

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date FEBRUARY 23, 1995 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
PAUL D MOLLO	GAS CO. N.M.	ALB
<i>W. Kellahin</i>	<i>Kellahin & Kellahin</i>	<i>Santa Fe</i>
<i>J. Sexton</i>	<i>DCD</i>	<i>Holls</i>
<i>Vic Bryan</i>	<i>Gas Co / N.M.</i>	<i>Santa Fe</i>
<i>James Bruce</i>	<i>Hughes Law Firm</i>	<i>Santa Fe</i>
<i>Jerry Hoover</i>	<i>Conoco Inc.</i>	<i>Midland, TX</i>
<i>Brian Hurrey</i>	<i>Chevron USA</i>	<i>Midland, TX</i>
<i>Robert Green</i>	<i>Chevron USA</i>	<i>Midland, TX</i>
<i>Al Bohling</i>	<i>Chevron USA</i>	<i>Midland, TX</i>
<i>Bill Carr</i>	<i>Campbell, Carr, Boyd + Jordan</i>	<i>Santa Fe</i>
<i>Bill DUNCAN</i>	<i>Exxon</i>	<i>Midland, TX</i>
<i>Maurice Trimmer</i>	<i>Byram</i>	<i>SF</i>
<i>Julia Jenkins</i>	<i>Amoco</i>	<i>Denver CO</i>
<i>John H. Hards</i>	<i>Amoco</i>	<i>Denver, CO</i>
<i>Bill Hawkins</i>	<i>Amoco</i>	<i>Denver CO</i>

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NAME	REPRESENTING	LOCATION
Craig R. O.	MARATHON OIL	MIDLAND, TX
Kevin McGold	KM Production Co / IPANM	Farmington, NM
ALAN ALEXANDER	MERIDIAN OIL INC	FARMINGTON
Dan Girard	PRUCO / IPANM	Reswell
Robert Verquer	Can'tins Oil Co.	Bloomfield N.M.
Jerry Hoover	Conoco Inc.	MIDLAND, TX
John Roe	Dugan Prod.	Farmington
TIM TURNER	PHILLIPS PETROLEUM	HOUSTON
Raye Miller	Marbob Energy Corp.	Martesia
HARRY SANDERS	Ph. Illips Petroleum	Odessa, TX
Bill Olson	XIM OCD	Santa Fe
Jamye Boone Ward	El Paso Natural Gas Co	El Paso, TX
GEORGE SEITTS	GIANT IND / GIANT E&P	PHX, AZ.
Ruth Andrews	NMOGA	SF
STEVE SALEMAN	BLM - SANTA FE	SANTA FE
Ed Roberson	BLM - SANTA FE	SF, NM
Anna Griggs	Mc Elvaine Oil + Gas	SF, NM
Larry Van Ryan	Mc Elvaine Oil + Gas	SF, NM
Jim Morrow	Self - OCD	Austin

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:)	CASE NO. 11,211
)	
APRIL-SEPTEMBER, 1995,)	
GAS ALLOWABLES)	
_____)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS
COMMISSION HEARING

ORIGINAL

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
GARY CARLSON, COMMISSIONER

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February 23rd, 1995 Oil Conservation Division
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission on Thursday, February 23rd, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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February 23rd, 1995
 Commission Hearing
 CASE NO. 11,211

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A P P E A R A N C E S

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By: JAMES G. BRUCE

(Continued...)

A P P E A R A N C E S (Continued)

ALSO PRESENT:

WILLIAM T. DUNCAN, JR.
Exxon Corporation

JERRY HOOVER
Conoco, Inc.

VIC LYONS
Consulting Petroleum Engineer, NMOCD

* * *

1 WHEREUPON, the following proceedings were had at
2 9:10 a.m.:

3 CHAIRMAN LEMAY: We'll call Case 11,211, which is
4 a case called by the Oil Conservation Division on its own
5 motion to consider the proposed April-to-September, 1995,
6 gas allowables for prorated pools in New Mexico.

7 Appearances in Case 11,211?

8 MR. CARROLL: Mr. Chairman, my name is Rand
9 Carroll and I'm here representing the Oil Conservation
10 Division.

11 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

12 MR. CARROLL: I have two witnesses.

13 CHAIRMAN LEMAY: Thank you.

14 MR. CARR: May it please the Commission, my name
15 is William F. Carr with the Santa Fe law firm Campbell,
16 Carr, Berge and Sheridan.

17 I'd like to enter our appearance for Amoco
18 Production Company. We will present one witness who will
19 testify about allowables in the San Juan Basin.

20 I would also like to enter my appearance for
21 Chevron USA, Inc. We will present three witnesses to
22 provide testimony concerning allowables in the Eumont and
23 Indian Basin.

24 CHAIRMAN LEMAY: Thank you, Mr. Carr.

25 Mr. Kellahin?

1 MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of
2 the Santa Fe law firm of Kellahin and Kellahin, appearing
3 today on behalf of Marathon Oil Company, Oryx Energy
4 Company, Meridian Oil, Inc., and Phillips Petroleum
5 Company.

6 CHAIRMAN LEMAY: Thank you.

7 Mr. Bruce?

8 MR. BRUCE: Mr. Chairman, Jim Bruce from the
9 Hinkle law firm, representing Exxon Corporation. We have a
10 representative from Exxon who would like to make a very
11 brief statement.

12 CHAIRMAN LEMAY: A statement, not a witness?

13 MR. BRUCE: Yes.

14 CHAIRMAN LEMAY: Thank you.

15 Additional appearances in the proration case?

16 MR. HOOVER: Mr. Chairman, I'm Jerry Hoover of
17 Conoco. I'd simply like to make a very brief statement to
18 support the Eumont.

19 CHAIRMAN LEMAY: Thank you, Mr. Hoover. We will
20 call for statements at the end, and anyone who has not
21 indicated a desire to speak at this point certainly can
22 then.

23 At this point, those witnesses which will be
24 giving testimony, would you please stand up and raise your
25 right hand?

1 (Thereupon, the witnesses were sworn.)

2 CHAIRMAN LEMAY: And we'll start with Mr.
3 Carroll.

4 MR. CARROLL: Thank you, Mr. Chairman.

5 I call 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 your place of residence for the record?

13 A. Yes, sir, my name is Jim Morrow. I live in
14 Austin, Texas.

15 Q. And Mr. Morrow, in what capacity are you employed
16 right now?

17 A. I'm employed with the Oil Conservation Division
18 on a contract consulting basis. I was previously employed
19 as Chief Petroleum Engineer, until December of last year.

20 Q. And how long were you Chief Petroleum Engineer
21 for the Division?

22 A. About two and a half years, in two different
23 assignments.

24 Q. And were some of your duties as Chief Petroleum
25 Engineer the managing of gas proration and the application

1 of proration rules and regulations to oil and gas operators
2 in New Mexico?

3 A. Yes, sir.

4 Q. Have you testified before the Oil Conservation
5 Commission before and had your qualifications accepted as
6 an expert petroleum engineer?

7 A. Yes.

8 Q. For today's hearing, Mr. Morrow, have you
9 prepared exhibits regarding gas prorationing?

10 A. Yes, sir, we prepared Exhibits 1 and 2.

11 Q. I'll refer you to Exhibit Number 1, and if you
12 could explain to the Commissioners what the figures are,
13 let's just do it with the Atoka Penn, the first pool name,
14 and then just go across and explain how the figures are
15 determined.

16 A. Okay. This is the allowable determination
17 schedule for the pools, prorated gas pools in the southeast
18 portion of New Mexico, and this schedule is similar to ones
19 that have been prepared each six months over the last
20 several years when we come to hearing and request that
21 allowables be assigned to those prorated pools.

22 Normally we start with production from the
23 previous summer period, April through September; we would
24 normally start with April through September. We'd want to
25 start with April-through-September-of-1994 production from

1 each of these pools and use that as a basis for coming up
2 with a starting place for our allowables for the April-
3 through-September, 1995, period.

4 This time we could not use 1994 production
5 numbers because they were unavailable to us because of some
6 delays in getting production information into ONGARD. So
7 we went back to April through September, 1993, as is shown
8 on Exhibit 1, and those are production numbers from each of
9 these 13 pools for that period.

10 The next column is pool adjustments, and these
11 adjustments are really a summary of the adjustments which
12 have been made at the last two hearings, the one in
13 February of 1994, and then in September, I believe it was,
14 in 1994, for the current proration period. So we looked at
15 those adjustments to see what adjustments and allowables
16 would be appropriate and entered those in that column.

17 The third column is the monthly allowable we
18 would want to assign to each pool for the upcoming period.
19 And then we subtracted out the marginal -- the amount which
20 we supposed the marginal wells would produce, and that's
21 based on marginal production from the pools for the April-
22 through-September, 1993, period.

23 After we subtracted that out, we were left with
24 the allowable which we would want to assign to the
25 nonmarginal wells in the pool for the period.

1 And then we took the number of nonmarginal
2 acreage factors or proration units which there are in the
3 pool and divided that into the nonmarginal allowable to
4 come up with a monthly acreage allocation factor, which
5 would be used to assign allowables.

6 The allocation factor would give a well on a gas
7 proration unit with an acreage factor of one that allowable
8 for a month. That would be the monthly allowable for a
9 well with an acreage factor of one.

10 Q. Okay, Mr. Morrow, I guess right now we might as
11 well go to Exhibit Number 2.

12 A. All right. Exhibit Number 2 is very similar,
13 except in the pools in the northwest deliverability is used
14 in allocating allowable, as well as acreage. So we have
15 two factors there: an acreage factor and an acreage-times-
16 deliverability factor.

17 Point out an error in the column headings where
18 it says "ACT Times Deliverability" in column eight. In the
19 third column from the right or the eighth from the left, in
20 the heading it says "ACT times DIV", and that should say
21 "Acreage times Deliverability".

22 The table is built the same way as in the
23 southeast, except when you get to the monthly nonmarginal
24 pool allowable, you take a portion of that and distribute
25 it to the gas proration units based on the acreage assigned

1 to the wells. And then the remaining portion is
2 distributed based on the acreage assigned to the well,
3 times the deliverability of the wells on that gas proration
4 unit.

5 And I'd be glad to go into that in more detail if
6 somebody would like to. I think we've gone through it
7 before, but you tend to forget it after six months.

8 Q. I believe you stated this earlier, but the
9 seventh column, the Number of Nonmarginal Acreage Factors,
10 those numbers refer to proration units; is that correct?

11 A. Yes, sir, that's right. That's the number of
12 proration --

13 Q. And today, Mr. Morrow, these Exhibits Number 1
14 and 2, Number 1 for the southeast and Number 2 for the
15 northwest, these are your recommendations as a starting
16 point for the Commission to set allowables, rather than
17 your specific recommendation as to what the allowable
18 should be for each of these pools; is that right?

19 A. I think that's especially true this time, since
20 we don't have pool production for the 1994 period, that
21 we'd need to rely on input from industry to help us refine
22 these allowables or adjust them in any way they thought
23 might be needed.

24 Q. Do you believe gas prorationing imposes an
25 artificial restraint on production from these prorated

1 pools?

2 A. No, I don't believe it does, if I'm sure what you
3 mean by "artificial". It's real, if there is any
4 restriction, but...

5 For the most part, the prorated pools are allowed
6 to produce almost what they're capable of producing.
7 There's not much restraint on any of the wells in the
8 prorated pools.

9 Q. And the restraint would be on, I guess, what
10 we've been calling superstar wells; is that correct?

11 A. Yes, sir, there is imposed a maximum allowable.
12 The proration system does impose a maximum amount which can
13 be produced, and if one well were much better than any of
14 the other wells in the pool, it would tend to protect
15 correlative rights in the pool by imposing some restraint
16 on highly capable wells.

17 MR. CARROLL: Mr. Chairman, I tender Mr. Morrow
18 as an expert witness.

19 And I offer Exhibits numbered OCD Exhibits 1 and
20 2 into the record.

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

23 And Mr. Morrow's qualifications are certainly
24 acceptable.

25 Questions of the witness? Mr. Kellahin?

1 MR. KELLAHIN: Thank you, Mr. Chairman.

2 EXAMINATION

3 BY MR. KELLAHIN:

4 Q. Mr. Morrow, the Division circulated with the
5 docket for hearing a preliminary schedule that shows the
6 spreadsheets, if you will, that are now attached as
7 Exhibits 1 and 2.

8 I've scanned those quickly, and they appear to me
9 to be identical between the schedules sent to the industry
10 in the Notice of Hearing and the two exhibits you're
11 presented today.

12 A. Yes.

13 Q. Am I correct in that understanding?

14 A. That's correct.

15 Q. What is the last monthly date of OCD production
16 data that went into the spreadsheets?

17 A. September of 1993.

18 Q. Okay. If you'll look for me on Exhibit Number 2,
19 Mr. Morrow, I'm interested in how to make a calculation.

20 Phillips Petroleum Company in the northwest is
21 going to request the Commission to make adjustments in two
22 pools, in the Dakota and the Mesaverde. For purposes of
23 the calculation, I'd like to have you help me.

24 If you look at Basin Dakota and count over to the
25 fifth column and find the column that says Monthly

1 Nonmarginal Pool Allowable --

2 A. Yes, sir.

3 Q. -- it says 270,000 MCF.

4 A. Right.

5 Q. Phillips will request that that nonmarginal pool
6 allowable be increased by an additional 10,000 MCF.

7 A. Yes, sir.

8 Q. If that number goes to 280,000, should the
9 Commission agree with the request, then how do we make the
10 arithmetic conversion to come up with a pool adjustment
11 that gives us a corresponding monthly nonmarginal pool
12 allowable?

13 A. All right, we would take 60 percent of that
14 280,000. Sixty percent times 280,000, divided by the
15 15.05, would give you the monthly acreage allocation
16 factor, which is the next-to-the-last column.

17 And then you'd take 40 percent of it and divide
18 it by 7978, which is the number of nonmarginal times
19 acreage deliverability factors, and divide that into 40
20 percent times 280, and you would come up with something
21 slightly higher than what's shown in the last column, which
22 would be the F2 factor.

23 Q. If the Commission should adopt that change, then,
24 that would be enough information by which you could make a
25 corresponding calculation to show the pool adjustment?

1 A. Yes, sir.

2 Q. And if we did the same thing with the Blanco
3 Mesaverde, increase that, you would have the ability to
4 make the conversion for the pool adjustment?

5 A. Yes, sir, in Blanco Mesaverde the allocation is
6 slightly different. It's based 25 percent on acreage and
7 75 percent on acreage times deliverability. But it would
8 be a simple enough calculation to make.

9 MR. KELLAHIN: All right, sir.

10 Thank you, Mr. Chairman.

11 THE WITNESS: What increase did you plan for
12 the --

13 MR. KELLAHIN: The Phillips engineer has
14 requested that half a BCF be added to the monthly
15 nonmarginal pool allowable for the Blanco Mesaverde.

16 THE WITNESS: Yes, sir.

17 MR. KELLAHIN: Thank you, Mr. Chairman.

18 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

19 Additional questions of the witness?

20 Commissioners? Commissioner Carlson?

21 EXAMINATION

22 BY COMMISSIONER CARLSON:

23 Q. Yeah, Jim, you say the formula for the Basin
24 Dakota was 60-40?

25 A. Yes, sir.

1 Q. And what are the formulas for the other three?

2 A. The other three are 75-25, 75 percent acreage
3 times deliverability and 25 percent acreage.

4 Q. Where do those numbers come from?

5 A. They were -- I think they were originally 75-25
6 for each of the pools, and then it's my recollection or
7 my -- I believe I read somewhere that at a hearing data was
8 presented which indicated that the Basin Dakota should be
9 amended so that what's currently assigned would be put in
10 place, and that was done after hearing.

11 I'm not completely familiar with all the data
12 that was presented, but they were developed by an
13 engineering committee, I believe, and presented before the
14 Commission and assigned by order.

15 Q. And the number of nonmarginal acreage times
16 deliverability, where do those numbers come from?

17 A. All right, they're computed based on the number
18 of -- well, in the Basin Dakota it says there are 15.05
19 nonmarginal acreage factors in the field. All right, all
20 the wells on those proration units that make up those 15.05
21 nonmarginal acreage factors, you multiply their
22 deliverability times their acreage factor and come up with
23 this factor.

24 Q. Are those deliverability numbers adjusted every
25 six months, or are you using the same ones year after year?

1 A. No, they're run every two years. Every two years
2 deliverabilities are determined and put into the system,
3 you know, the ONGARD system, and then those are used until
4 a new one is run.

5 Q. I see. Do you know the historical basis for
6 using deliverability in the San Juan Basin but not in the
7 Permian Basin?

8 A. Not really specifically. I think generally in
9 allocating allowable in prorated pools, there has been an
10 attempt maybe to use more than one factor. If a well had a
11 high deliverability, I guess it was reasoned that it should
12 have maybe a slightly higher allowable, or some higher
13 allowable, but not -- not completely based on
14 deliverability.

15 So this weights two factors. I think the
16 historical basis for allowables, maybe, in Texas and New
17 Mexico both was a portion of the absolute open flow
18 potential where it was based more on potential and
19 deliverability than on acreage.

20 And then the acreage factor came in to weight
21 that to some extent, to give some weight to both the amount
22 of acreage assigned to the well and what it's capable of
23 producing.

24 And on a correlative-rights basis you can see
25 that acreage should be considered, at least, and weighted

1 to some extent but possibly not given the whole weight.

2 And I really haven't answered your question, but
3 maybe shed some light.

4 Q. Well, is there any rational basis for having
5 acreage only in the southeast but taking deliverability
6 into account in the San Juan Basin?

7 A. There was a time when, in the southeast, in at
8 least some of the pools, deliverability was a
9 consideration. But it was dropped, I guess, after it was
10 determined that it was no longer -- if not useful, not
11 needed.

12 Q. Well, do you think the Commission ought to be
13 consistent and apply the same formula to both areas?

14 A. Not necessarily. I think probably it may be time
15 to consider elimination of deliverabilities in some of the
16 northwest pools if we look at those and decide that it
17 would not violate correlative rights or -- to eliminate
18 deliverabilities there, because it is more straightforward
19 and a simpler method, it's cheaper, deliverabilities
20 wouldn't have to be run each time. So probably we ought to
21 be looking at that.

22 Q. Do you think it would make much difference in the
23 sum result?

24 A. With high allowables, it's not going to -- you
25 know, the high allowables we've been assigning, it's not

1 going to make that much difference, because much of the
2 production from the prorated pools is not prorated anyhow.
3 A lot of it is.

4 You look at Basin Dakota, for instance. Very
5 little of what's produced is actually produced by
6 nonmarginal wells, and that's the case in many of the
7 pools.

8 COMMISSIONER CARLSON: Thank you.

9 CHAIRMAN LEMAY: Yes, sir.

10 Commissioner, Weiss?

11 EXAMINATION

12 BY COMMISSIONER WEISS:

13 Q. Jim, is there a way to protect the correlative
14 rights of these operators, other than proration?

15 A. Well, the way gas wells are allowed to produce in
16 New Mexico in non-prorated pools is that they're allowed to
17 produce whatever they can produce.

18 So in situations where it is necessary to protect
19 correlative rights in nonprorated pools, it's more
20 difficult because you have to assign some kind of a penalty
21 factor to a well which would drain a neighbor. And what do
22 you base that penalty factor on? We usually say, Well, it
23 will be based on deliverability or some measure of
24 productive capacity.

25 And here, to protect correlative rights,

1 proration does offer a good way to do that.

2 In Eumont and Jalmat, for instance, there are
3 many wells which have small acreage assigned, small
4 compared to what could be assigned. And this allows
5 operators to develop their small-acreage tracts and still
6 offer -- the proration system offers a way to prevent those
7 wells from violating the correlative rights of neighbors.

8 Q. Well, in those two units, the Jalmat and the
9 Eumont, would -- if there were no proration there, could
10 that situation be addressed by some other means?

11 A. It wouldn't be as efficient and it wouldn't be as
12 -- in my opinion, it wouldn't be as effective a way as
13 what's currently in place.

14 COMMISSIONER WEISS: Thank you.

15 THE WITNESS: Yes, sir.

16 CHAIRMAN LEMAY: I'm going to, I guess, ask a
17 question in terms of clarification. I know this is a
18 little unusual, but it's been my recollection or my
19 understanding that deliverability was once a -- part of the
20 formula in the southeast. And there was a Supreme Court
21 decision, an El Paso Supreme Court decision that voided
22 deliverability as part of that formula.

23 Can any of you help me out on that one for
24 clarification of Commissioner Weiss?

25 Vic?

1 MR. LYONS: I can tell you all about it.

2 CHAIRMAN LEMAY: I'd like to recognize Vic Lyons,
3 just to clarify the record here on that issue.

4 MR. LYONS: The deliverability has always been a
5 factor in the northwest. There was an engineering
6 committee that got together and agreed that the allowables
7 would be based 25 percent on acreage and 75 percent on
8 acreage times deliverability.

9 In the southeast, an engineering committee
10 recommended that we base our proration 100 percent on
11 acreage.

12 In 1957 Texas Pacific filed an application to
13 change the formula to the same formula they used in the
14 northwest, and after three hearings the formula was
15 changed. And an appeal was taken to the Supreme Court.

16 The Supreme Court ruled that order be invalid.
17 And they also set out the requirements that an applicant
18 must meet in order to change a proration formula, and it
19 involves a complete volumetric study of the reservoir, to
20 begin with, and a lot of other things.

21 So any effort to change a proration formula is
22 going to involve a tremendous amount of work and testimony
23 and evidence-gathering.

24 MR. MORROW: Did that apply to the southeast and
25 the northwest, that decision, that study?

1 MR. LYONS: Sir?

2 MR. MORROW: Did the Supreme Court decision apply
3 to both northwest and southeast?

4 MR. LYONS: It applies to any efforts to change
5 the proration formula once it is established by the
6 Commission.

7 CHAIRMAN LEMAY: Thank you, Mr. Lyon.

8 For those of you that don't know, Vic was on that
9 committee, so he has historical knowledge here that we
10 appreciate getting into the record.

11 Mr. Kellahin?

12 MR. KELLAHIN: Just a small footnote. Mr. Lyons
13 is too modest. He and my dad were involved in that case.
14 It's called the Continental Oil case.

15 CHAIRMAN LEMAY: Continental, not El Paso. Thank
16 you, the Continental Oil case. All right, thank you very
17 much. Any other clarification on Commissioner Carlson's
18 question on proration and some of its history and I guess
19 the need maybe to continue with the formula as it currently
20 is without...

21 How about the *Udden* decision? Is that something
22 that would also affect all interest owners in the San Juan
23 Basin, that if you change the formula you would have to
24 contact every royalty and working interest owner?

25 MR. KELLAHIN: Well, I'll let Mr. Bruce speak to

1 that; he is the architect of that masterful piece of
2 judicial legislation.

3 MR. BRUCE: Thank you.

4 MR. KELLAHIN: Perhaps he could enlighten us.

5 MR. BRUCE: Mr. Chairman, my answer is, I don't
6 know.

7 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

8 Mr. Carlson, does this clarify?

9 COMMISSIONER CARLSON: Yeah, this helps a lot.

10 CHAIRMAN LEMAY: Okay.

11 COMMISSIONER CARLSON: Thank you, Vic.

12 CHAIRMAN LEMAY: Thank you, gentlemen. Thank
13 you, Vic.

14 I don't have any questions of the witness. Thank
15 you very much, Jim, and it's good to have you back in the
16 country.

17 Mr. Carroll?

18 MR. CARROLL: Mr. Chairman, I next call Ron
19 Merrett to the stand.

20 RONALD H. MERRETT,

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

23 DIRECT EXAMINATION

24 BY MR. CARROLL:

25 Q. Mr. Merrett, will you please state your name and

1 your place of residence?

2 A. My name is Ron Merrett. I live in Albuquerque,
3 New Mexico.

4 Q. And where are you employed and what position are
5 you employed in?

6 A. I'm employed in the Oil Conservation Division and
7 I'm in charge of the natural gas marketing activity. My
8 title is Natural Gas Programs Director.

9 Q. And what do your duties include as Gas Marketing
10 Director?

11 A. Gas Marketing Director, I'm responsible for
12 preparing economic and legal research connected with
13 protection of New Mexico's natural gas markets. I'm also
14 responsible for producing information to the public and to
15 the industry concerning natural gas production and market
16 conditions.

17 Q. Mr. Merrett, have you previously testified before
18 the Oil Conservation Commission and had your qualifications
19 in the area of gas marketing accepted as an expert witness?

20 A. Yes, I have.

21 MR. CARROLL: I tender Mr. Merrett as an expert
22 in the field of gas marketing of New Mexico gas.

23 CHAIRMAN LEMAY: His qualifications are
24 acceptable.

25 Q. (By Mr. Carroll) Mr. Merrett, would you please

1 give the Commission I guess a brief overview of where New
2 Mexico production currently stands and then the history in
3 maybe the last five to ten years?

4 A. Mr. Chairman, members of the Commission, I'll
5 talk first of all about New Mexico's total gas production.

6 Companies, as you know, do not generally pay much
7 attention to what a state's production is. They're more
8 interested in their own production of Basin.

9 One of our tasks in the State -- in this office
10 is to try to separate the production which occurs within
11 the boundaries of New Mexico, and that's not always too
12 relevant to the companies. However, the information
13 regarding production from individual pools is relevant.

14 I think it's probably appropriate for me to
15 address the reason why we have no production data for 1994,
16 and I would simply tell you that we have at the moment, I
17 think, approximately 80 percent of the production for 1994
18 in our computer system. It's not readily accessible at the
19 moment by pool. But total production, we have
20 approximately 80 percent in.

21 Based on that and on other published information,
22 we believe that production in 1994 was between five and ten
23 percent higher than in 1993. Specifically, we project
24 eight percent, but I'm not confident enough of that number
25 to be really -- to really come down hard on that number. I

1 would rather suggest it's between five and ten percent
2 higher.

3 This is based on published information from the
4 companies and also from federal sources. So that may be of
5 interest. And it's my belief also that this higher rate of
6 production is continuing in 1995.

7 This has been an exceptionally warm winter.
8 We've had a series of warm winters, as a matter of fact,
9 but nationally it's been a fairly warm winter.

10 The industry typically will fill storage in the
11 fall, in anticipation of a cold winter or just in case
12 there's a cold winter, so that when there isn't a cold
13 winter the storage is fill in the spring, and the impact,
14 of course, is on price.

15 Now, as you know, Mr. Chairman, the price of gas
16 is now deregulated, so price is not a factor which,
17 theoretically at least, comes into play in determining
18 whether or not a well is produced. If the operator is
19 content to take a lower price he can essentially produce a
20 well in New Mexico. Price is not a factor.

21 Interestingly enough, New Mexico seems to be
22 producing at record levels, in spite of the low prices.

23 There are a number of reasons for this, but one
24 of them certainly is the fact that wells in -- particularly
25 in the San Juan Basin, appear to have lower operating costs

1 than many wells across the nation. And also there are some
2 wells which are able to benefit from the Section 29 tax
3 credits, which are still given for wells which were
4 completed in a certain window a few years ago.

5 So there are certain economic reasons why San
6 Juan Basin wells particularly continue to produce at a high
7 rate. In fact, it's our understanding and our belief,
8 based on testimony which has been made before the Federal
9 Energy Regulatory Commission and also from our own contacts
10 with companies, that there is a certain amount of
11 curtailment in production in the San Juan Basin right now.
12 I don't know the order of magnitude but suspect it's of the
13 order of 200 to 300 million a day. And this is not caused
14 by anything but a lack of pipeline capacity out of the
15 Basin, so... And that is a condition which exists in spite
16 of a mild winter and full storage.

17 The production picture for New Mexico looks --
18 the market picture looks as though it's going to continue
19 to improve. There's no reason to believe that New Mexico's
20 production will not be another record year in 1995,
21 although it's a little early to say based on production
22 statistics.

23 It's my belief we'll have good production
24 statistics for 1994 within very short order and certainly
25 before the next gas proration hearing in six months' time.

1 That essentially is my testimony.

2 CHAIRMAN LEMAY: Thank you, Mr. Merrett.

3 Q. (By Mr. Carroll) Mr. Merrett, what was New
4 Mexico's gas production in 1993?

5 A. Approximately 1.4 trillion cubic feet, a little
6 over 1.4 trillion.

7 Q. And your projection for last year, 1994, is that
8 an additional eight percent was produced?

9 A. About 1.55, we believe, TCF. Although I must
10 tell you that that's a projection and not a forecast.

11 Q. And of those figures, what percentage is coal
12 seam production and what percentage is conventional?

13 A. That is hard to say. I don't have the numbers in
14 front of me, but coal-seam gas production is approximately
15 one-third of that total, I think.

16 Q. Where does most of New Mexico's gas go? It goes
17 to California?

18 A. Most -- We still think about 80 percent of New
19 Mexico's gas is marketed in California, ten percent in the
20 State of New Mexico, and the other ten percent in a variety
21 of markets, increasingly markets to the east of the state,
22 in Texas and other states to the east.

23 Q. Okay. Mr. Merrett, a lot of pipeline
24 construction occurred in the San Juan Basin in the last few
25 years, and apparently that still wasn't enough to handle

1 all the production that is coming out of the Basin?

2 A. That's correct.

3 El Paso Natural Gas has an expansion project --
4 several, as a matter of fact.

5 But the most significant one is probably the San
6 Juan triangle expansion, which has been before the Federal
7 Energy Commission for I think about a year and shows no
8 signs of getting constructed. That's the main one.

9 Transwestern has made attempts to see if there's
10 enough interest in a Transwestern expansion out of the
11 Basin, but that is not yet a case before the FERC.

12 Q. Is it your opinion that prorationing is somehow
13 limiting the ability of New Mexico production to find
14 markets?

15 A. I'm not really in a position to comment on that.
16 I don't believe it has an effect from my knowledge of the
17 system, but I'd rather leave the answer to that question to
18 others.

19 MR. CARROLL: Thank you, Mr. Merrett.

20 That's all the questions I have of Mr. Merrett,
21 Mr. Chairman.

22 CHAIRMAN LEMAY: Thank you, Mr. Carroll.

23 Additional questions of the witness?

24 Commissioner Carlson?

25 COMMISSIONER CARLSON: Yeah, a couple.

EXAMINATION

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BY COMMISSIONER CARLSON:

Q. I'm surprised to hear there's a lack of pipeline capacity again out in the San Juan Basin. As Rand said, there was a few years ago, and then we had those expansion projects, and I thought there was actually an excess of capacity there for a while.

A. Well, you know, it's somewhat a day-to-day situation. But our belief is -- and I think it's not without some strong support -- that there is, overall, a need for additional capacity.

Q. Is the Transwestern lateral full --

A. Yes, sir.

Q. -- running full?

A. I spoke to Transwestern yesterday, and they said they are running -- generally speaking, they're running full.

Q. Okay. Whatever happened to the TransColorado project? Was that the name of it?

A. That's still -- The promoters of that are still optimistic that it will be built. Others are not so sure.

Q. Okay. One other question.

Is the increase in production still mostly due to increased coal seam production?

A. Yes, it is.

1 Q. So coal seam's continuing to increase?

2 A. Yes.

3 COMMISSIONER CARLSON: That's all I have. Thank
4 you.

5 CHAIRMAN LEMAY: Thank you, Commissioner Carlson.
6 Commissioner Weiss?

7 COMMISSIONER WEISS: I had a question along the
8 same lines.

9 EXAMINATION

10 BY COMMISSIONER WEISS:

11 Q. Has the coal-seam gas production peaked, do you
12 think?

13 A. I really cannot answer that. Our impression is
14 that some wells are beginning to show signs of peaking.
15 But if you take the aggregate, in aggregate, coal-seam gas
16 is continuing to increase.

17 COMMISSIONER WEISS: Thank you.

18 EXAMINATION

19 BY CHAIRMAN LEMAY:

20 Q. Mr. Merrett, if the production is increasing in
21 New Mexico, do you have any indication as to -- at the
22 expense of who? Would it be Midwest gas we might be
23 displacing, and is it the California market, do you think,
24 or is it Canadian gas or -- Do you have any indication of
25 whose supplies may be diminishing in areas where we're

1 marketing our gas?

2 A. Well, the market, the national market -- well, I
3 suppose I should say the continental market since gas is a
4 continental commodity -- the continental market is
5 expanding. Opinions seem to vary as to by how much it's
6 expanding, depending on whose numbers you look at.

7 But the nation, the continent as a whole is
8 increasing its demand. California seems to be flat to
9 increasing slightly. There is considerable -- I would say
10 that most of the increase is in the east, sometimes on
11 conversion of coal-fired and other plants to gas-firing,
12 for clean-air reasons, sometimes because communities in the
13 east are being -- having gas for the first time and
14 displacing their heating oils. But that is the main area
15 where the market is growing.

16 Canadian imports into California have expanded --
17 continue to expand, and into the rest of the country, as a
18 matter of fact.

19 I would guess that, if anything, our continuing
20 increase is at the expense of possibly Rocky Mountain
21 production, and some of the high-cost production in the
22 Midwest, which is shut in due to low prices.

23 Now, companies, as a rule, do not announce the
24 shut-in of their gas for all sorts of reasons, so it's very
25 hard to know who has gas shut in. But it's our belief that

1 there is gas shut in in the Midwest and in the Rocky
2 Mountains and possibly in Canada in some of the high-cost
3 production too.

4 CHAIRMAN LEMAY: Thank you, Mr. Merrett.

5 Additional questions of the witness?

6 Thank you, sir. You may be excused.

7 And does that complete your testimony, your
8 presentation?

9 MR. CARROLL: Yes, that concludes my
10 presentation, Mr. Chairman.

11 CHAIRMAN LEMAY: Okay. Is there anyone that
12 needs to catch planes? If we take the southeast first or
13 the northwest, is there any problem with that, do you know?
14 Southeast is the first page, so let's go with it, then.

15 Mr. Carr?

16 MR. CARR: May it please the Commission, I have
17 three witnesses for Chevron. The first witness will talk
18 about generally Chevron's marketing scheme for natural gas,
19 and then one witness will speak on the Eumont, and the
20 final witness will speak on the Indian Basin. And with
21 your permission, I would propose we take all three of
22 those, if that's all right.

23 CHAIRMAN LEMAY: Yes, our procedure will be,
24 we'll take this on a field-by-field basis, on an area basis
25 first, and we're going to have testimony on the southeast

1 first. So if you'll identify the field and then the
2 witness that will be addressing situations in that field, I
3 think, is the way we'll go.

4 You may proceed.

5 ROBERT E. GREEN,

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

8 DIRECT EXAMINATION

9 BY MR. CARR:

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

11 A. My name is Robert Green. I work for Chevron USA
12 in Midland, Texas.

13 Q. Mr. Green, have you previously testified before
14 the New Mexico Oil Conservation Commission?

15 A. Yes, I have. My last testimony was the 10th of
16 March, 1994, before that proration hearing at that date.

17 Q. What are your duties with Chevron?

18 A. I'm a natural gas engineer with Chevron.

19 Q. And what specific responsibilities do you have in
20 regard to natural gas marketing?

21 A. In those duties we negotiate contracts for
22 processing and sales of natural gas, we settle gas
23 imbalance, or we negotiate gas imbalance contracts with
24 other producers, and we monitor the production of the
25 natural gas.

1 Q. Are you familiar with the Chevron market for
2 natural gas produced in New Mexico?

3 A. Yes, I am.

4 Q. And are you prepared to review the status of
5 Chevron's natural gas marketing efforts for production from
6 this state?

7 A. Yes, I am.

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

10 CHAIRMAN LEMAY: His qualifications are
11 acceptable.

12 Q. (By Mr. Carr) Let's refer first to what has been
13 identified as Chevron Exhibit Number 1. Could you identify
14 this for the Commission and then review the information
15 thereon?

16 A. Yes, this is a caricature of the major intrastate
17 natural gas pipelines originating and flowing through and
18 out of southeast New Mexico.

19 And in those pipelines we see we have two major
20 companies that transport gas to the west and then to the
21 California market, we have two major companies that
22 transport gas into the Midwest market, and then we have
23 various interconnects which carry down to the Waha Hub and
24 then to the Texas intrastate market.

25 Q. Is much of Chevron's natural gas production

1 shipped to the west coast?

2 A. At this time the answer is no. In previous
3 years, and under the FERC-regulated gas, we had -- about 75
4 percent of our gas produced in southeast New Mexico was
5 moving to the California market, and 25 was going elsewhere
6 in the nation.

7 Today, due to gas displacement from Canada and
8 from southwest Wyoming, we send about 15 percent of our gas
9 from southeast New Mexico into the California market. Some
10 of that is even used in Chevron's own facilities. And the
11 other 95 percent is carried into the Midwest markets and
12 then to the Texas intrastate markets.

13 Q. Let's go to Exhibit Number 2. Could you identify
14 this, please?

15 A. Exhibit 2 is a four-year depiction of the natural
16 gas spot prices from *Inside FERC* for El Paso Natural Gas as
17 it's been posted at the Waha Hub.

18 I use this depiction because it's readily
19 available to everyone, and it gives us a pretty good
20 indication of the trends that have occurred over the past
21 four years in this market.

22 Q. Is it not true that the price at the Waha Hub is,
23 in fact, the lowest price at which gas is being sold from
24 the Permian Basin?

25 A. For Chevron's purposes, it's pretty much the

1 bottom of what we're marketing, yes.

2 Q. Let's go to the exhibit, and can you review what
3 you have seen to be the general trends of the natural gas
4 market over the last several years?

5 A. Yes. In this exhibit, you'll notice that from
6 the time period of -- You know, I like to use February
7 because the prorating hearing is at that time.

8 From February of 1991 through February of 1994,
9 we've seen a general growth in the price of natural gas in
10 southeast New Mexico and the Permian Basin. Although we've
11 seen that general growth, we've seen quite a bit of
12 volatility in that price from month to month.

13 The other key factor, which is not depicted on
14 here, is that during regulation we saw stable prices and
15 volatile production; now we have stable production and
16 volatile prices.

17 During the time period of February, 1994, through
18 February, 1995, we've seen about a 13-percent decline in
19 our average price of natural gas, coming out of southeast
20 New Mexico.

21 Q. If we look at this exhibit and we talk about the
22 prices on the El Paso system, it is true that you are able
23 to realize somewhat higher prices through other contractual
24 and transportation arrangements?

25 A. That's correct, and that's why we are moving only

1 about 15 percent of our gas through El Paso or Transwestern
2 into the California markets.

3 We look at gas, again, as a continental
4 commodity, and we market and price our gas on a continental
5 basis. And for the gas in southeast New Mexico, we look at
6 our entire nationwide market, and then we try to source,
7 back to our New Mexico gas, our highest net back for each
8 of those sources. And at this time, obviously, it's in
9 other areas.

10 Q. How much gas does Chevron currently sell from its
11 New Mexico properties?

12 A. We're moving 186,000 MCF a day out of both our
13 Chevron USA Production Company properties and our
14 affiliate, Warren Petroleum, at the tailgate of the plant.

15 Q. And what percent of Chevron's total gas sales
16 does this represent?

17 A. Today that represents about seven percent of our
18 total sales, which also represents a growth for southeast
19 New Mexico.

20 I recall several years ago, southeast New Mexico
21 was only about four percent of Chevron's total sales. So
22 we've seen some growth, significant growth, in southeast
23 New Mexico.

24 Q. When we look at the total production, Chevron's
25 total production in New Mexico, approximately what

1 percentage of it is natural gas?

2 A. Today, Chevron is the natural gas company in
3 southeast New Mexico. On a barrel-of-oil-equivalent basis,
4 Chevron has 80-percent gas and 20-percent oil production,
5 and this is also attributable to our operations and our
6 growth, especially in the Indian Basin Pool and the Eumont
7 Pool.

8 Chevron has seen a 14-percent growth in natural
9 gas production in the year 1994 in southeast New Mexico.

10 Q. Is Chevron able to market all the gas it produces
11 in the state?

12 A. Yes, we do, and the reason for that is that we
13 regard southeast New Mexico as part of our base load in our
14 national marketing scheme.

15 And in our economic model, some of the things
16 that are important to us is the low decline rate of the
17 pools in southeast New Mexico -- and we're operating in the
18 eight- to 12-percent decline rate -- and our operating
19 expense in southeast New Mexico.

20 And when you couple an eight- to 12-percent
21 decline rate with the 14-percent growth rate that we saw in
22 1994, we've been very aggressive.

23 Q. In essence, what you're doing is using New Mexico
24 production as your base load, and if you -- to the extent
25 you swing, you're using other sources for that?

1 A. That's correct. We're -- I don't want to address
2 curtailment at all, but we don't curtail in southeast New
3 Mexico because we use it to take care of our base load.

4 Q. Will Chevron also be calling witnesses to review
5 the proposed allowables as they relate to the Eumont and
6 Indian Basin Pools?

7 A. Yes, we do. We have two of our production
8 engineers here to testify on our activities in those two
9 pools.

10 Q. Were Exhibits 1 and 2 either prepared by you or
11 compiled under your direction?

12 A. Yes, they were.

13 MR. CARR: At this time, may it please the
14 Commission, we move the admission of Chevron Exhibits 1 and
15 2.

16 CHAIRMAN LEMAY: Without objection Chevron's 1
17 and 2 Exhibits will be admitted into the record.

18 MR. CARR: And that concludes my examination of
19 Mr. Green.

20 CHAIRMAN LEMAY: Thank you, Mr. Carr.

21 Questions of the witness?

22 Commissioner Carlson?

23 EXAMINATION

24 BY COMMISSIONER CARLSON:

25 Q. Mr. Green, on your spot gas price to El Paso

1 graph, do you know where *Inside FERC* gets those prices?

2 A. I presume that they get those prices by polling
3 the different companies, and they put that together as an
4 accumulation and post that.

5 Q. Do they ever poll Chevron?

6 A. They've polled Chevron through our natural gas
7 business unit in Houston, and it's supposed to be a
8 confidential thing where they mix all that together.

9 Q. And *Inside FERC* has no way of verifying those
10 numbers?

11 A. That's correct.

12 Q. So if I'm selling gas on a spot market, I should
13 never expect less than the index prices reported by *Inside*
14 *FERC* or *Gas Daily* or some of those?

15 A. I don't think that's an accurate assessment,
16 because that represents an average, an arithmetic average,
17 of what different companies are doing. And so some people
18 may be able to do better because of preferential
19 transportation contracts that they would have to get the
20 gas out of southeast New Mexico into their markets.

21 Q. Are gas sales contracts based on an index-plus or
22 a spot-plus, or are they a fixed price?

23 A. Gas sales contracts are based on everything.

24 Q. Everything. So there are a lot of --

25 A. Everything's negotiable.

1 Q. There are a lot of them on a spot-plus or a net
2 index-plus or --

3 A. Everything is negotiable, from -- You know,
4 Chevron has the propensity to sell gas at the burner tip to
5 the customer and then negotiates gas transportation from
6 the source of the gas to the customer, over whatever the
7 routes are, and thereby increasing or creating a better
8 opportunity for net back to the wellhead through large
9 transportation contracts.

10 Other times, if a large customer has a
11 preferential contract and -- we may sell it at the wellhead
12 to that customer and they can use their transportation
13 contract. And all those things are jumbled into that Waha
14 price.

15 Q. And if I'm reporting prices to *Inside FERC*, there
16 is no way they can tell if I'm reporting the truth or not
17 on their surveys; is that right?

18 A. I would presume that's correct.

19 Q. I mean, if I'm a seller I might report a
20 different price than if I'm buying that month; is that
21 right?

22 A. I would presume that *Inside FERC* would have to
23 depend on the integrity of the companies they're dealing
24 with.

25 Q. But wouldn't I have an incentive to maybe give

1 them a little higher or lower price, depending if I'm
2 buying or selling?

3 A. I wouldn't know that you would have an incentive
4 to not tell the truth to them --

5 Q. Uh-huh.

6 A. -- you know. I don't think that we're acting in
7 that capacity. And when we look at what we're doing --

8 Q. Well, I don't know anything about Chevron, but --

9 A. No, I understand. But when we look at our prices
10 on our different pipelines and things, they track pretty
11 well with what *Inside FERC* has reported.

12 COMMISSIONER CARLSON: I have no further
13 questions. Thank you.

14 CHAIRMAN LEMAY: Commissioner Weiss?

15 EXAMINATION

16 BY COMMISSIONER WEISS:

17 Q. Yes. Do you foresee continued growth in your
18 southeast New Mexico gas production?

19 A. Yes, we do. We have a number of projects in 1995
20 in southeast New Mexico, and we have some limited
21 exploration projects underway in southeast New Mexico,
22 also, which are oil and gas place.

23 Again, we consider southeast New Mexico as one of
24 our important core areas.

25 COMMISSIONER WEISS: Thank you, that's all the

1 questions.

2 EXAMINATION

3 BY CHAIRMAN LEMAY:

4 Q. Mr. Green, your Exhibit 2 shows the spot gas
5 price to El Paso, Permian Basin. Would that pretty much be
6 a Waha Hub price, do you think?

7 A. That is the Waha Hub price that we're posting
8 there.

9 Q. And do you have any indication of what kind of a
10 discount that might be to other hubs like Henry Hub or Katy
11 or something like that, percentagewise on spot?

12 A. We see -- To answer directly, yes, we do.

13 We see about a 25-cent differential between Henry
14 Hub and Waha Hub, although it is a moving differential. As
15 the gas price moves -- As the gas price falls, that
16 differential gets closer together.

17 But for forecasting purposes, you can use a
18 quarter.

19 Q. And Henry Hub, of course, is quoted in the *Wall*
20 *Street Journal*. Do you get any other indications from
21 Opal, we'll say, or Katy, or some of the other hubs where
22 gas is gathered and shipped out, how Waha is doing?

23 A. We track Waha against Henry Hub in our company.
24 But it's kind of an unfair tracking, because we move a
25 great deal of our gas to the Midwest, which is not compared

1 against Henry Hub at all.

2 And so when you're moving into the Midwest
3 market, then you're looking purely at performance of the
4 net back from the Midwest Hub for Waha.

5 CHAIRMAN LEMAY: All right, thank you, that's the
6 only question I have. Thank you very much for your
7 testimony.

8 Is there additional questions of the witness?

9 If not, he may be excused and you may call your
10 next witness, Mr. Carr.

11 MR. CARR: My next witness is Mr. Al Bohling, who
12 will present brief testimony on the Eumont.

13 CHAIRMAN LEMAY: You may continue.

14 A.W. (AL) BOHLING,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Will you state your name for the record, please?

20 A. My name is Alan Bohling.

21 Q. And where do you reside?

22 A. I reside in Midland, Texas.

23 Q. By whom are you employed?

24 A. I'm employed by Chevron USA Production Company.

25 Q. And what is your current position with Chevron?

1 A. I'm a petroleum engineer.

2 Q. Have you previously testified before this
3 Commission?

4 A. Yes, sir, I have.

5 Q. Were your credentials as a petroleum engineer
6 accepted at that time and made a matter of record?

7 A. Yes, they were.

8 Q. In your job with Chevron, are you familiar with
9 the production from the Eumont Gas Pool?

10 A. Yes.

11 Q. Are you familiar with the allowables assigned to
12 the wells in that pool?

13 A. Yes, I am.

14 Q. Have you reviewed the proposed allowables for the
15 next proration period as set forth in the exhibits offered
16 here today by witnesses for the Oil Conservation
17 Commission?

18 A. Yes, I have.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 CHAIRMAN LEMAY: His qualifications are
22 acceptable.

23 Q. (By Mr. Carr) Mr. Bohling, would you briefly
24 state the purpose of Chevron's presentation in this case?

25 A. Chevron is here to present some additional

1 information to the Commission in support of the proposed
2 monthly acreage allocation factor of 38,000 MCF for the
3 Eumont Prorated Gas Pool for the period of April, 1995,
4 through September of 1995.

5 Q. Let's go to what has been marked Chevron Exhibit
6 Number 3. Would you identify that and then review the
7 information on this exhibit for the Commission?

8 A. Sure. Exhibit Number 3 is a bar graph, and this
9 bar graph depicts both historical and forecasted production
10 for the Eumont Gas Pool and Chevron.

11 The total bar height represents the Eumont Pool's
12 total daily production, while the bottom purple or reddish
13 portion of the bar equates to Chevron's portion of that
14 total daily production.

15 The dark purple and the dark blue colored bars
16 represent historical production data, while the lighter
17 blue and purple colored portions of the bars represent
18 forecasted production data.

19 It should be noted that from December of 1993,
20 I've held the Eumont Pool's total production at that point
21 as a constant, so that any fluctuations you see in the
22 total bar heights since December of 1993 represent only
23 what Chevron has added to the Eumont Pool's total
24 production, due to its drilling and workover programs.

25 Also shown on this bar graph is a heavy black

1 line which cuts across or through the bars at the top, and
2 this represents what the pool's allowable has been set at,
3 both historically and from April of 1995 through September
4 of 1995, the proposed.

5 Q. Mr. Bohling, could you review for the Commission
6 recent efforts by Chevron to develop an increased
7 production for the Eumont Pool?

8 A. Yes, sir. In 1994 Chevron has drilled two wells,
9 has conducted approximately 20 workovers or plugbacks, and
10 has restimulated seven additional wells, and this has
11 resulted in an increase of production for Chevron from
12 approximately 27,000 MCF a day to 32,000 MCF a day for
13 December of 1994, or an 18.5-percent increase in
14 production.

15 Q. What are your plans for 1995?

16 A. Plans for 1995 are similar. We're not going to
17 be doing as many workovers or plugbacks; we're only going
18 to be doing about three to four of those.

19 We have already drilled two new wells in the
20 Eumont Pool, and we are currently in the process of
21 completing those wells.

22 And we have plans to do approximately 20
23 restimulations in the Eumont Pool during 1995.

24 Q. What production rate are you hoping to achieve
25 with this additional work?

1 A. Primarily this additional work will offset
2 current declines, and it is hoped that we will increase our
3 production another six percent or go from approximately 32
4 million a day to 34 million a day in our production.

5 We feel that our programs have substantially
6 increased the ability of producing additional reserves as
7 well.

8 Q. Mr. Bohling, let's go to Chevron Exhibit Number
9 4. Would you identify and review that?

10 A. Exhibit Number 4 is a table which presents the
11 OCD's proposed preliminary allowable in column 1. And in
12 column 2 you can see that Chevron fully supports the OCD's
13 proposal and recommends that it be adopted on a permanent
14 basis.

15 Q. Were Exhibits 3 and 4 prepared by you or compiled
16 under your direction?

17 A. Yes, they were.

18 MR. CARR: At this time, may it please the
19 Commission, we would offer into evidence Chevron Exhibits 3
20 and 4.

21 CHAIRMAN LEMAY: Without objection, Exhibits 3
22 and 4 will be admitted into the record.

23 MR. CARR: And that concludes my examination of
24 Mr. Bohling.

25 CHAIRMAN LEMAY: Thank you, Mr. Carr.

1 Questions of the witness?

2 Commissioner Carlson?

3 EXAMINATION

4 BY COMMISSIONER CARLSON:

5 Q. Just a point of clarification.

6 On your Exhibit 4, you would prefer the 451
7 adjustment, just like OCD proposes; is that correct?

8 A. Yes.

9 Q. Instead of a zero?

10 A. That's correct, yes. I put the zero in there
11 indicating no --

12 Q. Right.

13 A. -- no change to that.

14 COMMISSIONER CARLSON: I see, okay. No, that's
15 all I have. Thank you.

16 CHAIRMAN LEMAY: Thank you, Commissioner Carlson.
17 Commissioner Weiss?

18 EXAMINATION

19 BY COMMISSIONER WEISS:

20 Q. Yes, Mr. Bohling, do you think that proration is
21 an efficient means of protecting correlative rights in the
22 Eumont Pool?

23 A. With the way the Eumont Pool has been developed,
24 yes, sir, I do.

25 COMMISSIONER WEISS: Thank you.

EXAMINATION

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BY CHAIRMAN LEMAY:

Q. Just a point of clarification, summary, then, Mr. Bohling. You are concurring with the OCD recommendation of the pool adjustment as shown on OCD Exhibit 1, the 451,241 added to the production to arrive at the 38,000 MCF per day for allowable?

A. Yes, sir, that is correct, we do concur with what the OCD's preliminary proposal is.

CHAIRMAN LEMAY: Thank you very much.

No further questions of the witness? He may be excused.

MR. CARR: Mr. Chairman, our next witness will present testimony on the Indian Basin.

There may be other comments on the Eumont that you prefer to hear before we present that witness.

CHAIRMAN LEMAY: Thank you. Is there any other testimony to be presented on the Eumont field?

MR. KELLAHIN: I have a statement, Mr. Chairman.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

I think we'll take the statements at the end, and just the witness to be cross-examined, we'll run through first.

You may proceed with the new field.

MR. CARR: At this time we call Brian Huzzey.

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BRIAN H. HUZZEY,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. My name is Brian Huzzey.

Q. Where do you reside?

A. In Midland, Texas.

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

A. I work for Chevron, USA, Production Company, and
I'm a lead petroleum engineer.

Q. Have you previously testified before the New
Mexico Oil Conservation Commission?

A. Yes, I have.

Q. In fact, you've testified at previous allowable
hearings concerning production from the Indian Basin?

A. Yes, I have.

Q. Are you familiar with the proposed allowables,
preliminary allowables, as set forth in the exhibits of the
New Mexico Oil Conservation Commission?

A. Yes, I am.

Q. Have you reviewed those proposed allowable
levels?

A. Yes.

1 Q. Have you compared them to existing production
2 levels from this field?

3 A. Yes, I have.

4 MR. CARR: Are the witness's qualifications
5 acceptable?

6 CHAIRMAN LEMAY: They're acceptable.

7 Q. (By Mr. Carr) Mr. Huzzey, let's go to what has
8 been marked Chevron Exhibits 5 through 14. Without going
9 into any depth on these, I would like you to generally
10 summarize what they show.

11 A. Okay. These are basically plots of historical
12 production in the field, based on C-115-reported production
13 versus the pool allowables over the same time frame.

14 I've presented these at several previous
15 hearings, and they basically show the increased production
16 we have achieved in this field over this time period.

17 Q. Basically, you've taken prior exhibits and
18 revised them to put current information?

19 A. Yes, these are current through December of 1994.

20 Q. What percentage of the wells in this pool are
21 actually able to produce above the set allowable limit?

22 A. Between Chevron and other operators' wells,
23 approximately 25 percent of the producing wells are capable
24 of producing at or above the 200,000 MCF per month.

25 Q. If we look at just the Chevron wells, what sort

1 of numbers do we find for the producing wells?

2 A. Six of our ten operated wells are currently
3 producing at or above 200,000 MCF per month.

4 Q. Let's take a look at Chevron Exhibit Number 15,
5 the last exhibit --

6 A. Okay.

7 Q. -- and I'd like you to review this exhibit and
8 also explain the basis for Chevron's recommendation
9 concerning allowables for the Indian Basin.

10 A. Okay, this chart shows that Chevron supports the
11 OCD's preliminary allowable numbers.

12 The 200,000 MCF per month that you can see in row
13 8 at the bottom of the page -- it's in bold -- we feel that
14 this will protect the interests of the majority of the
15 operators in this pool.

16 Q. Were Exhibits 5 through 15 prepared by you or
17 compiled under your direction?

18 A. Yes, they were.

19 MR. CARR: At this time, Mr. LeMay, we move the
20 admission of Chevron Exhibits 5 through 15.

21 CHAIRMAN LEMAY: Without objection, Exhibits 5
22 through 15 will be admitted into the record.

23 Do we have any questions of Mr. Huzzey?
24 Commissioner Carlson?

25 COMMISSIONER CARLSON: No, I don't think so.

1 CHAIRMAN LEMAY: Commissioner Weiss?

2 COMMISSIONER WEISS: No, I have no questions.

3 EXAMINATION

4 BY CHAIRMAN LEMAY:

5 Q. I have maybe one follow-up, and it's a while back
6 when this was a contentious field, Mr. Huzzey, there was
7 some talk of possible unitization. Has that completely
8 been dropped, or is there any effort at all to unitize this
9 field at this point in time?

10 A. Actually, last -- I believe it was April or May,
11 we had an operators' meeting of all the operators, major
12 operators in the pool, and that task or chore was delegated
13 to Marathon Oil Company.

14 However, they have called no subsequent meetings
15 since April or May of last year to address that issue.

16 Q. So it's your opinion, probably, that that effort
17 has been dropped, do you think, and that's --

18 A. In conversations with Marathon Oil Company, they
19 have not shown any time line, any time frame, so I'd say
20 that at this point in time it doesn't appear to have a
21 great deal of interest.

22 Q. And there again, to summarize your testimony, you
23 are in concurrence with the OCD-recommended allowable
24 levels in Indian Basin --

25 A. Yes, we are.

1 CHAIRMAN LEMAY: -- you support those?

2 Thank you very much.

3 Additional questions? If not, the witness may be
4 excused.

5 Is there anything else on Indian Basin? Put that
6 one to rest then.

7 How are we doing in the southeast? What other
8 pools do we have for testimony? Any? Mr. Kellahin, all
9 your testimony is northwest, is it, Marathon?

10 MR. KELLAHIN: No, sir, we have statements in all
11 my pools. I have no witnesses today, Mr. Chairman.

12 CHAIRMAN LEMAY: Oh, you don't have any
13 witnesses, just statements?

14 MR. KELLAHIN: Yes, sir.

15 CHAIRMAN LEMAY: Okay. Anything else in the
16 southeast?

17 If not, let's take a break now, for the -- before
18 we go on to the northwest pool, take a 15-minute break, and
19 convene. We'll come back with the northwest.

20 (Thereupon, a recess was taken at 10:18 a.m.)

21 (The following proceedings had at 10:40 a.m.)

22 CHAIRMAN LEMAY: We shall continue. We're moving
23 along at a good pace, so we'll switch now to the northwest,
24 and we'll start with Mr. Carr.

25 MR. CARR: May it please the Commission, at this

1 time we'd call Mr. Bill Hawkins with Amoco to present
2 testimony on the -- certain adjustments they're
3 recommending to the preliminary nominations for the
4 prorated pools of northwest New Mexico.

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

8 DIRECT EXAMINATION

9 BY MR. CARR:

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

11 A. Bill Hawkins.

12 Q. Where do you reside?

13 A. Denver, Colorado.

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

15 A. Amoco Production Company as petroleum engineer.

16 Q. Have you previously testified before this
17 Division [sic] and had your credentials as a petroleum
18 engineer accepted and made a matter of record?

19 A. Yes, I have.

20 Q. In fact, Mr. Hawkins, you've testified in prior
21 allowable hearings, have you not?

22 A. Yes, I have.

23 Q. Have you reviewed the preliminary allowable
24 figures of the Oil Conservation Division for the prorated
25 pools of northwest New Mexico?

1 A. Yes.

2 Q. Are you prepared to make recommendations to the
3 Commission concerning adjustments to those preliminary
4 figures?

5 A. Yes, I am.

6 MR. CARR: Are the witness's qualifications
7 acceptable?

8 CHAIRMAN LEMAY: His qualifications are
9 acceptable.

10 Q. (By Mr. Carr) Mr. Hawkins, let's refer to
11 Amoco's exhibit marked Exhibit Number 1, and I'd ask you to
12 identify this exhibit and review it, please.

13 A. Okay, Exhibit Number 1 is a table, very similar
14 to the Oil Conservation Commission's recommendations for
15 the northwest pools. I've included most of the same
16 columns here on monthly production and recommended
17 adjustments.

18 And before we look at those numbers, I'd like to
19 just go through basically what our proposal is for the
20 Commission today.

21 We're recommending an adjustment to the northwest
22 pool allowables that have been proposed by the NMOCD to
23 keep the monthly nonmarginal pool allowable at the same
24 level as it has been for the previous period, that being
25 October through March -- October, 1994, through March of

1 1995.

2 Basically what we've done under our -- We've
3 looked at each of the pools in the proposal that the NMOCD
4 has made. We recognize that the Division has gone back to
5 the April-1993-to-September-1993 monthly pool sales to
6 start the calculations for the upcoming allowable period.

7 And the total pool production looks fairly
8 reasonable today; I think there has been some increase.
9 But basically where we get into a problem is when we get to
10 the column marked "Monthly Nonmarginal Pool Allowable",
11 there's been a fairly dramatic drop in the allowable for
12 those nonmarginal proration units.

13 If we look at the last six months, for instance,
14 the Basin Dakota Pool, and this is -- under our exhibit
15 it's the third column from the right, under the Basin
16 Dakota Pool, 280,000 MCF per month as compared to the NMOCD
17 proposal of 270,000 MCF per month.

18 The reason that that relatively small difference
19 in total pool allowable makes a difference is that there
20 are not a -- well, there's only 15 acreage proration units
21 that are being affected. And if you drop the pool
22 allowable on those 15 wells, it starts to curtail them.
23 And they are the better wells, and we'd like to see those
24 wells have a stable production.

25 The pool that really sees most of the impact is

1 the Blanco Mesaverde. Our recommendation is to keep that
2 nonmarginal pool allowable at 2.98 BCF per month versus the
3 recommended NMOCD level of 2.44 BCF per month, and that's a
4 fairly significant difference. We'd like to see that held
5 constant, basically, at today's level.

6 So we put together the arithmetic here that shows
7 the required adjustments under the column marked "Amoco
8 Recommended Adjustment" that would enable us or the State
9 to keep the nonmarginal pools at that same allowable as it
10 exists today. And we've calculated the acreage factor and
11 acreage-times-deliverability factors, F1 and F2, based on
12 the same arithmetic that was described to you earlier in
13 testimony today and presented those, and they are in fact
14 very similar to the F1 and F2 factors that are effective
15 from the October-1994-to-March-1995 period. And that's
16 been our basic approach.

17 I guess what I would say in support of our
18 recommendation is that we are planning a fairly significant
19 development program in the northwest pools during the 1995
20 year, we're planning to invest \$10 to \$15 million in
21 development of conventional gas pools, primarily targeted
22 to the Blanco Mesaverde, both vertical and horizontal
23 wells, and through recompletions of existing wells.

24 We think that the recommended adjustment that
25 we're asking for will be necessary to keep that nonmarginal

1 allowable constant and support the development prospects
2 that we have plans for.

3 Q. Mr. Hawkins, basically what you're doing is
4 accepting the Oil Conservation Division's figures for
5 marginal wells?

6 A. Yes, we are.

7 Q. You're making adjustments only for those
8 nonmarginal wells because in fact they're the only wells
9 that will be affected; isn't that right?

10 A. That's correct.

11 Q. And what you're doing is requesting a production
12 level comparable to what you had before because this will
13 be consistent with the figures you've used in making plans
14 for additional development in the San Juan Basin?

15 A. That's correct.

16 Q. The recommendations you're making here today are
17 also consistent with the kinds of recommendations being
18 made by Phillips and others?

19 A. Yes.

20 Q. Was Exhibit Number 1 prepared by you?

21 A. Yes, it was.

22 MR. CARR: At this time, Mr. Lemay, we move the
23 admission of Amoco Exhibit Number 1.

24 CHAIRMAN LEMAY: Without objection, Amoco's
25 Exhibit Number 1 will be entered into the record.

1 Questions of the witness?

2 Commissioner Carlson?

3 EXAMINATION

4 BY COMMISSIONER CARLSON:

5 Q. Mr. Carr said Phillips and others are supporting
6 this proposal. Is anybody opposing this proposal, the
7 producers in this pool?

8 A. Not that I'm aware of. I know that Phillips'
9 recommendation is very similar to ours. I don't know
10 exactly what the numbers they presented, but I understand
11 it's about a half-a-BCF increase in the Blanco Mesaverde
12 and a 10,000-MCF-per-month increase in the Basin Dakota, so
13 those are fairly consistent with Amoco's views on this as
14 well.

15 Q. Are all the operators in the pools aware of your
16 proposal?

17 A. I spoke with Meridian and told them we were
18 planning to make this kind of an increase. I did not have
19 an opportunity to talk with any of the other operators, so
20 I'm not sure if they're aware of it or not.

21 Q. Okay. Did you hear Ron Merrett's testimony about
22 pipeline constraints out of the San Juan Basin?

23 A. I did hear that.

24 Q. Do you agree with that?

25 A. I think -- We don't have any reason to dispute

1 that. I think what we're seeing is that the production
2 level continues to be high, we anticipate being able to
3 market the gas that we are producing now and in fact have
4 some increase in production with future development.

5 Not being in the market business, it's really
6 difficult for me to say exactly what type of curtailment
7 Amoco's markets might be seeing, but from my information
8 that I've been privy to is that we are able to market the
9 gas that we're producing from the San Juan Basin and expect
10 to be able to increase that.

11 COMMISSIONER CARLSON: That's all I have.

12 CHAIRMAN LEMAY: Commissioner Weiss?

13 COMMISSIONER WEISS: I have no questions, thank
14 you.

15 EXAMINATION

16 BY CHAIRMAN LEMAY:

17 Q. Did you say \$10 to \$15 million, Mr. Hawkins,
18 investment you contemplate in 1995 in the San Juan Basin by
19 Amoco?

20 A. In the conventional gas pools. We have some
21 additional developments we'll be looking at in the coal gas
22 area.

23 And this is -- It's our basic plan right now for
24 1995, and I suppose that will -- you know, could obviously
25 change as we go through the year if conditions start to

1 change.

2 But we are targeting the Blanco Mesaverde as one
3 of our primary development prospects.

4 Q. Meaning with infill wells and horizontal wells,
5 you say, for --

6 A. Through recompletions and through some of the
7 horizontal wells and infill wells, yes, all of those.

8 CHAIRMAN LEMAY: Okay, thank you. Appreciate it.

9 Any additional questions of the witness? If not,
10 he may be excused.

11 Thank you, Mr. Carr.

12 Mr. Kellahin?

13 MR. KELLAHIN: Are you ready to take statements,
14 Mr. Chairman?

15 CHAIRMAN LEMAY: Well, do we have any -- I guess
16 that's going to be it. Do we have any other witnesses to
17 present testimony?

18 We're at that point, we'll accept statements.

19 MR. KELLAHIN: All right, sir.

20 Mr. Chairman, the first pool I've been asked to
21 address comments towards is that Eumont Pool in southeast
22 New Mexico. It's the Eumont-Yates-Seven Rivers, and it's
23 on behalf of Oryx Energy Company.

24 Mr. Chairman, members of the Commission, the
25 Eumont Gas Pool has a minimum gas allowable. There's a

1 floor in that prorationing for that pool. It's 600 MCF a
2 day.

3 If you'll look at the calculated monthly acreage
4 factor for that pool on the OCD's Exhibit Number 1, it's
5 38,000 MCF a month. That equates to about 1.26 MCF a day.

6 That differential between the minimum and the
7 nonmarginal gas well allowable, an additional 600 MCF a
8 day, is of particular significance to all the operators in
9 the pool. Oryx and others have utilized that differential
10 to justify the economics to do workovers, additional
11 activities in the pool.

12 Oryx's letter to you, written by Mr. Peavey --
13 who's an operational engineer, testified before you on
14 other occasions in allowable hearings -- supports the
15 Division's proposed level of maintaining the nonmarginal
16 well allowable rate at 38,000 MCF a month. It continues to
17 provide an incentive for them to do additional work and to
18 maximize production capacities in the pool.

19 And that completes my presentation on behalf of
20 that company with regards to the Eumont.

21 The next pool for which I have clients that
22 desire to have comments or statements presented to the
23 Commission is in the Indian Basin-Upper Penn Pool, on
24 behalf of Oryx Energy Company. They request and support
25 the continuation of the current rate of nonmarginal monthly

1 allowable of the 200,000 MCF a month.

2 You'll recall we've utilized that number; it's
3 approximately 6.5 million a day. And I believe that's the
4 number that Chevron has also supported. Oryx supports the
5 continuation of that level of allowable for that particular
6 prorated gas pool.

7 Again, Mr. Peavey has written his comments for
8 you in his letter of February 21st, but in essence I've
9 described his conclusion and recommendation to you.

10 My next comments, Mr. Chairman, are concerning
11 the prorated gas pools in northwestern New Mexico, and
12 they're made to you on behalf of Meridian Oil, Inc.

13 Mr. Fraser, if you may remember, is a production
14 engineer. He's the manager for Meridian Oil, Inc.'s,
15 proration system, and he's testified before you on prior
16 occasions in that capacity. He raises an interesting bit
17 of information.

18 He says that he's reviewed the Division's
19 preliminary recommendation, and we all recognize the
20 limitations currently of utilizing OCD production data for
21 1994.

22 He says he can solve that lack of information by
23 the fact that they track their own production, and I think
24 between Meridian and Amoco you'll have a very good sense of
25 the total production from those pools.

1 He says that he concurs, based upon their own
2 Meridian-operated pool production and their historical
3 percentages, that at least the current levels in that
4 proposed schedule are appropriate.

5 He says that Meridian is the largest producer in
6 the northwest pools, with almost half of the Mesaverde
7 production and almost a third of the Dakota production.

8 They don't have a specific recommendation, but he
9 does tell us that he supports the increases. The increase
10 that you have before you is the Amoco increase, and he
11 certainly has no objection to maintaining the allowables
12 for the nonmarginal wells, as Mr. Hawkins has presented
13 them to you.

14 And on that same theme, then, my last statement
15 is on behalf of Phillips Petroleum Company for those
16 prorated pools.

17 This letter is submitted on behalf of Phillips
18 Petroleum Company by Mr. Kurt Czirr. Mr. Czirr is a
19 petroleum engineer. He's testified before the Commission
20 on prior occasions.

21 And without reading the details of his letter,
22 his point strikes the same theme that Mr. Hawkins was
23 giving you a while ago.

24 If you'll look at the summer nonmarginal pool
25 allowable rates for the Mesaverde and the Dakota, you'll

1 find a level that approximates what Mr. Hawkins is
2 submitting to you. He's requesting an adjustment in the
3 monthly nonmarginal pool allowable of an additional 10,000
4 to 12,000 MCF, and in the Blanco Mesaverde it's a little
5 more than half a BCF.

6 The reason to do that is, when you make the
7 various calculations you'll find that you're maintaining
8 the monthly acreage factor for the nonmarginal wells,
9 consistent with what we've enjoyed in the summertime.

10 Phillips' point of view is, they've added
11 additional compression in their system, and as a result are
12 able to serve some 70 Mesaverde wells. With additional
13 capacity they may cause them to be reclassified as
14 nonmarginal wells.

15 And again, it provides an incentive for those
16 operators, including Phillips, to add compression and to do
17 additional work to maintain deliverability in the Mesaverde
18 and the Basin Dakota.

19 And so on behalf of Phillips, we would support
20 what Mr. Hawkins has represented to you as to the
21 appropriate adjustments in those two pools.

22 That concludes my statements on behalf of my
23 clients, Mr. Chairman.

24 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

25 Are there additional statements at the allowable

1 hearing?

2 MR. DUNCAN: My name is Bill Duncan, and I work
3 for Exxon Company, USA, Exxon Corporation, and I'd like to
4 make a statement.

5 CHAIRMAN LEMAY: Hi, Mr. Duncan. Please do.

6 MR. DUNCAN: Exxon operates wells in nonmarginal
7 gas proration units in the Blinebry, Eumont and Tubb
8 prorated pools, and Exxon supports the allowable production
9 rates and the acreage factors proposed by the NMOCDC for the
10 upcoming period.

11 Increased allowable assignments in these pools
12 for the current and prior periods have enabled Exxon to
13 perform well work on several leases which economically
14 increase production rates and ultimate recovery. With
15 proposed allowable assignments, we anticipate continued
16 economic production and additional work potential.

17 So we're recommending that they be assigned as
18 proposed.

19 CHAIRMAN LEMAY: Thank you very much, appreciate
20 your statements.

21 Additional statements?

22 MR. HOOVER: Yes, I'm Jerry Hoover with Conoco,
23 out of Midland, Texas. I'd like to make a statement to
24 support the Eumont allowable.

25 CHAIRMAN LEMAY: Thank you, please do.

1 MR. HOOVER: At several of the past allowable
2 hearings, Conoco has been present and presented technical
3 support and evidence for maintaining the current allowables
4 that we're seeing now in the Eumont Pool, and we simply
5 wanted to come this time to give you a statement of support
6 for what you've been doing with the Eumont allowable.

7 We fully support for the next six-month period
8 the acreage allowable factor of 38,000 for the Eumont Gas
9 Pool. This level provides a sufficient economic incentive
10 for us to continue our current development and remedial
11 programs while still providing some type of adequate
12 ceiling on production to prevent any overdevelopment or
13 undue acceleration.

14 Since mid-1993, Conoco has, with selected new
15 development and remedial work, increased its daily
16 production in the Eumont Pool from 9.3 million cubic feet
17 per day to 24.3 million per day. Now, this represents a
18 260-percent increase in Conoco's production alone in this
19 pool.

20 During this period, we've drilled 19 new Eumont
21 wells, we've worked over 32 existing wellbores, and we feel
22 that during the upcoming proration period, maintaining this
23 level will help us to continue this active program of
24 developing new reserves and more efficient recovery and
25 draining the currently developed locations in the Eumont

1 Pool.

2 We recognize the critical role of the Division in
3 maintaining this type of activity, and we simply wanted to
4 express our support for that at this time.

5 CHAIRMAN LEMAY: Thank you very much, Mr. Hoover.

6 MR. HOOVER: I'll leave you a copy of this.

7 CHAIRMAN LEMAY: Any additional statements in the
8 prorotation hearing?

9 It's running smoother, guys, isn't it? Thank
10 you.

11 We will temporarily recess here and reconvene at
12 one o'clock for the industry speaks, we listen, portion of
13 this presentation.

14 MR. CARROLL: I think your memo said 1:30, I
15 don't know.

16 CHAIRMAN LEMAY: Did it say 1:30? Let's change
17 that to 1:30. I realize that the memo I put out did say
18 1:30, so we don't to start before everyone's here. We'll
19 start promptly at 1:30.

20 (Thereupon, these proceedings were concluded at
21 11:02 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 February 27th, 1995.

 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998