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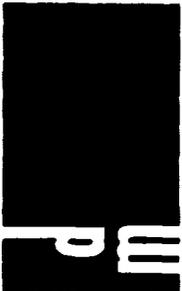
BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 14, 1968

IN THE MATTER OF: Application of El Paso)
Natural Gas Company for the suspension)
of certain provisions of Rules 14 (A),)
15 (A) and 15 (E) of Order No. R-1670,)
as amended, of the General Rules and)
Regulations for the prorated gas pools)
of Northwestern New Mexico.)

Case No. 3834

BEFORE: A. L. PORTER, JR.,
Secretary-Director

TRANSCRIPT OF HEARING



OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

December 20, 1968

C
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Mr. Louis C. Ross
Attorney
Pan American Petroleum Corporation
Security Life Building
Denver, Colorado 80202

Re: Case No. 3834
Application of El Paso Natural
Gas Company for Suspension of
Rules August 14, 1968

Dear Mr. Ross:

Thank you for your letter of December 5, 1968,
concerning errors in the Transcript of Hearing in
the subject case.

The copies of the pages with the corrections
have been attached to the transcript in the case
file.

Very truly yours,

GEORGE M. HATCH
Attorney

GMH/esr

PAN AMERICAN PETROLEUM CORPORATION

SECURITY LIFE BUILDING

DENVER, COLORADO 80202

December 5, 1968

YMA
file in
case 3834

Re: Case No. 3834
Application of El Paso Natural
Gas Company for Suspension of
Rules August 14, 1968

New Mexico Oil Conservation
Commission
State Land Office Building
Santa Fe, New Mexico 87501

Attn: Mr. George M. Hatch, Attorney

Dear George:

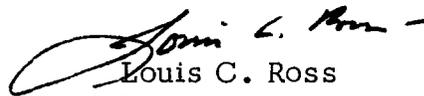
I have just today had the opportunity to review a copy of the Transcript of Hearing in the above case before A. L. Porter, Jr., Secretary-Director.

There are certain errors in this Transcript particularly in the two statements I made at pages 41, 42, and 59. So that these errors may be corrected, I have made copies of these pages with the corrections. Copies thereof are attached. Perhaps the only material corrections, other than the matter of identity, are those on pages 42 and 59. On page 59 the use of the word "construction" instead of "destruction" completely distorts what I know that I actually said.

The reporter is not to blame as perhaps I should have had the foresight to come down to the front or to the table rather than speaking from the midst of the audience from away back.

In any event, I would appreciate the record being corrected.

Yours very truly,


Louis C. Ross
Attorney

LCR:ga

MR. PORTER: We will proceed to Case 3834.

MR. HATCH: Application of El Paso Natural Gas Company for the suspension of certain provisions of Rules 14 (A), 15 (A) and 15 (E) of Order No. R-1670, as amended, of the General Rules and Regulations for the prorated gas pools of Northwestern New Mexico.

MR. MORRIS: If the Commission please, I am Dick Morris, of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe, appearing for the Applicant El Paso Natural Gas Company. I would like to introduce to the Commission Mr. Robert L. Meyer, attorney for El Paso. Mr. Meyer is a member of the Texas, Wyoming, Indiana and Ohio Bars and is associated with me in the presentation of this case. Mr. Meyer will handle the presentation of the evidence in this matter.

MR. MEYER: If it please the Commission, the El Paso Natural Gas will call as its first witness Mr. Norman Woodruff.

MR. PORTER: How many witnesses do you have?

MR. MEYER: We have only one.

MR. PORTER: So he will be your first and last one?

MR. MEYER: Yes.

(Witness sworn.)

(Whereupon, Applicant's Exhibits 1 through 8 marked for identification.)

F. NORMAN WOODRUFF, called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MEYER:

Q Will you please state your name?

A F. Norman Woodruff.

Q By whom are you employed?

A El Paso Natural Gas Company.

Q How long have you been so employed?

A Eighteen years.

Q And what is your present job title?

A Manager, gas proration operations.

Q Have you had the opportunity of testifying before this Commission on a prior occasion on matters generally relevant to this application?

A Yes, I have.

Q Were your qualifications as an expert witness accepted by the Commission at that time?

A They were.

MR. MEYER: At this time, if it please the Commission, I would like to move the acceptance of this witness as an expert by the Commission.

MR. PORTER: The Commission considers the witness

qualified to testify.

MR. MEYER: Thank you.

Q (By Mr. Meyer) As Manager of Proration, El Paso Natural Gas Company, are you familiar with the operations of the Company and how such operations are implemented in compliance with the Rules and Regulations of this Commission?

A I am.

Q For the record, will you please read, or briefly summarize, the provisions of Rules 14 (A), 15 (A), 15(E) of Order R-1670, as amended?

A Rule 14 (A) provides that wells may accumulate underproduction during a balancing period and provides that they can make up this underproduction during the next six-month balancing period.

15 (A) provides that wells may accumulate overproduction during one balancing period and make up that overproduction during the next six-month balancing period.

Rule 15 (E) provides the manner of distribution of cancelled underage to wells and the manner of accounting for it against allowables.

Q Is it the thrust of El Paso's application in the instant case that these rules be suspended?

A Yes, it is.

Q In the event the Commission, in its discretion, deems such request to be in the public interest that they will not infringe on correlative rights or occasion the occurrence of waste and such Order for suspension is granted, how would overproduction and underproduction be handled by El Paso?

A It is El Paso's intention and it is the recommendation in this case that the overproduction or underproduction accumulated to wells as of August 1, 1968, may be made up during the year's period ending August 1st, 1969. In other words, the wells will have a year's period of time to make up the imbalance existing as of August 1st, 1968.

Q Can you explain, Mr. Woodruff, the basic and fundamental necessity for the requested exception to the aforesaid Rules by the Company?

A After a careful analysis of our market demand, both so far this year and what we anticipate for the rest of this year, it is our conclusion and my conclusion that there will be times over the winter of 1968-69 when it will be necessary to call on wells that would be shut in under the normal provisions of the Commission Orders during peak demand periods and we are seeking this suspension of the Rules so as to avoid the loss of sales during this period.

Q Is there any other source from which this gas could

be supplied?

A No, there is not, other than sources of supply, and other facilities for taking gas from other sources will be utilized fully before gas from the San Juan Basin will be taken which may require the turning on of the wells, the overproduced wells which cause us concern.

Q Can you describe the circumstances which have resulted in the overproduced status of these wells which is the subject of this application?

A This overproduced status has been caused by an unanticipated increased demand for gas out of the San Juan Basin because of a delay in authorization of the building of additional facilities by El Paso which will enable us to take gas out of the Permian and Val Verde Basins of West Texas.

Q You mentioned an El Paso application to the Federal Power Commission for a Certificate of Public Convenience and Necessity. Describe how that application is involved in the matter before the Commission this morning.

A On the 28th of January, 1967, El Paso applied for a Certificate authorizing it to build facilities for the taking of the gas out of the basins previously mentioned in volumes of 310,000,000. At the time that this application was made it was not anticipated that it would be a controversial

hearing. We had anticipated at that time that it would be granted and that facilities would be installed so that gas volumes would be available by the winter, 1967-1968. Following the filing of this application, an application was filed by a transporter requesting the privilege of bringing gas into California, our principal market from Canada. Upon the filing of this other application, producer organizations in the State of California, who were concerned about the possibility that their sales of gas might be diminished with two new increases in out-of-state gas being received, petitioned the Federal Power Commission to consolidate these two hearings to determine the necessity for either one or both. The Commission did consolidate these hearings and as a result a rather long and complicated hearing resulted and as of this time, a decision has not been handed down by the Commission, though it is expected any day.

Q Are you prepared to document, at least in an informal way, the scope of the Federal Power Commission application in the course of the 310 case filed by El Paso which you have just referred to? Before you answer that question, at this time, I would like to say that Exhibits 1 through 8 marked by the reporter here for purposes of identification, have been submitted not only to the reporter, but I think

to each member of the Commission.

MR. PORTER: Yes.

Q (By Mr. Meyer) Would you please comment, Mr. Woodruff, on the preparations of any documentation that you have in connection with the 310 case?

A Yes, I will. May I say, first, that Exhibits 1 and 2 which I will now refer to, are not in the hands of most of the people who are here listening to this testimony. We were unable to put together enough copies for everyone; however, our Exhibits 3 through 8 are in the hands of the entire group here, I believe.

Exhibit 1 is the introduction to our application for Certificate of Public Convenience and Necessity in Docket C P 67217, that was filed, as I indicated, with the Federal Power Commission in January, 1967.

Exhibit 2 is a map showing the location of the facilities that are discussed in this introduction. They are filed with the Commission for information purposes and to substantiate my testimony in this hearing.

Q Does El Paso have some reason to believe an order will issue in the 310 case favorable to it, and if so, when?

A We do think that a favorable order will be issued

and we anticipate its issuance just any day.

Q Mr. Woodruff, can you describe any other factor or circumstance which influenced or affected the demand for gas produced in the San Juan Basin?

A Yes, there was another significant factor to prevent us from balancing wells as we anticipated we would. Transwestern Pipeline had a fire in the early part of June at a compressor station in Roswell which prevented them from delivering to their customers their full volumes of gas, which our California customers desired. They approached El Paso Natural Gas Company requesting that we furnish them gas in order to aid them in meeting their customers' requirements. We entered into an agreement to do this and beginning on the 3rd of July, we started delivering gas to Transwestern. These volumes have varied from about 30 million a day to 120 million cubic feet per day and during the 29 days that the gas was delivered in July, it averaged 84 million cubic feet of gas a day.

Q Was this during July of 1968?

A July of 1968. May I say, too, that this is continuing too, at this time. However, we do anticipate, and the agreement so stated that their facilities would be completed and their need for gas from El Paso would terminate no later than the 25th of this month, August, 1968.

Q Would you please enlarge upon how the Transwestern fire created special problems for El Paso relative to the application that is the balancing overproduction and the creating of certain instances of underproduction?

A When we made our nominations at the first of June for July's need for gas from the San Juan Basin, we, of course, had no way of knowing that this unexpected need, this emergency need on Transwestern's part would exist. As a result, our nominations for the month of July were less than what was actually produced. In order to meet Transwestern's needs, we had to overproduce allowables and in doing this, it made it more difficult for us to bring wells in balance during the month of July which is the month when we normally experience a maximum amount of well balancing, particularly of the overproduced wells.

Q At this time, Mr. Woodruff, I would like to refer to El Paso's Exhibit No. 3, and request the witness to explain fully what it shows relative to the application.

A If the Commission please, I will just remain seated, and discuss these exhibits, since they are in the hands of everyone here and I believe in this manner everyone can follow my testimony. Exhibit 3 is a graphic plotting of the average daily volumes by months taken out of the prorated

pools of the San Juan Basin for the year 1967, for the year 1968, through July, with an estimate of the volumes that will be taken from these pools during the balance of 1968. This exhibit and the next two exhibits are offered in order to aid those present in understanding the nature and extent of El Paso's demand for gas out of the San Juan Basin and to show the way that this demand has varied as we have found it necessary to supply on a best efforts basis the demands of our customers during the periods that we have experienced delay in construction of facilities, enable us to supply this demand out of other sources.

Q Will you please refer to El Paso's Exhibit No. 4 and discuss with particularity what it shows relative to gas requirements for prorated pools in the San Juan Basin by monthly average, peak and day?

A Exhibit 4 shows for the proration periods, August 1967 through January 1968 and February 1968 through July 1968, the average daily volumes experienced each month and connects with a line the maximum daily volumes supplied during that month and minimum daily volume supplied during the month and is offered for the purpose of aiding those present to understand better the nature of the demand supplied by El Paso out of the San Juan Basin. I think, just as an example,

it may be well to point out the extent of these figures and we might take the month of October, 1967, where the horizontal line representing the average daily volume during that month is 998.4 million cubic feet of gas a day. The peak volume represented by the top of the vertical line was one billion, 305.9 million cubic feet of gas a day. The minimum volume at the bottom of that line was 818.6 million cubic feet of gas a day.

Q Mr. Woodruff, in relation to El Paso Exhibit No. 5, can you explain volume changes occurring during a typical month and interpret this exhibit?

A Exhibit No. 5 shows for the month of September, 1967, the number and degree of changes in market demand met out of the San Juan Basin. There are actually 44 different changes reflected by the lines shown on this exhibit. They all start from the zero line and are not cumulative. For instance, on the second day of September, there were four calls met for decreases in demand. The first line downward was for 77 million; the second line downward was for 55 million; the third line downward was for 153 million; and the fourth line downward was for 110 million. During that 24 hour period the decreased demand for gas aggregated 395 million. Going on to the 5th of September, there were three calls for

increases in demand on that day. The first call was for 153 million, the second call was for an additional increase of 252 million, and the third call was for an additional increase of 110 million, aggregating during the 24-hour period 515 million cubic feet of gas a day. This exhibit also shows other significant decreases and increases and they may be associated with week-ends. There were five week-ends during the month of September and you can see five periods of significant decline.

Q Do you think the first day of September and the first week-end that Labor Day was involved?

A It was. I had meant to indicate that for the period, the second through the fifth, the Labor Day week-end was involved and it is very characteristic of the circumstances that we find to exist during long holiday week-ends.

Q Please refer, Mr. Woodruff, to El Paso Exhibit No. 6 and discuss the resulting high and the unanticipated demand of the delay expressed or shown in this exhibit.

A Exhibit 6 is a tabulation of volumes delivered on a best efforts basis to our California customers during three proration periods, February through July 1967, August '67 through January 1968, and February through July 1968. As previously testified, we had anticipated at the time that we

made our filing for the additional facilities which I referred to as our Three-Ten case, we had expected those facilities to be in operation by the winter of 1967-68, and this, I think, shows very realistically the nature of the demand supplied out of the San Juan, both before and after the time that we had expected those facilities to be in operation. I believe the most significant volumes are represented by the average daily totals, decrease periods were delivered on a best efforts basis one hundred two million during the first proration period mentioned, a hundred seventeen million during the August '67 through January '68 period, and a hundred and seventy-three million cubic feet of gas averaged per day during the February through July 1968 proration period.

Q Mr. Woodruff, will you please refer to El Paso Exhibit No. 7 and explain the significant points in this exhibit?

A Exhibit No. 7 is a tabulation showing the volumes delivered to Transwestern under our temporary sale resulting from the agreement entered into by El Paso and Transwestern to aid them during the period of repair from the fire in their compressor station near Roswell, New Mexico. It shows that during the month of July, 1968, we delivered to them 84 million cubic feet of gas a day during the 29 days of delivery.

It shows that during August of 1968, we expect to deliver on an average day, 87 million cubic feet until our agreement terminates on the 25th of August. It also shows that for the first six days of August, we averaged deliveries of 101.3 million cubic feet of gas a day.

Q Will you please refer to El Paso Exhibit 8 and interpret this exhibit with specific reference to overproduced wells in each of the prorated pools in the San Juan Basin for the balancing period February 1 to July 1, 1968?

A El Paso maintains a continuing analysis of their balancing of overproduced and underproduced wells month by month in the San Juan Basin, and this tabulation is to show the condition which, according to our calculations, existed at the completion of production in July, 1968, in the first group of figures, which I will go into in more detail, and then shows our projection of what would occur for these wells after cancellation and redistribution of allowable as of the end of the balancing period terminating July 31, 1968, if the normal procedure of the Commission is utilized. Under the column entitled "wells" in the first group of figures is listed for each of the prorated pools in the San Juan Basin a number of wells, according to our records which had not balanced at the completion of July production in 1968. In

the next group of figures under "wells" is the number of wells that would still be unbalanced as of July 31, 1968, after normal cancellation and redistribution. As can be seen from this tabulation, the number of wells and the number of days that these wells were still overproduced relative to balancing is shown and our best estimate is that we are talking about 370 wells which would be subject to shut-in by the Commission, the aggregate amount of overproduction is 2.3 billion average, a little over 66 million cubic feet of gas per well and on the average requiring 27 days of shut-in in order to balance.

This, I think, very effectively, I hope, shows the nature and degree of the overproduced situation that has led us to come before the Commission and ask for this suspension of the rules.

Q What is your best estimate as to when additional volumes of gas will be available from other sources that will enable you to cut back on your San Juan Basin purchases?

A After discussing this matter with our engineers, who are responsible for accomplishing the construction of new facilities, our best estimate is that it will take no more than eight months to put the additional facilities requested into operation, following an acceptable Certificate by the Federal Power Commission.

Q Do you anticipate any problem in balancing the overproduced wells, once El Paso is able to cut back on it's takes out of the San Juan Basin?

A I anticipate no problem in overproducing them and I think if we don't have them produced by the August 1st, 1969 date that they will be balanced within a few months after that, with the possible exception of a few extreme overproduced wells.

Q Is there any advantage to the underproduced wells when and if this suspension application is granted?

A I consider that it is. It will permit those wells that are underproduced and capable of making up that underproduction to have an additional year to make it up without suffering any cancellation.

Q Do you propose that the overproduced wells will be brought back into balance eventually?

A Yes, sir, I do; that is our proposal.

Q Well, under these circumstances, will there be any nonrateable withdrawals resulting?

A I consider that there will not. We will bring all of the wells back into proration balance which will result in a rateable balance.

Q How will the wells be scheduled to produce during

the period of the requested suspension?

A We will follow our normal procedure of scheduling wells with which, I think most are acquainted, which results in all marginal wells being turned on and all underproduced wells turned on before, well, and then following that any balanced wells before any overproduced and unbalanced wells will be turned on. In this manner we will minimize the need for calling on the overproduced wells.

Q Will this balancing of overproduced and underproduced wells involve any waste?

A I consider that it will not.

Q Is it your opinion that the application of El Paso can be granted without the impairment of correlative rights or the causing of waste?

A I consider that that will be what will occur. May I be sure that my answer is clear? I consider that if our application is granted that there will be no waste or impairment of correlative rights.

MR. MEYER: Thank you. At this time, if it please the Commission, I would like to move the admission of El Paso's Exhibits 1 through 8.

MR. PORTER: If there are no objections, the exhibits of El Paso will be admitted.

(Whereupon, Applicant's Exhibits 1 through 8 offered and admitted in evidence.)

Q (By Mr. Meyer) Mr. Woodruff, were Exhibits 3 through 8 prepared by you or under your supervision and direction?

A They were.

Q And as to Exhibits 1 and 2, will you please make a statement in connection as to how they were prepared?

A Exhibits 1 and 2 are copies of official documents prepared by El Paso Natural Gas Company and filed with the Federal Power Commission in the Docket No. C P 67,217.

Q But they were prepared by other El Paso engineers or personnel?

A That is correct.

MR. MEYER: Thank you, Mr. Woodruff. Mr. Commissioner, this completes the testimony on direct for El Paso Natural Gas Company and we hold the witness for any questions that the Commission may have or any other interested party. Thank you very much.

MR. PORTER: At this point, may I ask if anyone else desires to present testimony in the case this morning? Before we begin cross examination, we'll take a ten-minute break.

(Whereupon, a short recess was taken.)

MR. PORTER: The hearing will come to order, please.

Does anyone have a question of Mr. Woodruff? Mr. Utz.

CROSS EXAMINATION

BY MR. UTZ:

Q Mr. Woodruff, is it your intention to, I know you haven't mentioned this, to seek relief from the six times overproduction feature rules?

A That, I believe is Rule 15 (b), and I think to the extent that our market demand may require the calling on those wells during periods of peak need, particularly during the winter where we have so much trouble with freezing and liquid accumulation and difficulty getting to wells, that they should be available to be produced. They will be produced only under such circumstances but I would recommend that as to that provision, it not be enforced. We would still propose that those wells be brought into balance; they would just take longer to be brought into balance than the other wells.

Q You didn't specifically ask for relief from that provision in your request, did you?

A That's right, that was not a portion of our application.

Q In your opinion, you should have those six times

wells available if they're needed?

A I think it would be well to have them available in case they are needed.

Q Now, I note that in your application, you did not request any relief from classification. Now, what is your opinion in regarding to classifying the wells?

A You are referring to the classification of wells from non-marginal to marginal category?

Q That's right.

A I would recommend that the Commission go ahead with their normal classification of wells into a marginal category so we can know as currently as possible what the status of allowables is and have as good an idea as possible what the nature of overproduction or underproduction is during this period.

Q You mentioned that the underproduced wells might have some advantage later on in the year's period. The advantage, I presume, was that they might be able to produce some of that underage. Would it not be true that some of the wells that would go from non-marginal to marginal have that same advantage?

A I'm not sure that I understand your question, but may I answer it this way, and see if it satisfies your request. A marginal well is privileged to produce a hundred percent of

the time and there will be no restriction on its production under those circumstances and it will be able to produce everything that it would be able to produce were it prorated, so I can visualize no loss or restriction or penalty to a marginal well under those circumstances.

Q Well, don't the non-marginal underproduced wells have that same advantage, aren't they on the line continuously in an effort to make up that underage?

A That is correct.

Q Then the only difference between the underage on a non-marginal well and the underage cancelled due to reclassification from non-marginal to marginal, is that the marginal wells' underage is cancelled and redistributed?

A That's all. The only purpose in going ahead and classifying the wells as marginal as I said, would be to get the allowable assigned to those wells that which they can't produce, reassigned to wells that can produce it so we would have a more realistic status.

Q So that underage would go to the overproduced wells and help balance?

A That's correct.

Q Does El Paso have any applications in mind or have they made any applications for additional market demand out of the Basin?

A No, there are none that I am aware of; certainly we have made none and I know of none pending.

Q It would follow then, that you would have no intentions of installing any more of a pressure capacity than an effort to lower line pressures and help take some of this underage?

A El Paso has under continuing study the need for adding compression into the San Juan Basin and many other places it operates. Pressures, I am sure, will be lowered in the San Juan Basin as is necessary to effectuate an orderly depletion of the reserves there.

Q Wouldn't that be somewhat of an answer to this dilemma you are in now, not being able to produce the underage?

A Certainly if we had higher deliverability from these wells that would be an answer, but the need is immediate and the answer through this mechanism that you discuss is something that would require a sustained or prolonged F. P. C. application and hearing and our relief would not be available by the time that it is needed.

Q Well, what concerns me a little is that if you have no anticipation of requesting any more capacity there, that is pressure capacity or larger lines or whatever it takes to lower your field line pressures and you end up this year with

a lot of unproduced underage then what is going to happen from that date on?

A You mean to the underproduced underage?

Q That's right.

A Well, under the normal application of the rules which would be effective on August 1st, 1969, underage which had been accumulated as of August 1st, 1968, and had not been made up would be cancelled.

Q Then at the end of July of 1969, it's your opinion that you will be in a position to curtail the market demand out of the San Juan Basin so that you can properly balance these wells?

A That is correct.

Q In other words, that's the only relief that you have in mind? Your relief isn't through lower line pressures or more capacity out of the Basin?

A That's all that we anticipate at this time because we see no need for relief through lowering line pressure at this time. This demand that we are seeking to be able to supply out of the San Juan Basin on a continuing basis is something that will not exist possibly over another seven to eight months, so at the end of that time, we will have a lessening demand out of the San Juan until it again builds up

in accordance with our customer demand.

Q Your Exhibit No. 8, referring to the volume of underage subject to cancellation and redistribution on the Blanco Mesa Verde Pools and the Basin Dakota Pools, I notice that the Basin Dakota has a few less wells that are subject to cancellation and yet almost four times the amount of volume. Can you explain why the volume in the Basin Dakota is so much higher than it is in the Mesa Verde?

A I have no ready answer. I could theorize with you, but it would just be thinking out loud rather than any positive answer on it. For one thing, the wells in the Basin Dakota are better wells than other wells. Their allowables are higher on the normal as is indicated in the average monthly allowable column shown on this exhibit. The Basin Dakota has an average allowable and may I explain that this average monthly allowable represents our best estimate of the average monthly allowable during the proration period ending July the 31st, 1968, for the overproduced wells in each of these pools. This is the allowable that we think these wells would normally be working against, on the average. We can see in that column that the Basin Dakota average monthly allowable is 21.6 million cubic feet of gas a day; in the Blanco Mesa Verde, average allowable is 13.5 million cubic feet, I think I said a day. Those are monthly allowables. We can see, looking at

the column on the right of this exhibit that with that allowable and with the average volume of overproduction shown for the 77 wells, that we believe would be shut in, an additional 21 days of shut in would have brought these wells into balance. So when you look at the average volume of overproduction for your Mesa Verde well and your Basin Dakota well, it's a little over two to one, but the allowables approach that same relationship.

Q As I interpret your answer, then, you are saying that the volume of underage per well is greater in the Basin Dakota because of the higher allowables to the wells?

A I can't give you any specific answer as to why they are not as near in balance as the Blanco Mesa Verde wells.

Q Now, in the event that you had not had this unusual circumstance in regard to delivering gas to Transwestern for their West Coast needs, would you have been in this predicament if that hadn't happened? Are you saying that aggravated it or actually caused it?

A I am saying that the Transwestern circumstance aggravated; if we had not delivered the 34 million a day during the 29 days involved, I estimate that we could have probably balanced an additional one hundred fifty or two hundred wells.

Q In that event, you still had quite a number of wells

that would have been out of balance?

A That's right.

Q Approximately two hundred twenty?

A That's right.

Q Would that have been too many, in your opinion, to prevent you from meeting your market demand this winter?

A I haven't looked at it in detail, on that basis, but I would not be surprised to have had days of peak demand where we would have needed to call on those wells that would still have been shut in.

MR. UTZ: I believe that's all I have.

MR. PORTER: I have been enjoying these discussions between Mr. Woodruff and Mr. Utz for about fifteen years. Sometimes Mr. Utz has been on the stand and sometimes Mr. Woodruff. Sometimes I learn something and sometimes I am confused; for instance this morning, we have a term here, "unproduced underage", and I thought all underage was unproduced. Does anyone else have a question? Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Woodruff, I don't know if I'm reading this number correctly or not, but now on your Exhibit No. 8, in the column "volume", are we talking about that these pools here have a

total of 12 billion cubic feet overproduction as of July the 31st, 1968?

A That is the total amount of underproduction.

Q Is this underproduction or overproduction?

A Overproduction.

Q And it would be 12 billion cubic feet?

A It is the total amount of overproduction accumulated to these wells that existed as of the beginning of the balancing period, February 1, 1968, that had not been balanced as of the end of production in July, 1968.

Q In other words, this is the status last February and the amount that would be subject to cancellation now?

A That is the portion of last February status that is subject to cancellation.

Q Right.

A That is subject to be made up by shutting in wells that have not balanced in the intervening proration period.

Q How does this compare for a year ago for the same figure?

A I do not have a figure with me, or I do not have it in mind, but I would suspect that this is a more severe condition than we had a year ago and I would draw that conclusion by referring to Exhibit 3 which showed the amount

of production from El Paso's, the amount of production taken by El Paso, during the months at the beginning of 1967, at the beginning of 1968.

Q Well, now, while we're on Exhibit 3, we find that this dashed line for 1968 commences to be higher than the 1967 line back in April, correct?

A Well, I believe it may be May that -- I believe April of '67 was higher than April of '68.

Q But then, starting with May, then --

A Right.

Q -- the dashed line is higher than the other. This continues for some several months before the Transwestern affair?

A Yes, that is correct.

Q Regarding this Transwestern deal, as I understand your Exhibit No. 7, during the 29 days that you were selling to Transwestern you averaged 84 million a day to them?

A That is correct.

Q And the total, then, would be approximately two billion cubic feet of gas that was sold to Transwestern during July?

A That would be approximately correct.

Q Now --

A It may be correct, you may have worked out the figure. I don't have it before me.

Q I multiply 29 times 84 and this gave me 2,400,000,000. I don't know if I am using billions or millions or what on this, but I think it's billions of cubic feet.

A Billions is right.

Q If we take your figure in volume as of July 31st, 1968, before cancellation of the redistribution, and then take your balancing status on the other side of the page after cancellation and redistribution, we find that you have reduced the overproduction from 12 billion 290 million feet to two billion three hundred million feet?

A Right.

Q In other words, by the cancellation and redistribution you knocked it down by ten billion and the two billion three hundred million that remains is actually just about the amount that you have sold to Transwestern, then?

A That is correct.

Q Now, what is the deal with Transwestern, is this a straight sale or is that an arrangement that they are going to pay you gas back?

A Straight sale.

Q And it will never be returned to El Paso then?

A It was not contemplated in the agreement.

Q And the F. P. C. approved that arrangement?

A Yes, they have.

Q Now, the application that you have got before the F. P. C. at this time calls for expanded facilities in Val Verde and Delaware Basins of Texas. How is this going to effect the situation insofar as El Paso Natural Gas Company is concerned in Southeast New Mexico?

A I anticipate no change of consequence in our Southeast New Mexico purchases.

Q In other words, right now, we're in a period of considerably depressed market conditions down there in the Southeast, which I understood were due to your overtaxed facilities, but the expansion of these facilities in the Puckett Area and on down through there isn't going to help Southeast New Mexico?

A I should correct my statement to this extent. Our current outlook for takes in Southeast New Mexico are lower than what we think we will be averaging after these new facilities are in, so we do anticipate an increase in our Southeast New Mexico purchases following the time that these facilities are completed.

Q Well, now, your application is to increase --

A If I may --

Q Yes.

A -- and I would expect this demand to be in line with our 1967 demand for gas out of the Southeast New Mexico pools.

Q Well, now, your application is to increase your design capacity by three hundred ten million cubic feet. Is this the amount you expect to take from the Val Verde and Puckett area, three hundred ten million additional?

A Approximately, yes.

Q So any benefit to Southeast New Mexico from these improved facilities is just going to be coincidental if at all?

A Well the thing I think I should elaborate on is that we have had to cut back in the Permian Basin Area including Val Verde and Delaware Basin, on all existing sources in order to accomodate some takes from the new sources that have been tied into our system and the Lea County in Southeast New Mexico area has been cut back along with our other sources. What I am saying is that once our new facilities are installed, we will be able to return Southeast New Mexico to its normal level of production which I consider to be exhibited by the 1967 production. '68 is low in order to be able to handle not

only the additional sources that we have tied into our system but also to handle the high volume of residue gas that has been delivered to our system as a result of the increased oil production due to the Suez Crisis, the Middle East Crisis.

Q Are the physical facilities in Southeast New Mexico being produced in their maximum rates?

A They are not.

Q But the facilities west of Southeast New Mexico are, is this correct?

A The facilities, the transmission facilities out of the Permian Basin area are being produced at capacity at all times and the gas from South East New Mexico shares these main pipeline facilities.

Q How about the Transwestern facilities that go from Southeast New Mexico up toward Gallup? Were they normally used pretty much at their capacity?

A I believe that to be the case. Of course, during this period of the fire they were unable to handle it at that rate, but so far as I know, their customers' demand requires them to operate their facilities at a high load factor.

Q How about the load factor on El Paso's facilities from Southeast New Mexico up to Gallup?

A A hundred percent load factor to the best of our ability to maintain it.

Q When Transwestern had their fire, was all the gas that you sold to Transwestern produced from the San Juan Basin?

A Yes, it was, there was no other place to get it from.

MR. NUTTER: That's all.

MR. PORTER: Mr. Kelly.

CROSS EXAMINATION

BY MR. KELLY:

Q Booker Kelly, appearing on behalf of Tenneco. Mr. Woodruff, you stated that you were expecting almost daily certification from the F. P. C. What is the present status right now, of the application?

A The hearing has been completed; the examiner decision has been handed down, and oral argument has been completed and it is before the Commission for the issuance of an order.

MR. PORTER: The examiner has made a recommendation?

THE WITNESS: Yes.

MR. PORTER: For approval?

THE WITNESS: He has made recommendations for an approval. It is not on the identical basis that we applied for in our application.

Q (By Mr. Kelly) Would it be possible then, that their appeal procedures would be required before you could get your certification?

A Other appeal?

Q Yes.

A I would say it would depend on the nature of the Order handed down by the Commission. If they give us a certificate as requested, I don't anticipate any appeals; if they give us a different one, it would have to depend on that.

Q Well, how about the certificate as recommended?

A I can't answer that. I really do not know what the attitude of the parties would be, with the certificate of the nature recommended by the Examiner.

Q Well, at any rate, it's very possible that the daily anticipation might drag on for sometime before the certificate is issued?

A It's possible, but we have no reason to believe that to be the case.

Q Then after you get the certificate you'll actually start construction of the line?

A That's right.

Q Isn't it true then you can really not count on much of the next year as far as getting relief from the Texas gas?

A It's possible. We think the certificate will be issued any day now. I said eight months; I think that is, at the outside a high time for completion of the facilities.

Q But it could go over a year if the certificate does not issue in the form you want it or doesn't issue immediately?

A Yes, under those circumstances that would be true.

Q Now, referring to your Exhibit No. 3, you show on that your estimated 1968 gas requirements coming in almost identical with your 1967 gas requirements. Is that 13 hundred or 13 billion? Whatever the figure we are talking about, does that represent the capacity of the present line out of the San Juan Basin?

A That one billion, three hundred million is the approximate capacity and that's the reason why we get up to a maximum during those periods which is fairly consistent both in 1967 and '68.

Q Well, then that doesn't reflect the increase or it doesn't take into account the normal increase in the California demand which has been going up?

A This does not reflect or is not intended to reflect, necessarily, supplying one hundred percent of what California may be able to take during the days covered during the rest of 1968 or in the past. It does reflect our best estimate

of what we think we will be able to supply to them in fulfilling their needs.

Q That is based on the present compression facilities in the San Juan Basin?

A And the present pipeline capacity for taking gas out of the San Juan Basin.

Q I notice on your Exhibit No. 6 that February through July, 1967, you have a total of 18 million, is that right?

A That's 18 Billion. Are you referring to the figure -- you are talking about the total volume delivered for the February through July, 1967, proration period to the California customers, of 18.5 billion cubic feet of gas.

Q Then the comparable period in 1968, that goes up to 31 billion?

A That is right.

Q So there is a substantial increase in California demand?

A That is right.

Q And there's no reason to think that that increase will slack off?

A That is right.

Q Isn't it a distinct possibility, then, that after this one year extension, if granted, that the San Juan Basin wells could be in worse shape than they are now, if you do not

have the relief from the Permian gas?

A I think that is a reasonable assumption. If we don't have the relief from the Permian gas and if we continue to supply as much of our customers' California demand as it's physically possible for us to do, the condition could be worse.

Q Since we know that there is at least eight months before you could get that, you are talking about three-fourths of your one-year period before you can get the minimum?

A Well, I might quarrel only with your arithmetic.

Q Or two-thirds.

A What you are saying is right, but I believe that with the completion of the facilities that we will be able to have the wells substantially in balance by the end of the suspension period that we have asked for, by the August 1st, 1969 date or within a few months after that time.

Q But based on the increase in California demand the situation could revert back to where it is now in two or three years, isn't that correct?

A Am I to understand that you are premising the situation where we have continued increase in the future after the 310 case is in, in California demand, without any facilities enabling us to supply from other sources?

Q That's right.

A I would say your assumption is correct.

Q Would you agree that a more permanent solution to your problem would be an increase in deliverability of San Juan gas?

A Let me say that is a solution to the problem which you have pointed out is possible to occur. The most ideal solution, over a long period of time, would be to meet increased demand with increased new sources of supply and increased facilities to meet those. El Paso has not contemplated any, to my knowledge, and I think that I am correct, any increased sales out of the San Juan Basin over that presently certificated.

Q Well, I am thinking of the situation of some of the best gas wells in the San Juan Basin being shut in for a considerable length of time in a year unless deliverability is increased.

A Were we faced with the conditions that you have used in your example, I am sure we would realize the desirability for increasing the deliverability out of the San Juan, which I am sure you know could be accomplished with additional **compression**. I think it would be prudent on our part under the circumstances, to give consideration to adding them and

I am sure we would. We have every desire to meet our customer demand in whatever manner is available to us.

Q This is not a decision that has been made at this time by El Paso?

A We don't have those conditions facing us.

MR. KELLY: That's all I have.

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

MR. FELDSTEAD: Mr. Woodruff --

MR. PORTER: Would you identify yourself for the record?

MR. FELDSTEAD: Don Feldstead with Sunset International.

CROSS EXAMINATION

BY MR. FELDSTEAD:

Q Has the possibility of purchasing or procuring the gas from, say, another pipeline company, been looked into where the other wells in the San Juan Basin could also produce their allowables and catch up the underage or will they be left sitting there while the wells hooked to El Paso pipeline are depleted?

A Yes, we have given consideration to that; we have had informal discussions with Southern Union Gas Company, whom I assume you are alluding to, and indicating our willingness

if they consider it is in their best interest to enter into an agreement, to enable them to dispose of their excess allowable and I'm sure if they find it's to their advantage to do so, that such can be accomplished through the mechanism currently available to El Paso and Southern Union for accomplishing this.

Q Has anyone ever worked up a figure showing the percentage of underage that is cancelled with Southern Union compared to the cancellation of El Paso; would there be a possibility of coming up with the solution where the wells will be equally produced?

A Yes, it's a possibility.

Q Does Southern Union have enough wells to offset your underproduction, the gas that you need to produce?

A I'm not sure I understand your question. Are you asking me whether we would be able to meet our needs were we to have full access to Southern Union Company's gas wells?

Q That is correct.

A Let me first say that we're able to fill our needs with the wells currently tied to our system, so we would be better able to do so if we had this additional gas available to us.

LOUIS C. RHODES: Louis C. Rhodes, I haven't any

questions of the witness. I came prepared to ask local counsel. I have a statement to make after the witness is excused.

MR. PORTER: Does anyone else have a question of the witness? Mr. Utz.

CROSS EXAMINATION

BY MR. UTZ:

Q I have one afterthought. Do you have any figures that would show the amount of cancellation due to the classification?

A Due to classification of wells from non-marginal to marginal?

Q That's right.

A No, I don't.

Q This difference in these figures that you showed to overproduced wells on your Exhibit 8, that doesn't include any cancellations due to classification from non-marginal to marginal?

A It would not include the underproduction accumulated to wells that would be classified as marginal that was accumulated during the period February 1st, 1968 through July 1968. Since under normal circumstances that underage accumulated to a prorated well would still be available to be made up during the next proration period.

Q Well, when you reclassify, you cancel all underage.

A That's right, and to that extent these figures do not reflect all of the underage that would be available for redistribution to overproduced wells and underproduced wells, the prorated wells.

Q In other words, you actually didn't go through a reclassification procedure in order to determine the redistribution?

A That is correct.

Q So that the underage, the normal underage that is subject to carrying over to the following period is not included in these figures, if I understand you correctly?

A That is correct.

Q And the underage that is shown here is only that that would be redistributed to the overproduced wells?

A I am sorry, I didn't understand your question.

Q The underage that is shown on this Exhibit 8, is that underage that would only be redistributed to overproduced wells?

A Actually, I believe I'm correct in saying that there are no figures here reflecting underproduction, but the volume of overproduction reflected here showing for the 370 wells, 2.3 billion would be the overproduction remaining after the

cancellable underproduction had been cancelled and redistributed to all wells that were prorated both over and underproduction, both overproduced and underproduced wells. Of course, as you know, it should be stated that the allowable goes to all wells regardless of overproduced or underproduced status.

Q It goes to all non-marginal wells?

A All non-marginal wells.

Q All you are showing on Exhibit 8 is overproduced non-marginal wells?

A That is right and this is what would still be remaining in the nature of unbalanced overproduction for the overproduced wells after cancellation of underage and redistribution.

Q In other words, the volume of 8.2 shown for the Basin Dakota is a balancing status of July 31 before cancellation and redistribution minus the 1.1 shown after cancellation and redistribution is the amount of underage that would go to overproduced wells?

A That is right.

MR. UTZ: That's all I have.

MR. PORTER: Does anyone else have a question?

MR. MEYER: If it please the Commission.

MR. PORTER: Go ahead, Mr. Meyer.

REDIRECT EXAMINATION

BY MR. MEYER:

Q I would like to ask Mr. Woodruff whether the graph he used and called Exhibit No. 3 is cumulative or whether it shows an average monthly volume.

A It's the average daily volume for each month during the period shown.

Q Further, if it please the Commission, I would like to depart from the statement I made earlier to the effect that we would only have one witness. In light of the fact that certain factors or features of the 310 case have come to light in this matter, I think it would be appropriate for us at this time to present Mr. A. M. Derrick, Assistant Vice President of Gas Supply who is more prepared to talk about the 310 case and it's involvement here. I would ask Mr. Derrick, please, to stand and be sworn, if Mr. Woodruff is excused.

MR. PORTER: First I would like to ask if there are any other questions of Mr. Woodruff before we excuse him.
Mr. Nutter.

RECROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Woodruff, now, your Exhibit No. 3 shows the average daily volume of gas taken for each of these months

from all wells, all prorated pools in the Basin. Now, I picked off the points on the graph for February, March, April, May, June and July of 1967, and added them up and I don't know how accurately I picked them off or how accurately I added them up, but I get about 11 billion cubic feet of gas, I guess.

A I would think that to be in error.

Q What would it be, it's 11 what, or 1.1 hundred --

A Are you asking me how much gas would have been delivered out of the Basin during the first six or seven months of 1968?

Q No, I'm talking about 1967.

A 1967? Is your question how much gas was actually delivered?

Q Now, what I did, I picked these points right here and this would be 1.287.

A Yes.

Q Million a day, average.

A Right.

Q And I picked them for each of the six months in the first period of 1967.

A Right.

Q And I got this sum for the averages for the month

and then multiplied that by the number of days in the period because these are daily averages, are they not?

A Right.

Q If I multiply them by the daily average, I get this amount as being the total amount that was taken. Would that be correct?

A No, that wouldn't be correct. What we would need to do would be to divide this six month total by six and then multiply that average by the 181 and I think we can eyeball it here by saying that 481 days we would be producing in excess of a billion cubic feet of gas a day and in round numbers we're probably talking about something in excess of 200 billion cubic feet of gas during that six month period.

Q Well, then I was trying to correlate the figures on this Exhibit No. 3 with the figures that are shown on Exhibit No. 6, the G X two best efforts delivery to California. Is this deliveries from your entire system?

A No, this is the deliveries which have been met through gas which has had to come from the San Juan Basin.

Q Well, now, in other words eighteen and a half --

A It looks like about ten percent of the total deliveries during that proration period was attributable to best efforts deliveries.

Q I see. Well, that's what I was attempting to do, correlate those two together and the totals on the two, are not supposed to meet each other?

A No, no, they are not.

MR. NUTTER: That's all.

MR. PORTER: Does anyone else have a question?
If not, we will excuse this witness, and you may call your other witness.

(Witness excused.)

MR. MEYER: I would like to call Mr. A. M. Derrick to be sworn, please.

(Witness sworn.)

* * * * *

A. M. D E R R I C K , called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MEYER:

Q Mr. Derrick, will you please state your name?

A A. M. Derrick.

Q And by whom are you employed?

A El Paso Natural Gas Company.

Q How long have you been so employed?

A Fifteen years.

Q And what is your present job and title?

A I am Assistant Vice President and I work with the Vice President in charge of gas supply. In that field, we have charge of gas proration, reservoir engineering, and gas purchases.

Q Have you ever testified before this Commission on a prior occasion?

A Yes, I have.

Q At that time, were you qualified as an expert witness?

A Yes, sir.

MR. MEYER: I would like to move the admission of this witness as an expert.

MR. PORTER: His qualifications are accepted.

Q (By Mr. Meyer) Certain points have been brought up this morning in connection with the so-called El Paso 310 case wherein they made an application for certification under Certificate of Public Convenience and Necessity to the Federal Power Commission. I'm aware that you are acquainted with this matter in some detail, and I would appreciate it if you would make a detailed statement in connection with this insofar as you think it affects our application here for the suspension of overproduction and underproduction in the San Juan Basin.

A Yes, sir. I have worked on this F. P. C. case which has been referred to here as C P 67-217 and I testified in that case as regards the gas supply.

Before I get into this particular case, however, I think we need to go back a little bit to the previous certificate application of El Paso's which had El Paso's Docket No. C P 64-76, and that was commonly referred to as the Gulf Pacific case. El Paso filed its application in that case in September of 1963. In that particular application we asked for additional facilities out of the San Juan Basin for 250 million cubic feet per day. That was in September, recall, of 1963. It was shortly thereafter that the Gomez Field in Pecos County, Texas, came in and this together with the Coyanosa Field also in the Delaware Basin in Texas was the beginning of the development of the Delaware Val Verde Basin deep gas play.

About the time that we filed our application in September of 1963, we contracted for two trillion cubic feet of gas from the Gomez and Coyanosa Fields, and including the Worsham, also. Now, we filed a supplement to that application to take gas from the Waha Plant and if we may refer to Exhibit 2 in this particular case, you can see that there is a 20 inch line from the Waha Plant up to Keystone. That was built

in conjunction with our docket C P 64-76, but I think we need to keep in mind that the only main line facilities that were granted to El Paso in the Gulf Pacific case, was the 250 million additional from the San Juan Basin of New Mexico.

Now, since that time and as I mentioned, we picked up two trillion cubic feet that we filed as an amendment to the 64-76 application. Since that time we have a total of about five trillion cubic feet that we have contracted for in the Delaware Basin Area.

Now, I think, also, we need to keep in mind that the last main line facilities that we built out of the Permian Basin Area, was in Docket G 12-580, and that, as I recall, the certificate or the application was filed in 1957, and we got a certificate, I believe it was either in late 1959 or early 1960. So for all the gas that we have contracted for in the Permian Basin Area, we have not had any mainline facilities for about eight years.

Now, that brings us up to our present application of C P 67-217 and the status of that is that we had oral argument on June the 5th of this year. We anticipate that we'll get a certificate just any day. Now, all the intervenors and all the other applicants, nobody opposed the application as we made it. That application called for a 36-inch, what we

referred to as a high pot used line from the Waha plant which is on the Reeves-Pecos County line over to our Cornudas Station, that is a 36-inch line. Now, you will see in red on west of the Cornudas which is in Hudspeth County, Texas, on west of there, we have quite a bit of 30-inch loop, that is El Paso's application and not one party in that hearing objected to it and as I understand the rules of the Commission, any Order granting us that certificate would not be appealable.

I think I should also point out, however, that the Federal Power Commission staff put in a plan where they proposed a 42-inch line all the way from Waha out to the California-Arizona border to be built by El Paso. Now, Transwestern Pipeline also has an application on file with the Federal Power Commission which calls for an additional 110 million cubic feet per day. Keeping in mind that this was a recommendation of the staff, the Examiner in this particular case, he studied it, he felt that maybe a 42-inch line all the way was going too far so he hedged it to the point that instead of building the 36-inch high pot use, and then you can see it on out in Western New Mexico and Central and Eastern Arizona, we have a 30-inch high pot use. He proposed that instead of the 36 30, that we build a 42-inch loop. Of course, El Paso and all parties in that proceeding opposed that.

That's the status of the case at this particular time.

I want to go back to the 64-76 case and state that we built the 20-inch line from Waha up to the Kermit area, the Keystone Plant, that is the only relief that we have had for the Delaware Basin gas and we can move something like 200 million cubic feet per day through that. Now, what that does when we bring that gas up to the Keystone Area, it backs off other gas including the Southeast New Mexico gas. In addition, the problem, as Mr. Woodruff stated the problem, has been further compounded in this area through the increase in residue gas, both in Southeast New Mexico and in West Texas, and this was caused by the closing of the Suez Canal. So everything has worked together in this instance to work against a constant outlet from the Permian Basin area, or our Permian System as we referred to it, and the gas volumes both as to reserves and daily volumes, have increased significantly over the last eight years.

Now, to get back to the compressor study for the San Juan Basin Area, I have directed that we make a complete study of all six thousand wells connected to El Paso's system in the San Juan Basin area. That study is presently under consideration. It's in the mill right now.

Now, as Mr. Woodruff pointed out also, even if we

had that completed and filed it today, we wouldn't have any relief for the winter of '68-69.

Now, we don't have any plans to increase the capacity out of the San Juan Basin; however, as we orderly deplete the reserves through the installation of compression, we will increase the ability of many of the wells to produce, so even though we don't have additional capacity out of the San Juan Basin, I'm sure that this compressor study will reveal where we need to put the compression to more nearly bring our underproduced wells into line. So from this standpoint, I think it will assist us in balancing our overproduction problem.

Q Is there anything else that you wish to add to that, Mr. Derrick?

A No, I believe that brings it up to date.

MR. MEYER: I would refer the witness to the Commission for further questioning.

MR. PORTER: Does anyone have a question? Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Derrick, you said the study was in the mill, do you mean the decision was under way to make the study --

A No, it has been under way for six months in our Reservoir Engineering Department.

Q If the study reveals that you do need additional compression facilities, and I presume that you probably thought you would or you wouldn't have initiated the study --

A That's correct.

Q -- then would you have to get F. P. C. approval to put the compression facilities in?

A Yes, we anticipate making the filing with the Federal Power Commission.

Q How long do you think it would be before the study is completed?

A I would think it would be toward the end of this year.

Q How soon after that would you file for the F. P. C. if you determine that you did need compressors?

A We would file almost immediately. However, we do have the F. P. C. procedure that we have to go through and then we have to affect the construction after we get the certificate. Hopefully, we would get some relief for the '69-70 heating season. I might point out in relationship to the best-efforts gas that we are producing now; as we sign service agreements with our California companies, we firm up

a certain volume of gas, then after these certificates are granted, we normally sign up best efforts agreements with our California customers and under these, under these best efforts agreements, El Paso uses its best efforts to deliver the gas and the California companies, of course, use their best efforts to take the gas. Now, much of this gas which we are presently selling, it is shown on Exhibit 6, once we firm up our 310, or once we get our certificate and get the construction in, then this best efforts gas from the San Juan Basin will be somewhat diminished inasmuch as we will be providing the gas through our Permian System.

Q Well, Mr. Derrick, aren't you being awfully optimistic if you think the study won't be completed before the end of this year; aren't you being awfully optimistic in thinking that you would have the facilities in operation by the beginning of the '69-'70 season?

A I don't think we would have nearly all of them in; however, we want to deplete these reservoirs in an orderly fashion. We don't anticipate that we are going to go in with great amounts of compression. We want to do it each year as needed in order to orderly deplete the reserves.

Q Would the application be made for anticipated compression facilities throughout the Basin or only piecemeal as you saw the immediate need?

A It would be throughout the Basin. We would have an overall plan and I don't know for sure how our application would be worded. I don't know if we would say, have a three-year plan that we would file or if we would do it each year. I don't know for sure how we would handle that.

Q At any rate, you anticipate that it would be possible to have compression facilities installed in certain areas and in operation even prior to getting the facilities that you are talking about here for the Delaware Basin?

A No.

Q Installed?

A No, once we get the certificate in the 67-217 application we think at the most it would take eight months to get those facilities in. Now, the compressors or the additional compression in the San Juan would be, hopefully, installed toward the end of 1969 which would be at some later date instead of our 310 facilities.

Q As I understand the recommendation of the Examiner, he gave you not what you wanted, but more than what you wanted?

A That's correct.

Q And instead of a 36-inch line, he says a 42-inch?

A That is correct, instead of 36.30, he said 42.

Q Now, when Mr. Woodruff was on the stand, there was some question as to whether this Order would be appealed. If the Commission comes out with an Order to install a 42-inch pipeline, will El Paso appeal that order?

A I can't answer that, but I feel sure that some party in the proceedings probably would.

MR. PORTER: I believe he testified that all parties objected to that feature of the recommendations.

Q (By Mr. Nutter) And you'd rather appeal the Order and delay the construction than build the six-inch bigger line?

A No, I didn't say that El Paso would appeal it. I said I felt that some party in the proceeding other than El Paso, would. I don't know what El Paso's position will be; as far as I know, no decision has been reached on that yet.

Q The Commission hasn't ruled on it yet?

A That's right, they haven't ruled on it.

MR. NUTTER: All right, thank you.

MR. PORTER: I like the term "best efforts". I'm surprised some of our candidates haven't picked that up. If there are no further questions of this gentleman, we will excuse him.

(Witness excused.)

MR. PORTER: Does that conclude your testimony?

MR. MEYER: Yes, sir, that concludes the testimony of El Paso Natural Gas. Thank you very much.

MR. ROSS: Curtis C. Ross, Pan American Petroleum Corporation. First of all, I would like to say we were somewhat sympathetic with the El Paso F. P. C. problem. On the other hand, we hate to see this as an opening wedge to construction of prorationing in the San Juan Basin. Nextly, we would like to recognize the cross examination of Tenneco and say that they brought out the two principal points that we see here which are that there is a partial solution available by increasing the purchases of gas, and secondly that there probably could be considerable done toward perhaps a change in their mechanical facilities so as to be able to take more gas. Our principal point is, my company would not like to see an Order of this type become a permanent type order that would be a precedent in other areas. We feel that while temporary relief is probably in order, that it ought to be a continuing matter for the Commission attending the period of time in question.

MR. PORTER: You don't oppose a temporary order of the nature that El Paso has applied for?

MR. ROSS: No, we do not oppose it because we can

see the problems.

MR. PORTER: Mr. Kelly.

MR. KELLY: On behalf of Tenneco, Tenneco basically supports the application, of a temporary necessity, but would like to point out the following: It is a real possibility that within a year from now, the now overproduced wells will be even more overproduced with many wells being over six months overproduced resulting in long shut in periods. Further, even when the Texas gas is available, we are going to be faced with the situation where some of the best, some estimates have been over two hundred, of the gas wells in San Juan Basin will be shut in and with 15 (B) now being considered, the shut-in periods could go from six to nine months on many of these wells.

Again, even assuming the Texas gas source, we believe that the California market will continue to increase and grow and in a couple of years we will be back in the same situation unless steps are now taken. Accordingly, we believe that a serious and continuing study should be made of ways to increase the deliverability of existing wells and the development of additional deliverability from the San Juan Basin. We feel this could be done by the installation of compression facilities in the San Juan Basin. The reworking of existing

wells with modern treating and fracturing facilities, I might add that this has been done by Tenneco on their operated wells, with great success. Full development of all potentially productive zones in the Basin, higher takes from the systems of Southern Union Gas and gathering companies which do not appear to have taken as much available gas as El Paso has. Therefore, we do support the application.

However, we feel the Commission should review this situation by the use of a Show Cause Order in approximately six months time, to see if there has been any improvement and to see if the affirmative steps necessary to solve this problem have been initiated.

We also would like to strongly state that Tenneco fears that continuing overproduction and continuing suspension of overproduction could result in a solution of cancellation of this overproduction which would in effect, end proration in the San Juan Basin and we would strongly oppose any steps in that direction.

MR. PORTER: Mr. Kelly, as I understand your recommendation, you would support this application for the temporary order with a requirement that there be a progress report by the applicant, say, at the end of a six-month period?

MR. KELLY: That's right.

MR. PORTER: Where they would come into a formal hearing?

MR. KELLY: Show cause why the balancing period should be suspended for another six months so we can find out how we're doing and what is being done to correct the situation and to avoid further and more drastic overproduction.

MR. PORTER: Thank you.

MR. STRAW: Henry Straw, Texaco in Farmington, New Mexico. Texaco, as operator of several gas wells in the San Juan Basin of New Mexico, has no objection to El Paso Natural Gas Company's request for the one year period to bring all gas wells back to balancing according to the rules and regulations governing Northwestern New Mexico. Texaco is in favor of gas proration and therefore this suspension of certain rules and regulations, if granted, should not be taken as an initial step for the elimination of gas prorationing in Northwestern New Mexico.

MR. PORTER: Anyone else like to make a statement of position?

MR. RAMSEY: Charles Ramsey with Pubco Petroleum in Albuquerque. Pubco also, as an operator of gas wells in the San Juan Basin, will be affected by the outcome of this case.

After consideration of all testimony today, we concur with El Paso, that the Commission should suspend on a temporary basis for one year, these balancing provisions in the Order R-1670 affecting the gas wells in the San Juan Basin.

MR. PORTER: Before we call on the applicant, does anyone else have a statement of position they would like to give for the record?

MR. WIEDERKEHR: Al Wiederkehr, Southern Union. Since our name has been brought into this thing in vain a couple of times, I think the record should show that El Paso has cooperated with Southern Union in trying to make proration work. The fact that they have a significantly greater load factor than we do has complicated things. We do not believe, for all present to understand, that either the Commission or the operator has a right to tell us how we should operate insofar as our business dealings with El Paso are concerned. We're doing the very best we can. We have transferred some three hundred wells into a gathering company and sales of that gas are going to El Paso, in order to attempt to balance. But the remainder of the gas is presently going to the gas company and is dedicated to a New Mexico market. We feel that in all fairness to our New Mexico customers, both now and in the future, that we probably should not

transfer any additional properties into the gathering company facilities. That has been under a continuing study. Mr. Woodruff, as he mentioned, offered us that opportunity last week, and we so declined because we feel that in our overall operations, looking at not only now, but in the future, once this gas is transferred to a gathering company, it is then a jurisdictional sale and might not be available for our New Mexico customers.

MR. PORTER: Anyone else?

MR. MORGAN: Mr. Chairman, Jay Morgan, Continental Oil Company. We are a non-operator, interested in the Tenneco properties. We have only had a brief period to review the situation in this case, but we would strongly recommend that this Show Cause Hearing be considered if this exception is granted.

MR. PORTER: Mr. Meyer, you may proceed.

MR. MEYER: I would like to ask Mr. Woodruff to address himself to the Show Cause Order which Tenneco has proposed to be called for in six months, and the effect that would have on our application here, now. Mr. Woodruff.

MR. WOODRUFF: As testified, we do not anticipate within six months, having any relief to the conditions that we have testified to exist. I can see nothing to be gained

by having that; so of course, we would not object to coming back in and telling the Commission what the situation is, but any improvement can only be gained as a result of installation of additional facilities. We believe that it will be eight months or so before any facilities, I mean before the facilities could be installed and additional gas volumes taken from other sources to relieve the situation. So I question that anything of value could come from a Show Cause Hearing at the end of six months.

MR. KELLY: May I respond to that?

MR. PORTER: Mr. Kelly.

MR. KELLY: I think it is the truth that six months from now probably this situation might even be in worse shape and it would be the middle of the winter months. The point is that many of the operators in the field were caught pretty well unaware by this application and I think the more time we have to find out what is going to happen, where our status is and to review it and to study and come up with affirmative steps, the better off we will be at the end of the year. That's why I think the Commission should very closely scrutinize this and so they can do whatever is possible to avoid the serious threat of really damaging proration in the San Juan Basin.

MR. PORTER: Anyone else like to speak on this particular point?

MR. WOODRUFF: May I speak further on this?

MR. PORTER: Mr. Woodruff.

MR. WOODRUFF: I believe that everyone would be advised adequately if we should keep the Commission advised and others if they desire that we do so, and make it known to us of the decision of the Federal Power Commission relative to our application, and the procedure being gone through by El Paso in carrying out the decision of the Commission. I believe possibly without the need of a hearing, we can make the Commission and others aware of the circumstances.

MR. PORTER: You feel that your progress would hinge on this F. P. C. Commission decision?

MR. WOODRUFF: That is correct.

MR. PORTER: Does anyone else have anything to say in the case? If not, the Commission will take the case under advisement.

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STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my hand and seal this 28th day of August, 1968.



ADA DEARNLEY