

BEFORE THE
Oil Conservation Commission

SANTA FE, NEW MEXICO
June 14, 1956

IN THE MATTER OF:

CASE NO. 1082

TRANSCRIPT OF PROCEEDINGS

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Before the
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 14, 1956

IN THE MATTER OF:

Application of the Oil Conservation Commission upon its own motion to consider evidence pertaining to the exception to or the temporary suspension of the rules of over production and under production in all prorated gas pools in Lea County, New Mexico. Applicant, in the above-styled cause, as a result of applications from Permian Basin Pipeline Company and Southern Union Gas Company will receive evidence pertaining to the exception to or temporary suspension of Rules 9 and 10 of the Special Rules and Regulations for the Jalmat and Eumont Gas Pools as set forth in Order R--520 and Rules 9 and 10 of the Special Rules and Regulations for the Tubb, Byers-Queen and Justis Gas Pools as set forth in Order R-586 and Rules 13 and 14 of the Special Rules and Regulations for the Blinbry Gas Pool as set forth in Order R-610 so far as said rules pertain to over production and under production in all prorated gas pools in Lea County, New Mexico.

No. 1082

BEFORE:

Honorable John F. Simms
Mr. E. S. (Johnny) Walker
Mr. A. L. Porter

TRANSCRIPT OF HEARING

MR. PORTER: The meeting will come to order, please. The next case on the docket is 1082. Mr. Gurley, would you read the case?

MR. GURLEY: Application of the Oil Conservation Commission upon its own motion to consider evidence pertaining to the exception to or the temporary suspension of the rules of over production and under production in all prorated gas pools in Lea County, New

Mexico.

MR. PORTER: How many witnesses do we have in this case?

MR. KELLAHIN: If the Commission please, Jason Kellahin, representing Permian Basin Pipeline Company. We will have two witnesses.

MR. GREINER: We will have one on behalf of Southern Union Gas Company.

MR. PORTER: Mr. Kellahin, would you proceed?

MR. KELLAHIN: Before we proceed, I would like to make a brief statement if I may.

This is a hearing called upon the application of the Commission on its own motion to consider evidence in connection with temporary suspension of the rules pertaining to overproduction and underproduction in the various Lea County Gas Pools.

The Commission's action resulted from applications for temporary exceptions that had previously been filed by Permian Basin Pipeline Company and Southern Union Gas Company. While the call of the hearing is, we feel, sufficiently broad for the Commission to consider any matters pertaining to the granting of exceptions to or temporary suspension of the rules relating to over and under production in all of the various pools, Permian Basin's application applied only to the question of an exception to or temporary suspension of the cancellation of underproduction in the pools in which it has connections.

These pools, and the rule governing underproduction with which Permian is prepared to present testimony include Rule 9 of Orders Nos. R-520 and R-586, covering the Jalmat, Eumont, and Tubb pools, and Rule 13 of Order No. R-610 covering the Blinesbry

Gas Pool. Any testimony we have to offer will necessarily be limited to those pools, as they are the only ones in which Permian Basin Pipeline Company has connections. Further, our testimony will be limited to the question of suspension of the cancellation of underproduction, since that is the problem with which Permian Basin Pipeline Company is presently faced.

While it is true that gas prorationing has been in effect since January 1, 1954, the problem with which Permian Basin Pipeline Company is of recent origin. We are prepared to show that Permian has taken, and is taking all possible measures to correct the situation in which it now finds itself, and to protect those producers to whose wells Permian Basin Pipeline Company is connected. Steps are now being taken, which, we feel, will enable Permian to take the full allowable assigned to its connections and to make up the underproduction which has accumulated during recent months. Without an exception to suspension of the rules pertaining to the cancellation of this underproduction, however, these steps will only partly remedy the situation that has arisen.

The situation to which we are referring, briefly, is this: The wells to which Permian is connected currently have an accumulated underproduction of approximately 10 million MCF. The letter of the commission rules would require cancellation of a very large part of this accumulated underproduction, as of July 1, 1956.

The evidence will show just how this situation came about, what steps have been taken and what steps are now being taken to correct it, and that we have a need for this gas to fulfill market requirements.

Under the call of the hearing in this case, we feel that

the Commission can relieve the situation in either one of two ways: Either grant to Permian an exception to the rules involved, or grant a temporary suspension of the rules, which would apply to all operators within the pools covered by the notice in this case. It is clearly within the power of the Commission, in our opinion, to grant the relief requested.

The evidence to be offered, we feel, will show that some relief is necessary, and appropriate, and the granting of such relief will best serve the purposes of the conservation statutes of the State of New Mexico.

We will have two witnesses. I would like to call Mr. Rex Fowler, please.

R E X D. F O W L E R,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. KELLAHIN:

Q Will you state your name, please?

A Rex D. Fowler.

Q By whom are you employed, Mr. Fowler?

A Permian Basin Pipeline Company.

Q What is your position with the Permian Basin Pipeline Company?

A I am manager of gas purchase operations.

Q Mr. Fowler, in connection with your position, what are your duties and responsibilities?

A I'd say that my principal duties were the administration of our gas purchase contracts. Included within that, of course, is the supervision over making nominations to the Commission and

the allocation of gas to our sources of supply and to individual wells within those sources of supply.

Q What experience have you had in connection with that type of work?

A Well, I was employed by Northern Natural Gas Company on August 3, 1937, some 18 or 19 years ago. I have been continuously employed by Northern since that date. All of that time in the Gas Supply Department, and all of that time my work has been concerned with proration and allocation of gas requirements in accordance with contracts and in accordance with State rules, regulations, and orders.

Q Have you previously appeared before this Commission and qualified as an expert witness, Mr. Fowler?

A I have.

MR. KELLAHIN: Are the witness's qualifications acceptable to the Commission?

MR. PORTER: They are.

Q Mr. Fowler, are you familiar with the application which Permian Basin filed, which resulted in the Commission's calling of Case 1082?

A Yes, I am familiar with it.

Q You are familiar with the call of the hearing in Case 1082, are you?

A Yes, sir.

Q What are Permian Basin Pipeline Company's operations, Mr. Fowler? Could you describe them briefly?

A Permian Basin Pipeline Company is engaged in the purchase, gathering, compression, processing, transmission and sale of natural

gas. Our gas supply originates in West Texas and Southeast New Mexico. In West Texas we purchase gas from the Puckett Field in Pecos County, from the Spraberry Trend area and from one well in the Holman Field in Gaines County, Texas. In New Mexico, in Lea County, we purchase gas from Skelly Oil Company's Lovington Gasoline Plant in a relatively small volume, it runs around three and a half million a day currently. That gas is delivered into our system at a point downstream from or north of our Hobbs processing and compressor plant. The balance of the gas purchased by Permian in Lea County is necessarily processed through our Hobbs plant. That gas originates from several pools in Lea County; namely, the Eumont, Jalmat, Blinbry, and Tubb. The vast majority of our Hobbs plant gas is purchased from those four pools. In addition, we do purchase some relatively minor amounts from gas wells in oil pools from unprorated wells and from Skelly Oil Company again at their Eunice plant.

Q You have referred to your Hobbs plant and some other connections, Mr. Fowler. Could you describe briefly the pipeline operated by Permian Basin?

A Well, as one leg of the system originates in West Texas and Pecos County and terminates in Yoakum County, Texas, near El Paso Natural Gas Company's Plains station. The other leg of the system originates in Lea County and also terminates near El Paso's Plains station. All gas handled by Permian is delivered into El Paso's facilities at the Plains station.

Q In addition to the gas which you have described handled by Permian, do you purchase any residue gas in Lea County?

A Well, the small volume that I mentioned we purchased from

Skelly's Eunice plant is residue. Well, also the Lovington Plant gas is residue.

Q How is this Lee County gas handled by Permian?

A All Lee County gas, other than this Skelly Lovington Plant gas, is gathered by Permian in one common gathering system and delivered to Permian's Hobbs Plant where it is processed for gasoline extraction, dehydration, and desulphurization, and is also compressed at that point.

Q Where does it go from there?

A It is delivered on then to a point on El Paso's system near El Paso's Plains Compressor Station where it is delivered into El Paso's facilities.

Q Now what happens to the gas after it reaches the Plains?

A It is handled by El Paso; El Paso does, however, deliver to Northern Natural Gas Company an equivalent volume at a point in Moore County, Texas, near El Paso's Dumas Plant.

Q Then, in effect, am I correct that it results in an equal exchange of gas to two different points?

A That is right.

Q To what line does it go in Dumas?

A Into the system of Northern Natural Gas Company and Northern carries it on into its market area.

Q Are you familiar with the history of gas prorationing in New Mexico?

A Yes, sir, I believe I am.

Q To your knowledge, has there ever been any cancellation of overproduction or shut-in of wells on account of overproduction at the end of a balancing period?

A Well, there have been three dates passed, when, under the letter of the Commission's proration orders, cancellation of underages or shut-ins because of overproduction would have been called for. The end result has been that no cancellation has occurred and no wells have been shut-in for overproduction. However, I might point out that on the first of these balancing dates, which was January 1, 1955, some underages were actually cancelled but reinstated within the next month or so.

Q Do you know when prorationing started in southeastern New Mexico?

A It was made effective in January, 1954.

Q When did Permian Basin Pipeline Company start operations in southeastern New Mexico?

A Actually started taking gas very late in 1953.

Q As a result of prorationing in southeastern New Mexico, have any problems arisen affecting Permian Basin Pipeline Company?

A Yes, I'd say there had been.

Q Have you prepared an exhibit, Mr. Fowler, which will indicate to the Commission just what those problems are?

A Yes, sir, I have.

MR. KELLAHIN: I ask that a five-page document be marked as Permian's Exhibit No. 1.

(Permian Basin Pipeline Company's Exhibit No. 1 marked for identification).

Q Referring to the five-page document marked for identification as Permian's Exhibit No. 1, would you state, Mr. Fowler, what that is?

A Yes. Exhibit No. 1 is a tabulation of statistical informa-

tion regarding proration matters in the four prorated gas pools in Lea County, New Mexico. The data shown thereon is confined to wells connected to Permian's gathering system. These four pools are the Eumont, Jalmat, Blinebry, and Tubb. All gas purchased by Permian in Lea County which is subject to gas proration originates from gas wells located in these four pools.

The exhibit covers by months the period of time from the effective date of proration on January 1, 1954, through May, 1956, the most recent month for which information is available. The exhibit consists of five sheets. The first sheet is a summary of information for all four pools. The remaining four sheets cover each of the four pools separately. The figure shown opposite each month under each column on the summary sheet was determined by adding together similar information for each of the four pools. The data shown on this exhibit was taken from the monthly gas proration schedules issued by the New Mexico Oil Conservation Commission.

Q Was this exhibit prepared by you or under your direction and supervision?

A It was.

Q Does the exhibit reflect only information affecting Permian Basin Pipeline Company's connections?

A That is right. It is a summation of information for wells connected to Permian Basin Pipeline Company.

Q Referring to the first page of the exhibit, Mr. Fowler, the first column there shows number of connected wells. Does that reflect any change which would affect your situation at the present time?

A Yes. I would like to point out that in the first month of proration, which by the way almost coincided with the time that Permian started to run gas, we had 46 wells connected to our system. By the end of December of that year, the number had increased to 167, or an increase during the year of 121 wells. By the end of 1955, the number had accumulated to 248, an increase of 81 wells during 1955. At the end of May, Permian had 269 wells connected, 223 more than we had in January of 1954.

Q Referring to the second column, I notice the first item you had 46 wells connected and it showed thirty nine and a half 160-acre units. What does that indicate?

A Well, that indicates that at least a number of the wells held less than a 160-acre unit.

Q Is that fact significant in fixing the allowable?

A Yes, sir. Gas is prorated on straight acreage; therefore, allowables are directly proportional to the number of units.

Q In comparison with the number of wells connected, has there been any significant change in the number of 160-acre units connected?

A Yes, there has been even a greater increase in the number of 160-acre units. You will note in January of 1954, the comparison is 46 against 39 and a half. That is the number of 160-acre units were less than the number of wells. Moving clear to the end of the period covered by the exhibit, the end of May, 1956, although we had 269 wells connected, the number of units was 301.9, some 31 or 2 units greater than the number of wells.

Q Referring to the column cited as "Nominations and Current Allowables", what does that indicate?

A Well, the nomination columns reflect the nominations actually made by Permian Basin Pipeline Company to this Commission. They are advance estimates of our, Permian's requirements from the four pools involved. The current allowable column represents the allowables actually assigned to wells connected to Permian in these same four pools.

Q What does the production figures show in relation to that?

A Well, the production figures are the actual production by all wells connected to our system. You will note that for the year 1954, current allowables and production were substantially equal, whereas in 1955, the current allowables greatly exceeded both our nominations and production. The same situation is true to a lesser degree in the five-month period in 1956. Grand totals, of course, indicate the same direction of difference.

Q Now referring to the last column on the exhibit, Mr. Fowler, what does that show?

A The final column represents the cumulative status of all wells connected to Permian taken as a single unit, and you will note that we, in the early days of proration, we overproduced; with the exception of two months in 1954, we were overproduced continuously. The overproduction continued through April of 1955, after which a modest amount of underproduction prevailed through July of 1955. In August of 1955, the underproduction increased substantially and rapidly thereafter, at least until the end of 1955, and by the end of May, 1956, had increased somewhat more.

Q During just what period of time would you say that Permian Basin's problem of underproduction became acute?

A During the last half of 1955, I would say, commencing in

August.

Q What is the present situation, Mr. Fowler, as compared to the increase you experienced from August to December of '55?

A Well, although it has increased from December of '55, from 8.4 billion to some 10.4 billion by the end of May of '56, the rate of increase has been arrested, I believe.

Q Does that indicate then that Permian has taken steps to handle the gas available through the allowables assigned to them?

A Well, we have operated our plant at its maximum capacity.

Q Now, referring to the sheets attached to the exhibit, what are they?

A The four sheets attached to the summary show the same type of information as is shown on the summary, except that it is separated by pools. The same general pattern is shown for each pool as is shown on the summary. By that I mean we were overproduced during the early part of proration and more recently have been underproduced in each of the pools.

Q Now, referring again to the first page of the exhibit, Mr. Fowler, why are the allowables substantially different from the nominations made by Permian?

A Well, when a pipeline company is taking gas from a prorated pool where other companies are also taking gas, it necessarily follows that each pipeline company's operation is influenced by the operations of the others. Now allowables are determined by this Commission by summing the nominations for all companies, and after adjusting those nominations for differences between previous months' nominations and runs and the remainder is spread to all wells in the field. If another pipeline company, or several

other pipeline companies other than Permian have a requirement for gas that is greater per unit than Permian's requirements, then Permian's allowables are naturally higher than its nominations.

Q You testified earlier, Mr. Fowler, that you were familiar with the application which Permian filed which resulted in this present case?

A Yes, sir.

Q What was the purpose of that application?

A The purpose of the application was to ask this Commission to grant Permian some additional time within which to make up the substantial underproduction now existing on our system. We have requested that the normal cancellation date of July 1, 1956 be suspended until July 1, 1957.

Q As an alternative to that, would you say that Permian's situation could be handled by an exception to the rule?

A Yes.

Q In the event the Commission saw fit to grant either an exception or a suspension of the rule, what assurance do you have that Permian Basin Pipeline Company would be able to handle the underproduction in addition to its current allowable?

A Permian has two or three things under consideration. First of all, Permian is now engaged in enlarging its facilities at its Hobbs Plant, the desulphurization, dehydration, and gasoline extraction plants are now being enlarged. Contracts have been let for the construction of those facilities. We expect them to be in operation about December 31, 1956. The increase we are building will be about a thirty-three and a third percent increase. The present processing capacity of that plant is 165 million cubic

feet per day. The proposed capacity is 220 million cubic feet per day.

Q Now, will this increased capacity in your opinion enable you to run the underages in addition to your current allowables by July, 1957?

A We hope that it will. In the event it appears that it will not, our company has under consideration the construction of additional facilities at Hobbs.

Also, representatives of Permian Basin Pipeline Company have had and expect to have more discussions with El Paso Natural Gas Company and Southern Union, the end result of which may be that some of Permian's gas will be delivered to those other companies, to the end that underproduction and overproduction may be brought more nearly into balance.

Q Are you physically equipped to handle an arrangement of that type with El Paso Natural Gas Company?

A I believe we are. We have a connection with El Paso near their Plains Station to which I previously referred. Perhaps other connections could be arranged.

Q In your opinion, will the granting of an exception to or suspension of the rule result in protection of correlative rights?

A Yes, I believe it will.

Q Serve the best interest of conservation?

A That is right.

Q Now, Mr. Fowler, this hearing has been called by the Commission to consider both overproduction and underproduction; how do you feel about the question of overproduction?

A If this Commission should see fit to grant Permian the

right to carry forward and produce its underproduction between July 1, 1956, and July 1, 1957, and if there are other companies who find themselves in an overproduced position and have need of an exception or a suspension of the shut-in provisions of the basic orders, and they do not have other gas available to them by means of which they could cut back their overproduction in Lea County, then it seems logical to me that an exception should be granted on the overproduction side comparable to the exception on the underproduction side.

Q Permian Basin at this time does not have that fault?

A We certainly do not.

MR. KELLAHIN: That is all the questions we have.

MR. PORTER: Anyone have a question of the witness?

MR. KELLAHIN: Before we go into that, I would like to offer in evidence Permian's Exhibit No. 1.

MR. PORTER: Any objection to the admission of the exhibit? It will be admitted. Any questions of the witness? Mr. Utz.

CROSS EXAMINATION

By MR. UTZ:

Q Mr. Fowler, you are not recommending a suspension of Rule 10, Order R-520, are you, or are you not? I kind of misunderstood your last bit of testimony there.

A Do I understand that Rule 10 applies to overproduction?

Q That is correct.

A I would say that I had no objection to it if it is needed, as I previously suggested, we don't have an overproduction problem.

Q But other people may have?

A They may have.

Q Do you think that there should be any ceiling on individual well overproduction? In other words, the present ceiling is six times the current allowable; do you feel that any wells should be allowed to overproduce in excess of that amount?

A Mr. Utz, I haven't given that problem any study.

Q Well, if you did, you could foreseeably have wells that would be so far overproduced that they would have to be shut in; is that a reasonable assumption?

A Yes, I presume that is a reasonable assumption, if the other companies have that large a requirement for gas. Now, I don't have any specific recommendation on the thing. It would seem logical that some sort of a ceiling might be put on.

MR. UTZ: That is all I have.

MR. PORTER: Anyone else have a question of Mr. Fowler?
The witness may be excused.

(Witness excused).

Call the next witness, please.

G. E. STAHL,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. KELLAHIN:

Q Will you state your name, please?

A G. E. Stahl.

Q By whom are you employed?

A Permian Basin Pipeline Company.

Q What is your address?

A Omaha, Nebraska.

Q What is your position with Permian Basin Pipeline Company?

A I am manager of new gas purchases for the company. I am manager of purchase operations.

Q In connection with that position, what are your duties and responsibilities?

A Well, as manager of gas purchases for Permian Basin Pipeline Company, my primary attention is devoted to solicitation and negotiations of gas purchasing contracts with the producing segment of the natural gas industry. In addition, I am chairman of the Gas Supply Coordinating Committee of our company, which coordinates the activities of our marketing operation, construction and supply efforts of the company.

Q How long have you been in this type of work?

A I have been with Northern and Permian, with Permian since its inception and Northern five years.

Q Do you have any educational background or experience in this line of work?

A Yes, sir. In 1944 I commenced my university education, which was interrupted by military service, and I served two years in the United States Navy. After discharge from the service, I returned to college, where in 1948 I received a Bachelor of Science degree in Civil Engineering. My engineering education was obtained at the University of Wisconsin and Nebraska, and my degree was granted by the University of Nebraska. In June of 1951 I obtained an L.L.B. degree from the University of Nebraska and was admitted to the practice of law before the Federal and Nebraska State Courts.

During the period of time prior to June, 1951, I held the

positions of field engineer and subsequently chief field engineer for Johnson Construction Company, Inc. I also practiced as a consulting engineer in structural design, civil engineer in related fields.

In July, 1951, I joined the legal department of Northern as an attorney and was assigned principally to Permian Basin Pipeline Company, with special emphasis on the gas supply and gas supply phases of the company's activities. Early in 1953 I joined Mr. John Hanley, vice-president of Permian in charge of gas supply, as a staff assistant assigned to gas contract matters.

I subsequently was named manager of gas matters for Northern and Permian, which position I now hold. I am a member of the Mid-Continent Gas Association, the New Mexico Oil and Gas Association, the Independent Natural Gas Association, the American Gas and American Institute of Mining and Metallurgical Engineering. I have previously testified before the Federal Power Commission and this State Commission.

MR. KELLAHIN: Are the witness's qualifications acceptable to the Commission?

MR. PORTER: Any objection to his qualification? They are.

Q Mr. Stahl, in connection with your work, have you had anything to do that is concerned with the prorationing of gas?

A Yes, sir. At the time that Permian Basin Pipeline Company became a reality, I was assigned to supervise, with respect to proration in Lea County, and actively participated from the inception of the Commission's hearings on proration as both counsel and witness.

Q Would you explain briefly the operation of Northern Natural Gas Company and Permian Basin Pipeline Company's system?

A Yes, sir. We consider that it is integrated operation; starting at the south end of the system, Permian gathers gas, as Mr. Fowler described in his testimony. That gas is then sold to Northern Natural Gas Company, who in turn through a lease arrangement with El Paso Natural Gas Company, which incidentally has 33 years left to run, trades out gas with El Paso so that the gas that Permian delivers to Northern is given to El Paso at the south end of the El Paso Dumas line, which is approximately 200 miles south of the point where El Paso returns the gas to Northern. Northern then takes the gas from Permian and other gas which Northern purchases in Texas, Oklahoma and Kansas, and moves it north into Northern's market areas.

Q Is Permian a natural gas company within the meaning of the terms of the natural gas act?

A I have been so advised by my counsel, yes, sir.

Q What type of market is Permian gas sold to and where is it consumed?

A Permian gas is sold in market territory known as the Northern Plains area, consisting of the State of North Dakota, South Dakota, Nebraska, Minnesota, Wisconsin, Iowa, and a portion of Kansas. In the area that we serve we are the sole supplier of natural gas to the communities and industries that we service.

Q Has there been any increase in the past of Northern's sales capacity?

A Yes, sir, as it reflects Permian Basin Pipeline Company's operations in 1953, before we had Permian Basin Pipeline Company

in operation, the company was certified by the Federal Power Commission to sell 825,000 cubic feet of gas per day. At the time that the Permian gas became available to Northern, we increased that saleable capacity to 1,100,000,000 cubic feet per day. That is our current capacity. At the present time we have before the Federal Power Commission an application to increase that capacity to 1,220,000,000 cubic feet per day.

Q In regard to these prospective requirements of Northern, will any portion of them arise during the next twelve months?

A Yes, sir. We now have before the Power Commission an application to sell an additional 120,000,000 cubic feet per day. Last Friday we received temporary authority from the Federal Power Commission to construct facilities on the Northern system to take a portion of that 120,000,000 cubic feet of gas to market. We also received authority last Friday from the Federal Power Commission to operate a large-scale gas storage project in western Iowa, which will require the injection in the ground of volumes of gas in the neighborhood initially of 100,000,000 cubic feet per day over and above the gas we sell to our customers.

I might point out that Northern has a tremendous market area both house heating, space heating, industrial and industrial load. We feel we have a tremendous market at the present time and a tremendous potential for growth on our system.

Q Do you then anticipate that you will be taking increased amounts of gas from southeastern New Mexico?

A Yes, the reason that Northern went into the Permian Basin Pipeline Company project when it did was to get a pipeline system into this country, because we recognized that the potential

for discovery of additional gas reserves was tremendous in the Permian Basin. We particularly recognized that the Four Corner Area of southeastern New Mexico had barely been scratched and there would be tremendous gas reserves discovered in that area, and that, of course, has been proven out. We need additional gas and it is going to have to come from this part of the country.

Q You heard Mr. Fowler's testimony as to the increased capacity which was being constructed at the Hobbs Plant. Mr. Stahl, does Permian and Northern have sufficient capacity beyond that point to handle the increased amounts of gas about which you have testified?

A Yes, sir. The bottleneck in our system in this particular problem has been the capacity at the Hobbs Plant, as testified to by Mr. Fowler. Once we circumvent that bottleneck, then we have adequate capacity or we have plans to construct adequate capacity to move all of that gas to market.

Q Does Permian have a need for the gas allowables which are presently subject to cancellation?

A Yes, sir, we definitely need the gas which is subject to cancellation, and if the Commission does not grant us the application, then it will put a severe strain on our other gas supply sources.

Q Would, in your opinion, the granting of an exception to or suspension of the rule concerning cancellation of underage serve the interest of conservation and serve to protect correlative rights?

A Yes, sir, it would. I would like to point out this: We feel, Northern and Permian feel that we have a demand foreseeable

at the present time, over the next five years, of a minimum of an additional 500,000,000 cubic feet. We definitely need this gas plus additional gas.

MR. KELLAHIN: That is all.

MR. PORTER: Does anyone have a question of Mr. Stahl?
Mr. Utz.

CROSS EXAMINATION

By MR. UTZ:

Q Do you believe that the Commission can or should suspend underage and the cancellation of underage without also suspending the balancing of overproduction?

A No, sir. I believe it's a two-edged sword that has to go both ways.

Q If we suspend cancellation, we should also suspend the balancing of overage?

A That is my personal opinion, yes, sir.

Q Do you answer that from an engineering standpoint or legal standpoint?

A I'll let you make that decision, Mr. Utz.

MR. UTZ: That is all.

MR. PORTER: Anyone else? Mr. Montgomery.

By MR. MONTGOMERY:

Q Did I understand that you say within the next five years you anticipate you will be taking some 500,000,000 cubic feet a day from the southeast area?

A No, sir. As I testified, our present capacity is a billion one hundred million. We have before the Federal Power Commission an application to increa-e that to a billion two hundred

twenty million cubic feet per day. Our marketing department has advised us that we have a demand for an additional 500,000,000 which would run that up to approximately a billion seven hundred million for the total of both companies. A substantial portion of that, in my judgment, has got to come from the Permian system, and one of the most attractive areas that Permian is in is in Lea County.

MR. MONTGOMERY: That is all.

MR. PORTER: Anyone else have a question of Mr. Stahl?

MR. WALKER: With your rather limited qualifications, couldn't we find a better term to use to circumvent around the Hobbs area; that is a term that is usually used by professional politicians rather than one of your organization, of your kind, can't we change that some way? I would hate for that word to appear in the record.

A Yes, sir, I think we ought to maybe change that to "break" the bottleneck which Permian is in the process of breaking at the present time.

MR. WALKER: Thank you.

MR. PORTER: I have one question. You may have mentioned this; when did you anticipate the completion of the expansion of your Hobbs Plant?

A Our current best estimate and which we have gotten from the contractors that we have hired for the job is that we will have the plant in operation late in December or the latest, about the first of the year.

MR. PORTER: I see. Any other questions?

A Incidentally, I might point out that the construction work has started on the plant now.

MR. KELLAHIN: In that connection, if I may say so, that the application filed by Permian asked for a year, rather than merely a six-month period for that reason.

MR. PORTER: Yes, sir. The witness may be excused.

(Witness excused).

The next witness, please.

MR. GREINER: A. S. Greiner for Southern Union Gas Company.

MR. PORTER: Mr. Greiner.

MR. GREINER: If the Commission please, Southern Union Gas Company, in its participation in this case, is in some respects here in the same fashion as has been mentioned with regard to Permian Basin Pipeline Company; that is to say, we filed two applications of our own which have apparently been consolidated for hearing or converted for hearing into this proceeding on the Commission's own motion in Case No. 1082.

One of these applications related to the Eumont Gas Pool wherein Southern Union has some 15 wells which are currently in an overproduced status, and based on May allowables, each of these wells was overproduced by more than six times the May allowable. That was filed in Case No. 1078.

The other application which we filed relates to one well in the Jalmat Gas Pool, and that was assigned Case No. 1079, we thought. But today's docket bore on there Case No. 1079, application of Stanolind Oil and Gas Company; so I am frankly at a loss to know what number, if any, applies to that second application of ours, and we would at this time like to have incorporated by reference into the record in this case these two applications, the one in Case No. 1078 and also the one which was originally numbered

Case 1079, but which now may bear some different number.

1078 was heard yesterday, Mr. Seelinger tells me, and that docket number was assigned to one of the others, which were docket numbers which were given to me by the clerk.

MR. GURLEY: If it please the Commission, I would like to explain the apparent foul-up in docket numbers here. At the time we received the application of Southern Union along with the Permian Pipeline Company's application, we had decided to hear them as separate cases, and later decided, because of the overall problems, to combine both the applications into one case along with the entire problem that faces those fields at this time, and called the case on the motion of the Commission; and that is why it now bears the docket number of 1082. All of these cases are under this docket call of 1082.

MR. GREINER: Can you advise me as to how these applications are now identified in the Commission's files, to the end that I may properly request the Commission to incorporate them by reference?

MR. GURLEY: They are identified as part of this particular case and under your own application. They are still your applications, if that is what you mean. We can so identify them as applications "A" and "B" in Case 1082, yours will be "A" and "B".

MR. GREINER: I see. Application 1, that will be "A", and the one that relates to the 15 wells in the Eumont Gas Pool, that is 1082-A, and the one that relates to the one well in the Jalmat Pool is 1082-B. We request the Commission to incorporate them by reference into Case 1082.

MR. GURLEY: Does that meet with the Permian Basin approval?

MR. KELLAHIN: They are all part of the record, as I understand it.

MR. PORTER: That is right.

MR. GREINER: One further point: In speaking of the wells just now, I spoke of them as Southern Union wells. Actually these are not wells in which we are the operator; we are the pipeline purchaser from the wells in question. I filed these applications in that capacity.

MR. WALKER: How long have you known these dockets were fouled up?

MR. GREINER: When I got here this morning and the sudden coincidence of numbers hit me.

MR. WALKER: It might have served a good purpose if we had straightened this out before we came here.

MR. GREINER: I am sorry I didn't. I am sure there was a ready explanation. I didn't know, as Mr. Seelinger tells me, there was confusion in another one. I didn't mean to embarrass the Commission. We have as our witness Mr. Walker.

H. R. WALKER,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. GREINER:

Q Will you state your full name, please?

A H. R. Walker.

Q What is your position with Southern Union Gas Company, Mr. Walker?

A I am district transmission superintendent of the Carlsbad

District.

Q How long have you held this position, Mr. Walker?

A Since October of 1952.

Q What is the general scope of your duties, please?

A Generally, the supervision of gathering and transmission, production of natural gas--

Q Is it --

A -- in the southeast New Mexico area, the Carlsbad District.

Q Do your duties include the regulation of takes from the wells connected to Southern Union system in this area?

A They do.

Q In the light of the proration orders and schedules issued by this Commission?

A Yes, sir.

Q Now, you have mentioned the Carlsbad District, Mr. Walker, could you describe generally the characteristics of activities carried on by Southern Union in its Carlsbad District?

A Yes, we serve as a natural gas utility serving the towns of Carlsbad, Artesia, Lake Arthur, Dexter, Hagerman, bi-city gate sales to Roswell, bi-city gate sales to Hobbs. Also we serve Lovington under our own name. We serve several large industrial customers, including five potash mines at the present date, some electric generating plants, and some oil refineries.

Q Is the City of Eunice, New Mexico, also served?

A Eunice is also served by us.

Q Are all the sales made by Southern Union Gas Company in its Carlsbad District purely an intra-state commerce?

A That is right.

Q None of the gas taken by Southern Union, then, in this Lea County area goes outside the State of New Mexico?

A That is right. It is all intra-state.

Q What are the approximate current annual gas requirements of Southern Union's Carlsbad District?

A Approximately 18.6 billion cubic feet.

Q Is this Carlsbad District separate from the remaining area served by Southern Union Gas Company; that is to say, Southern Union buys a considerable amount of gas in the San Juan Basin?

A This is physically separate. There is no connection by pipeline between the two or any other districts that Southern Union operates within the State, that is the Clovis or West Texas District, there is no connection.

Q What are the sources of gas at the present time which Southern Union employs to satisfy these annual requirements which I believe you said were approximately 18.6 billion per year?

A That is right. We have several sources. The Lea County wells connections are one, the Eddy County well connections, we have connections with two residue plants in Eddy County, we have a connection with El Paso Natural Gas Company near Carlsbad.

Q Are these other sources of supply, exclusive of Lea County area, sufficient to satisfy in full these gas requirements of which you have spoken?

A No, sir, they are not.

Q Approximately what volume of gas is required by Southern Union at the present time from the prorated pools in the Lea County area, taken in the aggregate?

A That is on an annual basis?

Q Yes, sir.

A I believe about 4.4 or 5 billion, somewhere in there.

Q Is that volume of gas taken evenly every day throughout the year?

A No, it can't be taken evenly. We have space heating load, which, of course, varies on demand. In the winter we have to have larger volumes than we do in the summer.

Q Could you give us some indication as to how much larger the requirements are in the winter than in the summer months?

A From this field or total?

Q I am talking now, generally, from the Lea County area, narrowing it down to that. What, for instance, did you budget as being the total take?

A Okay, let's see, yes, here it is. For instance, in January we budget about 1.8 billion per month and in June about 1.4 billion, in round figures, per month.

(Southern Union's Exhibit No. 1
marked for identification.)

Q Now, referring to this map which has been marked for identification as Southern Union Exhibit No. 1, what is this map, Mr. Walker?

A This map, it is just a general operations map; it shows our gathering and transmission lines into this area with certain of the pools surrounded to indicate the pool and the sour gas facilities and the sweet gas facilities. This is the Jalmat pool down here. This is the Eumont sweet gas field. Here is the Eumont sour gas field, and this is the Blinebry gas field.

Q Was this map prepared by you or under your supervision, Mr.

Walker?

A No, sir, it was prepared in the Dallas office, but I am familiar with the map and it is --

Q (Interrupting) You have checked it against the facts as you know them from personal observation and experience there, and it correctly portrays them?

A That is right, it does.

Q These dark solid lines are Southern Union Gas Company's gathering or transmission pipelines in the area?

A That is right.

Q They indicate service to the town of Eunice?

A That is right.

Q To Oil Center?

A Yes.

Q How about the lines running up here to Hobbs; now is that a Southern Union line to Hobbs?

A No, that belongs to Basin Gas Company, and we deliver to them through our own line at this point.

Q Is that all of the supply of gas for Hobbs?

A That is the only supply they have, yes, sir.

Q Now then, going on north from Hobbs to the portion of the map which got lapped over the top here, are any other counties served on north of Hobbs?

A Lovington is served by transmission line of our own from Hobbs to Lovington.

Q We have to deliver to Hobbs before we can get it back for delivery to Lovington, is that correct?

A That is correct.

Q You mentioned sweet and sour gas wells in this area. Can you describe that situation in a little bit more detail?

A Yes, the wells within this area --

Q (Interrupting) That is the area marked as Eumont sour wells?

A That is right. They have hydrogen sulphide and CO₂, with the gas, as it is produced from the wells, is not suitable for delivery to our customers and must go through a processing plant here at Oil Center. The sweet gas or the portion we have marked as sweet gas field, the gas from those wells does not contain hydrogen sulphide and is suitable for delivery to our customers simply by dehydration, which is accomplished at the wellheads.

Q Referring to the applications "A" and "B" in these cases, you have read those applications and are familiar with them?

A I have.

Q In them, they refer to some 15 wells, I believe, that are overproduced in the Eumont Area and to one well which is overproduced in the Jalmat Area. Have those particular wells been indicated on this map in any fashion so as to be identifiable?

A The overproduced wells in both areas are those encircled in red.

Q Are there any wells connected to this gathering system which are now in a state of underproduction and which have also been so since the beginning of the last balancing period?

A There are two, the ones encircled in blue, one in the Blinebry and one in the Jalmat.

Q Now, as indicated in these applications, how many months overproduced in terms of May allowables are these wells which have

been circled in red; that is to say, give us the longest and shortest month of overproduction, if you would.

A The longest one is the Atlantic Coleman No. 1, 25.8 months overproduced on the basis of the May allocation; the one with the shortest period of overproduction is the Me-tex Wallace State No. 2 with 7.2 months overproduction, based on the May allocation.

Q The other of these wells fall generally between those figures, but in the range of from 16.6 months on down, is that correct?

A That is right.

Q What is the total number of wells which are connected to Southern Union's lines in this Lea County area as shown on the map at the present time?

A 26.

Q That means, then, that there are some 10 wells only which are not now circled in red, and thus not subject to shut-in if the normal regulations of the Commission were to be applied, is that correct?

A That is right.

Q Would these 10 wells be capable by themselves of satisfying the gas requirements of Southern Union customers who are dependent for their gas supply on this area?

A No, they would not for any considerable period of time; a few days, possibly, something like that, not during the winter weather at all.

Q Do you say that because the total delivery capacity of these wells is less than the total gas requirements, or because of the way that they and the physical facilities are situated?

A No, the delivery capacity of the wells is probably sufficient, but the physical hookup of the wells and their locations to the line and their markets, they could not deliver it.

Q The sizes of gathering lines would just be inappropriate?

A That is right.

Q Are you familiar generally, Mr. Walker, with the volumes of gas which Southern Union has had allowed to it under the proration orders of this Commission in this area commencing in 1954, as well as the volumes of gas which Southern Union has taken from the area?

A Yes, sir.

Q Going back to 1954, which was, I believe, the first year of effective proration orders there, is that correct?

A That is right, started the 1st of January.

Q What was the total allowable for Southern Union from the wells to which it was connected in the Lea County prorated fields at that time, that was total allowable?

A In 1954, the total allowable was five billion, seven hundred fifty-one million, eight hundred eighty-six.

Q What was the unit, is that cubic feet?

A That is cubic feet.

Q That is. What was the actual take of Southern Union from these prorated pools during that same period?

A Five billion, four hundred sixty-seven million, eight hundred seventeen cubic feet.

Q So that at the end of that first balancing period, Southern Union's system, taken as a whole, was substantially underproduced, is that correct?

A That is true, it was.

Q What happened in that regard in 1955, what was the allowable for that year for the wells connected to Southern Union lines in this area?

A The allowable was three billion, nine hundred seventeen million, three hundred forty cubic feet.

Q What was the production from these wells?

A Four billion, five hundred forty million, eight hundred fifty-seven cubic feet.

Q In other words, Southern Union lowered its takes but the allowable dropped off even more?

A That is right.

Q And at that time, at the end of 1955, the situation was one of net overproduction?

A It was.

Q Now, in '56, what has the trend been?

A The first four months, I believe is all we have on here, through April. The allowable has been one billion seven hundred thirty thousand six hundred fourteen, and the production has been one billion, six hundred seventy-five million, seven hundred ninety-eight.

Q So that those have been approximately in balance, but with a slight trend toward overproduction in this year, also, is that correct?

A No. Our trend has been to reverse. We have reduced our overproduction so far this year with one billion seven hundred thirty million six hundred fourteen thousand allocated, and one billion, six hundred seventy-five million, seven hundred ninety-

eight produced, so therefore we have reduced our overproduction so far this year.

Q In addition to the problems of trying to match up production against these varying allowables, has there been any difficulty experienced by Southern Union during this period with respect to the division of its takes between sweet and sour gas wells?

A Well, yes, there has been. We have a little treater plant over there which during 1954 had a certain nominal capacity, which was not sufficient to take all of the sour gas allocated from these fields; so beginning about the end of 1954, we started an expansion of this treater plant and looking to an allocation approximately equal to 1954, we built additional facilities to increase our capacity to treat this sour gas, and therefore end up this situation as brought out before we were underproduced in '54; and we took steps immediately to correct it by increasing our facilities.

Q And since these new facilities have been installed, have they been useful to the company?

A No, sir. We found that in '55 we generally had more facilities than we needed.

Q So that, based on what actually did happen in '55, and from then on, these would not have been needed at all?

A That is right.

Q What has been the cause, Mr. Walker, in your opinion, of this fluctuation in allowables which has shifted Southern Union so radically from an underproduced into an overproduced position? Has that been a matter which is the consequence of any action on

the part of Southern Union?

A No, it hasn't. We are a comparatively small taker in these fields and our nominations for gas have really little effect upon the final field allocation, because we are just simply too small in these fields.

Q Speaking of these three fields which are involved here, what is, well, for 1955, what would have been Southern Union's production from those three fields expressed as a percentage of the total production?

A In 1955, we had a total percentage from these fields of about, that is '54, I'll get over here -- in 1955, 3.663% of the total production.

Q What was Southern Union's percentage of the total allowable for these fields for that same period of 1955?

A 3.005%.

Q Coming down to this four-month period in 1956, what would Southern Union's percentage be there?

A Mr. Greiner, I don't have a percentage figure on that.

Q That is on the production?

A On the production.

Q Do you have one on the allowable?

A I have one on the allowable.

Q What was it on the allowable?

A 2.932%.

Q Has Southern Union during this period when it has been materially overproduced in this group of 16 wells been nominating the volumes of gas which it has actually required for the meeting of its market requirements?

A Yes, sir, we have.

Q So that it has not been the consequence of not nominating enough that we have not been getting the allowables?

A No, sir.

Q What, in your opinion, would be the effect on these 16 wells if they were now to be shut-in for periods ranging, based on these May allowables, from not quite seven months up to slightly over two years; would that be good for the well?

A Well, it is generally considered that such a protracted shut-in would not be good; however, I have not made any study of the particular wells involved and it is just general practice that a long shut-in such as that could possibly be harmful to the productive capacity of the well.

Q What effect would it or might it have upon the arrangements between the owners of these wells and their lessors?

A There can be a detrimental effect there, as sometimes there is within the contract requirements for production within specified periods. That is, no prolonged shut-ins, and again I do not have access to their individual lease contracts, but it is reasonable to expect that there are some which could be adversely affected.

Q Now, faced with this situation, is there any hope of remedy for it? Is the company doing anything in an effort to remedy it?

A Yes, we are. We are, in the first place, we have recently made some additional connections in Eddy County for residue gas. It is my understanding that the management of Southern Union and El Paso has generally agreed upon an interchange of gas by which El Paso would deliver us a certain volume, the figure, I believe,

is about two billion a year in Lea County. I know --

Q (Interrupting) That would be a change for gas where?

A For gas in the San Juan area.

Q So you would be delivering gas in the San Juan area to El Paso, for exchange approximately equal volumes delivered to Southern Union Gas by El Paso in the Lea County area?

A That is right. That is my understanding.

Q You did not personally participate in those negotiations?

A No, sir, I didn't.

Q How does that two billion figure compare with the approximate total Lea County requirement which you estimate for the coming year?

A It is a little less than half of it.

Q Have the final contracts been signed on this exchange arrangement with El Paso Natural Gas?

A Not to my knowledge. However, they could have been signed within the last day since I heard of it. It is my understanding that the verbal agreement has been reached and that the exchange is definitely, will be worked out.

Q When do you anticipate that actual deliveries of exchange volumes of gas might begin in this area, so as to give Southern Union relief?

A There would be certain facilities to construct which would take some time, but if the contract is consummated and signed up shortly, we should be getting some gas from them within the next, oh, three months.

Q Before the close of the --

A (Interrupting) Yes, before the close of the next proration

period.

Q In addition to those volumes, will Southern Union be getting any further relief towards a workoff of this overproduced position by reason of the additional takes mentioned by the Permian witnesses in their prior testimony in this case?

A Yes, that will have its effect, an increase in the allocation, the current allocation will definitely reduce our overproduction and so therefore we do expect some relief there, as Permian is able to increase their nominations and production, then it will help us to overcome our overproduction.

Q There will be a larger allowable for each of your wells, is that correct?

A That is right.

Q So that by taking the same volume of gas below that allowable, more will be worked off each month than is being worked off now?

A That is right.

Q In addition to that, will there be any effect in this increase in the size of the monthly allowables upon the apparent number of months overproduction involved in these wells?

A Well, yes, there will be; as the allocation per month is increased, that will, of course, reduce the overproduction based upon the monthly, the current allocation.

Q To state an extreme example, if the allowable per well per month were doubled, the number of months of overproduction would be approximately half?

A That is the answer, yes.

Q Do you feel that in the light of those other arrangements

and circumstances which you have just mentioned, it would be appropriate for Southern Union at this time to be going out and seeking additional well connections as sort of a self-help remedy in an effort to work off this overproduction, or do you think that its activities to date have been reasonably sufficient for that purpose?

A No, sir, Mr. Greiner, I do not think it would be wise for us to seek further connections. We have seen the allocations fluctuate up and down; as I said, in 1954 we were quite seriously underproduced. The next year we found ourselves overproduced. To contract additional wells and then have the allocation per unit or per well increase substantially would put us in a position where we could not produce the allocated or minimum figures.

Q Now, there are also two wells which are shown on the map circled in blue which I believe you said were underproduced wells, is that correct?

A That is right.

Q What are those wells, Mr. Walker?

A The one here in the Jalmat is the Gackle Sinclair State No. 4, the one in the Blinebry is the Aztec Dauron No. 2 and those two particular wells, they have, the underproduction is a little bit of a special situation on the Gackle well; it was due to a rededication of acreage and transfer of gas from another well to this particular well fairly late in the current proration period. Though we are reducing this underage at a very good rate, there is still some underproduction charged against this well.

Q What currently are we making up on this Gackle well per month?

A Well, the exact makeup depends, of course, on the current allocation, but for May we produced 88 million in round figures from it, and I believe our allocation on that was 28 million; therefore we actually made up about 60 million feet of that underproduction in one month.

Q How much underproduction is there still left?

A As of May, there is 220 million.

Q So that there is 220 million there of underproduction which will also be available to assist in the workoff of the overproductions, is that right?

A That is correct.

Q As to this Aztec Lauron well which you mentioned --

A That again is a special situation. We wanted the gas from the well, but the operator was in the process of some negotiations on communitizing the acreage with another company and he requested us to produce it only on a 40-acre basis until such time as he had completed his negotiations. The Commission did continue to allocate it a 160-acre unit, and the operator asked us not to produce it except on a 40-acre, so therefore we wound up with an underproduction there.

Q What is your understanding about that situation in the future?

A I understand that the operator did communitize the acreage and the well definitely will be on 160-acre unit as of just a few days ago, and therefore we will have that underage available to us for production.

Q How much is that underage, Mr. Walker?

A 128 million.

Q Taking the aggregate net overproduction at this time of Southern Union in this area, what is that, as of the latest date that you have it?

A The net, aggregate net is 870,250,000 cubic feet.

Q As of what date was that?

A As of May 31st.

Q That is on the basis of the Commission's records?

A Yes, sir.

Q One other minor point: Are all of the wells which were listed in Southern Union's application in 1082-A carried on the Commission's proration schedule as being Southern Union wells, or are there any of them which are carried as being connected to other pipeline companies?

A Yes, there are a couple of them. Let's see if they're on here. Restate your question, Mr. Greiner; maybe I didn't get it right.

Q I was simply asking if, out of the list of 15 wells here, all of them are shown on the Commission's current proration schedules as being Southern Union connected wells.

A Of these 15 wells, all are Southern Union connected.

Q Well, that is part of the story, but are they all shown as being Southern Union on the Commission schedules? Although there are some wells which are shown on the Commission schedule as being connected to other pipelines, although Southern Union is actually taking from them under individual arrangements, none of those wells are involved here, is that correct?

A That is right, none of them are shown on this application.

Q Thank you. Mr. Walker, if the relief requested by Southern

Union in this case were to be granted, that is to say, these wells not to be shut-in at the present time but be permitted to continue producing at reduced levels, gradually working off their accumulated overproduction, do you feel that would result in any waste of gas?

A No, I do not. If the relief were granted it would not result in any waste.

Q Would it result in any abuse of correlative rights? Do you understand that term?

A I don't believe it would.

Q Over a period of years with the wells balanced out, in your opinion, they would still be delivering their fair share of the gas from the pools?

A Yes, sir, they would.

MR. GREINER: Thank you very much. That is all we have.

MR. PORTER: We will take a five-minute recess, please.

(Recess).

MR. PORTER: The meeting will please come to order. Mr. Greiner, you may proceed.

MR. GREINER: I have a couple of questions more I would like to ask the witness.

Q Just before the recess, we were talking about wells connected to Southern Union lines but shown on the Commission's proration schedules as being connected to another company. Have you identified those wells now as being in the Jalmat, rather than being in the Eumont Pool?

A That is right. We do have two wells in the Jalmat Pool which are shown on the Commission's schedule as connected to another company, but we are taking the gas from them by wellhead

pressure.

Q Those two wells are which?

A The Gulf Christmas No. 1 and Gulf Christmas No. 2.

Q The Gulf Christmas No. 2 is the one that is overproduced by several months, is that correct? It is one of those circled in red, the Gulf Christmas No. 1?

A It is the No. 1.

Q It is overproduced?

A That is right.

Q But the No. 2 is not the subject of the application, is that right?

A That is right.

Q One more question. Is Southern Union making any effort at this time to your knowledge to connect additional wells in this Lea County area?

A Well, yes, we are. We have recently connected some additional wells, only a short time ago we connected two wells which proved to be non-productive. That interfered with our schedule a little bit, but we have since then connected an Atlantic well, we have connected one for Morris R. Antwell, and we are negotiating for a couple of others that I know of. That is in Lea County. We have also made another connection in Eddy County just recently for some residue gas, and are negotiating for another well connection over there and expecting another wildcat which we will be able to connect, so we are definitely not through connecting wells. We are continuing and by percentage, with 26 wells connected in Lea County, our recent connection of four over there is approximately a 20% increase in connections just recently.

Q Thank you, Mr. Walker.

MR. GREINER: I would like to make one brief statement at this time as to our company's position before cross examination. We thought that perhaps it will serve to clarify a little bit the position of our company.

MR. PORTER: Certainly.

MR. GREINER: In the two applications which have now been referred to as 1082-A and B, Southern Union Gas asked for an exception to the wells listed therein for a period of six months. It was our thought in making the application for a six-month period that any exception either on the overproduced or underproduced side should be for a fairly limited period of time; and that probably at the beginning or just before the beginning of each balancing period, the Commission ought to take another look at each one of these exceptional situations to see if the parties affected were making a bona fide effort to get themselves back into line and were being at all successful in their efforts. If they were just beating their heads against a stone wall, the thing ought to be looked at in that light. As the matter has now been presented by Permian, they are now asking for a year's suspension or exception. We would be agreeable to that, because as has been apparent from the testimony already, many of the things that have been talked about here as relieving both their underproduced situation and our overproduced situation cannot become very effective until just about the end of this next six-months balancing period.

Under those circumstances, it would seem appropriate to run for a year before taking another look. We do, however,

definitely feel that this thing shouldn't be allowed to go on indefinitely without being looked at at periodic intervals and being reappraised.

MR. PORTER: Does anyone have a question of Mr. Walker?
Mr. Mankin.

CROSS EXAMINATION

By MR. MANKIN:

Q Mr. Walker, referring again to these Gulf Christmas wells, you indicated that you are hooked onto those wells. Is the Commission schedule in error in carrying those as Permian Basin?

A No, sir, I don't believe that is so. The exact arrangements there between Permian Basin and Southern Union I am not familiar with. The gas is dedicated to Permian, I believe, and by trade-out of some other wells, why, we are purchasing that gas, we are taking that gas and Permian is taking some that we did have at one time.

Q Permian is reporting it?

MR. GREINER: Yes, sir. For your information, we pay Permian for that gas and they pay the operator, so that the proration schedule is correct and it was not meant to be implied it was incorrect. It was simply so you might understand why we are applying to a well which showed as a Permian well on the proration schedule.

MR. MANKIN: That is all I have.

MR. PORTER: Any other questions of Mr. Walker? The witness may be excused.

(Witness excused).

Any other witnesses in this case? Anybody have any state-

ments to make?

MR. GURLEY: If it please the Commission, I would like to make two statements at this time that we were asked to make and read into the record, one coming from Aztec Oil and Gas Company by letter of June 12, 1956, in which they stated that they concur with Southern Union's request for additional time to make up the present underproduction of the wells.

The Texas Company, by Mr. H. N. Wade, asked to have the following statement read into the record, Case 1082, dated June 14, 1956:

"The Texas Company, as an operator in some of the fields involved in Case No. 1082, will be affected by the Commission's decision in this case. The Texas Company believes that, because of the extenuating circumstances encountered by the applicants in gathering and processing gas from the fields covered in this case, an exception to the rules of under production and over production is in order. The Texas Company would, therefore, suggest that the Commission enter an order granting the exceptions as applied for."

MR. PORTER: Mr. Smith.

MR. SMITH: J. K. Smith on behalf of Stanolind Oil and Gas Company. We would like to go on record as supporting the application of both Permian and of Southern Union. I think that the matter could be taken care of either by extending the period, balancing period for a minimum of one year, from July 1, 1956, or suspension of the balancing rules for a like period. Either method would be proper, I think, and would have application on the statutes. Of course, we feel that the matter should work both ways, both

for underproduction and overproduction.

MR. GURLEY: I would like to ask Mr. Smith a question. Did you say for a minimum of one year?

MR. SMITH: As I understand, the application is for one year; it may well be that at the end of the year's time it may be necessary to look at it again to see if it should be extended another six months. I think the key to it is the rapidity of development in the area, plus the ability of Permian to get their additional facilities for processing the gas in operation.

MR. GURLEY: You would be in favor of reviewing the situation again at the end of a year's time?

MR. SMITH: I think that is a matter that could be considered.

MR. MALONE: Ross Malone for Gulf Oil Corporation. Gulf is the operator of a number of wells connected into the Permian Basin Pipeline system. It's the feeling of Gulf that inasmuch as this underproduction did not result from any inability of the wells to produce, but rather because of the fact that development had progressed at a more rapid rate than the facilities have been made available, that it would be unfortunate and an abuse of correlative rights insofar as the operators, the royalty owners, including the State, if this allowable were cancelled and forever lost to those owners. Under those circumstances, we feel that it would be both equitable and appropriate for the Commission to exercise its discretion, and we support the application of Permian. We feel that the rule which is applicable in one case should be equally applicable in the other, and therefore support the application of Southern Union as well.

MR. HINKLE: If the Commission please, Clarence Hinkle, Roswell, representing the Atlantic Refining Company.

The Atlantic would like to go on record as not being opposed to this application or request made here by the Permian and the Southern Union. In fact, they would like to join in the request that the exceptions be granted; however, they would not favor a suspension longer than July 1st, 1957, without the matter again being taken up and being reviewed by the Commission.

MR. PORTER: Mr. Seaforth.

MR. SEAFORTH: Ray Seaforth with the Amerada Petroleum Corporation. We wish to concur in this case insofar as it would protect correlative rights.

MR. PORTER: Mr. Johnson.

MR. JOHNSON: Paul Johnson, representing Albert Gackle operator. This may be rather anti-climatic after the rest of the statements concurring in this. I do have a particular instance that I want to cite in the matter of the overproduction and underproduction in the Jalmat Gas Pool. In particular, I refer to the north half of Section 3, Township 23, South, Range 36 East, N.M.P.M., Lea County, New Mexico. This acreage is owned by Albert Gackle et al, and Sinclair Oil and Gas Company. The acreage is operated by Albert Gackle, operator. The referred-to acreage is under contract to the Southern Union. Due to mechanical conditions, for a period of time it was not possible to produce the allowable assigned to this acreage. However, mechanical conditions have been corrected and it is now possible to make up the underproduction from this acreage. In the present, gas production status of the acreage is as follows: The May current allowable was 28,890 MCF;

the May net allowable was 323,467 MCF. There was a credit from April that did not show on the proration schedule of 14,859 MCF, which makes a corrected May net allowable of 308,608 MCF. The May production from the acreage was 88,580 MCF. Now, then, the June current allowable is 26,430 MCF, and the June net allowable is 246,458 MCF. That means that during the month of May 59,688 MCF gas of the underproduction assigned to the acreage was made up. It can be expected that the underproduction will be made up in a reasonable length of time. Therefore, it is our position that gas underproduction should not be cancelled wherever it is possible, with the underproduction to be produced in a reasonable length of time.

Further, under such conditions, unless an extension of time is granted, the operator or operators will be deprived of the opportunity to produce their just and equitable share of the hydrocarbons in the Jalmat Gas Pool. The granting of an extension of time will protect correlative rights and will not cause, but will prevent waste.

Further, I would like to cite an instance that pertains to the northeast quarter of Section 33, Township 22 South, Range 36 East, on which we presently have an underproduction, but we are in the process of negotiations with the El Paso Natural Gas Company and the United Carbon Company to obtain a lower pressure connection, and when that is done we will be able to make up the back allowable from that acreage and we will be able to produce our just and equitable share of gas from that portion of the Jalmat Gas Pool. Thank you.

MR. PORTER: Anyone else have a statement? Mr. Woodward.

MR. WOODWARD: El Paso is a purchaser in the fields in question and is, of course, affected by the decision of the Commission in this case.

El Paso concurs in the recommendations of Permian and Southern Union in this case, upon the condition that the period for making up all underages and overages which have heretofore accrued in the field be limited to one year, commencing July 1, 1956, and that such year be treated as one proration period.

Under the Commissions rules, cancelled underages are re-distributed to all wells in the field, thereby increasing the allowable of wells that must make up over production during the current proration period. Without a redistribution of underages during the next six months, some overproduced wells will be shut in for a time, although it is ultimately determined that they were entitled to produce a share of the underages not made up by July 1, 1957. In the interest of fairness, we therefore feel that the Commission should not require producers to make up over production so long as underages are continued. As a practical matter, such action is necessary to give the field its fair share of the market. If over produced wells are cut back during the next six months and underages are not made up until July 1, 1957, it is obvious that the pool will not produce its current market demand, as required by law.

MR. PORTER: Any more statements? The case will be taken under advisement.

We'll move on to the next case.

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STATE OF NEW MEXICO)
 : SS
 COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the Oil Conservation Commission for the State of New Mexico was reported by me in stenotype and reduced to typewritten transcript by me and/or under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal, this, the 27th day of June, 1956, in the City of Albuquerque, County of Bernalillo, State of New Mexico.



My Commission Expires:

June 19, 1959.