

NEW MEXICO OIL CONSERVATION COMMISSION

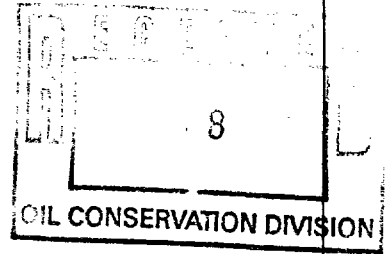
COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date AUGUST 3, 1995 Time: 8:15 A.M.**ILLEGIBLE**

NAME	REPRESENTING	LOCATION
Jerry Hosua	Conoco	Midland
W. K. H. Co.	Conoco	Midland
John F. H. Co.	Conoco	Midland
William F. H. Co.	Conoco	Midland
Vernon F. H. Co.	Conoco	Midland
Glen C. H. Co.	Conoco	Midland
Paul F. H. Co.	Conoco	Midland
John F. H. Co.	Conoco	Midland
Scott F. H. Co.	Conoco	Midland
Ruth F. H. Co.	Conoco	Midland
Bill F. H. Co.	Conoco	Midland
James F. H. Co.	Conoco	Midland

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



IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
COMMISSION FOR THE PURPOSE OF)
CONSIDERING:)
)
GAS ALLOWABLE HEARING)
_____)

CASE NO. 11,350

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

ORIGINAL

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

August 3rd, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, August 3rd, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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 CASE NO. 11,350

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:04 a.m.:

3 CHAIRMAN LEMAY: Good morning, this is the Oil
4 Conservation Commission. We're here for our regular
5 proration hearing.

6 My name is Bill LeMay, Chairman.

7 On my left, Commissioner Bill Weiss.

8 On my right, Commissioner Jami Bailey
9 representing the Commissioner of Public Lands.

10 Our attorney is Carol Leach.

11 Welcome to the Commission hearing.

12 (Off the record)

13 CHAIRMAN LEMAY: Call Case 11,350, which is the
14 Oil Conservation Division on its own motion to consider
15 allowables for prorated fields in New Mexico.

16 Appearances in Case 11,350?

17 MR. CARROLL: Mr. Chairman, Rand Carroll on
18 behalf of the Oil Conservation Division.

19 I have two witnesses.

20 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

21 Additional appearances?

22 MR. CARR: May it please the Examiner, my name is
23 William F. Carr with the Santa Fe law firm Campbell, Carr
24 and Berge.

25 We'd like to enter our appearance for Chevron USA

1 Production Company; Texaco Exploration and Production,
2 Inc.; and Amoco Production Company.

3 CHAIRMAN LEMAY: Thank you, Mr. Carr.

4 Mr. Bruce?

5 MR. BRUCE: Mr. Examiner, Jim Bruce from the
6 Hinkle law firm in Santa Fe, representing Exxon
7 Corporation.

8 We have one witness.

9 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

10 Mr. Kellahin?

11 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
12 the Santa Fe law firm of Kellahin and Kellahin.

13 With regards to the allowables, I'm here today on
14 behalf of Marathon Oil Company; Oryx Energy Corporation;
15 and Meridian Oil, Inc.

16 I have two witnesses to present.

17 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

18 As usual, we will be taking statements after
19 completion of the allowable hearing.

20 We'll do the allowable hearing on the basis of
21 fields, and we'll start off with the Division presentation.

22 Mr. Carroll?

23 MR. CARROLL: Mr. Chairman, you'd like to swear
24 the witnesses in before --

25 CHAIRMAN LEMAY: Fine, let's do that. All

1 witnesses giving testimony, will you kindly stand, raise
2 your right hand?

3 (Thereupon, the witnesses were sworn.)

4 CHAIRMAN LEMAY: You may proceed, Mr. Carroll.

5 MR. CARROLL: I call Mr. Jim Morrow to the stand.

6 JIM MORROW,

7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARROLL:

11 Q. Mr. Morrow, will you please state your name and
12 residence for the record?

13 A. My name is Jim Morrow. I live in Austin, Texas.

14 Q. And will you please set forth your current
15 position and the duties of that position?

16 A. Yes, sir, I'm working on contract with the OCD at
17 this time on some proration matters and one rule-making
18 proceeding.

19 Q. And have you been employed by the OCD in the
20 past?

21 A. Yes, sir.

22 Q. And in what years?

23 A. 1990 and 1991, and then again in 1993 and 1994,
24 for a total of about two and a half, three years.

25 Q. And what was your position at the OCD, and what

1 were the duties of that position?

2 A. Chief engineer, and the duties were -- one of the
3 duties was overseeing the gas proration system, and others
4 included Examiner hearings and supervision of the
5 engineering group.

6 Q. Have you testified before the Oil Conservation
7 Commission before and had your qualifications as a witness
8 accepted?

9 A. Yes, sir.

10 MR. CARROLL: Mr. Chairman, I offer Mr. Morrow's
11 qualifications. Are they acceptable?

12 CHAIRMAN LEMAY: They are acceptable.

13 Q. (By Mr. Carroll) Mr. Morrow, have you prepared
14 exhibits regarding gas prorationing for today's hearing?

15 A. Yes, sir.

16 Q. And are they set forth as what has been marked
17 OCD Exhibits Number 1 and 2?

18 A. Yes, sir, these are the -- Exhibits 1 and 2 are
19 market demand and allowable determination schedules similar
20 to those which have been prepared and submitted at previous
21 hearings.

22 These are the tables we use to come up with a
23 starting point on our allowables, an estimated allowable
24 that would be appropriate for each pool, and we use the
25 same methodology here. We look at previous production for

1 the period in which we're going to assign an allowable, and
2 use that as a basis for establishing an allowable for the
3 upcoming period.

4 Point out that these schedules that we submitted
5 were generated by the ONGARD system. This is the first
6 time since the ONGARD system has been up and running that
7 we've been able to generate these schedules.

8 Also point out that the production shown, the
9 average monthly production or pool sales for October
10 through March of 1995, which is the first column on each
11 exhibit, indicates production to be lower than you would
12 expect it to be, based on previous numbers. And it is low
13 due to some of the companies' not having reported their
14 production into the system.

15 That is quickly being resolved. I think we ran
16 this schedule again in mid-July and found that on a total,
17 production had increased by 21 percent, and the numbers for
18 each of the pools looked logical. It looked like what they
19 historically should have been.

20 We -- Do you want me to go ahead or do you want
21 to --

22 Q. Yeah, go ahead.

23 A. We've proposed some adjustments in these
24 schedules, the ones that actually are based on numbers
25 which are not completely accurate. But by putting the

1 adjustments into the schedules we've come up with
2 allowables which are very similar to -- the same in most
3 cases, but very similar in the northwest, to the allowables
4 which are set now.

5 So we thought to start with allowables, either
6 the same or similar to what we have now, would be a good
7 place to start, and then we could hear from the companies
8 to see if additional allowable or less allowable is needed
9 in any case.

10 If -- You know, if there are any questions about
11 the way the schedule is developed, I'll be glad to discuss
12 it. As I said, it's similar to what we've used at previous
13 hearings.

14 Q. So, Mr. Morrow, you said that these figures
15 aren't exactly accurate, due to problems in the ONGARD
16 reporting system.

17 Would more accurate numbers in that first column
18 make any difference, due to the fact that adjustments are
19 made in the second column, in your final calculation?

20 A. It wouldn't have made any difference in what I
21 would have proposed out there in those final columns,
22 because I proposed adjustments which would make those final
23 numbers, as I said, similar to what the allowables are now,
24 and the same in many cases.

25 So even if we'd started with different numbers,

1 we would have wound up with about the same figures as --
2 that we have in the last two columns.

3 I would have proposed those F1 and F2 factors,
4 the same as is proposed in these -- that were developed
5 with the not-so-accurate numbers. Okay.

6 One other thing I thought of, the classifications
7 for the wells are probably inaccurate too. We reclassified
8 in December of 1994, ran the reclassification program, and
9 if wells -- if all the production is not in, a well which
10 probably should be nonmarginal would be reclassified to
11 marginal, if the system thinks it has not produced as much
12 as it really did produce.

13 So those classifications may be inaccurate, and
14 we may actually have more nonmarginal proration units than
15 are indicated on this schedule.

16 Q. And on these exhibits, Mr. Morrow, when you refer
17 to number of nonmarginal acreage factors, they're referring
18 to gas proration units; is that correct? And not the
19 number of wells?

20 A. Right, number of gas proration unit acreage
21 factors.

22 Q. Do you anticipate that the next time that we set
23 allowables for the following six-month period, beginning
24 March of 1996, that the ONGARD system will have done a
25 better job of tracking production?

1 A. It's certainly looking better to me, and the
2 reports I hear are that it will do a better job, so I'd say
3 yes to that.

4 Q. And proposals you list for monthly acreage
5 allocation factors on both Exhibits Number 1 and 2, those
6 you -- are not set in stone, they're -- you regard those as
7 a beginning point, right, that industry can come in and
8 make adjustments to, based upon evidence that they present?

9 A. Yes, sir, I'd say that we -- certainly with no
10 better production data than we have, we couldn't be
11 completely accurate, even if -- You know, we don't have
12 enough production data to really have a firm opinion out
13 there, and they can come in and tell us what they really
14 produced, and you can listen to that.

15 MR. CARROLL: Mr. Chairman, that's all I have,
16 and I offer what has been marked Exhibits Numbers 1 and 2
17 into the record.

18 CHAIRMAN LEMAY: Without objection, Exhibits 1
19 and 2 will be entered into the record.

20 Questions of the witness?

21 Commissioner Weiss?

22 COMMISSIONER WEISS: Yes.

23 EXAMINATION

24 BY COMMISSIONER WEISS:

25 Q. Jim, we deproprated some fields, I think, last go-

1 around.

2 A. We did, and they're not on here, they're not on
3 here this time. There are four of them. I listed them
4 somewhere, if I can find my notes. Burton Flat-Strawn and
5 Carlsbad South-Morrow and Monument McKee-Ellenburger and
6 one other one, four of them.

7 Q. Now, what's the status of that? How has that
8 affected matters?

9 A. We suspended proration there, because there had
10 not been any nonmarginal wells for several proration
11 periods.

12 Now, I have not looked to see if somebody got in
13 there and drilled a well that really jumped up, is making a
14 lot of production and -- where it should be prorated.
15 That's something we can do as we go along.

16 But my feeling is that they're rocking along as
17 marginal producers, all of them, as they have several years
18 in the past.

19 Q. Are there any other fields that could --

20 A. Well, you see some fields with pools with zero
21 nonmarginal acreage factors. But I would suggest we wait
22 on those until we get the ONGARD system completely up and
23 running and get your production in there in a timely manner
24 and know that our classifications are right before we
25 consider deprorating any additional pools. That would be

1 my recommendation on that.

2 But there's some we can look at later on,
3 possibly will be.

4 COMMISSIONER WEISS: Thank you.

5 CHAIRMAN LEMAY: Commissioner Bailey?

6 COMMISSIONER BAILEY: No.

7 CHAIRMAN LEMAY: I don't have any questions.

8 Any other questions?

9 If not, he may be excused. Thank you very much.

10 Call your next witness, Mr. Carroll.

11 MR. CARROLL: I call Mr. Chris Williams to the
12 stand.

13 CHRIS WILLIAMS,

14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CARROLL:

18 Q. Mr. Williams, will you please state your name and
19 place of residence for the record?

20 A. Chris Williams. I live in Santa Fe.

21 Q. And Mr. Williams, where are you employed and what
22 position --

23 A. Oil Conservation Division, Energy and Minerals
24 Department, Gas Marketing Bureau.

25 Q. And what are your duties in the Gas Marketing

1 Bureau?

2 A. I'm a natural gas marketing specialist.

3 Q. And what are your duties as a gas marketing
4 specialist?

5 A. Part of my duties include the advocacy of New
6 Mexico-produced natural gas at the California Public
7 Utilities Commission, the Federal Energy Regulatory
8 Commission, and part of my duties include doing economic
9 studies for the Division -- or for the Bureau.

10 Q. And as part of your duties do you look at
11 production trends and market trends regarding New Mexico-
12 produced natural gas?

13 A. Right, yes, I do.

14 Q. And are you prepared to make opinions today
15 regarding the ability of New Mexico natural gas to find
16 those markets?

17 A. Yeah, opinions.

18 Q. Mr. Williams, have you testified before the Oil
19 Conservation Commission before?

20 A. Yes, I have.

21 Q. And have you had your qualifications accepted by
22 the Commission as a witness in these matters?

23 A. I believe so.

24 MR. CARROLL: Mr. Chairman, I offer Mr. Williams
25 as an expert in natural gas marketing matters.

1 CHAIRMAN LEMAY: His qualifications are
2 acceptable.

3 Q. (By Mr. Carroll) Mr. Williams, you've prepared
4 exhibits for today to support your conclusions regarding
5 the ability of New Mexico Natural Gas to find markets?

6 A. Yeah, these -- Yes, I have.

7 Q. And these are marked as OCD Exhibits A through D?

8 A. Correct.

9 Q. Copies of which may be found on the back table?

10 A. Right.

11 Q. Could you refer to Exhibit Number A and tell us
12 what this exhibit shows us?

13 A. Exhibit A is just a -- it's a graphic -- It's the
14 graphs of all the production since 1989, by year, by month,
15 and with 1994's data, which is off of the ONGARD system,
16 it's approximately two percent off for 1994.

17 Q. Why is it two percent off?

18 A. Because about two percent of the volumes have not
19 been reported yet.

20 Q. And what volumes are they that haven't been
21 reported yet?

22 A. There are about three or four larger independents
23 that have not been reported yet. Their production will
24 bring the graphics -- the graph -- up a little bit, not
25 much. It will go from about 1.421 TCF, total for the year,

1 to about 1.45.

2 Q. Okay. Let's move to Exhibit B. What does this
3 exhibit show the Commission?

4 A. Exhibit B is a breakdown of the different types
5 of natural gas produced in the State, using the San Juan
6 coal seam and the San Juan conventional and the Permian
7 conventional and the Permian casinghead, which are always
8 combined for us.

9 Q. Let's move on to Exhibit C, and what does this
10 exhibit show the Commission?

11 A. This is just strictly a graph of coal seam
12 production in New Mexico since 1989, and it shows the
13 significant rise and the significant part of our
14 production, which is now made up of coal seam.

15 Q. And let's move on to Exhibit D.

16 A. Exhibit D is a model that we use in the Gas
17 Marketing Bureau to try and predict production. And in
18 1994, was probably the worst year it had at predicting what
19 production would be.

20 Q. So in 1994 we predicted -- we were off by about
21 what? 100 million -- or 100 billion --

22 Q. Yeah.

23 Q. Mr. Williams, do you have any general
24 observations regarding market trends in California and
25 elsewhere for New Mexico natural gas?

1 A. Well, in California the problem that New Mexico
2 is running into is the competition with Canadian gas that
3 comes down the Pacific Gas Transmission pipeline. Right
4 now, from what I understand, we're actually getting back
5 about 300 million a day on our different pipelines. We've
6 lost 300-million-a-day market share in California, due to
7 PGT's expansion.

8 Q. Mr. Williams, is it your opinion that prorating
9 production in New Mexico is somehow restricting New
10 Mexico's ability to find natural gas markets?

11 A. I don't think so, not at the present time.

12 Q. And why is that?

13 A. Right now there's so much gas and gas competition
14 in California and other markets all over the US, we have an
15 oversupply of natural gas, and there's less demand, so
16 proration doesn't really have any effect on it.

17 Q. Do you have any other comments or observations to
18 make to the Commission today?

19 A. No.

20 MR. CARROLL: Mr. Chairman, that's all I have of
21 this witness, and I offer what has been marked OCD Exhibits
22 A through D into the record.

23 CHAIRMAN LEMAY: Without objection, Exhibits A
24 through D will be admitted into the record.

25 Questions of the witness? Commissioner Weiss?

1 COMMISSIONER WEISS: Yeah, I have one, Chris.

2 EXAMINATION

3 BY COMMISSIONER WEISS:

4 Q. Is there a need for proration today?

5 A. Probably, if you're still just going to consider
6 correlative rights. In terms of markets, I don't think so.

7 COMMISSIONER WEISS: Thank you.

8 CHAIRMAN LEMAY: Commissioner Bailey?

9 EXAMINATION

10 BY COMMISSIONER BAILEY:

11 Q. Did you look at any price forecast for 1995?

12 A. We have -- Yeah, we've looked at price forecasts.
13 We'll be lucky to get \$1.20 wellhead netback for our gas.

14 CHAIRMAN LEMAY: Anything else, Commissioner
15 Bailey?

16 COMMISSIONER BAILEY: No.

17 EXAMINATION

18 BY CHAIRMAN LEMAY:

19 Q. Mr. Williams, I notice that you -- The Bureau has
20 projected slight decline from 1994 to 1995 in production.
21 Have you a reason for that, or --

22 A. The reason for the decline is, we have lost a
23 little bit of the market share in California, and right now
24 the coal seam wells and most of the San Juan wells, they're
25 on line and going as hard as they can. So we don't really

1 see an increase in production. And with prices as low as
2 they are right now, we could see a decrease. I think we
3 will see a decrease in production. It won't be much, but
4 it will be a little bit.

5 Q. Mainly due to --

6 A. -- price.

7 Q. -- to market forces, losing some of our market,
8 and then some operators shutting in supplies because of low
9 price?

10 A. Right, right.

11 Q. But there again, those that want to sell gas can
12 find a market with current 636 implementation?

13 A. Right, they can find a market. It's just, are
14 they willing to take, you know, very low netbacks?

15 CHAIRMAN LEMAY: Thank you.

16 Any other questions of the witness? If not, he
17 may be excused.

18 Thank you very much, Mr. Williams.

19 MR. CARROLL: That's all I have, Mr. Chairman.

20 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

21 I usually ask if there's a preference for taking
22 the southeast first or the northwest, sometimes people have
23 plane connections and so forth.

24 Mr. Kellahin?

25 MR. KELLAHIN: Mr. Chairman, if I remember the

1 rotation, I believe it's the northwest's turn to go first.

2 CHAIRMAN LEMAY: Okay, thank you. We shall honor
3 that fairness doctrine and take the northwest first, so...

4 Many times with the northwest, the policy has
5 been to take all pools and just work with all pools in the
6 northwest on testimony.

7 So Mr. Kellahin, do you want to start with the
8 northwest?

9 MR. KELLAHIN: Thank you, Mr. Chairman. In fact,
10 that would be our proposed plan.

11 I'm going to present Mr. Jim Fraser, who is an
12 engineer and the individual with Meridian in Farmington
13 responsible for the prorated pools in the northwest. He's
14 made presentations before, and I've asked him to make a
15 presentation today.

16 CHAIRMAN LEMAY: Thank you.

17 JAMES FRASER,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Fraser, for the record would you please state
23 your name and occupation?

24 A. My name is James Fraser. I'm a production
25 manager for Meridian Oil, Inc., in Farmington, New Mexico.

1 Q. As a production manager, is it your
2 responsibilities and duties to track Meridian's production
3 with regards to the prorated pools in northwestern New
4 Mexico?

5 A. Yes, sir, it is.

6 Q. And based upon those duties, do you have
7 recommendations and opinions for the Commission with
8 regards to the levels of allowables on a pool basis for
9 certain prorated pools in the San Juan Basin?

10 A. Yes, sir, I do.

11 MR. KELLAHIN: We tender Mr. Fraser as an expert
12 witness.

13 CHAIRMAN LEMAY: His qualifications are
14 acceptable.

15 Q. (By Mr. Kellahin) Mr. Fraser, if you'll take our
16 exhibits -- and I apologize for not numbering; they'll be
17 numbered in sequence, starting with Number 1 through Number
18 4 -- have you also, Mr. Fraser, examined the preliminary
19 schedule issued by the Oil Conservation Division with
20 regards to the prorated pools in the San Juan Basin?

21 A. Yes, sir, I have, and that results in our first
22 exhibit, Exhibit Number 1, where we -- for the three major
23 pools of the northwest portion of New Mexico, the Basin-
24 Dakota, the Blanco-Mesaverde and the Blanco-PC -- we have
25 listed on Exhibit Number 1, first, the OCD value, and then

1 our adjustment and finally the recommended monthly pool
2 allowable, by just adding the first two lines.

3 Q. Based upon your analysis and review of the
4 Division's reported production volumes for those three
5 pools, in your opinion is their report, as presented in
6 their exhibit today, accurate?

7 A. No, sir, I think similar to other witnesses, the
8 OCD values are significantly understated for the reasons
9 that I think other witnesses have mentioned.

10 Q. Describe for us how you then have gone about the
11 method of providing an adjustment to those threshold
12 allowables by the Division and what in your opinion is the
13 appropriate final monthly pool allowable to be established
14 for these pools for the next proration period.

15 A. For the Basin-Dakota, as shown on Exhibit Number
16 1, I recommend an adjustment of 3,497,565 MCF per month,
17 which gives the total allowable for the pool of 9.5 BCF.

18 Q. Why have you done that?

19 A. Well, I -- Let me finish Exhibit 1, and then
20 we'll go through Exhibit 2 and 3 to show the justification
21 of the numbers.

22 The Blanco-Mesaverde I'm recommending slightly
23 over a 5.5-BCF-per-month adjustment to a total of 17.7 BCF
24 per month.

25 And for the Blanco-PC South, I'm recommending an

1 addition of about 300,000 MCF per month, for a total of 1.2
2 BCF.

3 The basis for this, as shown on Exhibits 2, 3 and
4 4, if you turn to Exhibit 2, please, Exhibit 2 is a
5 chronological estimate -- plot, if you will -- of the
6 Basin-Dakota Pool production from January of 1993 through
7 April of 1995. I have estimated production from January of
8 1994 through April of 1995, due to the aforementioned
9 incorrect values on the ONGARD system.

10 What I've done is taken Meridian's production for
11 that time frame, which I do feel very comfortable in,
12 grossed that up by what our historic percentage of the
13 pool's production is, to get what I think is the total
14 pool's production for that time frame.

15 As you can see, I think the Basin-Dakota has
16 averaged about 9.5 BCF for the last six months, that being
17 the winter of 1994/1995, which would be very comparable, I
18 feel, to this coming winter's production. The straight
19 line there is actually a 9.5 value, which, as I mentioned,
20 is the October-1994-to-March-1995 average production, based
21 on my technique.

22 Therefore, my recommendation off of page one is
23 simply taking the same value of production which I think
24 occurred in the winter of 1994-95 and setting the allowable
25 to that level, for the Dakota 9.5 BCF.

1 Q. All right, sir. Let's look at the next pool.

2 A. On the Blanco-Mesaverde, which is Exhibit Number
3 3, I've employed the same technique, where I simply take
4 Meridian's production for the pool, gross it up by our
5 historic percentage of the pool, and arrive at what I think
6 is the total pool's production for the same time frame. As
7 I mentioned, anything from January of 1994 through April of
8 1995 is an estimate based on that technique.

9 As you can see by the straight line that I've got
10 for the last winter time frame, October of 1994 through
11 March of 1995, I believe the average production for the
12 Mesaverde was 17.7 BCF a month. That's significantly
13 different than what is reported on the OCD's Exhibit -- 2,
14 I believe it is.

15 Q. Mr. Fraser, while you don't have a display,
16 describe for us how you have come to your conclusions
17 concerning the South Blanco-Pictured Cliff.

18 A. The same technique. And why I didn't provide a
19 pool is, the South Blanco-PC production is essentially very
20 flat at about 1.2 BCF a month, and I simply did not prepare
21 a graph to show a straight line. But the same technique
22 was employed.

23 So simply what I'm doing is using the technique
24 that the OCD has used in previous allowable hearings,
25 taking the last winter time frame, March -- excuse me,

1 October, 1994, through March, 1995 -- and saying that next
2 winter's production and allowable should be based on the
3 same value.

4 Q. Based upon your employment, your experience and
5 the information available to you, do you have opinions on
6 the factors that influence and affect the ability to take
7 these gas volumes to market?

8 A. Yes, sir, I do.

9 Q. Let's turn to the last display and have you
10 discuss your opinions and conclusions with regards to those
11 factors that will affect deliverability and correspondingly
12 influence market and market demand.

13 A. Surely. Exhibits 2 and 3 were kind of a
14 historical look at what production has been in some of the
15 major pools.

16 Exhibit Number 4 is a look into the near future
17 as what's happening in the north New Mexico infrastructure.
18 And I think there's some -- half a dozen or so very
19 exciting factors that are going to influence natural gas
20 production in that Basin.

21 The first being the El Paso Natural Gas's San
22 Juan Basin Triangle expansion. That is an expansion of
23 their system from Blanco hub to Gallup, New Mexico. It's a
24 34-inch line, 30 miles long. It is planned for the fourth
25 quarter, construction planned for the fourth quarter of

1 1995. It's currently waiting on final FERC approval prior
2 to construction. That should add about 300 million cubic
3 feet a day of take-away capacity to the San Juan Basin
4 triangle area.

5 The second bullet point is El Paso's new Chaco
6 plant construction. El Paso is currently constructing a
7 new cryogenic plant to handle the natural gas liquids
8 associated with conventional gas volumes in the San Juan
9 Basin.

10 The Chaco plant is supposed to come on in the
11 first quarter of 1996, with 400 million a day of increased
12 capacity, followed by, later in the year, with a 200-
13 million-a-day increase. So that's a total plant size of
14 600 million cubic feet a day, the point there being is that
15 there are steps being taken by the pipeline companies in
16 the Basin to increase the availability of both processing
17 and take-away capacity in the San Juan Basin.

18 The third bullet point is a -- what's listed as
19 an El Paso Natural Gas to Transwestern Window Rock
20 interchange. It's currently under construction, where El
21 Paso and Transwestern are laying a three-mile line that
22 will be able to connect El Paso's western line that goes to
23 California, which will interchange with Transwestern's
24 eastern line, which will allow more San Juan Basin gas
25 volumes to move east, away from the California market.

1 That's scheduled for completion in the fourth quarter of
2 1995.

3 It will allow up to 200 million cubic feet a day
4 of gas that's currently going west to go east and seek
5 other markets in Texas and the northeast.

6 The fourth bullet point is what I've got labeled
7 "El Paso Natural Gas's Global Compression Plans".

8 In the first quarter of 1996, El Paso is
9 currently working with the major operators in the Basin to
10 install field compression that will affect large portions
11 of the current high-pressure gathering system of the
12 conventional gas reservoirs which we're discussing today.
13 Their current plans are to more than double the horsepower
14 and also add approximately 50 miles of line looping, which
15 will debottleneck some of the gathering systems within the
16 Basin. That will affect up to 3000 conventional gas wells.

17 The fifth point is the recent Williams Field
18 Service purchase of Gas Company New Mexico, San Juan Basin
19 Gathering System. That transaction closed June 30th of
20 this year.

21 The impact of that is that Williams Field Service
22 has gone on record that they will increase the load factor
23 of the former Gas Company system from approximately 60
24 percent to 90 to 95 percent, over the next two years.

25 The next bullet point is another factor that will

1 allow more gas to move to other mainline outlets. Williams
2 Field Service is currently constructing a Kutz plant to
3 Blanco interchange, which will allow an additional 100
4 million cubic feet a day of take-away capacity from the
5 Kutz plant area, which will intersect Transwestern and
6 Northwest Pipeline mainlines, which will move both north
7 and east.

8 The last bullet point is some of the Operators'
9 Mesaverde capital programs. In the last 23 years Meridian
10 itself has spent over \$50 million on Mesaverde development,
11 which will increase the deliverability and the production
12 of the Mesaverde for the next several years.

13 So I believe there's some -- several exciting
14 factors happening in the infrastructure in northwest New
15 Mexico which will increase, not decrease, the production of
16 the Mesaverde Pool and the Blanco-Dakota Pool in the next
17 year.

18 Q. Mr. Fraser, in the last week there have been
19 newspaper reports from which you would infer or could infer
20 that gas taken from northwest New Mexico and supplied to
21 California might be adversely affected by a contract
22 dispute between suppliers -- I mean takers of gas and El
23 Paso Transportation, the implication being that as a result
24 of that dispute a preference may exist whereby Canadian gas
25 would displace northwestern New Mexico gas in that

1 marketplace.

2 Are you familiar with that newspaper description?

3 A. Yes, I am, but I'm not privy to the negotiations
4 between the gas supplier or -- excuse me, gas pipeline
5 company, El Paso, and the utility company in southern
6 California.

7 I have my own opinion as to what those press
8 articles mean.

9 Q. Well, I understand your lack of ability to
10 comment on the contract itself, but you do have expertise
11 as to whether that dispute would have an adverse effect on
12 the taking of gas from northwestern New Mexico?

13 A. Yes, there's a few things in the recent press
14 articles.

15 One is, it doesn't happen until 1997.

16 And the other thing is, El Paso does not sell gas
17 to the utility companies, the producers sell gas to the
18 utility companies. What the utility companies do, though,
19 is pay a reservation fee to the pipeline companies so that
20 they will have space available for that pipeline, so that
21 their supply will continually move.

22 My understanding is that the utilities are simply
23 telling the pipeline company that we're not going to pay
24 for that reservation fee after 1997. It isn't that they're
25 not going to buy gas, it's just that they're not going to

1 pay the pipeline company for a reservation fee when they
2 don't think it's necessary.

3 As far as the competition with Canadian gas, it
4 is true that San Juan Basin gas competes head on with
5 Canadian gas. My understanding is that the current
6 pipeline that was referred to earlier, the PGT line, is
7 currently full of Canadian gas, and I don't believe that
8 the Canadian gas impact in California is going to increase
9 in the next several years, the point being that San Juan
10 Basin gas will be able to compete favorably with Canadian
11 gas.

12 The other factor, as I've mentioned previously,
13 is, I think there's going to be considerable movement of
14 San Juan Basin gas to the east, to other markets, so that
15 -- I guess the moral to the story is, I think San Juan
16 Basin gas will be able to be sold and delivered very
17 efficiently for the next several years.

18 Q. In conclusion, then, Mr. Fraser, in your opinion,
19 should the Commission adopt your proposed adjustments for
20 these three prorated pools, is there sufficient market
21 demand existing to take that gas?

22 A. Yes, sir, there is.

23 MR. KELLAHIN: That concludes my examination of
24 Mr. Fraser.

25 We move the introduction of his Exhibits 1

1 through 4.

2 CHAIRMAN LEMAY: Exhibits 1 through 4 will be
3 admitted into the record, without objection.

4 Questions of Mr. Fraser?

5 Commissioner Weiss?

6 EXAMINATION

7 BY COMMISSIONER WEISS:

8 Q. Yes, I have, concerning the capital programs.
9 This is drilling, I take it?

10 A. Drilling, recompletion, sidetracks, the entire
11 gamut.

12 Q. Do you have any opinion as to whether the Dakota,
13 the Mesaverde or the Pictured Cliff formations are
14 naturally fractured and which ones might be? Are you the
15 person that could --

16 A. I'm not the person to talk to.

17 COMMISSIONER WEISS: Okay, thank you.

18 CHAIRMAN LEMAY: Commissioner Bailey?

19 EXAMINATION

20 BY COMMISSIONER BAILEY:

21 Q. The OCD is obviously handicapped by not having
22 all the companies report production. Did Meridian report
23 for this time period?

24 A. Yes, ma'am. Our numbers are in the values as
25 reported by the OCD.

1 Q. Okay. Do you agree with Chris Williams' price
2 estimate for San Juan --

3 A. I'm not going to disagree with him. My crystal
4 ball is no better than anyone else's, and there's no doubt
5 that natural gas prices have suffered recently, and I sure
6 wouldn't argue with Chris's number.

7 CHAIRMAN LEMAY: Okay, thank you.

8 EXAMINATION

9 BY CHAIRMAN LEMAY:

10 Q. Mr. Fraser, on your recommended increases on the
11 production, is this in line with other proration periods?

12 A. Yes, sir, it is. It's maybe a little higher on
13 the Mesaverde. I've got the summer of 1995 numbers.

14 Q. Yes.

15 A. The allowable in the Dakota is 9.7 BCF,
16 approximately, whereas my recommendation is 9.5.

17 The number on the Mesaverde is 17.0 BCF,
18 approximately; my recommendation is 17.7. And I think I've
19 elaborated on why I think that number should go up.

20 And the number on the PC is 1.255 BCF per month,
21 so my number is very, very close to that.

22 Q. In looking at your Exhibits 2 and 3, it looks to
23 me like there still is some seasonal variation in the
24 production from the San Juan Basin, but maybe that's less
25 than historical.

1 A. I think it's less than historical.

2 And the other thing you've got to remember about
3 these curves is, where you see that -- Every February and
4 every September and every June there's a drop, and that's
5 simply because they're shorter months. February,
6 specifically, is 10 percent shorter than the previous or
7 the succeeding month, therefore you've got an artificial
8 drop there.

9 Q. But if you were going to draw an average line
10 production through the -- just the previous proration
11 period, it looked like it will be slightly less gas. So
12 the winter months still, at least as far as your production
13 goes, are a little bit better, huh?

14 A. I would sure hope so, yes, sir.

15 Q. Then one more question that concerns coal seam
16 gas, because that has been an increasing quantity of our
17 supply. According to Mr. Williams, and the graph at least,
18 and his production figures, it looks like everything's
19 hooked up and is pretty well leveled out.

20 A. I would say that's a true statement. Meridian's
21 coal seam system is almost full, and we don't see large
22 increases in that.

23 Williams Field Service is the other major coal-
24 seam gatherer in the Basin. They have made some recent
25 expansions, oh, within the last six months to a year, and

1 those are all on line.

2 So I feel that coal-seam production is probably
3 about at its peak. There's very little development of
4 coal-seam properties now, as the Commission is probably
5 aware of, and I don't think you're going to see a continual
6 increase of coal-seam production.

7 Q. So if we're looking for increases out of the
8 Basin, we're looking at conventional supplies, basically?

9 A. Yes, sir. Meridian's projections are that
10 conventional volumes will continue to increase in the next
11 five years.

12 CHAIRMAN LEMAY: Thank you.

13 Any other questions of the witness?

14 Mr. Carroll?

15 MR. CARROLL: I have a question, Mr. Chairman.

16 EXAMINATION

17 BY MR. CARROLL:

18 Q. Mr. Fraser, do the current allowables restrict
19 the production from any of Meridian's wells in any of these
20 three pools?

21 A. No, sir.

22 MR. CARROLL: That's all I have, Mr. Chairman.

23 CHAIRMAN LEMAY: Any other questions?

24 If not, you may be excused. Thank you.

25 Mr. Kellahin?

1 MR. KELLAHIN: Mr. Chairman, you made reference
2 to the levels of allowables currently approved by the
3 Commission for the period we're in now. I have a copy of
4 that order, if you would like, so you can refer to it. And
5 attached are the spreadsheets that show what the Commission
6 has done for the current period.

7 CHAIRMAN LEMAY: Thank you.

8 Mr. Carr?

9 MR. CARR: At this time, may it please the
10 Commission, I would call Bill Hawkins, representative of
11 Amoco Production Company.

12 J.W. "BILL" HAWKINS,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name for the record, please?

18 A. Bill Hawkins.

19 Q. And where do you reside?

20 A. Denver, Colorado.

21 Q. By whom are you employed and in what capacity?

22 A. Amoco Production Company as a petroleum engineer.

23 Q. Mr. Hawkins, in your work with Amoco have you
24 become familiar with the New Mexico system of setting
25 allowables for the prorated pools in northwest New Mexico?

1 A. Yes, I have.

2 Q. And have you testified in prior allowable
3 hearings on behalf of Amoco?

4 A. Yes, I have.

5 Q. At the time of that prior testimony, were your
6 credentials as an expert in matters related to gas
7 prorating accepted and made a matter of record?

8 A. Yes, they were.

9 MR. CARR: Are the witness's qualifications
10 acceptable?

11 CHAIRMAN LEMAY: They're acceptable.

12 Q. (By Mr. Carr) Mr. Hawkins, are you familiar with
13 recent production levels from the prorated pools in the San
14 Juan Basin?

15 A. Yes, I am.

16 Q. And have you seen any overall decline in pool
17 production from these prorated pools?

18 A. Well, it's probably a very difficult thing to
19 analyze right now because of the production reporting
20 problems that we're experiencing, but we have tried to
21 review Amoco Production's production levels as well as
22 industry levels, and we haven't seen anything that would
23 indicate any significant decline over the recent past.

24 Q. In your opinion, are preliminary allowable
25 figures that have been proposed by the Oil Conservation

1 Division sufficient to accurately meet the demand that you
2 foresee during the next proration period?

3 A. I think the allowables that are recommended by
4 the Division will need an upward revision to meet those
5 production levels.

6 Q. And are you prepared to make recommendations to
7 the Commission for adjustments to the Division's
8 preliminary allowable figures to more accurately reflect
9 what you see to be the demand from the prorated pools in
10 northwest New Mexico?

11 A. Yes.

12 Q. Could you refer to what has been marked for
13 identification as Amoco Exhibit Number 1, identify that and
14 review it for the Commission?

15 A. We've identified -- We have three exhibits,
16 actually, and what I want to do is lead the Commission
17 through some historical allowable periods, and then on our
18 Exhibit Number 3 we have a recommendation to make that will
19 increase the allowables.

20 What you have on Exhibit Number 1 is the
21 proration schedule for the northwest pools for the period
22 October, 1994, through March, 1995, just one year ago, from
23 what we're recommending today.

24 A couple of points I'd like to make there.

25 You can see that the -- in the first column, the

1 production that was used to start that schedule was 9.5 BCF
2 a month for the Basin-Dakota, about 16.4 BCF for the
3 Mesaverde and about 1.3 BCF a month for the Blanco-PC
4 South. And that was what was used as the monthly pool
5 allowable.

6 We think that production is holding relatively
7 steady. I think Meridian showed some information that
8 looks like the Mesaverde production may be increasing, and
9 I wouldn't be able to dispute that.

10 The big thing I think you'd like to look at is
11 that on the F1 and F2 values for that period a year ago, we
12 had about 11.2 -- Excuse me, 11,200 for the F1 factor for
13 the Basin-Dakota and 5733 for the F1 factor for Blanco-
14 Mesaverde. I think I said F2 on that Basin Dakota. It's
15 F1, and that column is F1.

16 And these are the factors that I think the
17 current Division's proposed allowables are lower than what
18 we were using a year ago and would need to be increased
19 back up to about this level.

20 If we move on to Exhibit Number 2, I've got the
21 same type of exhibit for the period of April, 1995, through
22 September, 1995. That's the period that we're in right
23 now.

24 The current production or proration schedule
25 shows a monthly pool allowable -- this is the third column

1 of numbers on this page -- at about 9.6 BCF a month for the
2 Basin-Dakota and about 17.0 BCF for the Blanco-Mesaverde.
3 And again, that's pretty representative of what we think
4 the current production levels are at in the Basin.
5 Meridian's estimate may be slightly higher than that, but -
6 - and it could very well be that their numbers are
7 accurate. I wouldn't have any way to challenge that at
8 all.

9 The other thing I'd point out is on the last two
10 columns again, the F1 factor is again for the Basin-Dakota
11 about 11,163, and the F1 factor for the Blanco-Mesaverde at
12 about 5771.

13 If we move to Exhibit Number 3, it's a
14 recommendation that Amoco has for the NMOCD's period of
15 October, 1995, through March, 1996.

16 We've taken a little different step here, and we
17 are proposing that we start the average monthly pool sales
18 and use the numbers from two years ago, which was shown on
19 Exhibit Number 1, as the monthly average pool sales to
20 represent what's happening in the Basin at about 9.5 BCF
21 from the Basin-Dakota, about 16.5 BCF from the Blanco-
22 Mesaverde, and add the necessary adjustment to get up to
23 the pool allowable that's in effect right now, that being
24 about 9.6 BCF a month for the Basin-Dakota and 17.0 BCF for
25 the Mesaverde.

1 And I would recommend that we use the estimated
2 nonmarginal acreage factors and number of nonmarginal
3 acreage deliverability factors that are in effect for this
4 current period -- they're going to be more representative
5 than the numbers that the NMOCD put out on their
6 preliminary schedule -- to calculate F1 and F2. And that
7 should result in an F1 and F2 that will continue to be
8 about 11,000 for the Basin-Dakota and about 5700 for the
9 Blanco-Mesaverde.

10 And if we can keep the allowables at about that
11 level, I believe we will be able to have a consistent
12 proration effect on the production from the pools. There
13 should not be any significant restriction on the wells.
14 There may still be some potential restriction on the
15 nonmarginal wells, but I don't think there's anything
16 significant there that we should be concerned about.

17 But I do think we need to have an upward revision
18 to keep the allowables at about the current level and not
19 reduce them, which is -- would be the effect if we took the
20 NMOCD proposal.

21 Q. Now, Mr. Hawkins, the memo that -- Division
22 memorandum that accompanied the preliminary allowable
23 figure stated that pool adjustments have been made, or have
24 been included to make proposed allowables consistent with
25 current allowables. Is it your testimony that further

1 adjustments are necessary?

2 A. Yes, I think the concept is appropriate that we
3 do want to keep the current allowables consistent -- or the
4 proposed allowables consistent with the current allowables.
5 I think we need a little more upward revision in order to
6 do that. And our recommendation is to, in fact, keep that
7 F1 and F2 factor the same as they are today.

8 Q. And the preliminary allowable figures from the
9 Division would in fact, if adopted, result in a lower F1
10 factor in each of these pools; is that not correct?

11 A. It would. It is, in fact, lower on each of the
12 four pools in the northwest. In fact, on the Blanco
13 Mesaverde it's about 20 percent lower. So it needs a
14 considerable revision in the Blanco Mesaverde.

15 Q. You were present when Mr. Fraser testified for
16 Meridian a few minutes ago and made recommendations for
17 adjustments in the allowables for each of these pools, were
18 you not?

19 A. That's correct, yes.

20 Q. And do you concur in the recommendations made by
21 Mr. Fraser as reasonable adjustments to the proposed
22 preliminary allowables from the Division?

23 A. I think they are reasonable.

24 The recommendations from Meridian were to
25 increase the monthly pool allowable slightly higher than

1 what we're showing. What that would do, in effect, would
2 be to raise the F1 and F2 factors a little bit more than
3 what we have in the Blanco-Mesaverde. And based on his
4 analysis of production in the pool and the analysis of
5 future production, I think that might be a reasonable thing
6 to do.

7 Q. Were Exhibits 1 through 3 either prepared by you
8 or compiled under your direction?

9 A. Yes, they were.

10 MR. CARR: At this time, may it please the
11 Commission, we would move the admission into evidence of
12 Amoco Exhibits 1 through 3.

13 CHAIRMAN LEMAY: Without objection, Amoco
14 Exhibits 1 through 3 will be admitted into the record.

15 MR. CARR: That concludes my direct examination
16 of this witness.

17 CHAIRMAN LEMAY: Thank you, Mr. Carr.

18 Additional questions of this witness?

19 Commissioner Weiss?

20 EXAMINATION

21 BY COMMISSIONER WEISS:

22 Q. Yes, Mr. Hawkins, on the Mesaverde production
23 increases, has your company seen the same thing?

24 A. Right now our production is still holding
25 relatively flat in the Blanco-Mesaverde, but we do have a

1 capital program to drill and to do recompletions in the
2 Mesaverde, and I think there's expectations that the
3 Mesaverde production will continue to increase there.

4 Q. So you do plan to drill new wells?

5 A. Yes.

6 COMMISSIONER WEISS: Thank you.

7 CHAIRMAN LEMAY: Commissioner Bailey?

8 EXAMINATION

9 BY COMMISSIONER BAILEY:

10 Q. Did OCD have access to Amoco production through
11 March of 1995, in order to make their --

12 A. I think the production from Amoco was not
13 available for the preliminary allowable schedule, although
14 it has since been submitted and it is available in the
15 system, is my understanding.

16 Amoco has been implementing a new production
17 computer program, as well as the NMOCD's ONGARD system, and
18 I think there's been some delays in getting some
19 compatibility between those systems. It seems like those
20 are beginning to get worked out, and hopefully we shouldn't
21 have any more problem.

22 Q. So you would expect for the next proration
23 hearing that everything would be in order from Amoco's
24 production?

25 A. I would, yes.

1 COMMISSIONER BAILEY: That's all.

2 EXAMINATION

3 BY CHAIRMAN LEMAY:

4 Q. Mr. Hawkins, how does your coal-seam gas supply
5 look? Are you pretty well peaked out, do you think?
6 Everything hooked up and -- not anticipating anything --

7 A. I think everything is producing from the coal
8 seams. We are looking at a number of different prospects
9 for enhanced production, enhanced coal recovery by nitrogen
10 injection or some other gases, including CO₂. We would
11 expect that there will be some potential projects that we
12 will bring forward to you. I don't know that we'll have a
13 significant impact in the immediate future, but if the
14 projects that we recommend look successful, we may be able
15 to implement more of them and have some impact down the
16 road.

17 For the immediate future, I think we'd see very
18 little change in the production from the coal gas, other
19 than just normal primary development.

20 We're still experimenting a little bit and
21 learning how to implement these enhanced coal-bed methane
22 projects.

23 Q. So the article, I guess, in the Farmington paper
24 on your nitrogen -- the success in your nitrogen injection,
25 wouldn't affect the next proration period in terms of

1 volumes of coal-seam gas?

2 A. Would not expect it to. It's a relatively small
3 project in the 28 and 7 Unit, I think you're talking about,
4 and we have two injection wells with the six producing
5 wells. So we would expect to see some increase, but it's
6 not going to make an overall impact on the Basin
7 production.

8 Q. Thank you. And your testimony has been generally
9 in accord with Meridian's recommendation?

10 A. Yes, I think that the main thing is, we want to
11 get the F1 and F2 factors up at least where they are today,
12 and maybe even a little bit more on the Blanco Mesaverde,
13 based on Meridian's predictions on the Mesaverde
14 production.

15 CHAIRMAN LEMAY: Thank you.

16 Additional questions? If not, he may be excused.

17 Thank you, Mr. Hawkins.

18 MR. CARR: That concludes our presentation.

19 CHAIRMAN LEMAY: Thank you, Mr. Carr.

20 Anything on the northwest, Mr. Bruce?

21 MR. BRUCE: No, sir.

22 CHAIRMAN LEMAY: Does anyone have anything more
23 in terms of testimony concerning allowables on prorated
24 pools in northwest New Mexico?

25 Okay, what have we got? Let's just move on -- A

1 little after ten. Let's move on to the southeast. And do
2 you want to start again, Mr. Kellahin, or reverse the
3 order?

4 MR. KELLAHIN: Let me describe for you what I
5 have, and then you decide how you'd like to proceed.

6 CHAIRMAN LEMAY: Okay.

7 MR. KELLAHIN: I have one witness for Oryx Energy
8 Corporation with regards to the Indian Basin-Upper Penn Gas
9 Pool, and then I have a statement on behalf of Marathon
10 with regards to that same pool.

11 I have no other presentations for the other pools
12 in southeastern New Mexico.

13 CHAIRMAN LEMAY: So your testimony is Indian
14 Basin --

15 MR. KELLAHIN: Yes, sir.

16 CHAIRMAN LEMAY: -- and that's going to be it?

17 Mr. Carr, you have testimony on what fields?

18 MR. CARR: Well, we have testimony on no fields
19 in the southeast. I have a statement on behalf of Chevron
20 for the Indian Basin and a statement on behalf of Chevron
21 for the Eumont.

22 CHAIRMAN LEMAY: Okay. Mr. Bruce, you have
23 testimony on what fields?

24 MR. BRUCE: We have testimony on the Tubb, and
25 we'll just make, in connection with that, our testimony in

1 support of the Eumont and the Blinebry.

2 CHAIRMAN LEMAY: Tubb, Eumont and Blinebry.

3 Well, let's take Indian Basin first, and then
4 we'll call your witnesses.

5 Mr. Kellahin?

6 MR. KELLAHIN: All right, sir.

7 Mr. Chairman, I've called Mr. Mark Peavy to the
8 stand. Mr. Peavy spells his last name P-e-a-v-y.

9 MARK PEAVY,

10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. For the record, sir, would you please state your
15 name and occupation?

16 A. My name is Mark Peavy. I'm an operations
17 engineer for Oryx Energy.

18 Q. Does that support for your company cause you to
19 be involved in production and marketing issues with regards
20 to your company's involvement in production out of the
21 Indian Basin-Upper Penn Gas Pool?

22 A. Yes, it does.

23 Q. On prior occasions have you qualified as an
24 expert in that area before the Commission to provide
25 opinions and conclusions with regards to establishing

1 allowable levels under the New Mexico proration system for
2 the Indian Basin-Upper Penn Gas Pool?

3 A. Yes, I have.

4 MR. KELLAHIN: We tender Mr. Peavy as an expert
5 witness.

6 CHAIRMAN LEMAY: His qualifications are
7 acceptable.

8 MR. KELLAHIN: Mr. Chairman, I have distributed
9 -- and it has not been marked as an exhibit for this
10 hearing -- simply a locator map. I apologize for its size.
11 It is difficult to read, but it's all I had available in
12 terms of spacing these wells within the Indian Basin.

13 Mr. Peavy's exhibits are the colored displays,
14 starting with his Exhibit Number 1.

15 Q. (By Mr. Kellahin) Give us the general
16 conclusion, Mr. Peavy, and then let's talk about some of
17 the reasons for your conclusion. What does your company
18 recommend?

19 A. We support the OCD recommendation for the
20 proposed allowable of 200,000 MCF per month.

21 Q. And what is the general basis upon which you
22 provide that opinion and that recommendation?

23 A. The basis for that is that we feel that even
24 though we only have one nonmarginal well in the field at
25 this time, we have additional wells that we are drilling to

1 increase this production in other units.

2 Q. Does the difference between what these wells will
3 produce and the allowable assigned, if we maintain the
4 current allowable rate, provide you enough allowable
5 incentive, then, to go ahead and drill these additional
6 wells in your spacing units?

7 A. Yes, it does.

8 Q. The Division spreadsheet shows a volume on a
9 monthly basis. When it is translated to a well on a daily
10 basis, it's about 6.5 million a day, is it not?

11 A. That's correct.

12 Q. And that's the number the Division or the
13 Commission has approved, for perhaps the last five or six
14 proration periods?

15 A. That's correct.

16 Q. And you recommend that that number be continued?

17 A. Yes, we do.

18 Q. All right, let's look at your displays. If
19 you'll start with Exhibit 1, identify and describe what
20 you're showing.

21 A. Exhibit 1 should be the Bright Federal Number 1
22 monthly production. In this figure you can see that in red
23 is the pool allowable, the green highlights our monthly
24 production, and you can see that for this well we are
25 slightly below allowable.

1 Within this unit we have drilled a second well in
2 order to enhance our production from this unit, and this
3 well is currently undergoing cleanup following completion.

4 Q. Under the allowable system, the allowable is
5 assigned to a 640-acre spacing and proration unit, and so
6 the combination of multiple wells within that spacing unit
7 are required to share the spacing unit allowable?

8 A. That's correct.

9 Q. So the 6.5 million a day is going to be the
10 volume that's shared among all wells in the spacing unit,
11 regardless of the number?

12 A. That is correct.

13 Q. All right. Let's turn to the next display,
14 Exhibit Number 2.

15 A. Exhibit Number 2 should be the Bunnell Federal
16 Number 1. This well is well below its allowable. It is
17 located in the northwestern edge of the field, in a poor-
18 quality dolomitic section. We do not anticipate being able
19 to enhance the production of this well up to a full
20 allowable.

21 Q. All right, sir. Exhibit 3?

22 A. Exhibit 3 should be the Conoco State Number 1.
23 This well at one time was a nonmarginal unit. Over the
24 past year, water encroachment entered into the wellbore and
25 resulted in the watering out of this wellbore.

1 We, once we observed this in October of 1994,
2 entered into discussions of the drilling of a subsequent
3 well, which we have completed. The Conoco State Number 2
4 is now on line, producing at approximately 4 million a day.

5 Q. Will the combination of those two wells in that
6 spacing unit, in your opinion, constitute sufficient
7 deliverability that you can maintain your production levels
8 at approximately 6.5 million a day?

9 A. Well, in this particular unit we drilled the
10 second well in a nonstandard spacing, so that we had a
11 penalty of approximately a third, which I believe we can
12 produce approximately 4 million a day, or thereabouts.

13 We feel that from the Conoco State Number 2, as
14 well as the Conoco State Number 1, we should be able to
15 maintain this rate for a period of two to three years.
16 It's our expectation that with the Conoco State Number 1,
17 we plan on bringing that on a co-production lift -- co-
18 production being high-rate water with gas -- at some point
19 in time in the future.

20 Q. All right, sir. Let's look at Exhibit 4 and have
21 you identify and describe that display.

22 A. Figure 4 should be the Federal 28 Number 1. This
23 well is our best well in the field. It has been a
24 nonmarginal well. It's currently operating at pool
25 allowable.

1 Q. And finally Exhibit 5.

2 A. Exhibit 5 is the West Indian Basin Number 1.
3 This well at one time was a better producer, back in 1993.
4 Water encroachment was encountered in February, 1994, which
5 has reduced the rate of the well.

6 During the course of 1994-95, we attempted three
7 different times to remedy this situation, and we were
8 unsuccessful in all three.

9 We do have plans for the drilling of an
10 additional well in this unit in order to increase
11 production up to pool allowable level.

12 Q. What is your recommendation to the Commission
13 concerning action on the Division preliminary schedule,
14 which proposes 200,000 MCF as a monthly average allocation
15 factor for the pool?

16 A. It's our recommendation that this level be
17 maintained.

18 We see that even though on several of our wells
19 we are not at pool allowable, there is enough economic
20 incentive for us to move forward with continued development
21 within this field. As such, we have drilled two wells on
22 operated properties, and we've drilled a third well on a
23 nonoperated property. We have plans for the drilling of an
24 additional one to three wells over the next year time
25 period.

1 Q. If the Commission continues the levels of
2 allowable for the next period as exists now, will there
3 still be wells that are allowable-curtailed in the pool?

4 A. I don't believe that we would have any wells at
5 this time that would be allowable-curtailed.

6 Q. You have one that's very close?

7 A. Yes, we do.

8 Q. Are there other operators that in fact would be
9 curtailed?

10 A. That is possible.

11 Q. Okay. And particularly Chevron's wells are the
12 ones that are the high-capacity wells that in all
13 probability are going to continue to be restricted?

14 A. That's correct.

15 MR. KELLAHIN: That concludes my examination of
16 Mr. Peavy.

17 We move the introduction of his Exhibits 1
18 through 5.

19 CHAIRMAN LEMAY: Without objection, Exhibits 1
20 through 5 will be admitted into the record.

21 Questions of the witness?

22 Commissioner Weiss?

23 COMMISSIONER WEISS: I have no questions.

24 CHAIRMAN LEMAY: Commissioner Bailey?

25 COMMISSIONER BAILEY: No.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. A while back, I know, Commissioner Weiss asked -- I think it was Marathon -- whether they were progressing in any kind of unitization plans in that field. Do you know of any current plans, or is it going to just be produced on a competitive basis through depletion?

A. We have not moved forward from the last discussion on unitization, which has been about a year. I think where we're at right now is that the economic incentives of competition are leading everybody to actually obtain additional reserves that would not be recovered through unitization.

For example, if one were to unitize, there might be the tendency to allow the wells to continue to produce and, as wells watered out, to allow the more updip wells in better locations to continue to capture the reserves.

What we are finding through case histories, Yates and Marathon to be specific, is that we're re-entering wellbores that are below the known gas-water contact in the field.

And through this co-production, high-volume lift by submersible pump, we are seeing that gas is being produced at an economic rate in order to obtain additional gas that may otherwise have been bypassed and left in the

1 ground.

2 Q. So you're getting some gas downdip from your
3 projected gas-water contact on this exhibit, or --

4 A. We -- Oryx is not to date. There are other
5 operators that are, that's correct.

6 We have plans in the near future -- I would say
7 within the next six months -- to put wells on line under
8 this co-production concept. The issue right now is how do
9 we handle the water volumes for disposal?

10 Q. Are you seeing both pressure decline and water
11 encroachment in terms of a depletion mechanism in the
12 field?

13 A. I'd really have to defer that to my reservoir
14 engineer.

15 I think that what I've heard discussed is that we
16 do continue to believe that we have a water encroachment
17 that is moving in at different rates relative to gas
18 production. We have do have some depletion that's going
19 on, I think.

20 We have trended bottomhole pressure declines of
21 approximately 100 pounds per year over the past few years.
22 We should be at about 950-pound bottomhole pressure range
23 at this time.

24 CHAIRMAN LEMAY: Thank you, Mr. Peavy.

25 Additional questions?

1 If not, he may be excused.

2 Mr. Kellahin? Thank you.

3 MR. KELLAHIN: Mr. Examiner [sic], on behalf of
4 Marathon Oil Company, I have a letter in which they support
5 the continuation of the current allowable levels.

6 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

7 Mr. Carr?

8 MR. CARR: May it please the Commission, I have a
9 statement from Chevron. It goes:

10

11 Chevron USA Production Company supports the Oil
12 Conservation Division's proposed allowable assignment
13 factors that resulted in a monthly acreage allocation
14 factor of 200,000 MCF for the Indian Basin-Upper Penn
15 Gas Pool.

16 Chevron's current efforts and additional
17 compressor installations is expected to maintain and
18 improve current production capability of Chevron-
19 operated wells in this pool, and Chevron believes the
20 proposed allowable figure will protect correlative
21 rights of operators within the pool.

22

23 CHAIRMAN LEMAY: Thank you.

24 Anyone else have anything to say on Indian Basin?

25 Okay, let's move on. Mr. Bruce?

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WILLIAM T. DUNCAN, JR.,

the witness herein, after having been first duly sworn upon
his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. My name is William T. Duncan, Jr.

Q. Who do you work for and in what capacity?

A. Exxon Corporation, as a reservoir engineer,
working oil and gas conservation matters.

Q. Have you previously testified before the
Commission as a reservoir engineer?

A. Yes, I have.

Q. And were your credentials as an expert engineer
accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with prorationing matters in
the Tubb pool?

A. Yes, I am.

MR. BRUCE: Mr. Chairman, I tender Mr. Duncan as
an expert reservoir engineer.

CHAIRMAN LEMAY: Mr. Duncan's qualifications are
acceptable.

Q. (By Mr. Bruce) Mr. Duncan, why is Exxon here
today?

1 A. Exxon is here today to request an additional
2 allowable assignment or increase in the acreage allocation
3 factor for the Tubb Oil and Gas Pool.

4 Q. Specifically, what is Exxon requesting?

5 A. Exxon is requesting that that factor be increased
6 from the trial number of 13,500 MCF per month to 16,750 MCF
7 per month.

8 Q. And that's approximately a 25-percent increase?

9 A. That's correct.

10 Q. What is the basis for Exxon's request? And I'll
11 refer you to your Exhibit 1.

12 A. All right, Exxon's Exhibit 1 is a tabulation that
13 shows the wells that Exxon operates in the Tubb Oil and Gas
14 Pool that have capabilities in excess of allowables. I've
15 listed the three wells that we have that have current
16 capabilities in excess of 13,500 MCF per month.

17 The proposed allowables show that there are 0.25
18 nonmarginal acreage factors in the pool. I believe that's
19 down from 8.75 in the last -- the last hearing that we had.
20 I think that reflects, though, some production numbers that
21 weren't of record. In fact, Exxon's production was not in
22 at the time that the last hearing was held, Exxon's
23 production numbers had still not been filed on the ONGARD
24 system. And so when I look at the proration schedule, I
25 think that that nonmarginal well number is extremely low.

1 Exxon has one well that has been nonmarginal, the
2 New Mexico S State Number 20, for more than the past year,
3 and then the other two wells listed on this sheet would be
4 nonmarginal now because of work that we've just performed
5 on those two wells.

6 In detail, I'd like to talk about the S State
7 Number 20.

8 The New Mexico S State Number 20 has a current
9 capability of about 20 million cubic feet per month, and
10 that was a result of work that we performed in October of
11 1994. That was a plunger-lift installation.

12 The New Mexico S State Number 13 has a current
13 capability of about 24 million cubic feet per month, and
14 that was a result of an extensive cleanout we did of the
15 wellbore. There was a fish in the hole. We removed that,
16 and we were able to get the production up quite
17 considerably in June of this year.

18 The FF Hardison B Number 3 is now up to 18
19 million cubic feet per month, and that's a result of
20 stimulation and perforation work done in the past month.
21 And that production rate is still increasing after that
22 work. It's not increasing a lot, but it's not stabilized
23 yet; it's still cleaning out.

24 Q. Okay. Let's move on to your Exhibit 2. You've
25 proposed 16,750 as the allowable factor. Would this still

1 limit production in several of Exxon's wells?

2 A. Well, in fact it would still limit production in
3 all of Exxon's nonmarginal wells.

4 The New Mexico S State Number 20 would be limited
5 about -- Let's see, it would have an excess capability of
6 about 3.5 million cubic feet per month.

7 The S State Number 13 would have approximately 8
8 million cubic feet per month excess capacity.

9 And the Hardison B 3 would have about 1.5 million
10 cubic feet excess capacity, even with the increase that we
11 are proposing.

12 Q. So in order to do away with any excess capacity,
13 the allowable limit would have to be increased to about 24
14 million a month?

15 A. Essentially doubled.

16 Q. What are Exhibits 3 and 4, Mr. Duncan?

17 A. Exhibits 3 and 4 both are details of the
18 production and the accumulation of overproduction for the
19 New Mexico S State Number 20. That's the well that was
20 shown on the first exhibit as having had a plunger lift
21 installation in October of 1994.

22 The Exhibit Number 3 is a tabulation that shows
23 by month since October of 1994 the sales from the well.
24 The allowable is shown in the next column. The monthly
25 over/under status is shown in the fourth column. And the

1 fifth column shows the cumulative overproduction for the
2 well.

3 As you can see, in June, 1995, the well produced
4 20.2 million cubic feet of gas to sales. I've estimated
5 that that same production has continued since that month,
6 that we have no reason to believe otherwise, but we don't
7 have the exact sales numbers.

8 And based upon that, by October 19- -- excuse me,
9 by August, 1995, the well will be six times overproduced.
10 And for that reason, the well would have to be shut in, to
11 make up that overproduction till it comes back down.

12 We believe that an increase in the allowable
13 would help us keep that well producing and utilize its
14 production capability.

15 The plot on Exhibit Number 4 just shows when the
16 production rate exceeded allowable.

17 On the left vertical axis I've plotted the sales
18 and the allowable for the months, and the scale goes from
19 zero to 25 cubic feet per month.

20 On the right axis, the right vertical axis, I've
21 plotted the total cumulative status of the well. So each
22 month, I've added the prior month's status to come up with
23 the cumulative line that increases as you go right across
24 the page.

25 But the well's been very consistent, as you can

1 see, producing about 20 million cubic feet a month, and has
2 consistently overproduced its allowable.

3 Q. Is there a market for Exxon's gas from this pool?

4 A. Well, yes, in fact, this shows that we've
5 actually produced to market for the past year, in excess of
6 what the allowable would be.

7 Q. Now, you've already mentioned the number of
8 nonmarginal acreage factors. Obviously, from what you're
9 telling us, Exxon will have at least three nonmarginal
10 units in the next period; is that correct?

11 A. That's correct.

12 Q. In your opinion, is the granting of Exxon's
13 request in the interest of conservation and the prevention
14 of waste?

15 A. Yes.

16 Q. And were Exhibits 1 through 4 prepared by you?

17 A. Yes, they were.

18 MR. BRUCE: I would move the admission of Exxon's
19 Exhibits 1 through 4, Mr. Chairman.

20 CHAIRMAN LEMAY: Without objection, Exhibits 1
21 through 4 will be admitted into the record.

22 MR. BRUCE: And that concludes our presentation.

23 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

24 Questions of the witness?

25 Commissioner Weiss?

1 COMMISSIONER WEISS: I have no questions.

2 CHAIRMAN LEMAY: Commissioner Bailey?

3 EXAMINATION

4 BY COMMISSIONER BAILEY:

5 Q. Is Exxon the major operator in this pool?

6 A. We like to think so. We have the most
7 nonmarginal wells, it looks like, right now. But no, we're
8 not. I think Chevron has probably twice as many wells in
9 the field as we do.

10 COMMISSIONER BAILEY: That's all the questions.

11 EXAMINATION

12 BY CHAIRMAN LEMAY:

13 Q. Have you contacted Chevron concerning the
14 increased allowable that you're requesting? Have they
15 commented?

16 A. No, I have not, I have not talked to Chevron
17 about it.

18 CHAIRMAN LEMAY: Okay, that's all I have. Thank
19 you, Mr. Duncan.

20 MR. BRUCE: The only other thing we have is a
21 statement by Mr. Duncan in support of the Eumont and the
22 Blinebry.

23 CHAIRMAN LEMAY: That concludes any testimony on
24 any of the pools in the southeast, Mr. Bruce?

25 MR. BRUCE: Yes.

1 CHAIRMAN LEMAY: Okay. Are there any other
2 witnesses that will be testifying as to allowables in the
3 southeast?

4 Well, time for statements.

5 Since you're still standing, Mr. Bruce, do you
6 want to continue, or Mr. Duncan? I didn't mean to call you
7 back.

8 MR. DUNCAN: I'm back.

9 CHAIRMAN LEMAY: Please be our guest to present
10 the statement.

11 MR. DUNCAN: Mr. Chairman and Commissioners,
12 Conoco supports the field allocation factors that are
13 presented in the notice of today's hearing. We've been
14 able to sell gas and produce under the allowables. We'd
15 actually, frankly, like to see a little higher allowables,
16 but these are certainly satisfactory.

17 We very much appreciate the opportunity to
18 comment on these allowables.

19 CHAIRMAN LEMAY: Thank you. Additional
20 statements?

21 Mr. Carr?

22 MR. CARR: May it please the Commission, I have a
23 statement on behalf of Chevron. Chevron is a principal
24 operator in the Eumont Gas Pool, and it supports the
25 proposed monthly acreage allocation factor of 38,000 MCF

1 and recommends that it be adopted.

2 Chevron's recent drilling recompletion and
3 restimulation program in this pool has substantially
4 increased production from the pool. A lower allowable
5 would have a negative economic impact on Chevron's plans
6 for further work in the pool, and it could jeopardize
7 Chevron's continuation of its efforts to increase
8 production from the Eumont.

9 CHAIRMAN LEMAY: Did Chevron comment on the Tubb
10 allowable or anything else through the schedule?

11 MR. CARR: I have no comment on the Tubb.

12 CHAIRMAN LEMAY: Any other statements concerning
13 southeast New Mexico allowables?

14 Any other statements concerning any of the
15 allowables in any of the fields in New Mexico?

16 Okay, thank you very much, gentlemen. We'll take
17 this case under advisement.

18 (Thereupon, these proceedings were concluded at
19 10:30 a.m.)

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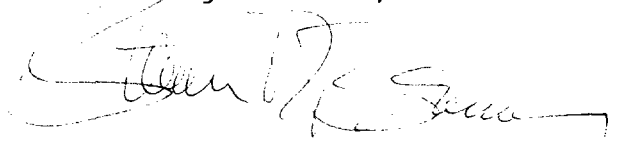
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter
and Notary Public, HEREBY CERTIFY that the foregoing
transcript of proceedings before the Oil Conservation
Commission was reported by me; that I transcribed my notes;
and that the foregoing is a true and accurate record of the
proceedings.

I FURTHER CERTIFY that I am not a relative or
employee of any of the parties or attorneys involved in
this matter and that I have no personal interest in the
final disposition of this matter.

WITNESS MY HAND AND SEAL August 11th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998