

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 5, 1963

EXAMINER HEARING

IN THE MATTER OF:)

Application of Pan American Petroleum Corpora-)
tion for an exception to Rules 15 (A) and)
15 (B) of the general Rules and Regulations)
governing prorated gas pools in Northwestern)
New Mexico. Applicant, in the above-styled)
cause, seeks to suspend the shut-in provi-)
sions of Rules 15 (A) and 15 (B) of Order No.)
R-1670, as amended, until September 1, 1963,)
for the Gallegos Canyon Unit Wells No. 96,)
107, 109, 110, and 111 located in Sections)
18, 19 and 20, Township 29 North, Range 12)
West, and the Gallegos Canyon Unit Wells)
No. 102, 106, and 108, located in Sections)
13 and 24, Township 29 North, Range 13 West.)
Basin Dakota Pool, San Juan County, New)
Mexico.)

CASE 2831

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

MR. UTZ: Case 2831.

MR. DURRETT: Application of Pan American Petroleum
Corporation for an exception to Rules 15 (A) and 15 (B) of the
general Rules and Regulations governing prorated gas pools in
Northwestern New Mexico.

MR. BUELL: Guy Buell for Pan American Petroleum
Corporation.

MR. UTZ: Any other appearances?

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MR. COOLEY: For Southern Union Gas Company and Southern Union Gas Production Company, William J. Cooley.

MR. BUELL: Pan American has one witness, Mr. Examiner, Mr. Eaton.

(Witness sworn.)

GEORGE W. EATON, JR.

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

DIRECT EXAMINATION

BY MR. BUELL:

Q Mr. Eaton, would you state your complete name, by whom you are employed, at what location, and what capacity, please?

A George W. Eaton, Jr., Senior Engineer for Pan American Petroleum Corporation, Farmington, New Mexico.

Q Mr. Eaton, have you testified at prior Commission hearings, and are your qualifications as a petroleum engineer a matter of public record?

A Yes, sir, they are

MR. BUELL: Any questions, Mr. Examiner?

MR. UTZ: No, sir.

O (By Mr. Buell) Mr. Eaton, would you state whether or not Pan American Petroleum Corporation is the only producing source of gas for the Town of Farmington's electric generating plant?

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A Yes, sir. The Pan American Gas Company has a contract with the Town of Farmington to supply gas to the electric generating plant. Pan American Petroleum Corporation is the operator of all wells connected to the Pan American Gas Company's system.

Q Mr. Eaton, what happens to this electricity after it's made from gas that we furnish this plant?

A The electricity from this plant serves all municipal, residential and commercial users of electricity in and around the Town of Farmington, New Mexico.

Q Do you recall the date when Pan American first began delivering gas to this electric plant?

A Yes. First deliveries were made on October 1st, 1961.

Q Mr. Eaton, at this time how many wells does Pan American have connected to and serving this market that we've been speaking of?

A There are eight wells which serve this market, all of them completed in the Basin Dakota Pool and all of them in the Gallegos Canyon Unit which is operated by Pan American Petroleum Corporation.

Q In that connection, Mr. Eaton, let me direct your attention to what has been marked as Exhibit No. 1. What does that Exhibit No. 1 reflect?

(Whereupon, Applicant's Exhibits Nos. 1 through 4 marked for identification.)



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A Exhibit No. 1 is a map of a portion of the San Juan Basin showing that area in the southeastern portion of the Town of Farmington. The red lines on Exhibit No. 1 reflect the existing Pan American Gas Company gas gathering system. The red dots indicate the wells which are presently connected to that system. The delivery point to the Town of Farmington is denoted by the small blue circle near the intersection of the four Sections of 18, 19, of Township 29 North, Range 12 West, and Sections 13 and 24 of Township 29 North, Range 13 West.

Q Do you know, Mr. Eaton, where this electric generating plant is located? Is its area shown on this Exhibit 1?

A Yes, sir. That plant is actually located over in approximately Section 15, 29, 13.

Q Do you recall, Mr. Eaton, the approximate demand to satisfy this market, what that demand has been since we commenced deliveries in October of 1961?

A The demand of that plant approximates 105 million cubic feet per month, on an average.

Q While we are speaking of demand for this plant, I wish you would now look at what has been marked as our Exhibit No. 2. Could you briefly state for the record what that exhibit reflects?

A Exhibit No. 2 is a graph depicting the comparison between the allowables which have been assigned to wells connected to the system as compared to the demand of the plant, or you might call it the production from the wells that are connected to the system.



Q Would you briefly discuss each one of these curves?

Let's start with the green curve first. What does that reflect?

A The green line on Exhibit 2 is the demand curve. It shows the actual production from the group of wells which are connected to the system and as shown by our Exhibit No. 2, the demand is not really too much influenced by the seasons. There is some slackening of demand in the extreme warm months of the summer, but on the whole, the demand of the plant is very constant throughout the year.

Q Would you go now to the red curve, the allowable curve, and briefly comment on it, Mr. Eaton?

A The red curve or the allowable curve shows rather wide seasonal fluctuations, and as expected, allowables are seasonally low during the warmest months of the summer. I would like to make one other comment with regard to the allowable curve, and that is that while the initial deliveries to this plant were made in October, 1961, that's the month on the extreme left hand side of this graph, the contract called for making the delivery at a time when we did not have a full eight wells to connect. So initial deliveries were made under this contract with only three wells. That explains why the red curve is so low during the first few months of operation.

Q Mr. Eaton, let me interrupt to ask you what is the significance of the eight wells you mentioned?

A The eight wells are the wells which are currently

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connected to the system.

Q Is it also a fact that your studies prior to commencing serving this market indicate that it would take eight wells to satisfy the market and give you a manner of safety for allowable fluctuation?

A Yes, that is true. We had always intended to serve this market with eight wells. It was only at the time that deliveries were initially commenced we did not have eight wells, and we immediately drilled the remainder and connected them as fast as we could.

Q Did it take you from October, 1961, to March, 1962, to go from three wells serving this market to eight?

A It was only by March of 1962 that we had available the full eight wells completed and ready to be connected, and connected and producing into the system. As you may recall, the winter of 1961 - '62 was a rather severe one in the San Juan Basin, and due to the necessity to drill during that extreme weather and, more likely, to lay lines in that extreme weather and get the wells connected, it took from October until March to complete the connection of all eight wells which have since produced into the system.

Q Were these wells added incrementally from three in October, '61, to eight in March of '62?

A Yes, sir, they were.

Q Looking at the allowable demand relationship in February,

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March, April, May, June, in that period of time in 1962, did those data tend to confirm your study that eight wells would amply satisfy this market and give you still a good manner of safety?

A Yes, sir, I believe that the data on Exhibit 2 indicate that our initial study was right in indicating that eight wells would both satisfy the market and provide some reasonable cushion in allowable.

Q Then looking on at the center of this exhibit around July, August, and September of '62, it seems there was a noted decrease in allowable. Was this decrease anticipated by you?

A Some decrease in allowable naturally is expected during the hot months of the summer because the major purchasing companies' demand, which in turn establishes these allowables, is quite seasonal. During the warm summer months of the summer of 1962, July, August, September, particularly, the allowables assigned to these eight wells was substantially less than the demand, which remained essentially constant through those months.

Q Did we encounter any difficulty in this period of low allowables and stated demand of meeting that demand without getting our wells severely imbalanced?

A No, sir.

Q Go ahead with your discussion of this allowable curve.

A It was only in the months of April and May, 1963, that allowables actually fell to a rather distressing level; in fact, far lower than they did during any period of time in the year 1962,



even including the hot summer months. This was completely unexpected on our part.

Q And it was at this time, in this period of April and May, 1963, and the drastic and severe reduction in allowables at that time that caused our crisis or our emergency, depending on whichever way you would like to express it?

A Yes, sir, that's right.

Q Mr. Eaton, when we're thinking of Basin Dakota Gas Pool and we're thinking of this market and our wells that we're discussing here, actually we're talking about the very tip end of the tail of the Basin Dakota dog, aren't we?

A Yes, we sure are. As a matter of fact, this market that is served by this system probably represents about one percent of the Basin Dakota Pool allowable.

Q So there's nothing that we as an operator could do, or Pan American as a purchaser could do in the way of nominations that in any way could have caused the adverse and severe reduction in allowables that occurred in April and May of 1963; and by the same token, there's nothing that we could or they could have done to have obviated that drastic and severe curtailment?

A No, sir.

Q Would you go to what has been marked Exhibit 3 and briefly state what that exhibit reflects?

A Exhibit 3 is a tabulation showing in part the same data which are plotted graphically in Exhibit No. 2, plus an additional

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two columns on the right hand side of Exhibit 3 relating to the over and under production status of the wells connected to this system.

Q I thought it might be well at this point if you would briefly review the cumulative status of these wells with regard to the overproduction and underproduction.

A During the period of time when there were fewer than eight wells connected to the system, that's during the very early stages of our first few months of delivery, there was some overproduction accumulated in meeting the demand of the plant. As a matter of fact, that overproduction had accumulated to an amount of 232 million cubic feet in February, 1962. The third column on Exhibit 3 indicates the over and underproduction that actually occurred during each month that the system has been in operation.

Q You said third column, actually it's the fourth column. The third column of figures, but the fourth column on the exhibit?

A Right.

Q Go right ahead.

A And the right hand column shows the accumulated over and under status. As a matter of fact, all of these numbers are overproduction in the cumulative column.

Q What happened to the overproduction status, Mr. Eaton, after we got all eight wells connected to the system? What did we begin to see develop at that time?

A Well, again comparing the month of February, 1962, which



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at the end of that month showed a cumulative overproduction of 232 million cubic feet, at the end of February, 1963, the accumulated overproduction had been worked down to 198 million cubic feet. In other words, this indicated that, again, that our initial study was correct in finding that eight wells would not only supply this market, but would also provide a cushion on which we could operate. In other words, once all eight wells had been connected and had received allowable, the accumulated overage at the end of February, 1963, was less than it was at the end of the light month in 1962. It appeared that we were working off this accumulated overage.

Q So actually disaster didn't strike until April and May of 1963?

A That's true.

Q It might be interesting, Mr. Eaton, to make a comparison with the allowables assigned in April and May, 1963, for this same two months in 1962.

A The allowable for the eight wells in April, 1962, was 135 million cubic feet. This compares with an allowable for the month of April, 1963, of only 46,570,000 cubic feet. The allowable for the month of May, 1962, was in excess of 127 million cubic feet. In comparison, the allowable for May, 1963, was only 36,600 MCF. The April and May allowables for 1963 represent a 68 percent reduction from the same two months in 1962.

Q Mr. Eaton, I wonder, does Pan American, with respect to



its gas operation, does it keep books and try to follow allowable trends and make predictions for anticipated allowable in future months?

A Yes, sir. Pan American certainly does.

Q Was such a calculation and such predictions, were they currently being made with regard to this particular market and these particular eight wells?

A Yes, sir, they were.

Q Did you make those predictions?

A They were done partly under my direction.

Q Did you and your crew in any way anticipate the severe and drastic reduction that occurred in April and May of this year?

A No, sir, we did not. We anticipated that they would decline, but we did not forecast that severe decline would occur during the months of April and May. A decline of possibly somewhat that magnitude wouldn't have been too unusual had it occurred during the extreme hot months of the summer, but certainly we did not expect it in April and May in 1963.

Q Let me ask you this: Applying hindsight now, can you look back and see any trends that were available to you prior to April and May, 1963, that might have indicated a reduction of this severe nature?

A No, sir. I believe if today, if I had only the data that were available to me at that time, I would probably still not be able to see the extreme decrease in allowables that actually



did occur during April and May of 1963.

Q Mr. Eaton, when these low allowables came out, what decision or decisions was Pan American faced with? What could they do?

A Pan American could only do one of two things, and those things are, one, overproduce the wells and serve the market, or, two, not meet the demand and not serve the market. The decision was made to overproduce the wells and continue serving the market due to the nature of the market.

Q When these wells were overproduced, and with the low April and May allowables, they were in danger of being shut-in, were they not?

A Yes, sir, they were.

Q Under what rule provision?

A Under Rule 15 (B) of Order R-1670.

Q What does that rule provide?

A This rule provides that any well which is overproduced by an amount equal to six times its current monthly allowable shall be shut-in until such time as it is no longer overproduced by that amount.

Q So when you have an allowable reduction of the drastic amount that occurred, it doesn't take a tremendous amount of overproduction that is accrued to a well to equal six times that month's abnormally low allowable?

A That is correct.



Q Actually, Mr. Eaton, wasn't the situation so serious and critical that the Commission was approached with a request for an emergency order granting an exception to Rule 15 (B)?

A Yes, sir. An application was filed with the Commission requesting an emergency order to be issued immediately, with the further request that a hearing be set to consider action on that emergency order prior to the termination of the emergency order.

Q Go ahead.

A The relief sought by the application was an exception to Rule 15 (B) immediately for the existing eight wells, and an exception from Rule 15 (A) of Order R-1670 commencing August 1st, 1963, and continuing until September 1st, 1963.

Q Was it necessary, Mr. Eaton, that the Commission act on this emergency application?

A No, sir. It was not necessary that the Commission take action on this emergency application.

Q What eliminated the necessity for emergency action?

A The allowables for the month of June made a dramatic reversal of the trend established by the allowables for April and May. Whereas the May allowables amounted to approximately 36 million cubic feet, the allowables for the eight wells for the month of June, 1963, was in excess of 62 million cubic feet, and it was the rise in the allowables for the month of June that eliminated the necessity for the Commission to take action on our application for an emergency order.



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Q At this time, Mr. Eaton, how many of the eight wells are currently shut-in due to being overproduced in excess of six times their June allowable?

A There is only one well currently shut-in.

Q So the June allowable was sufficiently high to allow all but one of the eight wells to produce during the month of June, and that eliminated the emergency situation?

A Yes, sir.

Q What has Pan American done since this crisis or emergency situation made itself apparent in April and May of this year with respect to -- I guess I'd call it the standard of self-help? What has Pan American done to preclude this crisis ever occurring again?

A Pan American has dedicated the acreage under existing wells in this area to the Pan American Gas Company system, and in addition is in the process of drilling two additional wells, the acreage under which will also be dedicated to this market.

Q In that connection, Mr. Eaton, would you look now at what has been marked as our Exhibit No. 4 and briefly state for the record what Exhibit 4 reflects?

A Exhibit 4 is a map showing the same area as was shown by Exhibit No. 1. Like Exhibit No. 1, the red lines on Exhibit 4 show the existing Pan American Gas Company system with the red dots again indicating the eight wells which are connected to that system. In addition, Exhibit No. 4 shows in green lines the



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extensions or the additions to the system that are planned. The solid green dots indicate wells which are already completed but which will be connected to the system; and over in Section 17, Township 29 North, Range 12 West, the open circles denote wells which are being drilled and will be connected to this system.

Q How many wells do we have that are already completed and are being connected at this time?

A There are four such wells.

Q Let me ask you this: Does that represent all of the wells currently completed operated by Pan American in this area?

A Yes, sir, it does.

Q And you say we're drilling two new wells?

A Yes, sir. Those wells are Gallegos Canyon Unit 133 and Gallegos Canyon Unit 134. Both of them are in Section 17, Township 29 North, Range 12 West.

Q Mr. Eaton, are you prepared at this time to give the Commission a progress report on the additions to the system, both with respect to the gathering system itself, as well as the wells?

A Yes, sir. These lines that must be laid to connect the four existing wells are in the edge of the Town of Farmington. Part of the land that must be traversed by some of the lines has actually been subdivided, but all of the surface owners have been contacted with regard to right-of-way, and there's really no indication at this time that we will not be successful in obtaining right-of-way, although there are numerous owners.



Q Let me ask you this, Mr. Eaton, has Pan American taken any steps to expedite the acquisition of right-of-way for this system?

A Yes, sir. Two additional landmen have been transferred into Farmington on a temporary basis. Their sole purpose in being there is to obtain right-of-way.

Q Would you comment briefly on the progress of the two new wells that will be drilled; what is their status at this time?

A One of the wells has already commenced drilling, as I stated previously, and is currently drilling below the 3,000 feet. The other well was released for drilling last month and it may be spudded by this time.

MR. UTZ: Which of these wells are drilling?

A Gallegos Canyon Unit No. 133 was spudded May 30, 1963, and on June 3rd, 1963, was drilling at 3,068 feet. Gallegos Canyon Unit No. 134 was released for drilling Monday, and it didn't appear to me to be too much road and location work on that one, so it may be spudded by today.

Q (By Mr. Buell) Mr. Eaton, when the additions to this system and these two wells that are currently drilling now, are in process of being drilled and completed, it will result in an addition of six wells committed to serve this market, will it not?

A Yes, sir.

Q Which will make a total of fourteen?

A Yes, sir.



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Q In your opinion, do you feel that in view of the debacle in allowables that occurred in April, 1963, that the addition of these three wells will give Pan American a sufficient manner of safety that even if the bottom should fall out of Basin Dakota allowables, which occurred in those two months, we would still be able to serve this market within the Rules and Regulations of the Oil Conservation Commission?

A It is my opinion that with fourteen wells serving this system, that ought to be ample manner of safety to take care of any other fluctuation in allowables such as we've had here in April and May.

Q Let's go now to that phase of our application which is a request for an exception to Rule 15 (B). Does the request for exception with regard to 15 (B) pertain only to the eight wells currently connected to the system?

A It only applies to the eight wells that are now connected to the system.

Q Is the same thing true for our request for exception to Rule 15 (A)?

A Yes, sir.

Q Let's go back to 15 (B) now. Let me ask you this, assume for the purpose of this question that the July, August, and September allowables for this year follow the trend set by the allowables for June and we have an increasing trend in allowables. If that assumption should prove correct, will Pan American



need an exception to Rule 15 (B) for these eight wells?

A No, sir, under those conditions there would be really no need for exception to Rule 15 (B).

Q Let's turn that question over and assume that instead of following the trend indicated by June, that we revert and start for July, August and September following the trend indicated by April and May and have a declining allowable for those three months, would such an exception then be necessary for these eight wells?

A It very definitely would.

Q In order to be on the safe side and in order that this market can be served by the Pan American system, is it your recommendation to the Commission that exception to Rule 15 (B) be granted for these eight wells in question?

A Yes, sir. Just avoid any additional emergency that might result as a consequence of unforeseeable low allowables during the months of July, August, and September, it's my recommendation that exception be granted even with the realization that the allowable situation may be such that it will never be used.

Q Let's go now to that phase of our application that relates to Rule 15 (A). Would the same thing be true there? Could we have an increasing trend in allowables in July, August, and September such that we may not need a one month's deferral on our balancing date?

A This is quite possible. We actually have one well of



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this original eight that has been in balance during this period. With adequate allowables during the month of July, others might be made to be in balance so that an exception to 15 (A) may not be needed.

Q But again, in order to be on the conservative side, is it your recommendation to the Commission that this one month deferral in balancing date under Rule 15 (A) be granted for these eight wells?

A Yes, sir.

Q Mr. Eaton, should the Commission approve both phases of our application here today, can you see how in any way the correlative rights of any owners of interest whatsoever in the Basin Dakota Gas Pool could be violated in any respect?

A No, sir, I cannot. It is intended that a strict accounting be made of every cubic foot of gas produced, and no one's correlative rights will be violated.

Q Actually, we phrased our application in the way of exception, but actually -- and I guess it is technically, but really what we're asking for is that these rules with regard to these eight wells simply be deferred for an extremely short period of time, if at all?

A That's right. It's possible that an exception would not be even used if granted, and if it were granted it would only be a deferral of an accounting for a very short time.

Q Do you have anything else that you would care to add to



the record at this time?

A I don't believe so.

MR. BUELL: Mr. Examiner, that's all we have at this time by way of direct. I would like to formally offer Pan American's Exhibits 1 through 4, inclusive, please.

MR. UTZ: Without objection, Exhibits 1 through 4 will be entered into the record of this case.

(Whereupon, Applicant's Exhibits Nos. 1 through 4 received in evidence.)

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Eaton, Mr. Buell stated at one point that you were asking for a deferral in balancing dates. Actually you are not asking for a deferral in balancing date, you are only asking for a deferral in shut-in time, shut-in dates?

A In our request for an exception to Rule 15 (A), I believe that would probably constitute a deferral of the balance date from August 1st to September 1st. I'm not real clear whether it would amount to that or not, but I believe that it would.

Q Well, by way of clarification, the balancing dates are the dates at which we determine whether a well is to be curtailed or not, in regard to Rule 15 (B), having carried overproduction through a six months' period. Are you asking that that determination of how much curtailment you have be deferred for a month, or the actual shut-in resulting from the curtailment figure?



A Yes, I understand the difference. We are only asking that the actual shut-in resulting from the overproduction carried forward be deferred until after September 1st.

Q The balancing dates would still be August 1st?

A Yes, sir.

MR. BUELL: Mr. Examiner, I probably should have gone a little further on direct and asked Mr. Eaton as to Pan American's plans immediately these additional wells become connected. If you would like, I might, if I could, interrupt your cross to ask him that now. It might clear up a little of the confusion that I inadvertently caused.

MR. UTZ: You mean as to the dates of the new connections?

MR. BUELL: Yes.

MR. UTZ: Yes, sir, I was going to go into that.

MR. BUELL: Isn't it Pan American's plan, Mr. Eaton, that immediately the new wells that we are adding to the system are connected, we will immediately start producing from those wells, curtail the older wells, and shut them in completely in an effort to immediately and as quickly as possible get the older wells back in balance?

A Yes, sir, that's our plan. As soon as one well, one new well is connected, that well will be immediately placed on production and the demand of the system will be shifted from one or more of the existing wells to that new well; and then as others



are connected, additional wells will be shifted from these new wells to that new well.

MR. BUELL: Thank you, Mr. Examiner.

MR. UTZ: You are welcome.

Q (By Mr. Utz) Do you have any firm dates at this time as to the connection of those wells?

A No, sir, I really don't. It appears to me now quite possible that we may be able to get these two new wells which are outside the Town of Farmington, and both in the Gallegos Canyon Unit which Pan American operates, drilled, completed, and connected -- certainly all of the right-of-way problems are worked out on all of these additional laterals, it would be my expectation that really the two wells that are currently in process of being drilled may be the first ones, and if that's true then we would expect to have both of them completed and tied in in time so that they can produce the entire month of August and possibly some in July.

Q The delivery point of this system is in the northeast corner of Section 24?

A Yes, sir.

Q The plant is over in Section 15 of 13 West?

A Yes, sir.

Q Can you pinpoint that plant any closer?

A Maybe so. I think it would probably fall in the Northeast Quarter Southwest Quarter in Section 15.

Q Who owns the line from your central delivery point over



to the plant?

A The Town of Farmington.

Q What size line is that?

A I believe it's a six-inch line.

Q At any rate, it's large enough to handle all the new wells?

A Yes, sir. Well, actually, you see, that line won't have to transport any more gas than it is now doing, because the demand of the plant is constant.

MR. UTZ: Are there other questions of the witness?

MR. COOLEY: Yes, Mr. Examiner.

MR. UTZ: Mr. Cooley.

BY MR. COOLEY:

Q Mr. Eaton, in your testimony there has been considerable reference to Pan American. Would you first tell me the name of the corporate entity that is the Applicant in this case?

A Pan American Petroleum Corporation is the Applicant.

Q And that is the operator that operates the Gallegos Canyon Unit and the wells in question?

A Yes, sir.

Q Who has the contract to supply gas with the Town of Farmington?

A The Pan American Gas Company has that contract.

Q Is that a separate corporation?

A Yes, it is.



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Q Is Pan American Gas Company in fact the designated gas purchaser from the eight wells in question?

A Yes, sir, it is.

Q They are Pan American Petroleum Corporation's gas purchaser as far as these eight wells?

A Yes, sir. They nominate and purchase gas from these eight wells that are operated by Pan American Petroleum Corporation.

Q But all dealings, contractual and otherwise, for the Town with respect to the supply of gas to the utility are conducted by the corporation known as Pan American Gas Company?

A Yes, sir.

MR. COOLEY: Mr. Buell, maybe you prefer to answer this. Are they a party to this application?

MR. BUELL: This application is at the request of Pan American Petroleum Corporation.

MR. COOLEY: The gas company is not in this application at all?

MR. BUELL: Not at all.

Q (By Mr. Cooley) In order to completely clarify this, then, Mr. Eaton, you testified in answer to a question on direct examination by Mr. Buell that Pan American Petroleum Corporation was the sole source of gas to Farmington. Is it not more correct to state that Pan American Gas Company is Farmington's source of gas?

MR. BUELL: Excuse me, Mr. Eaton. Mr. Cooley, this may



or may not change your question. The question I asked him, was Pan American Petroleum Corporation the sole producing source of gas to supply this Town of Farmington market.

MR. COOLEY: All right, then I withdraw the question.

Q (By Mr. Cooley) Is it your statement, then, or I'll ask you, is Pan American Gas Company in your opinion the sole source of gas to the Town of Farmington?

A Yes. Well, yes. The Town of Farmington made a contract with the Pan American Gas Company through which the Pan American Gas Company will supply gas to run this electric generating plant.

Q May I ask you if this is not a more detailed and correct answer: That Pan American Gas Company is the sole source of supply of gas to the Town of Farmington electric utility system by virtue of contract, rather than by virtue of factual existence of available gas?

A Yes, I think I would have to agree to that.

Q There is factually and physically other gas available to supply the Town of Farmington?

A Yes.

Q Referring to your Exhibit No. 2, Mr. Eaton, which is your graph, would you please for purposes of further clarification of the fact of the substantial increase in allowable of the month of June, '63, over the month of May, '63, plot the June allowable out in the right hand margin as nearly as possible?



A Yes.

MR. BUELL: You want him to do it on the Commission's official --

MR. COOLEY: You can either do it on yours --

MR. BUELL: I don't mind him putting it on this.

MR. UTZ: I'll save you the trouble. I have already done it.

MR. BUELL: Do you concur with Mr. Utz' plot?

A I concur with Mr. Utz' plot.

MR. BUELL: Let the record show that the plot in red in the white right hand margin was made by Mr. Utz and concurred in by Mr. Eaton.

MR. COOLEY: Thank you, Mr. Buell.

Q (By Mr. Cooley) Although the same information is here, I think we could probably more easily discuss it by referring to Exhibit 3. Would you direct your attention to that exhibit, please? First let me ask you, Mr. Eaton, is gas prorationing in your general duties with regard to Pan American Petroleum Corporation?

A Yes, sir, it is.

Q I'm sure you will concur that gas proration rules and what affects allowable and what does not affect allowable are some very complex factors?

A Yes, sir.

Q Would you please state to the Examiner, and this is somewhat of an assumption since he's probably the only person in



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the State that completely understands it, what effect production in prior month or months has on any given month's allowable?

A The production in the second preceding month affects the allowable for the current month.

Q In more detail, may I ask that if the production in the second preceding month, to which you refer, exceeds the allowable production for that second preceding month, how does it affect the current allowable?

A I believe it would have the effect of increasing the allowable in the current month.

Q To make a very complex system a little more clear and possibly even at the risk of a little bit of error, the allowable is adjusted, is it not, two months hence for production to equal production?

A Yes, that's right. It's a little more complex than that, but that's essentially it.

Q Substantially, that's what's done?

A Yes, sir.

Q Do you have any explanation for the substantial increase shown in the June allowable in 1963?

A The only explanation that I can give would be that production during the month of April, 1963, was in excess of the allowable for that month.

Q Is it not true in reviewing and in your experience with gas allowables as they are established by New Mexico Rules and



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Regulations that any extreme, either high or low, in allowables, will have a corresponding opposite, almost equal in opposite result two months hence? An extremely high allowable will result in a substantial decrease in allowable two months hence, will it not?

MR. BUELL: Mr. Cooley, you used the word "allowable". I am sure you meant production.

MR. COOLEY: I'm saying that an extremely high allowable, allowables in excess of demand and anticipated production, will result two months hence in an extremely low allowable.

A Your case that you are outlining there would be a month in which a high allowable was assigned but production during that month was no more than normal.

Q Correct.

A And your question is, would that then affect in the opposite direction the allowable two months hence. I think the answer would be yes.

Q Would you not characterize the April and May allowables in 1963 as extremely low? I believe you so characterized them.

A Yes, sir, I would.

Q Would you go further to say that they are undoubtedly below demand and production for those months when they are tabulated?

A It's pretty evident that the actual allowables for the month of April were not as high as the production during the



month of April.

Q Now going to the month of May, it's on your Exhibit 3, the allowable is 10 million less than the April allowable?

A Yes, sir.

Q And would you agree that it's even more unreasonably low?

A Yes, it's unseasonably low.

Q And below expected production for that month?

A Yes, sir.

Q Then what will that fact, what bearing will that fact have upon the allowable for the month of July, 1963?

A I hope that the month of May had normal production, and if it did then the allowables for July may be comparable to those for June.

Q Or possibly even five or six million higher?

A Yes, sir, possibly so. If such is the case, then there may prove to be no need for exception that we seek here today. Our purpose in proceeding with this hearing is that we won't know what the July allowables are until the May production figures are in sometime during the latter part of the month of June.

MR. BUELL: That's production figures for May?

A May production figures won't be available until sometime during the latter part of the month of June. Now this is the same situation that prevailed during the month of May, at which time we thought we had a real crisis on our hands; and we don't



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want to have that emergency condition crop up on us again at the end of June. In other words, we would like to have just one of these things, not one a month.

Q The June allowable then is not dangerously low to you?

A No. It is, as you have observed, somewhat less than the demand for the month of June, but still it's high enough that these overproductions on a per well basis are not six times over.

Q Again I ask, is it not safe to assume that July's allowable, in view of May's allowable, will be at least that high?

A It might be a good assumption, but it all depends on what the actual production was during the month of May.

Q I believe you testified on direct that you anticipated having at least two new wells that you've projected that are now drilling on production for the entire month of August?

A Yes, sir. And quite possibly those two wells may be able to be produced some during the month of July.

Q But you safely assume that they'll produce in August?

A Yes, sir.

Q Then these two wells should alleviate to a great extent any undue burden or any undue demand that might be placed upon you during the month of August, would they not?

A Yes, and let me qualify that. It all depends on what capacity wells that are obtained here. Normally two wells of the nature that these others are won't quite carry this system. I'll explain that this way. Where the demand is somewhat constant



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at approximately 105 million cubic feet per month, or put it on a daily basis, approximately three and a half million cubic feet per day during any 24-hour period, there are peaks in that demand. In other words, in the middle of the afternoon just before, when people are cooling off their houses here in the summertime and beginning to cook supper, on until approximately midnight, this demand goes through quite a peak, so that instantaneous rate during those peak periods might be almost twice this average daily demand; so two wells of the average that we have connected to this system won't carry the system through that peak period. So if these wells are of sufficient capacity, then perhaps all of the other wells could be shut-in. If they're only average, then some of the original eight wells might have to be produced.

Q You are talking about voluntary shut-in--

A Yes.

Q -- when you refer to all of the wells?

A Yes.

Q I believe you testified that only one well is presently shut-in by order of the Commission?

A That is correct.

Q Would you please give the Commission the well-by-well over-under status of the eight wells involved? Do you have that information?

A I don't believe I have that.

MR. BUELL: If he doesn't have it, he can furnish it,



but actually the Commission has it on their records.

MR. COOLEY: They can take judicial notice of this fact.

MR. UTZ: I have a June schedule here.

A It's in the June schedule. I don't have that schedule.

Q (By Mr. Cooley) You have one well shut-in by order of the Commission, and seven wells that are free to produce?

A Yes, sir.

Q Of these seven wells, how many are dangerously close, based upon June allowables, to being six times overproduced?

A My recollection is three, but I don't want to swear to it.

MR. UTZ: Would you like the schedule?

A Yes, sir.

Q (By Mr. Cooley) Before we go into this, Mr. Eaton, maybe I'm under a misunderstanding. Say four of these wells are left free to produce, or five, they can adequately meet this demand, can they not?

A Yes.

Q Then I would like to know how many wells are dangerously near being shut-in, based upon June allowables.

A Would you like for me to go through them well-by-well and give you the approximate number of months that each one is overproduced?

Q I would rather put it in terms of multiple of June



allowable.

A Yes, that's what it would be.

MR. BUELL: The months they are overproduced compared to the June allowables. Five months over, close to six, three.

MR. COOLEY: All right.

A Gallegos Canyon Unit No. 96 is approximately four months overproduced. Gallegos Canyon Unit No. 102 is approximately three months overproduced. Gallegos Canyon Unit No. 106 is approximately two months overproduced. Gallegos Canyon Unit No. 107 is approximately four months overproduced. Gallegos Canyon No. 108 is approximately four months overproduced. Gallegos Canyon Unit No. 109 is not quite four months overproduced. Gallegos Canyon Unit No. 110 is approximately four months overproduced. And Gallegos Canyon Unit No. 111 is shut-in. It's the one that's shut-in.

Q How much is it over?

A It's overproduced 59,449,000 MCF, cubic feet, excuse me.

Q Is that nine times, nine months?

A That's six point one months.

Q Assuming that the allowable remains constant, that is, constant with the June allowable, then I believe you did agree that there would be no problem?

A It probably could be carefully worked out and scheduled so that it could be made safely. In other words, the allowable



for the month of June is still substantially less than the production is going to be for the month of June.

Q I understand.

A Some of those wells that are going to have to supply the demand for June, and those will very likely get into this category even with a constant allowable, being six months over, instead of those that I gave you that were four months over.

Q Now in a rough calculation you would have seventeen times the June allowable that you could produce without being shut-in. That's the number of months you have left between the numbers you gave me and six.

A It ought to be.

Q It ought to be able to?

A Yes.

Q Mr. Eaton, you testified that in your opinion the granting of this application would not violate any operator's correlative rights?

A That is correct.

Q Can you tell me, Mr. Eaton, whether there are, to your knowledge, any underproduced wells in the Basin Dakota Gas Pool?

A Yes, sir, a large number of them.

Q Can you tell me whether, to your personal knowledge, there is any underproduction that is subject to cancellation on July 1st, 1963?

A Yes, sir.



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Q I won't belabor the Examiner again, but recent Supreme Court opinions indicate that we ought to make some records in these cases; what happens when an allowable is cancelled, Mr. Eaton?

A It's just cancelled.

Q Is it thrown in the waste basket; what happens to it?

A Redistributed to all the wells in the pool.

Q Then all the non-marginal wells in the pool?

A Yes, sir.

Q In effect, then, the overproduced wells, no matter how overproduced they may be, in the pool, receive a portion of the allowable which the underproduced wells either were incapable of or not permitted to produce?

A Yes, sir. They get a portion of an allowable just like an underproduced well does.

Q Now if between now and July 31st, eight of these underproduced wells were permitted to produce this demand that we are talking about for the next three months, for the next two months, to the extent of the gas that they produced they would make up that much production, is that correct?

A Yes, sir.

Q And it would not be cancelled?

A That's right.

Q Then these operators would, depending on which set of facts prevailed, would either gain or lose that much production?



A That's right.

MR. COOLEY: Thank you. No further questions.

MR. UTZ: Any further questions of the witness?

MR. BUELL: Mr. Examiner, I think we can avoid a lot of redirect examination if Mr. Cooley will stipulate with me that when he and Mr. Eaton were discussing the effect of production one month on allowables two months hence, that they assume for all purposes of all those questions that nominations were normal and stable, both of them, in the questions and in the answers, they eliminated any reference to nomination -- I didn't interrupt because I assumed both of them would agree that nominations would be stable and normal. Nominations affect allowables also, as well as over or underproduction, two months hence.

MR. COOLEY: This is stipulated.

MR. BUELL: I have no redirect examination.

MR. UTZ: I may suggest that the first previous month has an effect on --

A Not the production.

MR. UTZ: No, but the balancing of nomination and the allowable for that month.

A Yes, sir.

MR. UTZ: Any further questions? The witness may be excused.

(Witness excused.)

MR. UTZ: Any statements?



MR. COOLEY: We have testimony, Mr. Examiner.

MR. UTZ: Do you intend to put on a witness?

MR. COOLEY: Yes. Two witnesses for Southern Union Gas Company and one witness for Southern Union Production Company.

(Witnesses sworn.)

MR. COOLEY: Mr. Examiner, we had prepared rather lengthy testimony from all of these witnesses, but in view of the hour and the desire to get back to Farmington, we'll limit it somewhat and try not to belabor the point.

LEN MUENNINK

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

DIRECT EXAMINATION

BY MR. COOLEY:

Q Will the witness please state his full name, where he resides, and by whom he's employed?

A My name is Len Muennink, Farmington, New Mexico, Area Superintendent for Southern Union Production Company, M-u-e-n-n-i-n-k.

Q Now we have your name straight, what is your capacity with Southern Union Production Company?

A Area Superintendent for the Farmington Area.

Q As Area Superintendent for this area, are you familiar with the gas well operations of Southern Union Production Company in the San Juan Basin?

A Yes, I am.

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Q Are you a petroleum engineer?

A Yes, I am.

Q Do you hold a degree?

A Yes.

Q How many years of experience in that field?

A I have been working with Southern Union about eight years.

MR. COOLEY: Do we need to go further into the witness' qualifications?

MR. UTZ: No, sir, the witness is qualified.

Q (By Mr. Cooley) Does Southern Union Production Company own an interest in the Gallegos Canyon Unit?

A Yes, we do.

Q Does Southern Union Production Company own an interest in any or all of the wells in question in the application?

A From the records, Southern Union owns an interest in all of the wells, a small interest, with the exception of the No. 96 well.

Q As an interest owner in the wells in question, do you feel that there's any justification for the exception requested here?

A No, I do not. As an interest owner, I feel that the proration rules as set forth, this six times the current monthly allowable, is sufficient overproduction; that this rule is designed for the protection of the operators and actually not for the



accommodation of them, and that it more or less gives relief to the pipeline company due to the extreme fluctuations in the market demand.

Q Then are you saying that one of the prime reasons for permitting a gas well to overproduce six times its current allowable is to accommodate purchasers?

A That's correct.

Q Do you feel that this is the limit to which this accommodation should go?

A Yes, I feel that is sufficient in the proration rules to allow these wells to overproduce and that should give an operator sufficient leeway to keep his production in balance.

Q Does Southern Union Production Company have any underproduced gas wells, non-marginal gas wells in the Basin Dakota Gas Pool?

A Yes, sir. Southern Union Production has a number of underproduced gas wells in the Basin Dakota Pool.

Q Do you have the total amount of underage accumulated by those wells as of the end of any given month?

A Yes, I do. Southern Union Production Company wells, this includes about 46 Dakota wells, has an underage of 928,782 MCF in the Basin Dakota Gas Field, which occurred during the proration period July 31, 1962 to January 31, 1963; and which is subject to cancellation July 31st. Also, in addition, from January the 31st to April the 30th, there has been additional



underage accumulated of 447,617 MCF.

Q Am I to understand that Southern Union Production Company has nearly a billion cubic feet of gas subject to cancellation on July 1st, 1963?

A That's correct, nearly a billion.

Q What is the cash value to Southern Union Production Company of that gas?

A Well, the cash value of that underage or that cancellable underage would be in the neighborhood of \$120,000.

Q Now, Mr. Muennink, what will happen to this allowable if you are not successful in producing it prior to July 31, 1963?

A This underage which occurred during a period of pro-ration will be cancelled if it is not made up by July 31, 1963, and then will be redistributed amongst all the prorated wells in the Basin Dakota Pool.

Q Then approximately how much of that allowable will you actually lose after redistribution?

A Actually it would depend on the total number of wells in the pool, but actually we will lose all of this and then be rededicated a portion of it.

Q Mr. Muennink, Mr. Eaton testified that in his opinion correlative rights of no other operator in the Basin Dakota Gas Pool would be violated if this application were granted, and further, the application of Mr. Curtis in this case, the last two sentences, I will quote: "Also it is quite obvious that the



granting of this request will in no way violate the correlative rights of any owner of interest in the Basin Dakota Gas Pool. Every cubic foot of gas produced under this exception will be accounted for and all overproduction will be made up." Do you agree with this statement?

A No, I do not agree with it. On the face of the statement it appears to be correct. However, taken in what definition they were using on correlative rights, if it is meant by that definition that it would not deny any operator in the Basin Dakota Gas Pool to produce his fair and equitable share of gas out of the Pool and fair and equitable share of gas for the market demand out of a common pool, then I disagree with that statement.

MR. COOLEY: No further questions of this witness.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Muennink, then it is your contention that Pan American has now gas on some of these eight wells connected to this system that is subject to cancellation, underage that is subject to cancellation --

A No.

Q -- is that true?

A No, I was not contending that, Mr. Utz. I was speaking of other Dakota wells, Southern Union Production Company has Dakota wells in the Basin Dakota, wells in the pool that was subject to cancellation.



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Q Yes, sir, I understand that you have, but do you know whether or not Pan American has underage that will be subject to cancellation July 31st?

A On any of these eight wells? They are all overproduced at the present time.

Q Well, do they have any underage that would be subject to cancellation?

A No, I would not assume that they do.

Q Then if they don't have underage that is subject to cancellation, how would allowing them to overproduce or produce more than six times cause you to receive any less redistribution?

A On the basis of the common market, the proration rules and regulations actually protect an operator's rights in one respect, to produce his fair and equitable share out of a particular pool. If one operator is allowed to produce in excess out of this particular pool at any particular time due to market demand, then these other wells are not getting their fair share of the market demand.

MR. COOLEY: If I may interject one question, I think I can clarify the purpose of this testimony.

MR. UTZ: All right.

MR. COOLEY: The underproduction to which you have testified, is it physically able to meet the demand testified to by Pan American Petroleum Corporation?

A Yes, it is.



MR. UTZ: Any other questions?

MR. BUELL: Yes, I have two.

BY MR. BUELL:

Q Mr. Muennink, does Southern Union have any Basin Dakota gas wells that are overproduced? You mentioned 46 that are underproduced; do you have any that are over?

A Yes, sir.

Q In the sense of the word, then, to carry your analogy back to your own self, you are not even protecting your own correlative rights, are you?

A These are not overproduced over six times their current monthly allowable. In other words, they have not reached that extent and are not outside that limit. I feel that that rule is a fair rule, but in excess of that is what I was speaking of.

Q If an overproduced well violates correlative rights, why haven't you shut-in your overproduced wells and produced your underproduced wells so you wouldn't lose this underage due to cancellation?

A I think it is inherent that some wells become overproduced and some underproduced in the gas marketing end. I'm speaking of wells being overproduced over the six times current allowable. I feel that is in excess.

Q Are you the same Mr. Muennink who testified for Southern Union in your recent case to amend Order R-1670?

A I testified in a case recently, yes.

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Q Wasn't the extent of your proposal there to amend the rule so that an overproduced well would not have to be completely shut-in while it was making up its overproduction but be allowed to produce at a reduced rate while it was making up overproduction?

A Yes, this was on Indian leases where a lease was in jeopardy and we were asking a token amount in order to protect the particular lease.

Q I believe Southern Union's recommendation to the Commission was to amend the rule so it would apply to any lease whether it was an Indian lease or not, is that not your recollection?

A I recollect that was correct. It started out as Indian leases and I believe it was stated to include the other Federal leases.

Q Would you explain to the Examiner how our request will violate correlative rights and your recommendation that you made and the Commission adopted wouldn't violate correlative rights?

A Well, I think we are speaking of a token amount of gas in this overproduction to protect a lease, which I believe if I recall the figure, it was set at 500 MCF to protect a lease, and I feel that in this application where it is different, you stipulate no amount as to how much you would overproduce, I believe that we are speaking of a considerably different amount there.



Q So you say then that both proposals would tend to violate correlative rights, your proposal to amend Order R-1670, but to a lesser degree than our proposal here today, is that your testimony?

A I think that the violation, or the case previous we're getting into was that correlative rights, it was a matter of a contract between Indians and the individual operator and that the rules of the Commission were such that an operator could not fulfill his contract and therefore were affecting his rights.

Q Isn't that the same thing we are asking for here, Mr. Muennink?

A Yes, to a certain extent. However, there is, I believe testimony will be brought out by another witness as to the availability of gas.

Q The same thing would be true under your recommendation under Order R-1670; due to the overproduced well producing that gas, underproduced wells are not going to get to produce it. I think the record is clear enough on that. Let's don't belabor it. You did make a point of token volumes and our requested volumes. Actually the testimony in this record at this stage is that the volumes will not be excessive; in fact, the testimony and the questions by your own counsel indicated that an exception might not even be needed, so we might be looking here at even less than a token volume of gas?

A That's possible, yes.



MR. BUELL: That's all I have.

MR. UTZ: Are there any other questions?

MR. COOLEY: On question on redirect examination.

REDIRECT EXAMINATION

BY MR. COOLEY:

Q In the case to which Mr. Buell referred, were you requesting an exception for your wells or all wells in the Pool?

A All wells in the Pool.

Q In this case is it all the wells in the Pool or just Pan American wells?

A No, it's eight Pan American wells.

MR. UTZ: Any other questions of the witness? The witness may be excused.

(Witness excused.)

RUDY MOTTO

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

DIRECT EXAMINATION

BY MR. COOLEY:

Q Would you state your full name, your place of residence and by whom you are employed?

A Rudy Motto, Southern Union Gas Company, Dispatcher Superintendent.

Q Mr. Motto, as Dispatcher Superintendent, are you aware of the number of wells connected to the Southern Union Gas

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system and the overproduction and underproduction status of these wells?

A Yes, sir.

Q Are you also aware of the physical location of your lines?

A Yes, sir.

Q Mr. Motto, would you please advise the Commissioner the total amount of underproduction accrued to wells connected to the Southern Union Gas Company lines?

A 6,857,826 MCF.

Q How much of this total underproduction is subject to cancellation on July 31, 1963?

A All of it.

MR. UTZ: Give me that figure again.

A 6,857,826 MCF.

MR. UTZ: All subject to cancellation?

A Yes, sir.

Q (By Mr. Cooley) Can we conclude from these figures, then, Mr. Motto, that Southern Union Gas Company has physically available gas from these underproduced wells which could meet the excess needs of the Town of Farmington if an emergency should exist between now and the 1st of September, 1963?

A Our cancellable underage would far exceed that amount.

Q Would this cancellable underage -- you do not anticipate to be taken up by your demand between now and July 31, 1963,



do you?

A No, sir. Our current allowables are in excess of our market.

Q Mr. Motto, is it physically possible from the physical location of your gas lines to deliver gas of the quality needed to the Town of Farmington electric generating plant?

A Yes, sir, almost immediately.

Q Would you briefly describe these facilities?

A We have a main line running from a junction -- well, the starting of the main begins at Highway 17 and Highway 44 and parallels Highway 17 into Farmington and terminates in a meter station in the power plant yard.

Q Well, your main line runs immediately past the power plant, is that correct?

A It is into the power plant area.

Q Your main line?

A Yes, sir.

Q Do you still have that physical connection?

A Yes, sir.

Q What physical act is required to commence deliveries of gas to the Town of Farmington electric generating plant?

A Upon four to eight hours notice, we could be delivering gas.

Q What do you have to do?

A We have to pull a plate out of a valve and set a meter.



Q Is that all?

A Yes, sir.

MR. COOLEY: No further questions.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Motto, does Southern Union have any kind of a contract with the City of Farmington as far as delivering gas to them?

A I'm not qualified to answer that.

MR. COOLEY: Mr. Utz, if I may interrupt, Mr. Wilson, our last witness, will bring that out.

MR. UTZ: Are there any other questions of the witness?

MR. BUELL: I have one.

BY MR. BUELL:

Q Do you have any wells connected to your system that are overproduced? You mentioned the underproduction. Do you have any that are overproduced?

A We possibly have two wells in the Basin Dakota Pool, or three, that are overproduced. We do have 32 wells that show overproduced because allowables, they're new wells, allowables haven't been assigned, we don't know whether they're over or under.

Q Would you mind explaining for the record why it is, to supply this extremely local market that you and Mr. Cooley were speaking of, you wouldn't be willing to produce from the underproduced wells when you have overproduced wells connected to your



system that you haven't reduced, to eliminate some of this under-production yourself?

A We aren't producing overproduced wells to further over-produce. They're shut-in.

Q In other words, you are trying to reduce the over-production and make up underproduction, you are just not going to be able to do it by July?

A That's correct.

MR. BUELL: That's all I have.

MR. UTZ: Any other questions? The witness may be excused.

(Witness excused.)

T. A. WILSON

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

DIRECT EXAMINATION

BY MR. COOLEY:

Q State your full name, place of residence, and by whom you are employed, please.

A T. A. Wilson. I live in Farmington, I am employed by Southern Union Gas Company.

Q In what capacity are you so employed?

A I am District Manager of what is called the Santa Fe District, which includes Farmington and Northwest New Mexico.

Q Mr. Wilson, does Southern Union Gas Company have any



existing contract with the Town of Farmington with regard to supplying gas to its electric generating plant?

A Not to the steam generating plant.

Q Mr. Motto just testified that you had gas physically available to supply this need. Is the management of Southern Union Gas Company willing to offer this gas to supply this need?

A Yes, we would be.

Q Is Southern Union Gas Company willing to offer this gas for the account of Pan American Gas Company, which company does have a contract with the Town?

A Yes, we'd be willing to do that.

Q What basis would you offer this gas to Pan American Gas Company?

A Well, we would offer it to them on the same basis as the Town of Farmington is paying them for the gas at this time.

Q In plainer words, you would supply this deficiency in gas for their account, the Town would pay them and they would pay you whatever the Town paid them?

A For this period that we are talking about in the petition.

Q That's for the period of now to September 1st, 1963?

A Yes.

Q If the Town and Southern Union Gas Company preferred, would you deliver this gas directly to the Town of Farmington on the same price basis?



A Yes, we would, for the period that we have under consideration.

Q So you would offer at either option, either deliver it directly to the Town and be paid directly by the Town on the same basis as Pan American Gas Company is receiving, or deliver the gas for account of Pan American Gas Company?

A Whichever was acceptable.

Q Well, then, Mr. Wilson, in your opinion is there any present emergency or the possibility of any future emergency which could affect the availability of gas to the Town of Farmington for electric generating purposes?

A You mean so far as our ability to deliver gas in times of --

Q No, I mean any present emergency.

A It would seem that if Pan American were required to shut in their wells that such a need could arise for some outside gas.

Q Would you be willing to supply that gas?

A That is the reason that, since we live in Farmington and are interested in knowing that the power generating facility does have sufficient gas to carry on its operation, that we felt that we might be of help in making this offer to supply gas if it is needed.

Q Would you be willing to offer this gas on a firm basis throughout the year and coming years at the price prescribed by



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the contract?

A No, I think not. During the winter months when our demand on our lines is high, that we probably would not be able to do it.

Q But you are willing to meet emergency needs that have been presented and testified to here today?

A Yes, whenever they are available.

Q Is there any question about the availability of gas to meet this need from now until September 1, 1963?

A No, I certainly can't see any.

Q Do you have all the gas that you could possibly use?

A In view of the amount of underproduction that we have, I can see no reason why it could not be met.

MR. COOLEY: No further questions.

MR. UTZ: Are there any other questions of the witness?

MR. BUELL: I have no questions.

CROSS EXAMINATION

BY MR. UTZ:

Q Would there be a service charge of any nature in addition to the cost of gas that was offered to this plant?

A No, sir.

MR. UTZ: Are there other questions? The witness may be excused.

(Witness excused.)

MR. UTZ: Are there statements in this case?



MR. COOLEY: Yes, Mr. Examiner.

MR. DURRETT: If the Examiner please, so that the attorneys can comment on it in their closing statement, I have one communication I would like to read into the record. This is a telegram from Mr. Harry A. Trueblood, Jr., President of Consolidated Oil and Gas, Inc., which reads in its entirety as follows:

"Please be advised that Consolidated Oil and Gas, Inc. is not in favor of granting Pan American's request for exception to shut-in under Order R-1670, reference Case 2831. This is an unqualified absolute violation of correlative rights which the Commission is obligated to protect."

That concludes the telegram.

MR. UTZ: Any other statements?

MR. COOLEY: In conclusion, I would urge that the testimony presented here today clearly reflects that there is no present existing emergency, that there is little likelihood of any emergency ever coming to pass, and that in the event such an emergency does come to pass that Southern Union Gas Company stands ready, willing, and able to supply the Town's excess requirements on a few hours' notice, and not at a penalty price but at the same price that Pan American Gas Company is presently receiving for this gas.

I would point out that if there were any present or possible emergency that would affect the Town of Farmington's ability to generate electricity, we would normally expect the Town

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of Farmington to be here represented. Apparently they have not seen fit to even communicate with the Commission on this question. On the other hand, if the Commission grants the application, on one of the rare occasions where I agree with Mr. Trueblood, I believe it's an unqualified violation of the correlative rights of their or any underproduced operator in the Basin Dakota Gas Pool, that it will set a dangerous precedent which will stimulate and undoubtedly provoke similar applications in the future for other similar types of requests for probably different purposes.

Pan American Petroleum Corporation, the producing company, it seems to us, is in the same position as any other overproduced operator. That is, they have the fortunate situation of being connected to a purchaser whose demands exceed their allowable production. This is an enviable position and not shared but by very few other operators in the Basin Dakota Gas Pool. The very purpose of the proration and ratable take statute is to prevent a purchaser who might have such excess needs from taking all its requirements or excess requirements from a select group of wells and to the discrimination and damage of the remaining wells in the Pool.

We submit that no exception is warranted by the testimony here presented, and that none should be granted.

MR. UTZ: Are there other statements?

MR. BUELL: Mr. Examiner, on behalf of Pan American, I would first like to state that I appreciate the offer made by



Southern Union. I'm sure it was made in good faith. In fact, I am positive of it. But we all know that there is a big difference from an offer in broad and general and sweeping terms such as of necessity Southern Union offers here today had to be, there's a great difference between that and getting together and hammering out and negotiating a detailed specific contract that would meet the terms of the offer they made here today.

Even with that in mind, if I thought that, for one second, that Pan American was asking for something that was unreasonable, if I thought they were asking for something here today that would in any respect violate anyone's correlative rights, I would move that our application be dismissed and that we immediately start negotiating with Southern Union. But I don't believe that our application is unreasonable. I think it's an extremely reasonable application, and I sincerely feel that it will not violate anyone's correlative rights, Mr. Trueblood's or anyone else's. I can't help but draw the comparison, as I tried to with my questions of Mr. Muennink, that actually there is not a great deal of difference between the request we make here today and the request not too many months ago they were urging the Commission, to make with regard to Order R-1670. We agreed with them then, and it was reasonable.

We have not changed our position here today, we still think it's reasonable. I would also like to point out, as Mr. Cooley has pointed out, and I'll agree with him, that there is a

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probability that these exceptions we are requesting will not even be needed.

There is further likelihood that if we have to exercise these exceptions, assuming that the Commission sees fit to grant them, that we too would be looking at only token amounts of gas, such small volumes that they in no way could reduce to any noticeable extent the tremendous underproduction that Southern Union Gathering System is subjected to at this time. Because this is a reasonable request and because I cannot see how it could violate anyone's correlative rights, I urge that the Commission grant our request.

MR. UTZ: Any other statements? The case will be taken under advisement.

* * *

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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 hearing before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record of the said proceedings to the best of my knowledge, skill, and ability.

WITNESS my Hand and Seal this 18th day of June, 1963.

Ada Dearnley
NOTARY PUBLIC

My Commission Expires:

June 19, 1963.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2831, heard by me on June 5, 1963.

[Signature], Examiner
New Mexico Oil Conservation Commission

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