

AZTEC OIL & GAS COMPANY

BURT BUILDING

DALLAS 1, TEXAS

July 9, 1954

MAIN OFFICE 000

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AIR MAIL

New Mexico Oil Conservation Commission
125 Mabry Hall
State Capitol Building
Santa Fe, New Mexico

Re: Case 330-A: Gas Proration
Blanco-Mesaverde Gas Pool

Gentlemen:

Aztec Oil & Gas Company, organized in the early part of 1950 as a wholly-owned subsidiary of Southern Union Gas Company, is now a separate and independent oil and gas producing company operating in northwestern and southeastern New Mexico. As your records will indicate, Aztec is one of the major independent producers of gas in the San Juan Basin, owning or having an interest in 68 wells in the Blanco-Mesaverde Gas Pool, 132 wells completed in the Pictured Cliffs formation, 5 wells completed in the Pennsylvania formation, and one well completed in the Dakota formation. In view of its rather extensive operations and acreage holdings in the San Juan Basin, the Company is vitally interested in the institution of a proper gas proration program for the area and the related rules and allocation formulas which must be promulgated and adopted by the Commission in order to put a proration program into effect.

Mr. Van Thompson, Vice President of the Company, and I were present during the entire hearing held June 20 to June 24 inclusive, concerning Case 330-A. In view of the abundance of testimony and exhibits introduced at the hearing, we felt that any testimony or exhibits on behalf of Aztec Oil & Gas Company would be repetitious. Therefore, our participation in the case was limited to brief cross-examination of some of the witnesses. However, we would like to state our position in Case 330-A, which is briefly summarized as follows:

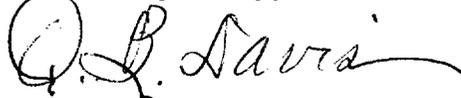
- (1) We believe that there is a real need for proration of gas in the Blanco-Mesaverde Gas Pool because of the inequitable production and withdrawal of gas from wells in the Pool. We therefore urge the Commission to institute proration in this pool as soon as possible.
- (2) We recognize that with the information and data available to the operators and the Commission, it would be impossible at this time to provide an allocation formula that would assure each and every operator in the Blanco-Mesaverde Pool an opportunity to recover his equitable share of the gas reserves in the reservoir. It is our opinion, however, that an allocation

formula of 50% acreage plus 50% deliverability times acreage is the most fair and just formula that could be adopted by the Commission at this time, and we believe that it would come the closest of all formulas submitted to enable each operator to recover his equitable share of such reserves. Moreover, we believe that this formula was fully supported by testimony and exhibits of several of the participants in the hearing, including particularly Southern Union Gas Company and the Commission's staff. In the event the Commission does not see fit to adopt the allocation formula referred to above, we recommend that serious consideration be given to the formula of 25% acreage plus 75% deliverability times acreage.

A deliverability factor alone as proposed by two of the participants in the hearing would, in our opinion, be an unfair and unjust allocation formula. It is our opinion that deliverability has very little correlation with reserves since deliverability is based primarily on permeability rather than porosity, which is one of the major factors in determining reserves.

(3) We have worked with representatives of Southern Union Gas Company on a proposed set of field rules for the Blanco-Mesaverde Gas Pool which are being submitted by the latter for your consideration. In general these rules meet with our approval; however, we would like to point out that there could, and perhaps will be, inequities if under production is cancelled in the event it is not made up within one year.

Yours very truly,



Quilman B. Davis, General Attorney
Aztec Oil & Gas Company

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