

CHARLES B. SANCHEZ
ATTORNEY AT LAW
P. O. BOX 7
BELEN, NEW MEXICO 87002
TELEPHONE (505) 864-8989

NOVEMBER 14, 1988

Mr. William J. Lemay
Director
New Mexico Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail
Room #206
Santa Fe, NM 87503

RE: Application of Amoco, Case No. 9018

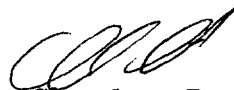
Dear Mr. Lemay:

This letter will confirm that I have associated with Mr. Kent J. Lund, an Attorney for Amoco Production Company who lives in Denver, Colorado, for purposes of the above-captioned case. I am a member Attorney in good standing of the New Mexico Bar, and will serve as Amoco's New Mexico legal contact for this case should the need arise in the future.

Mr. Lund is a member in good standing of the Colorado, Iowa and Nebraska Bars and has previously represented Amoco in many New Mexico Oil Conservation Commission and Division hearings and proceedings. Mr. Lund will handle the hearing for Amoco, and I will not be present unless it is necessary for me to be in attendance.

Thank you for your consideration, and please call if you have any questions or concerns.

Sincerely,



Charles B. Sanchez

CBS/jka

CC: Kent J. Lund, Esq.
Robert Stovall, Esq.



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

November 10, 1988

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

Mr. M. W. Carr
1100 Two Energy Square
4849 Greenville Avenue
Dallas, Texas 75208

Dear Mr. Carr:

In response to your request for more information regarding Case 9018 being reopened before the Oil Conservation Commission on November 17, 1988, I am enclosing copies of Division Orders Nos. R-8170 and R-8170-A. Rule 11(b)(1) of Division Order No. R-8170-A authorized twelve-times overproduced wells for prorated gas pools in Northwest New Mexico and Rule 11(b)(2) of said order authorized six-times overproduced wells for prorated gas pools in Southeast New Mexico. The Commission is reopening said Case 9018 to take testimony and consider whether the twelve-times overproduced provision should be rescinded and the six-times overproduced provision be reinstated for both Northwest and Southeast New Mexico.

If you have any further questions, please contact me at (505) 827-5803 and I will be glad to send you further information.

Sincerely,

Florene Davidson
OC Staff Specialist

enc.

M. W. CARR
1100 TWO ENERGY SQUARE
4849 GREENVILLE AVENUE
DALLAS, TEXAS 75206
(214) 363-6993

November 7, 1988

Oil Conservation Commission
State Land Office Building
P.O. Box 2088
Santa Fe, NM 87501

Gentlemen:

I would appreciate receiving more information on Case 9018 being re-opened in a Commission hearing set for November 17, 1988.

Thank you for your help.

Yours truly,

A handwritten signature in dark ink, appearing to read 'M W Carr', followed by a horizontal line extending to the right.

MWC/df

GAS COMPANY OF NEW MEXICO

Case 9018

September 18, 1986

YOUR IMMEDIATE
ATTENTION IS REQUESTED
=====

Subcommittee on Spot Market

Gentlemen:

Re: Proposed Rule Revisions Submitted by Subcommittee on Spot Market

Attached is a first draft of the proposed rule revisions to NMOCD Order No. R-8170 (General Rules for prorated gas pools). These proposed rule revisions attempt to address committee concerns identified in its first meeting report regarding prorationing rules.

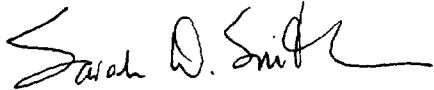
In this proposal, existing rules numbered 11(a) and 11(b) are each broken into additional subparts to enable different treatment of overproduction in the northwest and in the southeast respectively. In the case of rule 11(a) changes, the balancing period for overproduction in the northwest is extended to two prorationing periods. The balancing period for overproduction in the southeast will remain at one gas proration period. Rule 11(b) changes simply double the allowed overproduction factor for the northwest region (six times produced is doubled to allow twelve times overproduced). As there was apparently no magic to the number six when the original overproduction factor was specified, likewise there is no magic to our proposed number twelve -- to double the number seemed as logical as any other "formula" for experimental change.

In order to address the committee concerns that any proposed rule changes be made on a trial basis only, any commission order implementing these proposed rule changes should include a sunset provision and/or a prescribed date upon which the continuation or termination of the temporary rule will be reviewed.

Letter to Subcommittee
September 18, 1986
Page Two

After you have taken the opportunity to review this draft proposal, please submit your comments to the undersigned on or before Friday, September 26, 1986. My understanding is that there is a possibility of commission attention in this matter in the extremely near future.

Yours very truly,

A handwritten signature in dark ink, appearing to read "Sarah D. Smith". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Sarah D. Smith, on behalf of
Michael H. Lambert retiring
chairman of subcommittee on
spot market

SDA:msl

Enclosure

cc: Committee Members: Stu McFarland
Joe Fields
Jeff Taylor, Esquire
W.K. Cooper
W. Perry Pearce
John Pack
Daniel S. Nutter
H. A. Ingram
Michael H. Lambert (retiring GCNM chairman)
W.J. Orbison (new GCNM member)

**PROPOSED RULE REVISIONS
SUBMITTED BY
SUBCOMMITTEE ON SPOT MARKET**

Rule 11(a) shall be amended to state in its entirety:

Rule 11(a)(1) OVERPRODUCTION NORTHWEST:
for the prorated gas pools of Northwest New Mexico, any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the two succeeding gas proration periods. Any GPU which has not made up the overproduction carried into such second gas proration period by the end of said period shall be shut in until such overproduction is made up.

Rule 11(a)(2) OVERPRODUCTION, SOUTHEAST:
For the prorated gas pools of Southeast New Mexico, any GPU which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up by underproduction during the succeeding gas proration period. Any GPU which has not made up the overproduction carried into a gas proration period by the end of said period shall be shut in until such overproduction is made up.

Rule 11(b) shall be amended to state in its entirety:

Rule 11(b)(1) ^{TWELVE}~~SIX~~-TIMES OVERPRODUCED,
NORTHWEST: For the prorated gas pools of Northwest New Mexico, if it is determined that GPU is overproduced in an amount exceeding twelve times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, a well in a newly prorated pool or a well recently reclassified as non-marginal, twelve times its average monthly non-marginal allowable for the months available), it shall be shut in until its overproduction

is less than twelve times its average monthly allowable, as determined hereinabove.

Rule 11(b)(2) SIX-TIMES OVERPRODUCED, SOUTHEAST: For the prorated gas pools of Southeast New Mexico, if it is determined that a GPU is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, a well in a newly prorated pool or a well recently reclassified as non-marginal, six times its average monthly non-marginal allowable for the months available), it shall be shut in until its overproduction is less than six times its average monthly allowable, as determined hereinabove.

15,193;43

KELEHER & MCLEOD, P. A.

ATTORNEYS AND COUNSELORS AT LAW

PUBLIC SERVICE BUILDING

P. O. DRAWER AA

ALBUQUERQUE, NEW MEXICO 87103

RUSSELL MOORE
WILLIAM B. KELEHER
MICHAEL L. KELEHER
PATRICK W. HURLEY
CHARLES A. PHARRIS
RICHARD B. COLE
ARTHUR O. BEACH
JOHN M. KULIKOWSKI
THOMAS F. KELEHER
PETER H. JOHNSTONE
HENRY F. NARVAEZ
CHARLES L. MOORE
ROBERT H. CLARK
BRIAN J. O'DOURKE
RONALD F. HORN
PHIL KREHBIEL
CLYDE F. WORTHEN
SPENCER REID
MICHAEL WILE
ELIZABETH E. WHITEFIELD
ROBERT C. CONKLIN
REBECCA A. HOUSTON
BARBARA ALBIN
KATHRYN J. KUHLEN
MARK STYLES
EVAN S. HOBBS
PATRICK V. APDACA
RANDOLPH L. HAMBLIN
B. SCOTT EATON
MARGARET E. DAVIDSON
THOMAS E. GRIESS
PAULA Z. HANSON
THOMAS C. BIRD
THOMAS H. TOEVS
WILLIAM M. CASEY
RICHARD L. ALVIOREZ
KURT WUHL
RIKKI L. QUINTANA
HELEN G. HILLEGASS
CAROL LISA SMITH
JUDITH L. DURZO
THOMAS J. ZIMBRICK
JONATHAN M. DUKE
THOMAS F. BLUEHER
LYNDA LATTA
DOUGLAS E. BRYAN

W. A. KELEHER

1886-1972

A. H. MCLEOD

1902-1976

JOHN B. TITTMANN

OF COUNSEL

TELEPHONE 842-6262

AREA CODE 505

March 19, 1987

(1140-005)

HAND DELIVERED

Mr. William LeMay, Director
New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, NM 87503-2088

RE: Commission Case Nos. 9015 and 9018

Dear Mr. LeMay:

Enclosed please find an original and three copies of Gas Company of New Mexico's comments in the above entitled matters. If you have any questions regarding this filing, please don't hesitate to contact me.

Very truly yours,

KELEHER AND MCLEOD, P.A.

By


Jonathan M. Duke

cc: Phyllis Bourque
Buster Orbison
Tommy Sanders

JD/pmg

3551R

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE)
ADOPTION OF NEW RULES 315, 413)
AND 903,)

Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

COMMENTS OF GAS COMPANY OF NEW MEXICO

INTRODUCTION

During its hearing of March 5, 1987 in Docket No. 8-87, the Oil Conservation Commission received comment and testimony regarding the above-entitled matters. During the hearing, Commissioner William J. LeMay allowed the parties two weeks to comment on cases considered in that docket. Gas Company of New Mexico, a division of Public Service Company of New Mexico ("GCNM"), by and through its attorneys, Keleher & McLeod, P.A., hereby files its comments regarding Case Nos. 9015 and 9018. GCNM operates gathering, transmission and distribution facilities for the sale of natural gas within New Mexico. GCNM is a common purchaser of natural gas as defined in §70-2-19 NMSA 1978 and in Rule 0.1 of the Rules and Regulations of the Oil Conservation Division of the Energy and Minerals Department ("Division"). As a purchaser of natural gas from prorated pools in New Mexico, GCNM is an interested party in Cases 9015 and 9018. GCNM will

not comment regarding other matters considered in Docket No. 8-87. However, an absence of comment regarding other cases in this docket should not necessarily be viewed as acquiescence to or agreement with these individual proceedings and rulings issuing therefrom. GCNM reserves any right it may have for future comment in all cases considered in Docket No. 8-87.

CASE NO. 9015, PRIORITIES OF PRODUCTION:

GCNM submitted comments regarding Case No. 9015 and other matters on November 10, 1986. The Company requests that the Commission take official notice of this filing. In its previous comments, GCNM explained the operational difficulties that result when unprocessed gas of a high Btu content is introduced into the Company's system. When natural gas of either a heavy hydrocarbon content or a high heat value enters GCNM's transmission lines, numerous problems may result. GCNM would prefer, in the absence of processing, to take gas with the lowest Btu/cf content possible into its transmission system. The reason for this is that lower Btu content gas contains less liquid that could condense in the Company's pipelines. As the Commission is aware, the resulting condensation tends to pool and accumulate in sag bends of the transmission lines. This liquid resides there until the force of gas flow is strong enough to move the liquid component. When the liquid finally moves, it does so at a high velocity. There is a potential that any delivery point could be overwhelmed by the receipt of a large slug of such liquid.

The highest Btu content gas that GCNM takes from its northwest supply system is casinghead gas. The heat value of this gas can be up to 1,600 Btu's per cubic foot. By contrast, gas well gas has a Btu content from 1,120 Btu's to 1,200 Btu's per cubic foot. The safe and efficient operation of gas transmission and distribution facilities dictates that BTU levels of flowing gas should not substantially exceed 1140 BTUs. It is for this reason that GCNM contracts for natural gas processing to reduce BTU levels and has recently assisted in the acquisition of the Kutz and Lybrook Processing Plants by an affiliate company.

Unfortunately, casinghead gas is often located downstream from processing plants. Therefore, this high Btu gas must enter into GCNM's transmission lines in its raw form. A forced priority could result in a high proportion of such low quality gas entering GCNM's system resulting in operational difficulties.

GCNM currently complies with the priority schedule to the extent allowed by its transmission and distribution operations. However, as the Company mentioned in its previous comments, casinghead gas is already somewhat unattractive due to its low pressure, unpredictable reserves and low deliverability. GCNM fears that a strict order of priority would cause many purchasers to refuse to contract for additional amounts of casinghead gas as the only means to address any inflexibility in the rule.

In its first draft of proposed rules, the Gas Advisory Committee recommended that exceptions to priority provisions be

allowed so that a purchaser would not be required to take ". . . 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 transmission facilities then in service." GCNM does not desire that the Commission adopt exceptions based on economic need so much as it wishes that operational conditions be addressed. The Company strongly urges the Commission to adopt regulations or procedures that will address operational constraints of common purchasers. This is of particular importance to GCNM because its natural gas purchases go directly from producers and through its system for consumption by New Mexico end-users.

Alternatively, if the Commission desires to adopt changes to Rules 315, 413 and 903 without inclusion of operational exceptions, GCNM urges that it do so in the form of a memo rather than an order. This would allow the Commission to establish the policy of priorities of production without tying its own hands in recognizing exceptions. In any event, the Company believes that the Commission should allow for variance procedures, either through written petitions or hearings, that would allow a purchaser variances to any adopted priority schedule to recognize system constraints and operational difficulties.

CASE NO. 9018, PROPOSED AMENDMENT OF RULES 10(a), 11(a)
AND 11(b) OF THE GENERAL RULES FOR PRORATED GAS POOLS:

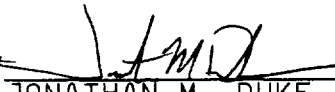
It is GCNM's understanding that the appeals of Blackwood and Nichols Co., Ltd. and Tenneco Oil Company were withdrawn with respect to the twelve times over-production limit. Because no petition for rehearing dealing with this matter was considered by the Commission, GCNM understands that the twelve times limit will remain in effect. In passing, GCNM would submit to the Commission that absent a twelve times provision, the Company would have great difficulty in serving its firm New Mexico load from New Mexico sources. The increase from the six times to the twelve times limit was necessary to allow the Company to continue its winter service without relying on "back-up" or contingent supplies from outside New Mexico, and was not needed merely to allow GCNM to increase its activity in the spot market.

GCNM urges the Commission to allow for a reasonable balancing period when over production in any pool occurs. In carrying out its statutory duty to prevent waste and protect correlative rights, the Commission should not ignore market realities nor hinder producers who want to sell their gas. This is especially true when the nominations process is dominated by a very few number of purchasers. Mr. Vic Lyons, in testimony for the Division, stated that loss of oil production to other countries was a form of waste. This is also true with respect to loss of gas production. Those markets, once satisfied, are rarely available again and thus contribute to wells being

shut-in. GCNM believes that the Commission should seek to prevent waste and protect the rights of producers, but also seek to maximize New Mexico's share of the nation's natural gas production. As Tenneco's witness, Mr. Jones testified at the rehearing, New Mexico's share of California natural gas consumption has dwindled steadily the past few years. GCNM hopes that the Commission will pursue a permanent solution that will consider all of these factors. Absent such as provision, the current practice of allowing reasonable variances and balancing periods should be left in place. This problem must be effectively addressed by participants in Commission proceedings and ultimately by the Commission. GCNM appreciates this opportunity to present these comments.

Respectfully submitted this 19th day of March, 1987.

KELEHER & McLEOD, P. A.

By 
JONATHAN M. DUKE
Post Office Drawer AA
Albuquerque, New Mexico 87103
(505) 842-6262

Attorneys for Gas Company of
New Mexico, a division of
Public Service Company of
New Mexico

3135E

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE)
ADOPTION OF NEW RULES 315, 413)
AND 903,)

Case No. 9015

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION TO CONSIDER THE AMEND-)
MENT OF ORDER NO. R-8170.)

Case No. 9018
Docket No. 8-87

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Gas Company of New Mexico's comments to Department of Energy and Minerals Oil Conservation Commission was mailed by first class mail, postage prepaid, to the following:

Jeff Taylor
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87504

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

Rober H. Strand, Esq.
Atwood, Malone, Mann & Turner
P.O. Box 700
Roswell, NM 88201

Thomas Kellahin, Esq.
Kellahin/Kellahin/Aubrey
P.O. Box 2265
Santa Fe, NM 87504

Dennis K. Morgan
Southern Union Exploration Co.
Texas Federal Building
1217 Main Street
Dallas, TX 75202

James Bruce, Esq.
Hinkle Law Firm
P.O. Box 2068
Santa Fe, NM 87504

Daniel S. Currens, Esq.
Amoco Production Co.
P.O. Box 3092
Houston, TX 77001

Ernest L. Padilla, Esq.
Padilla & Snyder
P.O. Box 2523
Santa Fe, NM 87504

David Motloch, Esq.
Tenneco Oil Company
P.O. Box 3249
Englewood, CO 80155

Del Draper, Esq.
Northwest Pipeline Corp.
295 Chipeta Way
Salt Lake City, UT 84108

J. Scott Hall
Campbell & Black, P.A.
P.O. Box 2208
Santa Fe, NM 87504-2208

Dated this 19th Day of March, 1987



JONATHAN M. DUKE

JD/pmg



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

December 31, 1986

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501-2088
(505) 927-5800

Mr. J. Scott Hall
Campbell and Black, P.A.
P. O. Box 2208
Santa Fe, N.M. 87504-3208

RE: CASE NO. 9018, ORDER NO. R-8170-A

Dear Mr. Hall:

The Commission hereby grants your request for a rehearing in Case No. 9018 as to the matters decided by Order No. R-8170-A.

This matter will be set at the pleasure of the new Commission.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. L. Stamets", written over a horizontal line.

R. L. STAMETS
Director

RLS:dp



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

December 31, 1986

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

Mr. W. T. Kellahin
Kellahin and Kellahin
P. O. Box 2265
Santa Fe, N.M. 87504-2265

RE: CASE NO. 9018, ORDER NO. R-8170-A

Dear Mr. Kellahin:

The Commission hereby grants your request for a rehearing
in Case No. 9018 as to the matters decided by Order No.
R-8170-A.

This matter will be set at the pleasure of the new
Commission.

Sincerely,

R. L. STAMETS
Director

RLS:dp

BEFORE THE OIL CONSERVATION COMMISSION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION OF NEW MEXICO FOR THE
PURPOSE OF CONSIDERING:

RECEIVED
DEC 24 1986
OIL CONSERVATION DIVISION

CASE NO. 9018;
ORDER NO. R-8170-A

THE APPLICATION OF THE OIL CONSERVATION
DIVISION ON ITS OWN MOTION TO CONSIDER
THE AMENDMENT OF ORDER NO. R-1870

APPLICATION FOR REHEARING

Blackwood and Nichols Co., Ltd., a party of record adversely affected by Order No. R-8170-A, applies pursuant to Section 70-2-25 NMSA 1978 for rehearing in the above referenced case, and in support thereof states:

A. Order No. R-8170-A is arbitrary, capricious, unreasonable and contrary to law.

B. The amendments to Rules 10(A) and 11(B) of the General Rules for Prorated Gas Pools doubling the overproduction limit and the over/under production make-up periods are contrary to the statutory duties of the Oil Conservation Commission to protect the correlative rights of interest owners in prorated gas pools in northwest New Mexico.

C. The evidence presented by producers in the San Juan Basin at the October 23 and November 20, 1986 hearings was overwhelmingly contrary to the amendments to Order R-8170.

D. The applicant itself, the New Mexico Oil Conservation Division, urged that the amendments to Order No. R-8170 as then proposed and as in their present form under Order No. R-8170-A not be approved until further evidence is presented supporting the amendments or until other more reasonable alternatives are considered.

E. No compelling evidence was presented establishing that the doubling of the overproduction limit and the over/under production make-up periods to 12 months and 24 months, respectively, would prevent waste or protect correlative rights.

F. Instead of achieving its stated goal of providing temporary relief to producers while longer term solutions to gas proration problems are sought, the amendments under Order No. R-8170-A tend to exacerbate existing prorationing problems and further deprives many producers of the opportunity to produce their just and equitable share of the reserves from prorated gas pools in the San Juan Basin.

G. The findings and conclusions under Order No. R-8170-A are not supported by substantial evidence. A review of the record in this case will clearly show that the entry of Order No. R-8170-A is contrary to the evidence presented and that the overall effect of the order will be to impair the correlative rights of interest owners in prorated gas pools in the San Juan Basin, will not prevent waste and is arbitrary, capricious, unreasonable and contrary to law.

Wherefore, Blackwood and Nichols Co., Ltd. requests that this application for rehearing be granted and that this matter be set for hearing before the Oil Conservation Commission at the earliest opportunity.

Respectfully submitted:

CAMPBELL & BLACK, P.A.

By 
J. Scott Hall

P.O. Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421

ATTORNEYS FOR BLACKWOOD &
NICHOLS CO., LTD.

cc: Blackwood and Nichols Co., Ltd.

BEFORE THE OIL CONSERVATION COMMISSION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

RECEIVED

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION OF NEW MEXICO FOR THE
PURPOSE OF CONSIDERING:

DEC 23 1986

OIL CONSERVATION DIVISION

CASE NO. 9018;
ORDER NO. R-8170-A

THE APPLICATION OF THE OIL CONSERVATION
DIVISION ON ITS OWN MOTION TO CONSIDER
THE AMENDMENT OF ORDER NO. R-1870

APPLICATION FOR REHEARING

Blackwood and Nichols Co., Ltd., a party of record adversely affected by Order No. R-8170-A, applies pursuant to Section 70-2-25 NMSA 1978 for rehearing in the above referenced case, and in support thereof states:

A. Order No. R-8170-A is arbitrary, capricious, unreasonable and contrary to law.

B. The amendments to Rules 10(A) and 11(B) of the General Rules for Prorated Gas Pools doubling the overproduction limit and the over/under production make-up periods are contrary to the statutory duties of the Oil Conservation Commission to protect the correlative rights of interest owners in prorated gas pools in northwest New Mexico.

C. The evidence presented by producers in the San Juan Basin at the October 23 and November 20, 1986 hearings was overwhelmingly contrary to the amendments to Order R-8170.

D. The applicant itself, the New Mexico Oil Conservation Division, urged that the amendments to Order No. R-8170 as then proposed and as in their present form under Order No. R-8170-A not be approved until further evidence is presented supporting the amendments or until other more reasonable alternatives are considered.

E. No compelling evidence was presented establishing that the doubling of the overproduction limit and the over/under production make-up periods to 12 months and 24 months, respectively, would prevent waste or protect correlative rights.

F. Instead of achieving its stated goal of providing temporary relief to producers while longer term solutions to gas proration problems are sought, the amendments under Order No. R-8170-A tend to exacerbate existing prorationing problems and further deprives many producers of the opportunity to produce their just and equitable share of the reserves from prorated gas pools in the San Juan Basin.

G. The findings and conclusions under Order No. R-8170-A are not supported by substantial evidence. A review of the record in this case will clearly show that the entry of Order No. R-8170-A is contrary to the evidence presented and that the overall effect of the order will be to impair the correlative rights of interest owners in prorated gas pools in the San Juan Basin, will not prevent waste and is arbitrary, capricious, unreasonable and contrary to law.

Wherefore, Blackwood and Nichols Co., Ltd. requests that this application for rehearing be granted and that this matter be set for hearing before the Oil Conservation Commission at the earliest opportunity.

Respectfully submitted:

CAMPBELL & BLACK, P.A.

By 
J. Scott Hall

P.O. Box 2208
Santa Fe, New Mexico 87504-2208
(505) 988-4421

ATTORNEYS FOR BLACKWOOD &
NICHOLS CO., LTD.

cc: Blackwood and Nichols Co., Ltd.

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

KELLAHIN and KELLAHIN
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Telephone 982-4285
Area Code 505

RECEIVED

DEC 23 1986

OIL CONSERVATION DIVISION

December 22, 1986

Mr. Richard L. Stamets
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504


"Hand Delivered"

Re: Application of Tenneco Oil Company
for Rehearing of Commission Order
R-8170-A, Case 9018

Dear Mr. Stamets:

On behalf of Tenneco Oil Company, please find enclosed for filing the original and three copies of our application for rehearing in the referenced case.

Very truly yours,



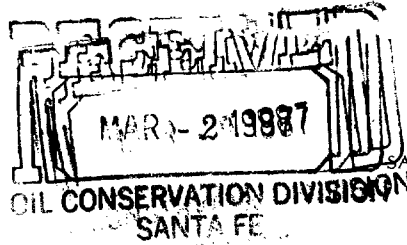
W. Thomas Kellahin

WTK:ca
Enc.

cc: All addressees on application

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
J. SCOTT HALL
PETER N. IVES
JOHN H. BEMIS



GUADALUPE PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

February 27, 1987

Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87503-2088

Re: Commission Case 9018 - Amendments to General Rules
for Prorated Gas Pools Providing for Twelve Times
Overproduced Limits and Two-year Balancing Periods

Dear Mr. LeMay:

Blackwood and Nichols Co., Ltd., hereby requests that its Application for Rehearing in the above matter filed December 23, 1986 and set for Commission hearing on March 5, 1987 be dismissed. However, it is also requested that the portion of Case 9018 proposing the creation of a Gas Bank be kept on the Commission docket for March 5th and that Blackwood and Nichols be allowed to offer comments.

Thank you for your cooperation.

Very truly yours,


J. Scott Hall

JSH/ba

cc: Exhibit "A"

Jeff Taylor, Esq.
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504

Robert H. Strand, Esq.
Atwood, Malone, Mann & Turner
P.O. Box 700
Roswell, New Mexico 88201

Dennis K. Morgan
Southern Union Exploration Co.
Texas Federal Building
1217 Main Street
Dallas, Texas 75202

Daniel S. Currens, Esq.
Amoco Production Co.
P.O. Box 3092
Houston, Texas 77001

Jonathon Duke
Gas Company of New Mexico
P.O. Box 26400
Albuquerque, New Mexico 87125

David Motloch, Esq.
Tenneco Oil Company
P.O. Box 3249
Englewood, Colorado 80155

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

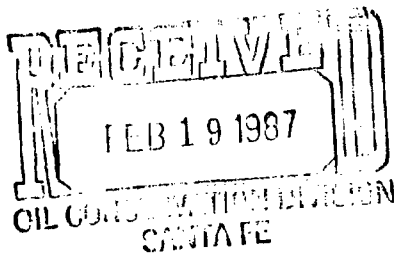
Thomas Kellahin, Esq.
Kellahin/Kellahin/Aubrey
P.O. Box 2265
Santa Fe, NM 87504

James Bruce, Esq.
Hinkle Law Firm
P.O. Box 2068
Santa Fe, NM 87504

Ernest L. Padilla, Esq.
Padilla & Snyder
P.O. Box 2523
Santa Fe, NM 87504

Del Draper, Esq.
Northwest Pipeline Corp.
295 Chipeta Way
Salt Lake City, UT 84108

Exhibit "A"



February 16, 1987

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Attention: William J. LeMay
Director

Subject: Request for Comments
Case No's. 9015 and 9018

Mesa Operating Ltd Partnership (Mesa), one of the larger natural gas producers in the State of New Mexico, would like to offer comments on the following cases:

Case No. 9015 - Priority Production Schedule

Mesa has reviewed the language and the schedule of gas production priorities as proposed in R. L. Stamet's memorandum of December 15, 1986, and finds the "proposal" to be workable and acceptable in its present form.

Case No. 9018 - Gas Bank

Mesa has reviewed the language and workings of the proposed "Gas Bank Rule" and its "Alternative" as presented in R. L. Stamet's memorandum of December 15, 1986. Also, Mesa received and reviewed the "Proposed Amendment to Order R-8170" as outlined in Charles E. Roybal's memorandum of January 9, 1987, and finds that this latest proposal is workable and acceptable in its present form.

Thank you for the opportunity to comment on these proposed rules.

Sincerely,

R. L. Goggin
Supervisor, Regulatory Compliance/Safety

dp

C AND E OPERATORS, INC.
SUITE 1100 TWO ENERGY SQUARE
4849 GREENVILLE AVENUE
DALLAS, TEXAS 75206
(214) 363-6993

December 31, 1986

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

Dear Mr. Stamets:

I think the Commission should postpone the hearings on Case 9018 in view of the Committee's report.

I would also like for this Commission to consider recinding the twelve month overproduction rule for gas. The six-months rule has been adequate to protect correlative rights and ensure ratable takes through both good and bad markets for gas for many years and, I feel, it should be maintained.

Yours very truly,



W. P. Carr
Chief Executive Officer

WPC/df

BLACKWOOD & NICHOLS Co., LTD.

1310 FIRST NATIONAL CENTER WEST
OKLAHOMA CITY, OKLAHOMA 73102

405 235.8505

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

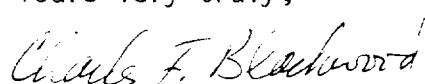
or being shut-in because of a contract dispute over price.

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,

A handwritten signature in cursive script that reads "Charles F. Blackwood".

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)

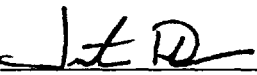
The Committee recommended that Division Order R-8170 be amended to extend the balancing period for production variances to two years. In addition, Rules 11(a)(1) and (2) and Rule 11(b)(1) and (2) would be amended to allow for twelve times over production prior to well shut-in. GCNM supports these proposed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

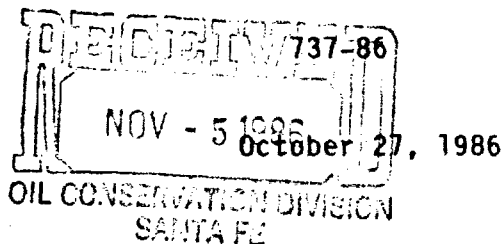
By 
Jonathan Duke
Post Office Drawer AA
Albuquerque, New Mexico 87103
(505) 842-6262

Attorneys for Gas Company of
New Mexico, a division of
Public Service Company of
New Mexico

7065D

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 O. Curtis
Manager, Land/Proration

WOC:js

Unocal Oil & Gas Division
Unocal Corporation
3300 North Butler Avenue
Suite 200
Farmington, New Mexico 87401
Telephone (505) 326-7600
Fax: (505) 326-6145

Case 9018



June 5, 1990

Paul T. West
District Production Manager
Farmington District

Mr. William J. LeMay
Director,
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504

Dear Mr. LeMay,

RECEIVED

JUN 6 1990

OIL CONSERVATION DIVISION

RE: Retention of 12-Times
Overproduction
Allowance for Northwest
New Mexico, State of
New Mexico Gas
Proration Rules

The following additional comments are offered to support testimony given May 24, 1990 in the hearing before the Oil Conservation Division (Case No. 9018).

Issue: Flexibility Provided

Two industry testimonies offered evidence that the 12-times overproduction allowance provides operators flexibility in optimizing revenues, while adhering to the constraints of the gas proration system. The OCD's testimony included statements that operators did not use the additional allowance for that purpose.

A significant point not mentioned during the hearing, regarding this issue is the impact of Order R-8170, Rule 11(a). This rule requires operators whose wells are overproduced at the end of a proration period, to have months of underproduction during the subsequent proration period, which cumulate to at least that amount of overproduction. This requires operators choosing to overproduce by near-twelve times their allocations, to offset overproduction months with several underproduction months during the subsequent twelve-month period. This results in operators who capitalize on high demand periods when prices are good, to use the overproduction allowance flexibly.

Mr. William J. LeMay
June 5, 1990
Page 2

Issue: Correlative Rights

The 12-times overproduction allowance in essence gives the operator an option to overproduce, at one point during a proration period, an additional 6-times his allocation. This amounts to a "block" of gas equal to approximately 6-months of allocated production.

Assuming a conservative average well life of 50 years, the 6-month "block" of allocated production equates to the following:

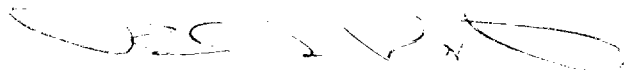
$$\frac{0.5 \text{ years Allocated Production}}{50\text{-years average well life}} = 0.01, \text{ or } 1\% \text{ of a well's recoverable reserves}$$

The correlative rights question is whether this 1% maximum imbalance can drain offset acreage in a San Juan Basin well. I believe the answer is unquestionably - NO!

San Juan Basin wells are typically tight, reservoir energy is moderate to low, and well spacings are abundantly large (whether 160 acres or 320 acres). The low recovery factors (% of gas in place which is recoverable) for the SJB prorated pools indicates most wells don't always recover the gas from their own assigned spacing; much less experience drainage from an offset well so slightly imbalanced.

I appreciate the opportunity to submit these additional comments for your consideration to retain the 12-times overproduction allowance.

Very truly yours,



PTW/bjt15

GAS COMPANY OF NEW MEXICO

DAVID N. KIRKLAND
DIRECTOR - SUPPLY CONTROL

May 21, 1990

Mr. Bill LeMay
New Mexico Oil Conservation Division
Post Office 2088
Santa Fe, NM 87504

RE: Docket No. 08-90 Case 9018

Dear Mr. LeMay:

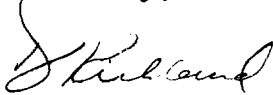
The following is a position statement by Gas Company of New Mexico (GCNM) and Sunterra Gas Gathering Company (SGGC) regarding Rule 11(b)(1) as amended by Order No. R-8170-A.

GCNM and SGGC support a return to the overproduction limit of six times overproduced in Northwest New Mexico and continuance of the six times overproduction limit in Southern New Mexico. GCNM and SGGC have reviewed the overproduction status of GPU's tied to their systems and determined that no significant market impact will result if the OCD returns to the six times overproduced limit.

GCNM and SGGC recommend an immediate return to the six times overproduced limit but point out that this may necessitate a moratorium on shut-ins to serve GCNM's in-state customers this winter.

GCNM however, would not oppose a phased in approach that would implement the shut-in of wells six times overproduced not later than June 30, 1991.

Sincerely,



David N. Kirkland, Director
Supply Control

DNK:cam

xc: Mr. David Catanach

RECEIVED

MAY 22 1990

OIL CONSERVATION DIVISION



Columbus Energy Corp. MAY 8 1990

LINCOLN TOWER BUILDING
1860 LINCOLN STREET
DENVER, COLORADO 80295
(303) 861-5252

May 21, 1990

Oil Conservation Division
Energy, Minerals and Natural Resources Department
State of New Mexico
P. O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87504

Attention: William J. Lemay
Director

Re: Case 9018
Overproduction Limits

Gentlemen:

The Oil Conservation Division and other interested parties have been debating the allowable issue, particularly in Northwest New Mexico, for the last eight years. The only substantive changes during this period have been the nomination of volumes from past production rather than from pipeline nominations, and the change in overproduction limits in Northwest New Mexico to 12 times the average monthly allowable (from six times).

The change to allow 12 times overproduction to meet market demand implies that nominations, and thus allowables, were not high enough in the first place. Another indication that nominations have not been sufficiently high is that the OCD has established a moratorium on shutting in over produced wells in the winter months so that producers could supply gas to the various markets as required.

Columbus Energy Corp., therefore, is opposed to reducing the overproduction limit back to six times over the average monthly allowable. This would cause the unnecessary shut in of several wells and allow natural gas supplies to be met from sources outside Northwest New Mexico.

Columbus is also strongly opposed to prorating marginal wells. Marginal in this sense means a well that is marginal in economic terms. Prorating wells that make 20 or 30 mcf/d does not make sense especially in light of protecting correlative rights and preventing waste. Also, certain costs such as overhead or compression are on going and shutting in low volume wells only compounds the economic problems producers face. Continued operations in this manner can only lead to premature abandonment of many wells.

Oil Conservation Division
Case 9018
May 21, 1990
Page 2

The establishment of minimum allowables for all pools would be a step in the right direction. Rule 8 in the General rules allows the OCD to establish minimum allowables, but the 250 Mcf/month established is much too low. A minimum allowable of 100 Mcf/day should be considered. By doing this, wells would not be prorated below their economic limit. Further, in time it would eliminate the need for prorating low volume wells as most of these wells would be classified marginal and would no longer require proration.

Columbus presents these comments in the hope that the State of New Mexico will review its position on prorationing and establishment of allowables. Returning to the six times overproduction limit would certainly be a step in the wrong direction.

Yours very truly,

COLUMBUS ENERGY CORP.


J. D. Stewart, Jr.
Operations Manager

JDS:b1

Phillips Petroleum Company
Farmington Area
5525 Hwy. 64 NBU 3004
Farmington, NM 87401

In the matter of the hearing
called by the Oil Conservation
Division of New Mexico for the
purpose of considering:

Case 9018 (reopened)
Order No. R-8170-F

STATEMENT OF POSITION

In the matter of Case 9018 (reopened) pursuant to the provisions of Division Order R-8170-F which temporarily amended Rule 11(b) by providing for a 12 times overproduction limit for gas wells in Northwestern New Mexico, Phillips Petroleum Company supports maintaining the current practice of providing for a 12 times overproduction limit. If other operators can present evidence to the Oil Conservation Division to substantiate further increasing the overproduction limit to more than 12 times overproduced without imperiling operators' correlative rights, Phillips would also support raising the overproduction limit to any reasonable level.

The gas market supplied by the prorated gas pools in Northwestern New Mexico is in a period of transition at this time. In order to manage gas supply and to follow their various chosen production and marketing strategies, producers in these pools need the flexibility afforded by the 12 times overproduction limit. In the light of other considerable instability in the dramatically changing gas market, Phillips Petroleum asks that the Oil Conservation Division continue to allow the operational leniency provided by Rule 11(b) as amended.

There is no evidence, to the best of our knowledge, that the 12 times overproduction limit has resulted in waste nor impaired the correlative rights of any operator during the period in which it has been in effect. While the 12 times overproduction limit has been in effect a number of operators in the Northwest New Mexico gas pools have used the increased overproduction limit to better meet seasonal gas market demands. Although Phillips Petroleum does not normally follow this type of production and marketing strategy, we recognize that it is one of several viable business strategies that an operator may elect to pursue, and we contend that such election is a business decision that should be arrived at by each individual operator, not imposed by strict prorationing limitations.

Phillips Petroleum currently has 15 wells in an overproduced state such that they would need to be shut-in immediately, should the overproduction limit be returned to 6 times overproduced. Overproduction is exacerbated by the overall low monthly pool production in the prorated gas pools in the Northwest brought on by generally low gas prices in the marketplace at the current time, seasonal production strategies being practiced by some operators, and the build up of pool underproduction that tends to reduce the new allowable assigned each proration period.

In summary, we would recommend that the practice promulgated by the Oil Conservation Division of allowing a 12 times overproduction limit in the amendments to Rule 11(b) made in Orders R-8170-A, -D and -F be continued and made permanent, unless other evidence has been presented at hearing before the Division that would conclusively demonstrate that such continuation of Rule 11(b) as amended would result in waste or violate correlative rights. Further, if other operators can present evidence to the Oil Conservation Division to substantiate further increasing the overproduction limit to more than 12 times overproduced without imperiling operators' correlative rights, Phillips would also support raising the overproduction limit to any reasonable level.

Robert G. Flesher

Robert G. Flesher
Farmington Area Manager
Phillips Petroleum Company