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

> CASE NO. 9018 (Reopened) Order No. R-8170-D

#### ORDER OF THE COMMISSION

# BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on November 17, 1988, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 2nd day of February, 1989, 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,

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) Case 9018 was reopened pursuant to Orders R-8170-A which amended Rules 10(a), 11(a), and 11(b), and Order R-8170-C which rescinded the amendments of Rule 10(a) and 11(a) and also promulgated Rule 11(h) pertaining to the general rules for prorated gas pools as promulgated by Order R-8170.
- (3) The amendment of Rule 11(b) in Order R-8170-A provided that gas wells in Northwest New Mexico could become 12 times overproduced before being required to curtail or shut-in.
- (4) Order R-8170-A provided that the amendments to Rules 10(a), 11(a) and 11(b) would expire on March 31, 1989 unless further amended or extended after hearing to be held in November, 1988.

-2-Case No. 9018 (Reopened) Order No. R-8170-D

- (5) The Commission sought evidence to determine if the amendment was preventing waste, protecting correlative rights, and providing operators the flexibility to better meet gas market demand.
- (6) Testimony and exhibits were received from producers Tenneco Oil Company and Meridian Oil Company and gas transporters Gas Company of New Mexico and Sunterra Gas Gathering Company, all in support of continuing in effect the provisions of Rule 11(b) as amended by Order R-8170-A.
- (7) No operator objected to the 12 times over limit for gas wells in Northwest New Mexico.
- (8) The evidence introduced was inconclusive in addressing the correlative rights issue by comparing the 6 times overproduced limit with the 12 times overproduced limit.
- (9) The record shows that Tenneco and Meridian have significant numbers of wells shut-in due to overproduction or being so near the 12 times overproduced limit that they may not have sufficient remaining allowable to meet peak demand.
- (10) Gas Company of New Mexico testified that wells connected to their system are overproduced going into the winter heating season, and Gas Co. is concerned that wells may be shut-in due to overproduction.
- (11) Evidence and Oil Conservation Division records indicate that there is pool-wide underproduction in the prorated pools in Northwest New Mexico.
- (12) The apparent contradiction between pool underproduction and select wells being overproduced appears to be largely a result of operator decisions to produce some wells and not others because of contract situations, lack of ownership agreement to sell in the spot market or other reasons.
- (13) While it is not clear that permitting a well to overproduce 12 times its allowable has created a more favorable situation than the 6 times limit, changing the overproduction limit during the high demand heating system could cause seriou disruption and cause confidence of supply to be questioned by gas consumers.
- (14) Additional time is necessary to determine if the increased overproduction limit improves flexibility for operators, purchasers and transporters in production and

-3-Case No. 9018 (Reopened) Order No. R-8170-D

purchasing planning and whether the interests of protecting correlative rights and preventing waste while encouraging the marketing of New Mexico gas are being served.

- (15) The Director has the authority to order a moratorium on overproduction shut-in if necessary to meet high demand during the winter heating season, and therefore no shortage of supply should result because of regulatory shut-in.
- (16) The effects of the amended Rule 11(b) should be considered by the Commission at a hearing to be held in March, 1990 and said amended Rule 11(b) should be extended to June 1, 1990.

# IT IS THEREFORE ORDERED THAT:

- (1) Rule 11(b), as amended temporarily by Order R-8170-A is hereby extended until June 1, 1990 after which, unless further extended or revised after notice and hearing, it shall revert to the rule as promulgated in Order R-8170.
- (2) This case shall be reopened in March 1990 to take evidence on the following:
  - (a) Whether larger overproduction limit in Northwest New Mexico established by Rule 11(b) as amended by Order R-8170-A is beneficial in preventing waste, and protecting correlative rights, while making the supply of gas available to meet interstate and intrastate demand.
  - (b) The reasons for pools being underproduced when many wells are overproduced and whether or not the amendment has any affect on that issue.
  - (c) Any transition mechanism which should be adopted if the Commission determines that a return to the 6 times overproduced limit is appropriate.
- (3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-4-Case No. 9018 (Reopened) Order No. R-8170-D

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

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

WILLIAM R. HUMPHRIES, Member

ERLING A. BROSTUFN, Member

WILLIAM J. LEMAY, Chairman and Secretary

SEAL

dr/

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

> CASE NO. 9018 (Reopened) Order No. R-8170-K

IN THE MATTER OF THE REOPENING PURSUANT TO ORDER NO. R-8170-F TO CONSIDER THE TWELVE (12) TIMES OVERPRODUCTION RULE FOR PRORATED GAS POOLS IN THE SAN JUAN BASIN, NEW MEXICO.

### ORDER OF THE COMMISSION

# BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on March 12, 1992, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 15th day of April, 1992, 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,

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) Case 9018 was reopened pursuant to Orders R-8170-A, D and F which amended Rules 10(a), 11(a) and 11(b), and Order R-8170-C which rescinded the amendments of Rule 10(a) and 11(a) and also promulgated Rule 11(h) pertaining to the general rules for prorated gas pools as promulgated by Order R-8170.
- (3) The amendment of Rule 11(b) in Order R-8170-A provided that gas wells in Northwest New Mexico could become 12 times overproduced before being required to curtail or shut-in.
- (4) Order R-8170-F provided that the amendments to Rule 11(b) would expire on June 1, 1992 unless further amended or extended after hearing to be held in March, 1992.

Case No. 9018 (Reopened) Order No. R-8170-k Page 2

- (5) Order R-8170-H amended the General Rules for Prorated Gas Pools of New Mexico as enacted or amended by Order R-8170 and suffix orders A, B, C, D and F.
- (6) The effective date of Order R-8170-H was April 1, 1991 and Rule 11(b) was amended by this order.
- (7) Testimony and exhibits were received from Amoco Production Company, Meridian Oil Company and Union Oil Company of California dba UNOCAL. A statement was read into the record from Phillips Petroleum Company. All of the above supported the continuation of Rule 11(b).

#### IT IS THEREFORE ORDERED THAT:

- (1) Rule 11(b) as stated in Order R-8170-H has become permanent and does not require further hearings.
- (2) 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.

SEAL

dr/

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

GARY CARLSON, Member

WILLIAM J. LEMAN, Chairman & Secretary

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

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

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-8170.

# ORDER OF THE COMMISSION

#### BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on October 23rd and November 20, 1986, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 4th day of December, 1986, 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,

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) The Oil Conservation Division (Division) seeks the amendment of Rule 10(a), 11(a) and 11(b) of the General Rules for the Prorated Gas Pools of New Mexico to provide for two-year balancing periods and for a twelve times overproduced limit for the prorated gas pools of northwest New Mexico, all as shown on Exhibit "A" attached to this order.
- (3) The proposed amended rules were proposed and recommended as two year temporary rules by a committee appointed by the Division Director to determine if any Division rules were unnecessarily interfering with producers' abilities to compete on the spot market for the sale of natural gas.
- (4) Since early 1985, the spot market for natural gas has grown from being a very small percentage of natural gas sales to the predominant percentage.

- (5) Some producers have actively participated in the spot market while others have withheld their gas and still others (those with NGA gas) have been precluded by FERC regulations from entry into the spot market.
- (6) Producers participating in the spot market are now finding significant numbers of their wells subject to being shut in under provisions of Rule 11(b) of the General Rules for the Prorated Gas Pools of New Mexico (Rules) promulgated by and contained in Division Order No. R-8170.
- (7) Said Rule 11(b) provides that any GPU (gas proration unit) which is overproduced in an amount exceeding six times its average monthly allowable must be shut in until the overproduction is reduced below such six times figure.
- (8) In addition to the build up of overproduction as a result of participation in the spot market, overproduction is exacerbated by generally low overall gas demand and the build up of pool underproduction which tends to reduce or limit the volume of new allowable assigned in any month.
- (9) One producer participating in the spot market testified that while the change from a six times to a twelve times overproduction limit would provide temporary relief from shut in, longer term solutions are needed.
- (10) In the second portion of its application in this case, the Division seeks to create a "Gas Bank" wherein allowable not used today may be accumulated for future use and protected from cancellation during periodic well reclassifications.
- (11) The proposed "Gas Bank" may represent one facet of the needed long term solution.
- (12) The Division requested and was allowed to continue the "Gas Bank" portion of this application for needed further study until a hearing on January 8, 1987.
- (13) No other long term solutions were proposed to the Commission.
- (14) The proposed two-year temporary rules were proposed for Northwest New Mexico only, rather than as Statewide rules, in that the Committee felt that the generally longer-lived, tighter nature of the gas reservoirs therein should preclude drainage between wells and leases as a result of 12 times overproduction and subsequent balancing.

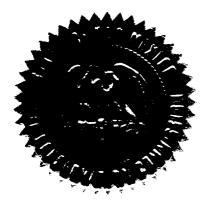
- (15) No party presented compelling evidence that the doubling of the overproduction limit and the over/under production make up periods to 12 months and 24 months would result in waste or violation of correlative rights.
- (16) Said Rule 11(b) should be amended to provide for a twelve times overproduced limit for wells in the prorated pools in Northwest New Mexico effective immediately in order to provide temporary relief to producers while longer term solutions to gas proration problems are sought.
- (17) Said Rule 10(a) and 11(a) should be amended to provide for a 24 month period to make up overproduction and underproduction in said pools beginning March 1, 1987, unless, after notice and hearing, alternative proposals should be adopted.
- (18) These amended rules should apply through the gas proration year ending March 31, 1989, unless earlier amended, and this portion of this case should be reopened at a Commission hearing in November, 1988.

# IT IS THEREFORE ORDERED THAT:

- (1) Effective December 1, 1986, Rule 11(b) of the General Rules for the Prorated Gas Pools of New Mexico contained in Oil Conservation Division Order No. R-8170 is hereby amended to read in its entirety as shown on Exhibit "A" attached to this order.
- (2) Effective March 1, 1987, Rule 10(a) and Rule 11(a) of said Rules are hereby amended to read in their entirety as shown on Exhibit "A" attached to this order.
- (3) The above temporary rule changes shall be effective only through the gas proration year ending March 31, 1989, unless earlier amended or extended, and this portion of this case will be reopened at a Commission hearing in November, 1988.
- (4) That portion of this case seeking creation of a "Gas Bank" is hereby continued to a Commission hearing scheduled for January 8, 1987, at which time this and any other longer term solution to gas proration problems may be considered.
- (5) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-4-Case No. 9018 Order No. R-8170-A

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



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member

ED KELLEY, Member

R. L. STAMETS, Chairman and Secretary

SEAL

dr/

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 two gas proration periods and remaining unproduced at the end of the second gas proration period shall be cancelled.

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 and remaining unproduced at the end of such gas proration period shall be cancelled.

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.

CASE NO. 9018 Order No. R-8170-A Exhibit "A" RULE 11(b)(1) TWELVE-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.

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

> CASE NO. 9018 (Reopened) Order No. R-8170-E

#### ORDER OF THE COMMISSION

#### BY THE COMMISSION:

This cause came on for hearing at 9:00 am. on May 24, 1990, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 9th day of July, 1990, 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,

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) Case 9018 was reopened pursuant to Orders R-8170-A and D which amended Rules 10(a), 11(a), and 11(b), and Order R-8170-C which rescinded the amendments of Rule 10(a) and 11(a) and also promulgated Rule 11(h) pertaining to the general rules for prorated gas pools as promulgated by Order R-8170.
- (3) The amendment of Rule 11(b) in Order R-8170-A provided that gas wells in Northwest New Mexico could become 12 times overproduced before being required to curtail or shut-in.
- (4) Order R-8170-D provided that the amendments to Rules 10(a), 11(a) and 11(b) would expire on June 1, 1990 unless further amended or extended after hearing to be held in March, 1990.
- (5) This case was docketed for a hearing scheduled for March 15, 1990 at which time the case was continued to the May 24, 1990 Commission Hearing.

Page 2 Case No. 9018 (Reopened) Order No. R-8170-E

- (6) The Commission sought evidence to determine if the amendment was preventing waste, protecting correlative rights, and providing operators the flexibility to better meet gas market demand.
- (7) Testimony and exhibits were received from Meridian Oil Company and Unocal Corporation, both gas producers in Northwest New Mexico. Statements were read into the record from Amoco Production Company, Columbus Energy and Gas Company of New Mexico, all of which supported continuance of Rule 11(b) as amended by Order R-8170-A.
- (8) No producer, operator, interest owner or customer, objected to the 12 times over limit for gas wells in Northwest New Mexico.
- (9) The evidence introduced was inconclusive in addressing the correlative rights issue by comparing the 6 times overproduced limit with the 12 times overproduced limit.
- (10) There was producer testimony indicating that New Mexico's historical gas market is still unstable and that in order to properly manage their gas supply, operators in Northwest New Mexico need the flexibility of being able to produce their gas wells up to the limit of twelve times their allowable before being subjected to shut-in.
- (11) The evidence shows that Meridian has been able to significantly reduce both the number of overproduced wells and the volume of shut-in gas over the past 17 months thus confirming their contention that the added flexibility of Rule 11(b) as amended by Order R-8170-A and D has helped them manage their gas supply in a responsible manner.
- (12) An engineering consultant working for the Oil Conservation Division testified that allowing wells in NW New Mexico to overproduce 12 times before being shut-in has increased imbalances in prorated fields but these imbalances were not shown to cause waste or impair correlative rights.
- (13) Because of continual changes in New Mexico's gas market and proposed changes in New Mexico's Gas Proration Rules, it would be premature to change the amended Rule 11(b) at this time without a showing that waste is occurring or correlative rights are being violated.

Page 3 Case No. 9018 (Reopened) Order No. R-8170-E

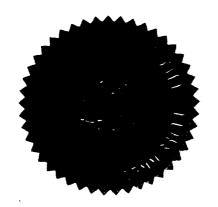
(14) The effects of the amended Rule 11(b) should be considered by the Commission at a hearing to be held in March, 1992, and said amended Rule 11(b) should be extended to June 1, 1992.

## IT IS THEREFORE ORDERED THAT:

- (1) Rule 11(b), as amended temporarily by Order R-8170-A and D which allows operators in Northwest New Mexico to produce their gas wells in prorated pools up to a limit of twelve (12) times their allowable before being subject to curtailment or shut-in, is hereby extended until June 1, 1992 after which, unless further extended or revised after notice and hearing, it shall revert to the rule as promulgated in Order R-8170 which allows for a six (6) times overproduced limit.
- (2) This case shall be reopened in March 1992 to take evidence on the following:
  - (a) whether larger overproduction limits in Northwest New Mexico established by rule 11(b) as amended by Order R-8170-A and D is preventing waste, and protecting correlative rights, while providing operator flexibility in supplying natural gas to meet interstate and intrastate market demand.
  - (b) The interaction between the changing gas markets, revised proration rules, and Rule 11(b) as amended by Order R-8170 A and D.
  - (c) Any transition mechanism which should be adopted if the Commission determines that a return to the 6 times overproduced limit is appropriate.
- (3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

Page 4 Case No. 9018 (Reopened) Order No. R-8170-E

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



SEAL

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STATE OF NEW MEXICO OIL CONSERVATION DIVISION

WILLIAM D. HUMDUDIES Mamba

WILLIAM R. HUMPHRIES, Member

Bill Meiss

WILLIAM W. WEISS, Member

WILLIAM J. LEMAY, Chairman and Secretary

# STATE OF NEW MEXICO OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION TO CONSIDER THE APPLICATION OF:

# REOPENED

CASE NO. 9018 ORDER NO. R-8170-I

CASE 9018 BEING REOPENED PURSUANT
TO THE PROVISIONS OF COMMISSION
ORDER NO. R-8170-C FOR THE PURPOSE OF
CONSIDERING WHETHER RULE 11(h) SHOULD BE
RETAINED IN THE RULES FOR PRORATED GAS POOLS

#### ORDER OF THE COMMISSION

#### BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on November 8, 1990, at Santa Fe, New Mexico before the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the "Commission".

NOW, on this  $20 \pm h$  day of December, 1990, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and further considering comments submitted pursuant to request of the Commission, and being fully advised in the premises,

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) Rule 11(h) was adopted by the Commission for a five year period by Order R-8170-C to allow a mechanism for producers to reinstate canceled allowable for wells which have been denied access to gas markets or transportation.
- (3) Few, if any, applications for reinstatement have been filed, but the rule provides the opportunity for producers to protect their correlative rights should they be denied access to pipelines by actions other than their own unwillingness to sell.

Case 9018 Order No. R-8170-I Page 2

- (4) Retaining the rule would serve to protect correlative rights without causing waste under certain circumstances, and allowing the rule to expire could result in an impairment of correlative rights.
- (5) Rule 11(h) should be retained in the General Rules for Prorated Gas Pools without time limitation and should be incorporated into the adoption of revised general rules by the Commission in Case 10009, as adopted by Order R-8170-H.

#### IT IS THEREFORE ORDERED THAT:

- (1) Rule 11(h) shall be kept in the General Rules for Prorated Gas Pools as adopted in Order R-8170-H without time limitation.
- (2) Jurisdiction of this cause is retained for 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

WILLIAM W. WEISS,

Member

WILLIAM J. LEMAY, Chairman & Secretary

SEAL

dr/

CASE NO. 9018 (Reopened) Order No. R-8170-E-1

#### NUNC PRO TUNC ORDER

#### BY THE COMMISSION:

It appearing to the Oil Conservation Commission of New Mexico (Commission) that the order designated as Division Order No. R-8170-E and dated July 9, 1990, issued in Reopened Case 9018 (which was heard on May 24, 1990), does not correctly state the intended order of the Commission:

#### IT IS THEREFORE ORDERED THAT:

- (1) Division Order No. R-8170-E was inadvertently issued twice, the first in Case No. 9872 heard before a Division Examiner on February 21, 1990 and dated April 2, 1990, and the second being erroneuously issued in the immediate case as described above; therefore, all references to "Order No. R-8170-E" throughout said order issued in Reopened Case 9018, dated July 9, 1990, are hereby amended to read "Order No. R-8170-F."
- The corrections set forth in this order be (2)entered nunc pro tunc as of July 9, 1990.

DONE at Santa Fe, New Mexico, on this 25th day of July, 1990.

STATE OF NEW MEXICO

WILLIAM R. HUMPHRIES, Member

OIL CONSERVATION COMMISSION

Bill Weiss

WILLIAM W. WEI\$\$, Member

WILLIAM J./LEMAY, Chairman and Secretary

SEAL fd/