland, Texas 79702
Telephone 915/682-1626

March 5, 1992

William J. LeMay, Director
New Mexico Oil Conservation Division
Energy, Minerals and Natural Resources Department
Post Office Box 2088
Santa Fe, New Mexico 87504

Re: February 27, 1992 Gas Allowables Hearing

Dear Mr. LeMay:

Following discussions with the Marathon personnel who appeared at last week's gas allowables hearing in Santa Fe, I felt a need to restate Marathon's position with regard to the issue of the allowable for the Indian Basin Upper Penn Pool. As you are aware, the Marathon personnel appearing at the hearing presented testimony showing the results of Marathon's efforts to increase production from the pool, to increase the processing capacity of the Indian Basin Gas Plant, and to market Marathon's share of gas from the field. This testimony was in support of an allowable for the non-marginal wells in the field, which is based on the capacity of the current best producer in the field. Marathon's proposed allowable is higher than recent actual field production because we have continued to invest capital and marketing effort to improve deliverability and develop new markets and because recent production was abnormally affected by an unprecedented Plant turnaround. Marathon feels that its proposal is consistent with the New Mexico allowables system, which calls for increasing capacity in harmony with market, and advisable as a reward to Marathon and others for past efforts to improve production from the field, and an incentive to continue those efforts in the future.

As you are also aware, three other operators in the Indian Basin Upper Penn Pool appeared, either in person or by letter, and proposed allowables significantly below that proposed by Marathon. It is my understanding that Chevron, the only company other than Marathon presenting testimony, did not assert a lack of market for the additional gas which would be produced were Marathon's proposed allowables to be adopted. In fact, the Chevron witness indicated that he thought that the additional gas could be sold. The sole basis for Chevron's proposed lower allowable appears to be a general concern about summer prices for gas. I should also note that, contrary to the testimony of the Chevron witness, the Gas Plant turnaround in September

1991 was among the longest in the Field/Plant's history and certainly is not a reoccurring event. The basis for the Oryx and MW Petroleum proposals are even less clear, with Oryx referencing "the uncertainty of summer gas markets" and MW Petroleum, "a more equitable sharing of gas markets."

The Indian Basin Upper Penn Pool is a very important property to Marathon. This is why so much effort has been devoted to the field in recent years - in well recompletions, surface equipment modifications, gas plant upgrades, vigorous gas marketing and reservoir modeling work. Marathon was planning to continue this work this year, looking to improvements to the remainder of the wells which we operate, which have not yet had work; seeking additional long-term sales contracts for our gas; and attempting to unitize the field. However, much of the incentive to pursue these investments of time and money depends on the right to produce our wells as near to their capacity as possible. Otherwise, allowables act as a disincentive to producers to invest in the field, as an impediment to aggressively marketing gas and perhaps most concerning, as a disincentive to unitization. The result of the adoption of the allowables proposed by the other operators in the field will be to reward and encourage mediocre efforts to produce and sell gas from the field. These impediments are totally contradictory to our desire (and that which we understand to be the Division's) to aggressively develop New Mexico gas reserves and increase the market share of New Mexico gas.

It is my sincere hope that when the Commission considers the proposals for the Indian Basin Upper Penn Allowable for future proration periods, that it will give great weight to the issues I have outlined above. Marathon is extremely interested in producing and selling New Mexico gas this year and in the coming years. Increased flexibility in the administration of the allowables system will provide a great boost to those efforts.

Very truly yours,



Robert F. Unger
Production Manager
Midland Operations

RFU/jmh/027

xc: M. Corley - Chevron
T. Adams - Oryx
D. Gilbranson - MW Petroleum

**IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION ON ITS
OWN MOTION TO ACCEPT NOMINATIONS AND
OTHER EVIDENCE AND INFORMATION TO ASSIST
IN DETERMINING APRIL THROUGH SEPTEMBER,
1992 GAS ALLOWABLES FOR THE PRORATED GAS
POOLS IN NEW MEXICO**

OIL CONSERVATION DIVISION
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**GAS COMPANY OF NEW MEXICO
WRITTEN COMMENTS ON CASE NO. 10450
SUMMER ALLOCATION HEARING**

Gas Company of New Mexico ("GCNM") attended the February 27th, 1992 Hearing on Case No. 10450 regarding setting summer allowables. We have reviewed the preliminary allowables that the OCD presented during this meeting and we have considered the testimony presented at the hearing. GCNM would caution against complying with the requests by a number of producers to relax the Oil Conservation Division's recommended allowables. While it is understandable that producers would like to operate free of OCD oversight, we believe it would be inappropriate to sharply increase allowables.

The producers suggest there will be an imminent jump in the market for conventional New Mexico natural gas. The producers request an increase in allowables in advance of this asserted market change. GCNM disputes this assertion and contends that the OCD recommended allowables are appropriate for the following reasons:

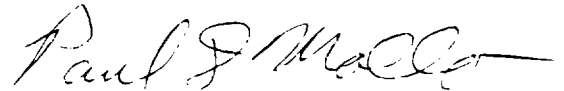
- (1) Interstate pipeline expansions do not imply a surge in New Mexico gas sales. Sales are constrained by the lower of market, transmission capacity or production. As witness Merritt indicated at the February 27 Hearing,

demand has been flat. He also reported that there is currently 500 mcf of pipeline capacity currently in excess of shipments. There is little reason to believe that the market in the next six months will expand due to pipeline expansions.

- (2) Coal seam gas is displacing the conventional sources in question. Witness Merritt also reported that the conventional gas market share is being displaced by coal seam gas production. In addition, coal seam drilling is expected to continue and productive capacity to increase.
- (3) The OCD's "12 times" overproduction policy provides for any needed flexibility in production if this unexpected jump in sales does occur before the next allowables levels are set. In addition, the OCD can revisit these levels after three months if needed.
- (4) Increasing allowables may damage the interests of underproduced wells, distort production patterns and create waste. GCNM's load has become more and more sensitive to seasonal patterns. Conventional gas has, in turn, increasingly become the swing supply. This does have the advantage of producing gas during the high priced winter period. Higher allowables are most likely to increase summer production if at all; perhaps displacing underproduced wells during the small-market summer.

- (5) Many parties, including GCNM, have based their business dealings on the assumption that allowables will reflect actual market & production, not just producer hopes of future sales.

GCNM believes that our market demand will be similar to the demand that we experienced during the summer period of April 1991 through September 1991; therefore, we support these preliminary allowables. These preliminary allowables will be sufficient to meet our market demand.

A handwritten signature in cursive script, reading "Paul D. Mollo", with a long horizontal flourish extending to the right.

Paul D. Mollo
Compliance Administrator

cc: Jim Baca, OCD
William J. Lemay, OCD
Larry Van Ryan, OCD
Bob Stovall, OCD



New Mexico Petroleum Recovery Research Center

A Division of
New Mexico Institute of Mining and Technology
Telephone (505) 835-5142

Socorro, NM 87801
Facsimile (505) 835-6031
Verify (505) 835-5406

Case 10450

March 3, 1992

Mr. William LeMay
NMOCD
P.O. Box 2088
Santa Fe, NM 87504

Dear Bill:

The purpose of this letter is to share my thoughts concerning the February 27, 1992 gas proration hearing.

1) It seems to me that the San Juan Basin deliverability allocation factors should be equalized if there are no compelling reasons to maintain the current factors.

2) San Juan Basin allowables should be set to insure that the allowable gas supply will be sufficient to fill the impending pipelines. I think it would be wise to provide ample allowables to promote pipeline competition for gas transportation.

3) Perhaps it is time to start the development of a procedure for de-prorating the pools, should proration become unnecessary. I say this based on the following comments that were made during the course of the hearing.

a) Hallwood said they were afraid of the cost of de-prorating Catclaw Draw.

b) Marathon said that proration was detrimental to their long term gas marketing strategy for the Blinbry pool.

c) During the Indian Basin testimony by Marathon they again stated that proration was detrimental to gas marketing. Chevron said that the proration system was helpful, yet when pressed on their Indian Basin Exhibit #5, which illustrated the production history, they stated that if the pool were not prorated, the history would look about the same. Perhaps the majors may prorate themselves.

d) Phillips said that they are currently investigating the de-proration of the Basin Dakota Pool. They also said that the initial response to de-proration from many operators in pool was supportive.

Mr. William LeMay
NMOCD
March 3, 1992
Page 2

You mentioned that there is probably a two-year period (four Proration hearings) before additional pipelines are built to transport gas from Canada to California. This provides time to determine the effect of the new, additional pipeline capacity from the San Juan Basin to CA. Also, the two years could be used to develop a de-proration methodology. Should it become evident that proration is no longer needed, the OCD would be prepared to deal with the situation. Hallwood expressed an interest in working within the OCD proration system. Despite their internal problems with reporting proper gas volumes to the State, their Catclaw Draw might be a good place to start developing a de-proration methodology.

Sincerely,

A handwritten signature in cursive script that reads "Bill Weiss".

W. W. Weiss
Field Petroleum Engineer

WWW:kb



Chevron U.S.A. Inc.

1301 McKinney Street, Houston, Texas 77010
Mail P.O. Box 2100, Houston, TX 77252

February 25, 1992

RECEIVED

Mr. William J. LeMay, Director
OIL CONSERVATION DIVISION
P. O. Box 2088
Santa Fe, New Mexico 87504

FEB 27 1992
OIL CONSERVATION DIVISION

RE: COMMISSION HEARING ON
2/27/92 CONCERNING PRO-RATED
GAS ALLOWABLES APRIL 92 - SEPT 92
CHEVRON COMMENTS INDIAN BASIN
UPPER PENN POOL

Dear Mr. LeMay:

Reference is made to the subject allowable determination.

Chevron projects that while there is a market for this gas, there is a transition occurring in the California market that is expected to put downward price pressure on Permian gas supplies relative to Anadarko volumes. Downward pressure is expected due to the Transwestern Pipeline expansion and the Kern River Gas Transmission project which cumulatively will place an additional 1 Bcf/d into California via firm transportation commitments. These projects will impact Permian gas by forcing it to move north and east instead of the traditional/shorter westerly flow. These north and east markets have historically resulted in lower Permian netbacks due to additional transportation costs and competition from all U.S. supply sources as well as Canadian gas.

Indian Basin gas prices will likely weaken during the upcoming summer months barring significant supply or demand changes.

Very truly yours,

Sarah McConnell
Trading Representative
Natural Gas Supply and Marketing

SMM:brs

2252lema.011.

February 24, 1992

Mr. William J. LeMay
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail, Room 206
Santa Fe, NM 87503

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Prorated Gas Allowables (April 1992 - September 1992)
Indian Basin (Upper Penn) Gas Pool
Eddy County, New Mexico

MW Petroleum Corporation operates 4 producing gas wells and is a working interest owner in 14 additional active producers in the Indian Basin (Upper Penn) Gas Pool. Although we will be unable to attend the February 27, 1992, commission hearing, we would like to express our support for the Chevron position regarding gas allowables for the Indian Basin (Upper Penn) Gas Pool.

MW Petroleum Corporation proposes an allowable of 152,500 MCF per month. We believe this will permit a more equitable sharing of gas markets than the Marathon proposal of 232,000 MCF per month. An allowable of 152,500 MCF per month represents a significant increase over the 1991 summer allowable of 134,728 MCF per month. This will benefit those operators who have invested in equipment to attain production increases and still maintain parity in the field.

Sincerely yours,

Ceci Searls Leonard

Ceci Searls Leonard
MW Petroleum Corporation

cc: Chevron (Al Bohling)
Marathon (Ron Folse)



Oryx Energy Company
13155 Noel Road
Dallas TX 75240-5067
PO Box 2880
Dallas TX 75221-2880
214 715 4000

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FEB 24 1992

OIL CONSERVATION DIVISION

February 24, 1992

Mr. William J. LeMay
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail, Room 206
Santa Fe, NM 87503

RE: Commission Hearing on February 27, 1992, Concerning
Prorated Gas Allowables for April 1992 - September
1992 for the Indian Basin Upper Penn Pool

Dear Mr. LeMay:

Oryx Energy Company will be unable to attend the February 27, 1992 commission hearing regarding gas allowables for the Indian Basin Upper Penn Pool. We do, however, want to express our support for Chevron's testimony.

Oryx feels an acreage allocation factor of 232,000 MCF per month for the Indian Basin Upper Penn Pool as seen in Marathon's proposal would prohibit other parties from attaining their fair share of the gas market during a time frame of April through September. With the uncertainty of summer gas markets and the question of the affects of rising line pressures on gas production at the higher allowables, Oryx feels an acreage allocation factor of 167,310 MCFPM would be appropriate for the April through September, 1992 allocation period.

An acreage factor of 167,310 MCFPM represents a 24% increase over the factor for the same period in 1991 (134,728 MCFPM). The 167,310 MCFPM allows for the increases in gas production as a result of the efforts of operators in the field while still insuring all parties can attain an equitable share of the summer gas market.

Sincerely,

James J. Doherty, Jr.
Manager, Reservoir Management

LMM

c: Chevron-Midland (A. W. Bohling)
Marathon-Midland (Ron Folsie)

OIL CONSERVATION DIVISION
RECEIVED

Production Operations, United States



**Marathon
Oil Company**

'92 JAN 9 AM 8 45

P.O. Box 1324
Artesia, New Mexico 88210
Telephone 505/457-2621

Case 10450

January 2, 1992

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

RE: GAS NOMINATIONS
Indian Basin Morrow and
Indian Basin Upper Penn
Eddy County, New Mexico

Gentlemen:

Transmitted herewith are the Forms C-121-A for the above referenced fields for the month of March, 1992.

Sincerely,

Noel R. Garza
Noel R. Garza
Plant Superintendent

xc: T. N. Tipton
File

al

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87501

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

PURCHASER'S GAS NOMINATIONS

Company

Address

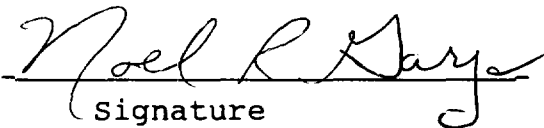
MARATHON OIL COMPANY

P.O. BOX 552, MIDLAND, TEXAS 79702

In accordance with the Rules and Regulations of the Oil Conservation Division of the State of New Mexico, the above named company herewith submits its nominations for the purchase of gas from the INDIAN BASIN MORROW Pool for the month shown below: (insert in appropriate month)

MONTH	YEAR	NOMINATION, MCF
April		
May		
June		
July		
August		
September		
October		
November		
December		
January		
February		
March	1992	111,000

NOTE: All Volumes are to be MCF at 15.025 psia and 60° F.


Signature

Plant Superintendent

Title

11/2/92

Date

INSTRUCTIONS:

This form must be filed with the Santa Fe office of the Division by the first day of the month during which the nominations are to be considered as public hearing.

**OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87501**

**STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT**

PURCHASER'S GAS NOMINATIONS

Company

Address

MARATHON OIL COMPANY

P.O. BOX 552, MIDLAND, TEXAS 79702

In accordance with the Rules and Regulations of the Oil Conservation Division of the State of New Mexico, the above named company herewith submits its nominations for the purchase of gas from the INDIAN BASIN UPPER PENN Pool for the month shown below: (insert in appropriate month)

MONTH	YEAR	NOMINATION, MCF
April		
May		
June		
July		
August		
September		
October		
November		
December		
January		
February		
March	1992	3,720,000

NOTE: All Volumes are to be MCF at 15.025 psia and 60⁰ F.


Signature

Plant Superintendent

Title

1/2/92

Date

INSTRUCTIONS:

This form must be filed with the Santa Fe office of the Division by the first day of the month during which the nominations are to be considered as public hearing.