

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 30, 1974

EXAMINER HEARING

IN THE MATTER OF:)
)
)

Hearing called by the Oil)
Conservation Commission of)
the Commission's Pictured)
Cliffs Gas Proration Committee)
to consider the amendment of)
Commission Order No. R-1670)
for the purpose of elimination)
of gas prorationing in the)
Aztec-Pictured Cliffs, Ballard-)
Pictured Cliffs, Fulcher Kutz-)
Pictured Cliffs, and West Kutz-)
Pictured Cliffs Gas Pools in San)
Juan, Rio Arriba and Sandoval)
Counties, New Mexico.)

Case No. 5154

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conser-
vation Commission:

William Carr, Esq.
and
Thomas Derryberry, Esq.
Legal Counsel for the Com-
mission
State Land Office Building
Santa Fe, New Mexico

I N D E X

EMERY ARNOLD	<u>Page</u>
Direct Examination by Mr. Derryberry	3
Direct Examination by Mr. Derryberry	13
THOMAS A. DUGAN	
Direct Examination by Mr. Derryberry	7
Cross Examination by Mr. Nutter	11

E X H I B I T S

	<u>Marked</u>	<u>Admitted</u>
Commission's Exhibits "A" and "B"	8	16

MR. NUTTER: Call Case 5154.

MR. CARR: Case 5154. In the matter of hearing called by the Oil Conservation Commission on its own motion, at the recommendation of the Commission's 'Pictured Cliffs Gas Proration Committee,' to consider the amendment of Commission Order No. R-1670 for the purpose of elimination of gas prorationing in the Aztec-Pictured Cliffs, Ballard-Pictured Cliffs, Fulcher Kutz-Pictured Cliffs, and West Kutz-Pictured Cliffs Gas Pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico.

MR. NUTTER: Call for appearances.

MR. DERRYBERRY: Mr. Examiner, I'm Tom Derryberry, attorney for the Commission and I have two witnesses to be sworn.

(Witnesses sworn.)

EMERY ARNOLD

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

DIRECT EXAMINATION

BY MR. DERRYBERRY:

Q Mr. Arnold, will you give your full name for the Examiner?

A Emery Arnold.

ARNOLD-DIRECT

Page..... 4

Q And what is your position?

A I'm District Supervisor of Commission's District 3 in Aztec.

Q Is one of the duties of your position to participate in the administration of prorationing in your district?

A Yes, it is.

Q Are you familiar with the Pictured Cliffs Fields which are listed in this docket?

A Yes, I am.

Q Are you familiar with the study committee referred to in the docket?

A Yes.

Q Could you give -- describe briefly the committee and the events leading to the appointment of the committee?

A All right. By memorandum dated November 14th, 1973, Mr. A. L. Porter, Junior, Secretary-Director of the Commission, appointed an industry committee to study and naturalize prorationing and production in the prorated Pictured Cliffs Gas Pools in the San Juan Basin and to determine whether or not it would be possible to eliminate proration in the prorated Pictured Cliffs Pools.

It was stated in this memorandum that the Commission was considering holding a Hearing in January, 1974, to consider

eliminating prorationing for member companies serving on the committee were Thomas A. Dugan, appointed as Chairman of El Paso Natural Gas Company, Southern Union Gas Company, Southern Union Production Company, Anaco Production Company, Tenneco Oil Company, Aztec Oil and Gas Company, Mesa Petroleum Company and Dave Thomas, Continental Oil Company, Consolidated Oil and Gas Company and Northwest Production Corporation, and, also, Northwest Pipeline Corporation was appointed to this committee.

The committee was instructed to file a final report with the Commission not later than January the 7th, 1974, so the Hearing could be set for January the 30th, if possible.

Two committee meetings were held, one on November 26th and one on December 12th, 1973. The committee discussed all aspects of production and prorationing of these pools and a poll was taken of the committee and there were certain parties who objected to the elimination of prorationing in the Tapocita-Pictured Cliffs and in the South Blanco-Pictured Cliffs Pool, for the reason they were unequal pipeline pressures between the increasing pipelines in those pools and they thought that eliminating prorationing might possibly result in non-readable tape.

The committee did reach unanimous in motion to

recommend to the Commission that proration be eliminated in the Aztec, Ballard, Fulcher Kutz, West Kutz-Pictured Cliffs Pools. This recommendation was forwarded to Mr. Porter by Mr. Tom Dugan, Chairman of the Committee. As a result of that recommendation this Hearing was called. Mr. Dugan will present testimony for the committee in support of this Application.

Q All right. Do you have anything to add at his time to your testimony?

A I don't believe so at this time.

Q I would like to clear up one thing. Were you a member of the study committee?

A Yes. I neglected to mention that. I was appointed a Commission representative on the committee.

MR. DERRYBERRY: All right. I would like to recall Mr. Arnold at a later time after I call Mr. Thomas Dugan.

MR. NUTTER: As I understand it, Mr. Arnold, the committee was charged with investigation of six pools for possible elimination of prorationing?

THE WITNESS: That's right.

MR. NUTTER: But the Committee's recommendation was only for these four, which is the subject of the Hearing today?

DUGAN-DIRECT

Page.....7.....

THE WITNESS: That's correct.

MR. NUTTER: Are there any questions of Mr. Arnold?
You may be excused, subject to recall.

(Witness excused.)

THOMAS A. DUGAN

called as a witness, having been previously sworn, was
examined and testified as follows:

DIRECT EXAMINATION

BY MR. DERRYBERRY:

Q Mr. Dugan, could you state your name and position?

A Thomas A. Dugan, independent producer, Farmington,
New Mexico.

Q Have you participated in the study committee to
study the pools listed in the docket?

A Yes, I have, as Chairman of the committee.

Q As part of your role, did you study production
figures of the wells in the subject pools?

A Yes, I have.

MR. DERRYBERRY: Mr. Examiner, since the data is
all statistical, I don't believe that it is necessary to
qualify Mr. Dugan as an expert.

MR. NUTTER: Mr. Dugan is an expert. He has been
qualified as an expert on previous occasions before the

DUGAN-DIRECT

Page.....8.....

MR. DERRYBERRY: Okay. Thank you.

BY MR. DERRYBERRY:

Q Can you briefly describe the study committee and its functions in its role in coming up with the recommendations?

A Yes. The committee looked at all six of the prorated Pictured Cliffs Pools in the San Juan Basin and prepared an Exhibit showing the number of wells in the pools and their rate of production. There are -- this is a copy of this Exhibit. We would like to submit two Exhibits, one showing the number of wells and their rate of production from prorated pools and one showing number of wells and rate of production from unprorated Pictured Cliffs Pools in San Juan Basin.

Q All right. Your prorated totals would be in Exhibit "A" and the non-prorated would be in Exhibit "B", is that correct?

(Whereupon, Commission's Exhibits "A" and "B" were marked for identification.)

A That is correct. That would be four pools that the committee has recommended to discontinue prorationing and there are 1,404 wells. This is 18.8 percent of the total

number of gas wells in the New Mexico portion of the San Juan Basin. However, these -- the 18.8 percent of the wells only produce 5.4 percent of the gas. The average monthly production from all of the wells in the four pools average 2.3 million cubic feet per month. So, the production rate is well below 100 mcf per day from all of the wells. There are only 26 wells in the four pools that produce more than 10 million mcf per month and only 278 wells out of the total number of wells in the four pools that produce more than 100 mcf per month.

It was the committee's belief that because of the low productivity of the wells in these four pools, that it was uneconomical and unjustified to prorate these four pools. The cost to the Commission is something in excess of \$110 a month, just to print and mail the proration schedule on these four pools, that's the approximate cost that would be eliminated by eliminating the four pools from the prorationing schedule.

Q Is it your opinion that the low producing capabilities of the great majority of wells in this pool would, for all intents and purposes, eliminate the problem of drainage which is not counteracted by counter drainage?

A Yes, it is my belief that taking off the prorationing

would not violate the correlative rights in any way.

Q Also the low production figures indicate that the producing capabilities of the wells in subject pool are significantly below market demand for gas from that -- from those pools?

A Yes, that's correct.

Q The main problem would be overcoming pipeline pressure more than anything else?

A There is a problem that would be rateable take, but in these four pools it was this committee's belief that that would be a minor problem.

Q Due to the low producing capabilities?

A The low productivity of the wells and in these four wells the purchasing pipeline companies' line pressures are relatively the same. They vary to some small extent one way or the other, but it was the belief of the committee that it was not significant fact.

Q You've already stated that the committee's recommendations are that prorationing be discontinued in the subject four pools. Taking such a recommendation, at what time would you recommend that such de-prorating would become effective?

A At the end of the current prorationing period, which is 4/1/'74, April the 1st, '74.

DUGAN-DIRECT
CROSS

Page.....11.....

Q All right. Thank you very much.

MR. DERRYBERRY: I have no further questions of this witness.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Dugan, on Exhibit "A", you got a total of 2,952 prorated Pictured Cliffs Wells?

A Yes, sir.

Q Now, that is in the six pools. How many are in the four pools you are going to de-prorate?

A At this point there we have 1,464 wells in the four pools.

Q The average monthly production for those 1,464 wells was 2.3 million a day?

A That was the average monthly production at drilling 1972, yes, sir.

Q For those wells in those four pools?

A That was 2.3 million per month.

Q Per month, for the wells in those four pools?

A Yes, sir.

MR. ARNOLD: Excuse me. Did you mean 1972 or 1973?

THE WITNESS: No, the 2.3 is an average of 1972.

MR. NUTTER: How long is prorationing been in effect

in these pools, Mr. Dugan?

A Since 1955, I believe.

BY MR. NUTTER:

Q Has the producing characteristics of the pools changed since that time or why was prorationing necessary then and not now?

A In 1956 the average producing capacity of the Pictured Cliffs Wells was about 3.3 million per month. However, at that time, the four pools were producing 13.4 percent of the total gas production in the San Juan Basin. At the present time, the average production of the wells is approximately 2.2 million per month, but they are only producing 5.4 percent of the total production from San Juan Basin. So, the ability of these wells to produce has declined, while the total production from the San Juan Basin has approximately doubled and the demand for gas is much more at the present time than it was in 1955 and '56 when prorationing started.

Q In other words, at that time they represented a much more significant portion of the total market demand in the basin?

A Yes, sir.

Q Than they do today?

A Yes, approximately 13.4 percent down to 5.4 percent

DUGAN-CROSS

Page..... 13

at the present time.

MR. NUTTER: Are there further questions of Mr. Dugan? You may be excused.

(Witness excused.)

MR. DERRYBERRY: I would like to recall Mr. Arnold.

EMERY ARNOLD

recalled as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. DERRYBERRY:

Q Mr. Arnold, have you previously testified before the Commission and had your qualifications made a matter of record?

A Yes, I have.

MR. DERRYBERRY: Are the witness' qualifications accepted?

MR. NUTTER: Yes, they are.

BY MR. DERRYBERRY:

Q Briefly, I would like to ask you, as a registered petroleum geologist and as district supervisor of the Oil Conservation Commission, if you recommend that the committee's recommendation be adopted by the Oil Conservation Commission and that an Order issued, as recommended by that body, and give your reasons for it?

A Yes. I prepared a statement which I will read, which on behalf of the Commission's staff, I think reflects the majority of opinion at least.

(Reading) I participated on Pictured Cliffs prorationing committee as a Commission representative. From the production analysis which was made, it became apparent that average producing capacities of a large percentage of the wells in the four pools under consideration are relatively low.

Prorationing in these pools does result in the curtailment of production from wells capable of producing less than 100 mcf per day. It does not seem plausible in the face of the energy crisis and unlimited gas demands to prorate such wells unless it can be clearly demonstrated that such proration is needed to accomplish regular takes between wells in the pool. It would be possible, of course, for a non-regular take to occur in these small capacity pools and I would recommend that the Commission and industry should observe future production of these pools closely to insure that the removal of prorationing is not resulted in unfair practice or non-rateable take. If this does prove to be the case, a Hearing can be called to reconsider the needs for prorationing.

On behalf of the Commission's staff, I recommend that the Application be approved and that the prorationing be eliminated effective April 1st, 1974, from the Aztec, Ballard, Fulcher Kutz and West Kutz-Pictured Cliffs Pools." (End of Reading.)

Q With the proviso that the production of the wells in these productive pools be examined to make sure that non-rating take does not occur in the future?

A Right.

MR. DERRYBERRY: I have no further questions of this witness.

MR. NUTTER: Any further questions of Mr. Arnold? You may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything further, Mr. Derryberry?

MR. DERRYBERRY: No.

MR. NUTTER: You want to offer your Exhibits?

MR. DERRYBERRY: I would like to tender Commission's Exhibits "A" and "B" into the record.

MR. NUTTER: Commission's Exhibits "A" and "B" will be admitted in evidence. Does anyone have anything further they wish to offer in Case 5154?

(Whereupon, Commission's Exhibits
"A" and "B" were admitted in
evidence.)

MR. MANNING: E. R. Manning, El Paso Natural Gas Company and El Paso Natural Gas has a pipeline in these four Pictured Cliffs Pools and as a purchaser of gas or as a producer of gas from these pools has no objection to removal of prorationing in any or all of these pools. Thank you.

MR. NUTTER: Thank you, Mr. Manning. Any further statements?

MR. McCRARY: Bob McCrary, Southern Union Gas in Dallas.

MR. NUTTER: Will you come forward, please. We are having a hard time hearing you.

MR. McCRARY: Southern Union Gas is the purchaser in all four of these Pictured Cliffs Pools and the other two Pictured Cliffs Pools does not oppose the elimination of prorationing of these four or the other two.

MR. NUTTER: Thank you, Mr. McCrary.

Any further statements? Mr. Porter?

MR. PORTER: I understand the Oil Conservation Commission, at least during my tenure here as Director, has called upon the industry, working with the Commission's staff

in various capacities on committees to work out problems and that was the occasion, of course, for the appointment of this committee. I just want to say that I certainly appreciate the response of the **industry** people, their usual cooperation in this matter. They had two very productive meetings and my special appreciation goes to Mr. Dugan, who acted as chairman and Mr. Arnold, who has joined Mr. Dugan here today in presentation of his testimony. The Commission appreciates your efforts very much. Thank you.

MR. CARR: Mr. Examiner, the Commission has received a telegram from R. B. Giles, **Anadarko** Production Company. **Anadarko** has no objection to elimination of gas prorationing in these pools due to the producing capabilities of the wells in those pools.

MR. NUTTER: Thank you, Mr. Carr.

Does anyone else have anything to offer in 5154?
We'll take the case under advisement.

