STATEMENT of Ben R. Howell

~~TESTIMONY OF F. NORMAN WOODRUFF~~

EL PASO NATURAL GAS COMPANY

From the date that proration commenced in Lea County, El Paso Natural Gas Company each year has nominated and has actually taken from the gas pools in Lea County, New Mexico, volumes of gas in excess of its total contractual obligations to the producers in those pools. Today, each pool is out of balance with some wells underproduced and other wells overproduced. In each pool three factors have contributed to the accumulation of underproduction for some wells and overproduction for other wells. One factor is the inability of certain wells to deliver at the times production is required and the ability of other wells to deliver large volumes at the times of peak demand. The second factor is the omission of deliverability or producing capacity of the wells from the allocation formula. The third factor is that during 1955, 1956 and 1957 other gas purchasers in the same pools have nominated and taken lower average quantities of gas than El Paso Natural Gas Company.

The record of prior hearings contains a full statement concerning El Paso's operations. In common with other natural gas pipelines, El Paso's demands from its customers fluctuate with weather conditions and other factors beyond El Paso's control. El Paso's supply from the Permian Basin

area is predominantly dependent upon residue gas from plants processing casinghead gas produced incident to the production of oil. The prevention of waste requires marketing of all residue as it becomes available with gas from gas wells supplementing the supply of residue gas. The volumes of residue gas available to El Paso are determined not by El Paso's needs, but by the oil allowables established by this Commission and by the Texas Railroad Commission. When oil allowables are high, residue gas from the tailgates of gasoline plants will load the pipeline. When oil wells are shut in, either because of proration, mechanical difficulty or any other reason, or when gasoline plants are out of operation for any reason, El Paso's requirements from the Permian Basin area principally must be obtained from gas wells in the prorated gas pools of Lea County. The volumes of gas obtained by El Paso from gas wells in Texas is minor. In normal operations the greatest volume of residue gas becomes available shortly after the first day of the month and tapers off to a marked degree at the end of the month. Consequently, the production of gas from gas wells tends to become concentrated into short periods of peak demand or short supply.

In order to prevent waste of casinghead gas, it is necessary to produce gas from gas wells under field conditions which require high deliverability wells to produce the major portion into the gathering lines because the low delivery wells are incapable of producing such gas.

The fact that the nominations of other purchasers per unit have been smaller than El Paso's has resulted in the allowable given to El Paso's wells

being less than El Paso's market demand. For example, if El Paso nominates one million cubic feet per unit per day and another purchaser nominates one-half million cubic feet per unit per day for an equal number of units, the allowable based upon straight acreage would be three-quarters of a million for each unit giving wells connected to El Paso's system less than its requirements and giving the other purchaser's connections more than its requirement. When the market demand is met, El Paso's wells become overproduced, and the other purchaser's connected wells become underproduced. When peak demands and short supply impose the necessity of producing large quantities quickly, this unbalanced condition is aggravated. During the former hearings, El Paso and other pipeline companies pointed out this inevitable result when the deliverability factor is omitted.

This unbalanced condition has been further complicated by carrying forward instead of cancelling underproduction. El Paso is not critical of companies whose problems resulted in carrying forward this underproduction or of the Commission for granting extensions of the cancellation date. However, the result in the Jalmat Pool was as of July 1, 1957 an accumulated underproduction of 8.6 billion cubic feet, and an accumulated overproduction of 8.6 billion cubic feet. The cancellation of underproduction and the redistribution of the underproduction to the non marginal wells will help to relieve this situation. El Paso urges the Commission to cancel at the beginning of the next proration period all underproduction subject to cancellation under existing rules and to redistribute this underproduction to the non marginal wells in each pool.

Many wells in the Jalmat Pool could be classified as marginal wells. These wells are physically incapable of delivering the average monthly allowable. Failure to classify these wells as marginal wells results in granting to these wells an allowable impossible to make. The weak well is not penalized by classification as a marginal well. On the contrary, the marginal well is permitted to produce all it can produce, and in effect, is freed from any restriction of proration. The owner of the marginal well is not hurt by proper classification, and the owners of non marginal wells are benefited because the demand which cannot be met by the marginal well is properly allocated to the wells capable of delivering this demand under field conditions. El Paso urges the Commission to make prompt classification of all marginal wells, and thus avoid unrealistic allocations.

Finally, El Paso again urges the Commission to recognize the necessity of considering deliverability as a part of the allocation formula. In many instances difference in deliverability reflects the difference between an old, partially depleted well and a new well with inital flush production. Usually the differences reflect a real relationship between the existing recoverable reserves in place attributable to the wells. An allocation formula based solely upon acreage will result, and we consider has resulted, in injury to correlative rights. When the straight acreage allocation formula is used, experience has proven that wells incapable of increasing their production to meet peak demand conditions will continue to become underproduced and the

good wells will continue to be overproduced. This will cause and has caused the market demand to be satisfied from other sources. When the wells connected to El Paso's system in Lea County are overproduced and in danger of shut in, the only solution for El Paso is to obtain from the San Juan Basin or other sources the additional volumes required for its market. The Lea County operator is not helped by transferring market demand elsewhere. The unbalanced condition within each pool in Lea County needs to be corrected for the benefit of all. During 1957 while El Paso has had to restrict its purchases in Lea County in order that overproduced wells might come in balance in accordance with the Commission's rules, it has been necessary to take additional volumes from the San Juan Basin. The San Juan Basin has also had to take most of the swing required to meet our market demand. We find that we have been able to take the varying market demands without severely overproducing wells in the San Juan Basin where we have been unable to do so in the Lea County area. This is to be attributed to the fact that deliverability is considered in the allocation formula for the gas wells in the San Juan Basin.

El Paso earnestly recommends a continued study and the adoption of a formula recognizing the realities of producing and marketing gas from gas wells. El Paso will gladly cooperate in furnishing all information in its possession to achieve a result more equitable to all parties.