

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 14, 1961

IN THE MATTER OF:)

Application of El Paso Natural)
Gas Company for an exception to)
Order No. R-333-C and D, as)
amended.)

Case 2306

TRANSCRIPT OF HEARING



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IN THE MATTER OF:)

Application of El Paso Natural Gas Company)
for an exception to Order No. R-333-C and D,)
as amended. Applicant, in the above-styled)
cause, seeks an exception to Order No.)
R-333-C and D, as amended, to provide for an)
administrative procedure whereby the time may)
be extended for conducting and reporting)
initial deliverability tests on gas wells in)
the Basin-Dakota Gas Pool, San Juan and Rio)
Arriba Counties, New Mexico, when the taking)
of such tests would prevent the full produc-)
tion of allowable from Pictured Cliffs wells)
connected to the same pipeline facility.)
Applicant further seeks an extension of time)
for conducting and reporting such tests for)
all Dakota wells without initial deliverabil-)
ity tests which, prior to October 1, 1961,)
are connected to a low-pressure pipeline)
facility servicing Pictured Cliffs wells. It)
is further requested that provision be made)
for assigning allowables based upon such)
delayed initial deliverability tests, effect-)
ive retroactively to the date of connection)
of the Dakota well to the low-pressure)
pipeline facility.)

Case 2306

BEFORE: Honorable Edwin L. Mechem
Mr. A. L. Porter
Mr. E. S. Walker

TRANSCRIPT OF HEARING

MR. WALKER: The next case on the docket is Case 2306.

MR. MORRIS: Case 2306. Application of El Paso Natural Gas Company for an exception to Order No. R-333-C and D, as



amended.

MR. PORTER: How many witnesses do you have, Mr. Howell?

MR. HOWELL: Just one.

(Witness sworn.)

MR. WHITWORTH: The firm of Seth, Montgomery, Federici and Andrews of Santa Fe, and Ben R. Howell and Garrett Whitworth, representing El Paso Natural Gas Company. The law firm has made a written appearance in this case. El Paso's witness is Mr. David Rainey.

DAVID RAINEY

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

DIRECT EXAMINATION

BY MR. WHITWORTH:

Q Would you please state your full name for the record, by whom and in what capacity are you employed?

A David H. Rainey, administrative assistant in the Pro-ration Department for El Paso Natural Gas Company.

Q Have you previously testified as an expert witness before this Commission?

A Yes, sir, I have.

Q Have your qualifications been made a matter of record?

A Yes, sir.

MR. WHITWORTH: Are the witness's qualifications

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acceptable?

MR. PORTER: They are acceptable.

Q What is El Paso's purpose in making this application?

A El Paso is seeking an exception to the provisions of Paragraph B of Subsection 1 of Section A of Order R-333-C and D, as amended, to provide for an extension of time in which to conduct initial deliverability tests on certain Dakota wells in the San Juan Basin area which are connected to El Paso's so-called Pictured Cliffs or low pressure system.

If I may at this time point, we want to go on record as being in complete accord with the suggested rule change made by the Commission Staff and would like to apologize to the Commission for having this hearing before the full Commission, but in the interest of time we thought it was necessary that we get it to hearing as soon as possible. We have a problem that time is of the essence.

Q What are the contents of Order R-333-C and D?

A Order R-333-C and D is the order that provides that initial deliverability tests and annual deliverability tests shall be taken on all gas wells in the San Juan Basin except the Gallup gas wells. At that time the order was written, the Gallup had not been developed. It further provides, that in the specific portion we are asking exception to, is that initial deliverability tests should be taken within forty-five days after connection to a

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pipeline.

Q Do you have an exhibit showing the wells that are involved in this application?

(Whereupon, El Paso's Exhibit No. 1 was marked for identification.)

A Yes, sir. El Paso's Exhibit No. 1 has been passed out. It is a portion of the El Paso's regular pipeline map for the San Juan Basin area covering the area from Township 24 North through 30 North and Range 10 West through 13 West, in the general area of the West Kutz-Pictured Cliffs Pool and the Fulcher Kutz-Pictured Cliffs Pool showing in red the proposed location of the Dakota gathering system which we intend to build in the immediate future.

This map also shows the location of our Blanco Gasoline Plant in Section 14 of 29 North, 11 West and our Chaco Gasoline Plant in Section 16 of 26 North and 12 West. It also shows the location of our Angel Peak Compressor Station in the Northeast Quarter of Section 8 of 27 North and 10 West, and of our Kutz Compressor Station in the Southwest Quarter of Section 15, 29 North, 12 West.

This map also shows the wells which are presently connected to, the Dakota wells which are presently connected to a Pictured Cliffs gathering system which will ultimately be connected to this Dakota gathering system or high-pressure gathering system.

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You'll notice this Township 28 North, Range 13 West, there's a portion of the pipeline system shown in blue rather than in red. That's an existing piece of pipeline which is connected at the present time into the 250 pound Pictured Cliffs system, but was designed and built with the idea in mind that it would ultimately be converted to a 500 pound system. It's a high-pressure pipeline although at the present time it's being offered on 250 pounds.

There's another section of pipeline in 27 and 28 North and 12 West shown in the same manner, shown in blue, which, as I say, is, at the present time, connected into a 250 pound system but designed and built to ultimately go into a 500 pound system.

In 28 North and 11 West there's a portion of pipeline shown there in green which was built as a gathering system by Pioneer Natural Gas Company and now connected to El Paso's system, and we're taking gas from Pioneer there on an exchange basis and the exchange of gas is made in another area entirely. That is actually gas going into El Paso's system. Also, at the present time, going into a 250, but can be converted to the 500 pound system at the time it's completed.

Q How many Dakota wells are involved?

A There are 32 Dakota wells which we're specifically concerned with in this application. They're the wells shown on this map colored in red. The wells in yellow are also Dakota

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wells connected to the low pressure system. However, those wells have been tested on initial deliverability test in the year 1960. The wells shown in red have not had any kind of test at all taken on them at this time.

Q What happens, Mr. Rainey, when you tie a Dakota well into a Pictured Cliffs system?

A Well, the Dakota wells in this area have approximately 2,000 pounds shutin pressure, and because of our contractual arrangements are producing against a back pressure of about 500 pounds through back pressure regulator on the wells themselves.

The Pictured Cliffs wells in this area have an average shutin of between 350 and 450 pounds, and producing into the 250 pound system. Consequently, when you turn much Dakota gas on at 500 pounds, and with high shutin pressures and relatively high deliverabilities compared to the Pictured Cliffs wells, it tends to back the Pictured Cliffs wells completely off the line or reduces their ability to produce to such an extent that they are incapable of making their allowables.

Q Because of this, in your opinion, is it injurious to correlative rights?

A Yes, the operators of the Pictured Cliffs wells are in danger of having their correlative rights violated in that if we test, or attempt to test, the Pictured Cliffs wells will be backed off the line, and because in the West Kutz and Fulcher Kutz the

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greatest bulk of the wells are in somewhat marginal status, even though they are not classified as marginal, and many of them are classified as marginal, and when they lose allowable and are backed off the line and not permitted to produce their allowable they're in danger of not being capable of making up that lost production.

Q How does the producing capacity of the Dakota wells compare with the Pictured Cliffs wells in this area?

A Well, as a specific example, there are 183 known Dakota wells connected to our Angel Peak, so-called Angel Peak gathering system. The Angel Peak Compressor Station is located in Section 8, 27 and 10. Of the 183 known Dakota wells, 159 are Pictured Cliffs, 17 Fruitland, 1 Charro well, 3 Farmington wells and 3 Gallup wells. The capacity at this Angel Peak Station is only 20,000,000 cubic feet per day. The actual producing ability, that's the ability of the well to actually produce against our pipeline pressures and not the State deliverability of these 183 known Dakota wells, is 29,000,323 cubic feet.

Whereas, there are 29 Dakota wells connected into that same system, that have had enough production that we have what we consider a relatively good producing ability figure on those wells, and against a 500 pound back pressure, those 29 wells are capable of making 47,000,809 cubic feet. 47,000,000 and 183 known can only make 29,000,000 cubic feet.

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Q How is El Paso --

A Let me give the same point as to Kutz Station. It's in the Southwest Quarter of 15, 29, 12. It has a capacity of 60,000,000 cubic feet. There are 397 known Dakota wells connected to that station, or the gathering system that goes into that station, with a total producing ability of 77½ million cubic feet. There are 56 Dakota wells connected to that system that have had enough production to get a producing ability on those 56 wells and are capable of making over 80,000,000 cubic feet. So it can be seen that the capacity of these two stations is essentially loaded with just Pictured Cliffs gas even if we didn't have any of the Dakota wells connected to the systems.

Q How does El Paso propose to solve this problem?

A El Paso is proposing that an amendment or an exception be granted to Order R-333-C and D as amended, which would provide that these Dakota wells be granted an extension of time in which to conduct initial deliverability tests until such time as this Dakota gathering system is built. It's anticipated at this time that the system right-of-way and the construction of the system should be completed by October 1st, 1961. Consequently, we're proposing an amendment to the existing Order R-333-C and D which will provide that the District Supervisor in Aztec may grant administratively, exceptions to the provisions of this order for those operators who specifically request it on

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~~individual wells until sixty days after October 1st, 1961.~~

I have an amendment, a proposed order, or wording of a proposed order which I'll read in a few minutes when we get to it.

Q How long would one of these Dakota wells be required to flow into the line in order to make one of these tests?

A Under the terms of the testing order to conduct a deliverability test in the San Juan Basin area, a well must flow unrestricted for a period of twenty-one days to complete a deliverability test, and it's obvious with the capacities of these systems essentially loaded with Pictured Cliffs gas that there is not sufficient capacity available to permit the operators to test Dakota wells with relatively high deliverability for a period of twenty-one days into this system without backing Pictured Cliffs wells off the line so they are incapable of making their allowables and probably wouldn't be able to make them up if they lose the allowables.

Q How many operators are the owners of the wells involved?

A There are approximately twenty-five individual operators involved. El Paso itself only has two wells of the wells connected to the entire system, and one of those was tested in 1960 and one of them has not yet had a test taken on them, but there are twenty-four other operators involved.

MR. PORTER: The Dakota wells?

A Yes, sir. It's El Paso's proposal, as I mentioned,

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is that the operators should ask for the exception on specific wells. We are not asking for a blanket exception on a given list of wells. It will be up to the operators to ask the Aztec.

Q El Paso does not propose to compel anybody to extend the period of time for taking the test?

A That is correct. It would be my feeling that most of the operators would want to avail themselves of the opportunity if the Commission sees fit to grant the relief. If we can't test the wells, it will be impossible to test them because of the capacities of the system, the operators will lose allowables after forty-five days after they have been connected to the Pictured Cliffs system, which they are now connected to.

Our proposal is the allowables, when they are assigned and the wells have been tested in the Dakota system, that the allowables be assigned retroactive to the date that the wells were connected to the Pictured Cliffs system. We intend to produce them in the Pictured Cliffs system sufficiently to protect the leases in case there is a possibility of the lease being in jeopardy, and to protect correlative rights, but only to that extent, because we don't have the capacity to handle any more gas.

Q In other words, the failure to apply for an exception, in your opinion, would jeopardize the allowable of an operator?

A Yes, sir, very definitely. If they don't apply for the exception we are proposing here after the end of forty-five days

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they become penalized for every day that they're late after that under the allowable provisions in the Basin-Dakota Gas Pool.

Q Have you composed a rule that would obtain the procedures that would be involved to gain the administrative proposal that you have spoken of?

A Yes, sir, we drafted up the working of a proposed rule which could be issued as a separate order, or as possibly Order R-333-F, to be an amendment to 333-C and D, which would be worded as follows: "An exception is hereby granted to Paragraph B of Subsection 1 of Section A of Order R-333-C and D for those Dakota wells which are now, or which may be connected to El Paso Natural Gas Company's Pictured Cliffs Gathering System prior to October 1st, 1961. It is provided that administrative approval for an extension of time in excess of forty-five days in which to report the results of initial deliverability tests may be granted after a request in writing to the Commission's Aztec Office. This extension of time to be for a period not to exceed sixty days after such Dakota well is connected to a Dakota Gathering System. Upon approval and prior to the time that initial deliverability tests are taken, such Dakota wells will be permitted to produce as may be necessary to protect leases and to protect correlative rights. After initial deliverability tests are reported on such Dakota wells, allowables shall be assigned effective the date of first connection of such Dakota well into the Pictured Cliffs

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Gathering System." That would prevent a penalty to accrue to the operator for failure to test the well because of the fact that we don't have the capacity to test the wells.

Q Was El Paso's Exhibit No. 1 prepared by you or under your direction and supervision?

A Yes, sir, this is a portion of our regular pipeline system map and we have superimposed on it the location of the proposed Dakota system and the wells which are presently connected to the Pictured Cliffs system which are proposed ultimately to be connected to that Dakota gathering system.

MR. WHITWORTH: We ask that El Paso's Exhibit No. 1 be admitted.

MR. PORTER: Without objection, the exhibit will be admitted to the record.

(Whereupon, El Paso's Exhibit No. 1 was admitted in evidence.)

MR. PORTER: Does anyone have any questions? Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q You are not asking for an exception for any specific wells here today?

A No, sir. We're leaving that entirely up to the operators.

Q You are just asking that the machinery be set up

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whereby the owner of the well could ask for an exception?

A Yes, that's correct. It's El Paso's intention, if the Commission grants this relief, we will advise each of the operators concerned that they have the right, and I would say probably the obligation, to seek this relief.

Q How long a period of time would this machinery be in effect, indefinitely?

A In the wording that I have here in our proposed order, the way I intended it to read, this order would die of its own volition, as it were, after October 1st, 1961.

Q The order itself? A Yes.

Q The machinery would be gone?

A Yes. All we are asking for is relief until such time that the Dakota system can be built and put in operation. Our Engineering Department is of the opinion that we can have it ready before October 1st, 1961.

Q Does the construction of this pipeline require Federal Power Commission approval?

A No, sir.

Q Then you don't intend to produce any of these Dakota wells which are operating under this exception except in sufficient quantities to hold the leases and protect correlative rights?

A That's right. We have no capacity to produce them

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any other way than that.

Q Are any Dakota wells in the area covered by this exhibit connected to any high pressure line?

A No, sir, that's the difficulty, there isn't any high pressure line in this area to my knowledge.

Q So, this matter of correlative rights, there wouldn't be any drainage by any wells which are producing in large quantities?

A That's correct. There are Dakota wells in this area that are not contracted to El Paso. Some of them, it's my understanding we are negotiating on contracts at the present time for some of these wells and it is possible that Southern Union Gas Company may have a system in their area. I don't know of my own knowledge.

Q In the event that such a system were installed somewhere in there, maybe some of these wells might have to produce to protect their correlative rights?

A They would have to produce some, that's quite possible, yes, sir.

Q With the assignment of the allowable retroactive after the tests had been made, then would the wells be permitted to produce large quantities of gas to make up the allowable which they had produced?

A That would be El Paso's intention to make every effort to take the allowable assigned to the wells.

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Q When the new facilities are built, these wells are under-produced at that time?

A That's correct.

MR. PORTER: But the status would be maintained on the wells all the time they were producing into the Pictured Cliffs line?

A Yes. In other words, the production in the Pictured Cliffs lines would, at the present time on these wells that don't have a test, be shown as overproduction on the schedule at the present time. When they get a test taken and an allowable can be assigned to the wells by virtue of a deliverability test, when the allowable is assigned retroactive, the small amount of production will result in being an underproduction on these wells.

MR. PORTER: But it would be applied to the accrued retroactive allowable?

A Yes, that's our intention.

MR. PORTER: Yes, sir. Go ahead.

Q (By Mr. Nutter) You are not seeking any provision for exception to the annual deliverability tests for these wells?

A No, sir, because it's our intention that this system will be completed by October 1st and we will go ahead and take the annual tests for 1961 on the wells that had 1960 tests taken in the remaining three months of the year.

Q You'll be able to schedule them and test them after the

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facilities are complete?

A Yes, sir.

MR. NUTTER: That's all.

MR. PORTER: Mr. Arnold.

BY MR. ARNOLD:

Q Mr. Rainey, are there any other areas where El Paso has Dakota wells tied into the Pictured Cliffs' system?

A Yes, there are quite a number of areas where we have Dakota wells connected to Pictured Cliffs' system, but this is the only area where we're short on capacity where the Pictured Cliffs' system is completely loaded with Pictured Cliffs' gas.

Q You don't recommend that operators in other areas be granted exceptions?

A We don't anticipate any problems in other areas. We don't anticipate, at this time, the necessity for building a separate Dakota system. It may become necessary at some future time, but right at the moment we don't believe it will become necessary.

Q Would it be necessary in the memorandum to specify the area where exceptions can be granted?

A That's true, and it might be well to add in there in the area from say 25 North through 30 North and 10 West through 13 West, or something like that. We intended it to be in the area where this proposed Dakota gathering system will be, and I

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realize that it will probably be necessary in the order to identify that area.

MR. NUTTER: You haven't identified it in your proposed rule there?

A No, sir. Not as a specific description, we merely say the area of the Dakota gathering system.

MR. PORTER: Mr. Morris.

BY MR. MORRIS:

Q Mr. Rainey, in your proposed rule I believe it is stated that any well which gets administrative exception will have sixty days after connection to the Dakota gathering system in which to take the initial deliverability test?

A Yes.

Q Do you think there ought to be some cutoff date in the event some wells, in say some isolated area here, can't get connected soon after October 1st? In other words, we probably wouldn't want this running on indefinitely.

A Well, as I say, it was our intention that this order here would die of its own terms as of October 1st so that the provision for exception for further extensions of time would not be in there. I don't feel that there, any of the wells that we know about at the present time in this area that won't be connected fairly soon after we get the Dakota gathering system built.

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Q In this administrative procedure that would be set up by this order, all that the operator would have to do would be to apply to the Aztec District Office?

A Yes, sir. We suggest that as a matter of simplicity.

Q Wouldn't have to give notice to the offsetting operators or any other requirements?

A I don't really feel that that's necessary, no, sir.

Q You can't imagine a situation where one of the offsets would object to having a well given administrative exception?

A I don't think so, because all the Dakota wells in this general area are going to be in the same boat, as it were.

MR. MORRIS: I believe that's all. Thank you.

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

BY MR. KENDRICK:

Q Mr. Rainey, is it possible that part of this system can be put on stream prior to October 1st?

A That's quite possible. We put October 1st to give us enough lee-way to take care of the situation. The order, as provided, or as proposed, says that "this extension of time to be for a period not to exceed sixty days after such Dakota well is connected to a Dakota gathering system." So, if the well is connected to the Dakota gathering system some time prior to October 1st, he wouldn't be granted more than sixty days after that

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time in which to get the test in.

Let me add something right there. The existing order provides that tests shall be taken within forty-five days with a fifteen-day extension to be granted by the District Supervisor upon application. What we're attempting to do is remove the need for asking for an extra fifteen-day extension in the order is why we make sixty days instead of forty-five.

Q Do you anticipate that compression facilities would be split so that possibly one wing of the gathering system can be completed maybe by September 1st and put on stream since those wells could then be separated from a total of thirty wells to be tested in the last sixty days of the year?

A I can't answer that, Mr. Kendrick. I don't know what the engineering plans are on the thing. It's my understanding that they intend to put the whole system in as soon as they can. As to the specific construction of it and whether or not portions of it could go into a certain plant or something ahead of another portion, I'm sure we'll turn it on as soon as possible so we can go ahead and get these tests out of the way.

MR. KENDRICK: That's all.

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

(Witness excused.)

MR. PORTER: Does that conclude your testimony, Mr.

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