

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date APRIL 19, 1977 TIME: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Peter Kavanagh	NMCCA	Santa Fe
Les Clements	NM.O.C.C.	Albuquerque
Jack M Campbell	Campbell Engineering + Block	Santa Fe
Tim W. Walsh	Walsh Engineering	Albuquerque
Art Lendrick	OCC	Albuquerque
Jason Kellaher	IRVING & Fox	Santa Fe
R. J. McCreary	Gas Co New Mex	Albuquerque
Byron Gatow	Gas Co. of NM.	FARMINGTON
Ellie	ERB	Santa Fe
Jack Hertz	Gas Co of NM	Albuquerque
Paul Biderman	Attorney General	Santa Fe

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 19, 1977

COMMISSION HEARING

IN THE MATTER OF:

The hearing called by the OCC on its own) CASE
motion to consider the establishment of) 5900
an administrative procedure re Natural)
Gas Pricing Act.)

BEFORE: Joe D. Ramey, Secretary-Director
Emery Arnold, Member
Phil Lucero, Member

R. L. Stamets
Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: Lynn Teschendorf, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For Gas Company of New Mex.: Byron Caton, Esq.
TANSEY, ROSEBROUGH, ROBERTS &
GERLING, P.C.
Attorneys at Law
621 West Arrington
Farmington, New Mexico

I N D E X

	<u>Page</u>
<u>R. L. STAMETS</u>	
Direct Examination by Ms. Teschendorf	4
Cross Examination by Mr. Ramey	15
Cross Examination by Mr. Nutter	17
Cross Examination by Mr. Arnold	19
Cross Examination by Mr. Nutter	22
Cross Examination by Mr. Ramey	24
<u>ROBERT McCRARY</u>	
Statement	28

EXHIBIT INDEX

	<u>Offered</u>	<u>Admitted</u>
OCC Exhibit One, Cross Section	5	14
OCC Exhibit Two, Schematic Diagram	8	14
OCC Exhibit Three, Plat	9	14
OCC Exhibit Four, Plat	12	14
OCC Exhibit Five, Isopach Map	13	14

1 MR. RAMEY: The hearing will come to order.

2 We will call Case 5900.

3 MR. NUTTER: Case 5900 in the matter of the hearing
4 called by the Oil Conservation Commission on its own motion to
5 consider the establishment of an administrative procedure by
6 which gas wells drilled on or after January 1, 1975, within
7 established proration units which were producing or capable of
8 producing natural gas from the same reservoir prior to
9 January 1, 1975, may be exempted from the provisions of
10 Section 6 of the Natural Gas Pricing Act (being Laws 1977,
11 Chapter 73.) Also to be considered will be the grounds upon
12 which such exemption may be granted.

13 MR. RAMEY: I ask for appearances at this time.

14 MS. TESCHENDORF: Lynn Teschendorf appearing on
15 behalf of the Commission and I have one witness.

16 MR. RAMEY: Any other appearances?

17 MR. CATON: Byron Caton appearing for Gas Company of
18 New Mexico. I have one witness, Mr. Robert McCrary.

19 MR. RAMEY: Any other appearances? I ask that the
20 witnesses stand and be sworn at this time.

21 (THEREUPON, the witnesses were duly sworn.)

22 MR. RAMEY: You may proceed, Ms. Teschendorf.

23 R. L. STAMETS

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

DIRECT EXAMINATION

BY MS. TESCHENDORF:

Q State your name and position, please?

A R. L. Stamets, Technical Support Chief of the Oil Conservation Commission in Santa Fe, New Mexico.

Q Have you previously testified before this Commission and had your credentials made a matter of record?

A I have.

Q Are you familiar with the subject matter of Case 5900?

A Yes, ma'am.

Q What is the purpose of this case?

A Well, the Thirty-third New Mexico Legislature passed the Natural Gas Pricing Act regulating the price producers may charge for gas delivered into intrastate gas pipelines from wells first connected before January 1, 1975. Specific exclusions to the act were contained in its Section 6 which reads as follows: (Reading.) The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas intrastate commerce from a well, the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975, from the same reservoir unless the

1 Oil Conservation Commission exempts such well upon a finding
2 that such new well is justified for reasons other than avoiding
3 the application of the Natural Gas Pricing Act. (End of
4 reading.)

5 It is this latter exclusion for wells drilled on
6 existing proration units that we are considering here today.
7 Now, there is no statewide Commission rule or regulation that
8 prohibits the drilling of additional wells on proration units.
9 In oil pools it is not uncommon to have two or more wells in
10 a forty-acre proration unit and in some gas pools such as the
11 Jalmat and Eumont Pools in Lea County it is more common to
12 find standard proration units with multiple wells than units
13 with single wells completed thereon.

14 A few gas pools have rules such as to limit the
15 locations of the wells that act in a manner that requires the
16 operator to come in for a hearing before the Commission before
17 he can drill a second well on the unit but that's not
18 the intent of the rules.

19 It is recognized that the completion of additional
20 wells on proration units often contributes to better reser-
21 voir drainage and increases the potential for contacting
22 discontinuous reservoir segments, thereby resulting in greater
23 ultimate recovery.

24 I would like at this time to take a look at Exhibit
25 Number One. This is just a schematic cross section of a

1 typical New Mexico gas reservoir. On the left-hand side we
2 will see Well No. 1 which is in communication with a gas seg-
3 ment in the reservoir and as you move to the right-hand side of
4 the page it is seen that this first gas sand gets somewhat
5 thinner as we move to the right and Well No. 2 has contact with
6 both this gas sand and a second gas sand and lying between the
7 two is a third gas sand which hasn't been tapped by either
8 well. So if we looked at Well No. 2 as being an infield well,
9 it has tapped a gas sand which Well No. 1 could not drain. If
10 we look at these as standard spacing units, a third well drilled
11 between the two would tap this third gas sand which is not
12 being drained by either of the two wells on the exhibit.

13 Primarily in drilling additional wells on forty-acre
14 proration units it has just been a matter of economics. If
15 the operator of the unit believed that the additional drilling
16 would bring in enough added production to pay for the well,
17 plus returning a profit, the well would be drilled. Obviously,
18 the potential exists for a greater rate of return from a
19 second well on the proration unit than the economics of infield
20 drilling prove.

21 Now, the Pricing Act did not include a definition
22 of the word "justify" or the phrase "justified for reasons
23 other than avoiding the application of the Natural Gas Pricing
24 Act" and the questions to be addressed at this hearing today
25 are, what types of wells drilled on existing proration units

1 should the Commission justify and what factors should be
2 considered in making such determinations? Of course, we are
3 talking about an administrative procedure where the applicant
4 would just send in a request to the Santa Fe office and it would
5 be considered as any other application for administrative
6 approval, such as multiple completions, downhole comminglings,
7 off lease storage and this sort of thing, so we would be
8 looking at what types of wells would we consider and what
9 proof would be required.

10 Based on experience both in the field and as a
11 Commission Hearing Examiner, there would appear to me to be
12 two general categories of justifiable wells. These would
13 include replacement wells and infield wells.

14 Speaking first to the replacement well, this would
15 be the situation where the original well on a proration unit
16 is to be replaced by a well commenced or first connected on
17 or after 1-1-75, because the original well in the proration
18 unit cannot be physically or economically restored to produc-
19 tion.

20 The following are some of the factors which could
21 cause this situation and which could be considered by the
22 Commission in justifying such wells. The first cause would
23 be mechanical failure of the original well. This would be
24 some sort of irreparable failure of the casing, tubing, packers,
25 cement or the downhole equipment. Reasonable proof require-

1 ments would include at least the presentation of evidence as to
2 the nature of the mechanical failure, how the same was determined
3 an estimate of the cost to repair, including any attempts
4 already made, an estimate of the liklihood of the success of
5 the repair. Of course, this could include evidence of the
6 type of luck other operators in the field have had in effecting
7 this type of repair and the cost of drilling, and completing a
8 replacement well.

9 The second type of failure could be due to damage to
10 the producing formation, this to be such as to render the well
11 nonproducibile and noncommercial.

12 Exhibit Number Two is a schematic diagram of what
13 we are talking about when we refer to damage. Damage to the
14 formation can result from cement intrusion in the producing
15 formation, mud intrusion in the producing formation or workover
16 fluid can result from the swelling of clays which are
17 naturally in the formation or the result from the movement
18 of clay platelets such as to block the natural pores in the
19 formation and when this happens you have a zone outside the
20 well, it could be very short or it could be somewhat deep,
21 that the effective porosity and permeability has been lowered
22 and this restricts the flow to the wellbore, limits the
23 production and also limits the recovery from the well.

24 You can see on the right-hand side, Well No. 2, is
25 in the undamaged reservoir so it should produce additional gas.

1 Reasonable proof requirements here would include at
2 least the presentation of evidence as to the nature of any
3 damage to the formation, its cause, how the same was determined
4 and steps taken to correct the condition and the results.

5 A third condition for replacement could be production
6 at noncommercial rates. Now the last situation could lead
7 to this. If you had formation damage you might be producing at
8 noncommercial rates.

9 There are also other types of things such as would
10 be shown on Exhibit Number Three. In Exhibit Number Three we
11 are looking at a well which is producing in the southwest
12 quarter of Section 1 and the west half of Section 1 is dedi-
13 cated to that well and at the present time there is a gas-water
14 contact south and east of the existing well. With production
15 from the reservoir this gas-water contact will move up
16 structure and eventually the rate of production from this
17 well could be lowered considerably. Of course, eventually
18 when the water-gas contact moves high enough it will be
19 stopped altogether. At some point it could be noncommercial.

20 The drilling of a second well in the northwest
21 quarter of the section would allow additional gas to be
22 drained from this proration unit.

23 Reasonable proof requirements here could include a
24 presentation of production, pressure data for at least the
25 last twenty-four month's production, with a showing of gross

1 revenues, costs of operation, royalties and profit or loss
2 figures.

3 Now, in no case would a replacement well be justified
4 unless the original well on the proration unit had been
5 plugged and abandoned or would be plugged and abandoned within
6 sixty days following the date of connection of the replacement
7 well.

8 The second category was infield wells and this
9 represents the situation where the original well on a proration
10 unit is to be supplemented by the drilling or first connection
11 of an additional well thereon after 1-1-75. Following are
12 some of the reasons for infield drilling and some of the
13 factors or evidence which could be considered in justifying
14 such wells.

15 The leading reason for infield drilling is to cause
16 a significant increase in the ultimate recovery of gas.
17 Reasonable proof requirements here could include the citing
18 of findings by the Commission after notice of hearing that
19 infield drilling will substantially increase recoverable
20 reserves under the various proration units in the pool, will
21 result in more efficient use of reservoir energy and will
22 tend to insure greater ultimate recovery of gas from the
23 pool. In this type of situation I'm talking about like the
24 Blanco-Mesaverde, we've had a hearing there, there has been
25 public presentation of evidence to indicate that these find-

1 ings are true so that any operator in the Blanco-Mesaverde
2 who had put in his application for administrative approval
3 of a justifiable infield well would cite that particular
4 Commission order that these findings had been made and I
5 assume that operators could bring this type of hearing on
6 before the Commission at any time on a poolwide basis so that
7 we could then administratively approve infield wells in that
8 pool based on the findings in that case.

9 The second reason for infield drilling would be
10 for the protection of correlative rights. The protection of
11 correlative rights may be simply to find, as affording to the
12 owner of each property in a pool, the opportunity to produce
13 his just and equitable share of oil or gas or both in that
14 pool. Now, in providing the opportunity to produce, the
15 Commission protects the correlative rights of the owners in
16 the pool.

17 Some possible causes for drilling infield wells to
18 protect correlative rights are as follows: First would be
19 to increase the rate of production from a proration unit. For
20 example, one proration unit might be offset -- it may be
21 making a half a million a day and be offset by tracts
22 averaging production of a million a day. The operator here
23 might wish to drill additional wells on his particular tract
24 to increase the rate of production to get the production from
25 his proration unit up to about what the offsets' are so that

1 they won't be draining his gas. Some reasonable proof there
2 could include presentation of production and pressure data
3 for the last twenty-four months' production and a plat showing
4 direct and diagonal offset proration units in the same pool
5 with the unit classification if it's prorated and the average
6 monthly production for the latest twelve-month period.

7 The second reason for infield drilling would be to
8 protect the proration unit from drainage from wells on
9 offsetting proration units draining producing zones not
10 subject to drainage by the existing well or wells on that
11 unit.

12 Exhibit Number Four shows a possibility in that.
13 In looking at Section 12, now, this is a west-half dedication.
14 The well is located in the southeast of the northwest and this
15 is in a channel sand and that well is draining gas from the
16 channel that it has penetrated. We can see that in the south-
17 west corner drilling in Section 2 and in Section 11 has shown
18 that there is a second gas reservoir channel sand. It
19 crosses Section 12 and is not subject to drainage by the first
20 well so that the operator could come in in the southwest
21 quarter and drill a second well and drain this second channel
22 sand.

23 Reasonable proof here is to include a presentation
24 of geologic maps, logs, cross sections and pressure data to
25 demonstrate that the proration unit is being drained by offset

1 wells in zones within the producing formation, not producible
2 from any existing well on the proration unit.

3 The third reason for drilling an infield well would
4 be to permit a well to be drilled at a location within the
5 proration unit which by its geologic nature would permit more
6 efficient and economic drainage of the proration unit.

7 Remember back in Exhibit Number Three we had the
8 gas-water contact moving up structure, that would be one
9 example of this.

10 The second possibility that is shown on Exhibit
11 Number Five, I've drawn an isopach map showing net sand. Of
12 course, this isn't a real pool, but this is the type of
13 evidence that we receive quite often at hearings before the
14 Commission.

15 We are looking now at the dedication in the east half
16 of Section 2 and we can see that the well there in the north-
17 east quarter of Section 2 is drilled in a section of the
18 reservoir where the sands are thinner and if you have thinner
19 sands, fewer sands, generally your potential for production
20 is lower and you can see over there in the west half of
21 Section 2 that a well just a little bit further up structure
22 or toward the thinner part of the body was plugged and abandoned.
23 Probably it was a noncommercial well but if the operator could
24 come down into the southeast corner of the section he would
25 find a thicker sand body, probably more sand stringers and

1 would be able to drain this particular proration unit better
2 than at the location that he currently has in the northeast
3 quarter.

4 The reasonable proof could include a presentation of
5 geologic maps, logs, cores, cross sections and pressures and
6 other data to demonstrate that existing wells on the proration
7 unit have contacted the producing formation at a location such
8 that the proration unit would not be efficiently and economically
9 drained there through.

10 In these later cases there should be assurances that
11 the original well, we are talking about an infield well, there
12 should be assurances that the original well on the proration
13 unit will not have its ability to produce restricted in any
14 way. This might take the form of a certification by the
15 operator of his intent to produce both wells so long as it
16 is economical to do so.

17 That concludes all that I have to present on this.

18 Q. Were Exhibits One through Five prepared by you or
19 under your direction and supervision?

20 A. They were.

21 MS. TESCHENDORF: I offer Exhibits One through Five.

22 MR. RAMEY: They will be accepted.

23 (THEREUPON, OCC Exhibits One through Five were
24 admitted into evidence.)

25 MR. RAMEY: What was the fifth exhibit, please?

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION OF
NEW MEXICO ON ITS OWN MOTION FOR THE
PURPOSE OF CONSIDERING THE ESTABLISHMENT
OF AN ADMINISTRATIVE PROCEDURE FOR EXEMPTING
JUSTIFIED INFILL GAS WELLS FROM THE PROVISIONS
OF SECTION 6 OF THE NATURAL GAS PRICING ACT.

CASE NO. 5900
Order No. R-5436

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 19, 1977, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 8th day of June, 1977, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the 33rd Legislature of the State of New Mexico passed the Natural Gas Pricing Act (being Laws 1977, Chapter 73).

(3) That said Act was signed into law and became effective on March 18, 1977.

(4) That said Act controls the price producers may charge for gas produced from wells, the drilling or first intrastate sale of which commenced prior to January 1, 1975.

(5) That Section 6 of the Act reads in its entirety as follows:

"Section 6. EXCLUSIONS.--The provisions of the Natural Gas Pricing Act shall not apply to the production and sale of natural gas in intrastate commerce from a well the drilling or first intrastate sale of which commenced on or after January 1, 1975. However, the

Natural Gas Pricing Act shall apply to such a well if it is drilled within an established proration unit which was producing or capable of producing natural gas prior to January 1, 1975 from the same reservoir unless the oil conservation commission exempts such well upon a finding that such new well was justified for reasons other than avoiding the application of the Natural Gas Pricing Act."

(6) That when a well on an established proration unit is lost due to irreparable mechanical failure of the casing, tubing, packer, cement, or down-hole equipment; damage to the producing formation such as to render the well non-productible or non-commercial; or when production has declined to non-commercial levels, the drilling of a replacement well on such proration unit to re-establish production or commercial production thereon is a justifiable reason for drilling such well.

(7) That if a Commission order has been issued finding that "infill" drilling in a particular gas pool will increase the recoverable reserves under the various proration units in such pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, then drilling of infill wells in such pool is justifiable.

(8) That because of the nature of many of the producing formations in the State, an operator may not be able to protect an established gas proration unit from uncompensated drainage or protect his correlative rights unless he is permitted to drill an additional well at a more geologically advantageous location within such proration unit.

(9) That the drilling of an infill well to protect a gas proration unit from drainage or to protect correlative rights, because of geological reasons, is justifiable.

(10) That some replacement wells or infill wells may have been commenced on established gas proration units after January 1, 1975, and before the commencement of the First Session of the 33rd New Mexico Legislature on January 18, 1977.

(11) That such replacement wells or infill wells, having been commenced prior to the introduction of the Natural Gas Pricing Act, or its predecessors in said legislature, could not have been drilled to avoid the pricing provisions of said Act.

(12) That an administrative procedure should be established by which replacement wells and infill wells, as set out in Findings No. (6) through (10) above, drilled on or after January 1, 1975, within established proration units which were producing or capable of producing natural gas from the same reservoir prior to January 1, 1975, may be exempted from the provisions of Section 6 of said Act.

(13) That such administrative procedure should require that any existing well to be replaced be plugged and abandoned within 60 days following the connection of the replacement well.

(14) That such administrative procedure should be applicable to no more than one infill well on any gas proration unit.

(15) That such administrative procedure should not result in waste nor violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That an administrative procedure with Special Rules and Regulations, as set out below, is hereby established whereby gas wells drilled on or after January 1, 1975, within established proration units which were producing or capable of producing natural gas from the same reservoir prior to January 1, 1975, may be exempted from the provisions of Section 6 of the Natural Gas Pricing Act (being Laws of 1977, Chapter 73).

SPECIAL RULES AND REGULATIONS
NATURAL GAS PRICING ACT SECTION 6
ADMINISTRATIVE EXEMPTION PROCEDURE

A. DEFINITIONS

RULE 1. For purposes of this administrative procedure, the following definitions are adopted:

- (a) A Replacement Well is defined as a well drilled on an established gas proration unit as a substitute for a former producing well, thereon, which well has been lost for effective or commercial production purposes.
- (b) An Infill Well is defined as an additional producing well completed on an established gas proration unit.

B. JUSTIFICATION OF WELLS

RULE 2. The Secretary-Director of the Commission may find that a replacement well is justified for reasons other than avoiding the pricing provisions of the Natural Gas Pricing Act upon a showing by the operator that:

- (a) The well was necessary to replace a well lost due to economically irreparable down-hole mechanical failure or formation damage, or that;
- (b) the well was necessary to replace a well producing at non-commercial rates, or that;
- (c) the drilling of the well commenced prior to January 18, 1977.

RULE 3. The Secretary-Director of the Commission may find that an infill well is justified for reasons other than avoiding the pricing provisions of the Natural Gas Pricing Act upon a showing by the operator that:

- (a) the well was drilled in a pool where the Commission, after notice and hearing, has issued an order finding that infill drilling in such pool will increase the recoverable reserves under the various proration units in such pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, or that;
- (b) the well is necessary to protect the proration unit from uncompensated drainage or to protect correlative rights, or that;
- (c) the drilling of the well commenced prior to January 18, 1977.

RULE 4. The Secretary-Director may set any application for well justification for hearing before the Commission or one of its examiners.

C. FILING REQUIREMENTS

RULE 5. Each applicant for well justification under this procedure shall file a plat of the area showing the proration unit in question, the location of all wells thereon, and the ownership and location of all wells on direct or diagonally offsetting proration units.

RULE 6. In addition to the data required under Rule 5, the applicant for justification of a replacement well shall supply the following information:

- (a) A copy of the AFE (Authorization for Expenditure) or a complete tabulation of actual well costs for the well for which justification is sought;
- (b) If the replacement well results from mechanical failure or formation damage, the application shall contain a complete description of the nature and cause of such failure or damage, how the same was determined, a history of attempted repair work and results, an evaluation of the potential for success of any additional repairs, and a tabulation of well repair costs both expended and projected.
- (c) If the replacement well results from non-commercial production from an existing well on the proration unit, the application shall contain a monthly production summary for such well for the last 24 months of production, wellhead or bottom hole pressures, and a tabulation of monthly gross revenues, operating expenses, and royalties and taxes paid during the last 24 months of production.
- (d) Proof that the well to be replaced has been plugged and abandoned or certification that the same will be accomplished within 60 days following the date of connection of the replacement well shall accompany each application. Failure to accomplish such plugging within the specified time will result in rescission of justification.

RULE 7. In addition to the data required under Rule 5, the applicant for justification of an infill well shall supply the following information:

- (a) If the infill well is in a pool where the Commission, after notice and hearing, has found that infill drilling will substantially increase recoverable reserves under the various proration units in the pool, will result in more efficient use of reservoir energy, and will tend to ensure greater ultimate recovery of gas from the pool, the applicant shall cite the number of the order containing such findings.
- (b) If the infill well is drilled to protect the proration unit from drainage or to protect correlative rights, the applicant shall submit a report fully describing the causative conditions, geologic maps, logs, cross-sections, pressure data, or other information supporting the application.
- (c) A certification that the existing well on the proration unit shall not have its ability to produce into the pipeline restricted in any manner shall accompany each application for justification of an infill well. Any such restriction shall be cause for rescission of justification.

RULE 8. In addition to the data required under Rule 5, the applicant for justification of a replacement or infill well the drilling or first intrastate sale of which commenced between January 1, 1975, and January 18, 1977, shall furnish certified documentation sufficient to prove the date such drilling or sale commenced.

RULE 9. Applications for well justification shall be filed in duplicate with one copy to be forwarded to the Santa Fe office of the Commission and the second to the appropriate Commission district office.

D. LIMITATIONS

RULE 10. No more than one well on any proration unit may be approved as a justified infill well.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


PHIL R. LUCERO, Chairman


EMERY C. ARNOLD, Member


JOE D. RAMEY, Member & Secretary

S E A L

dr/

1 THE WITNESS: The fifth exhibit was a net sand
2 isopach map.

3 MS. TESCHENDORF: I have nothing further.
4

5 CROSS EXAMINATION

6 BY MR. RAMEY:

7 Q Mr. Stamets you have given us a lot of examples here,
8 do you have any definite recommendations that you would make
9 to the Commission at this time?

10 A Well, it seems to me that in the case of a replace-
11 ment well that these things are pretty obvious, that the
12 Commission in its district offices and in the Santa Fe office,
13 has the expertise to evaluate this particular situation and if
14 the staff were not satisfied with the presentation it could
15 always be set for a hearing.

16 I really feel that the replacement well is one which
17 should be considered for administrative approval.

18 In infield wells I think the first case where the
19 Commission has had a hearing on a pool, I think this is a
20 case which very definitely should be an administrative
21 procedure.

22 Getting into the others it gets to be a judgmental
23 sort of thing and the Commission might wish to consider not
24 establishing these things for geologic reasons, immediately
25 going ahead and bringing this sort of thing on to hearing

1 for awhile so that there could be a public presentation of
2 this data. Now, we have had public presentations of this sort
3 of thing over the years but never in the context of the
4 pricing question. The Commission has always been charged with
5 the prevention of waste, protection of correlative rights and
6 these are the things that we have looked at.

7 I personally don't see any reason why we couldn't
8 go ahead and do everything that I've given an example of here
9 administratively but from the standpoint of allowing public
10 testimony for a period of time, for allowing public input,
11 more public input for a period of time, the Commission might
12 want to consider just going these routes for replacement wells
13 and the pool infield well. Perhaps as well the Commission
14 might establish a procedure for notification to enough
15 interested parties of administrative applications such that
16 it would be all right to go ahead with the full package. I'm
17 not sure who all might be notified, the Public Service
18 Commission, the Attorney General's office, Energy Resources
19 Board or whoever its successor will be in another year. There
20 might be others as well that could represent, quote, the
21 consumers' interest, who would be able to object to an applica-
22 tion.

23 Q So right now all you would recommend would be a
24 replacement well and infield wells in the Blanco-Mesaverde?

25 A I would recommend those. The others I would say

1 that the Commission should give a little consideration to and
2 I would not dis-recommend them or I would not recommend them.
3 I would say this sort of thing could be considered and your
4 decision could be either way and there would be adequate
5 justification for either decision.

6 Q Would the Commission be in a position if, well, the
7 wording in the Natural Gas Pricing Act is similar to what is
8 found in the Federal Power Commission's order 770-A and if
9 this Commission ever got a definition from the Federal Power
10 Commission as to what the need for a well would be under
11 their guidelines, would we be able to expand our procedure to
12 include additional things, providing we got additional things
13 from the FPC, if ever?

14 A Well, it's a shame that the FPC didn't know what
15 they were talking about when they talked about a needed well.
16 It could be that this procedure that will be established out
17 of this hearing might be acceptable to the FPC and, of course,
18 we can always call another hearing to add new factors or
19 new considerations to any administrative procedures based
20 on some subsequent determination by the Federal Power
21 Commission, what they meant when they said needed.

22 MR. RAMEY: Any other questions of the witness?
23 Mr. Nutter?

24 CROSS EXAMINATION

25 BY MR. NUTTER:

1 Q Mr. Stamets, it boils down to this, doesn't it, that
2 you are talking about two categories of wells here, a
3 replacement well and an infield well?

4 A Yes.

5 Q As I understand your testimony the replacement well
6 is pretty cut and dried as a needed well because the original
7 well is no longer commercial for one reason or another?

8 A Yes, that's correct.

9 Q Would the approval of the replacement well require
10 the abandonment of the original well?

11 A Yes.

12 Q Now, would the certification or the justification
13 certificates for the second well be conditional then on the
14 plugging of the first well within sixty days?

15 A Yes, it would and some procedure would have to be
16 set up to go back at the end of the sixty-day period and make
17 certain that the well had been plugged as required and if it
18 were not then the rescission should be automatic.

19 Q So you would recommend that the justification or
20 certification of justification be rescinded in the event the
21 original well was not plugged?

22 A Yes.

23 MR. RAMEY: At least plugged in that particular
24 producing zone?

25 A Yes, that would be correct.

1 MR. RAMEY: It may be possible that a well could
2 be --

3 A. Completed in a shallower zone.

4 MR. RAMEY: Completed in a shallower zone?

5 A. Right.

6 MR. RAMEY: But still have a mechanical failure in
7 a lower zone?

8 A. That's right, and if you have a situation with
9 reservoir damage it might even be completed in a lower zone.

10

11 CROSS EXAMINATION

12 BY MR. ARNOLD:

13 Q. Supposing an operator decided sometime previously
14 that he was going to plug a well on a proration unit for any
15 reason which he deemed a prudent reason and plugged the
16 well, do you anticipate that he would have to get administrative
17 approval to drill a replacement well?

18 A. We are talking about two different things, in one
19 case we are talking about drilling the well and nothing that
20 I brought in here today in any way affects what we have
21 always done in the past as far as allowing wells to be
22 drilled. What we are talking about today is justification
23 for exceptions to the Natural Gas Pricing Act and it's a
24 different thing altogether.

25 Q. You wouldn't anticipate that it would be necessary

1 for him to get any particular approval to drill a well on a
2 proration unit that had previously had a well on it and for
3 some reason had been plugged?

4 A. Nothing that he would not have had to have done last
5 year.

6 Q. If someone wanted to drill a replacement well that
7 appears to be the route to take?

8 A. The only difference would be that he might want to
9 get a higher price which would be potentially available with
10 a justified well.

11 Q. Well, you mean you think that he wouldn't get a
12 new price on the replacement well?

13 A. That's my interpretation of the intent of the law.

14 Q. Even if there is no other producing well on the
15 unit at the time he makes the application for the new well?

16 A. I believe the law refers to a proration unit which
17 was producing or which was capable of producing on or before
18 1-1-75. So, it would depend on the situation. If the well
19 were out there and simply shut in it might be considered
20 capable of producing. If the well had been plugged for five
21 years, I'm not even sure that is an existing proration unit
22 anymore. I think that in that case there would be no question
23 but what it would be a new well and would be free from the
24 pricing act.

25 Q. It wouldn't necessarily have to have been plugged

1 for five years?

2 A I don't know. I don't know how many days would be
3 considered a justifiable period of time.

4 Q There was one other question that I had. In
5 explaining what you thought necessary to justify an infield
6 well you mentioned correlative rights and the way I understood
7 it was if an operator had a proration unit and the well on
8 it wasn't producing as much as his neighbor's well this would
9 justify the drilling of a second well?

10 A Well, this certainly could be a factor in making
11 this determination and for whatever reason the well is not
12 capable of producing, if it was completed in a tight section
13 or whatever, I would hope as a royalty owner that my operator
14 would get in there and do whatever he could to bring up the
15 production from the proration unit so I would receive my fair
16 share of the proceeds from the unit.

17 Q Of course, if in drilling the same well then the
18 operator put himself in a position to produce more than his
19 neighbor then I presume the neighbor would --

20 A That's certainly a possibility.

21 Q He would probably have to justify that on something
22 other than just a correlative rights issue, wouldn't you?

23 A Well, I really don't think so. The correlative
24 rights is the opportunity to produce and so long as we provide
25 the opportunity then correlative rights are protected and we

1 would provide the same opportunity for all the owners in the
2 pool.

3 MR. ARNOLD: That's all I have.

4 MR. RAMEY: Mr. Nutter?

5

6 CROSS EXAMINATION

7 BY MR. NUTTER:

8 Q Okay, Mr. Stamets, the Act says that it shall apply
9 to a well that is drilled on an established proration unit
10 that was producing or was capable of producing on January 1,
11 1975, unless the OCC exempts it because as justified for
12 reasons other than avoiding the Pricing Act. What about the
13 well that was drilled in 1976 prior to the time there was a
14 Pricing Act? Do you think that any well that was drilled
15 prior to the existing Pricing Act was drilled for reasons
16 other than avoiding the Pricing Act and shouldn't that well
17 receive an automatic exemption?

18 A It certainly seems logical. I don't believe that
19 there is anything that I've read in the Act which makes it
20 retroactive. That certainly would be a third category or
21 perhaps we wouldn't even need to consider that.

22 Q Well, I think it may require justification from the
23 Commission as being drilled for some other reason than to
24 avoid the application of the Act. The Act wasn't in effect
25 so it wasn't drilled to avoid the Act, is that a reasonable

1 presumption?

2 A. Yes, it is, certainly.

3 Q. Now, in the event that the Commission changes the
4 spacing pattern in a pool, that's only done after a hearing
5 and, of course, we've got one pool that the infield program
6 was approved in by the Commission which has received considerable
7 attention and that was predicated on the evidence that was
8 presented that additional reserves were going to be produced
9 and that ultimate recovery would be improved and that the
10 former pattern was inadequate to achieve adequate drainage.
11 Now, presuming that the Commission in the future should change
12 the pattern for a pool and presuming that it would be based
13 on similar findings to the Blanco-Mesaverde that additional
14 reserves would be recovered, that would be for reasons other
15 than avoiding the Pricing Act, wouldn't it?

16 A. I think it certainly would be. It's the same sort
17 of situation, you are dealing with increasing the ultimate
18 recovery from pools within the State and the Commission could
19 either consider adding that to the justification here today
20 or if we should receive such an application at the same time
21 amend our administrative procedure to take that situation into
22 consideration.

23 Q. And any change in spacing for a pool would be
24 promulgated only after a notice and hearing and both of
25 the consumer groups that you mentioned awhile ago would have

1 an opportunity to come into that hearing and object to the
2 changing of the spacing pattern if they felt that they should?

3 A. That's correct.

4 MR. NUTTER: I believe that's all.

5

6 CROSS EXAMINATION

7 BY MR. RAMEY:

8 Q. You mentioned something about notifying consumer
9 groups, the Energy Board and such as that, don't we legally
10 advertise anyway, would it be necessary to send special
11 notice to these groups?

12 A. I was thinking in the connection of the administra-
13 tive procedure and primarily related to those situations
14 where the the application might be predicated on the protection
15 of correlative rights rather than the replacement well and
16 the infield well which already had been approved.

17 MR. RAMEY: Okay. Mr. Lucero.

18 MR. LUCERO: Were you thinking more of keeping like
19 an official notification list of people that have requested
20 the Commission to be notified and they automatically receive
21 a notice?

22 THE WITNESS: No, I wasn't thinking along those
23 lines at all, I was going to limit it to the agencies that I
24 mentioned.

25 MR. NUTTER: In other words, for the infield well

1 the application for administrative approval or of the justifica-
2 tion would include notice to the Attorney General's office,
3 the Public Service Commission and the Energy Resources Board,
4 is that it?

5 THE WITNESS: Yes, it could include those and I
6 can't think of any other state agencies at the present time
7 which would be affected.

8 MR. NUTTER: And then that would be handled in a
9 similar manner that our other administrative procedures are set
10 up whereby there is a period of time in which they can object
11 and if there is an objection filed it will be set for hearing?

12 THE WITNESS: I would think too that if the Commission
13 considered that before putting that into an administrative
14 procedure that they should contact these offices and determine
15 if they would be interested in receiving this information.

16 MR. NUTTER: And want to be notified.

17 MR. RAMEY: I think all of these offices are
18 present today and can make their wishes known later in the
19 hearing.

20 Mr. Kendrick?

21

22 CROSS EXAMINATION

23 BY MR. KENDRICK:

24 Q Mr. Stamets, you said that you would recommend the
25 approval of replacement wells and those as infield wells, like

1 the Mesaverde where a prior hearing has been held. Is it
2 your recommendation that each individual well have a subsequent
3 application filed or can the Commissioners approve all infield
4 wells in a pool as a blanket order and avoid all of this
5 additional paper work?

6 A. As a paper filer I would like to see some way of
7 doing it with one fell swoop. As a paper shuffler I think
8 that we are going to have to have one on each well.

9 Q. Is it your recommendation that they be filed on
10 individual wells or on a pool basis after notice and hearing
11 on the pool?

12 A. I'll cheat and get out of that and say I only throw
13 these things out for consideration of the Commission who
14 will be responsible for the ultimate decision. It is my
15 opinion in just reading the Act that individual well justifica-
16 tions will be required.

17 MR. NUTTER: But if you have a basic finding that
18 additional wells are justified in the pool, it would be easy
19 to make such a certification, wouldn't it?

20 A. Well, perhaps, I think that whoever is going to
21 have police powers over watching this is probably going to
22 need some sort of individual well certification in order to
23 adequately watch this because we've got, as you have said, a
24 number of wells already completed in the Blanco-Mesaverde
25 as infield wells which were completed perhaps before this

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 date. We have other wells, infield wells, completed in the
2 State before this January 1st date. Now, it may be that whoever
3 is in charge of that will just say, okay, anything with a
4 date before so and so, no certification will be required,
5 anything with a date after that will have to have certification
6 of the Commission and they may want to establish some sort of
7 a data processing feature where it will automatically be
8 plugged in and the price can be watched and I just think from
9 the standpoint of administering the thing that it would be
10 much neater to have a piece of paper, to have an administrative
11 order of the Commission or an "R" order that I could tie it
12 to with a date on it.

13 MR. NUTTER: I think that -- well, I better not
14 testify.

15 MR. RAMEY: Would you like to be sworn, Mr. Nutter?

16 MR. NUTTER: No, sir.

17 MR. ARNOLD: Mr. Stamets, there really isn't any
18 ground in the Blanco-Mesaverde pool that I know of where an
19 order has been entered for the Commission to deny an infield
20 well anyway, is there?

21 THE WITNESS: No, we are only talking though about
22 price now. You can drill all the infields you want if you are
23 willing to take the dollar forty-four.

24 MR. ARNOLD: Well, now, you know, the finding of any
25 order that the well was necessary or that an order had never

1 been entered in the first place.

2 THE WITNESS: That's correct.

3 MR. ARNOLD: And this applies for every infield well
4 that is going to be drilled.

5 THE WITNESS: That's correct.

6 MR. ARNOLD: Do you think under those circumstances
7 the Commission ought to require an administrative order on each
8 well?

9 THE WITNESS: Yes. I'm sorry, but, yes.

10 MR. RAMEY: Even if you are assigned the task of
11 approving these, Mr. Stamets?

12 THE WITNESS: Yes.

13 MR. RAMEY: Any other questions of the witness? He
14 may be excused.

15 (THEREUPON, the witness was excused.)

16 MR. RAMEY: Mr. Caton?

17 MR. CATON: Mr. Robert McCrary of the Gas Company
18 of New Mexico will read a statement, a prepared statement, and
19 provide it to the Commission.

20

21 ROBERT McCRARY

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

24

25 MR. McCRARY: I'm just going to read a statement

1 prepared by our company. I'm Bob McCrary, Manager of Proration
2 for Southern Union Gas Company or Southern Union Company
3 which is the parent company of Gas Company of New Mexico and
4 Southern Union Gathering Company and I will just read to
5 you what our opinion is of this.

6 (Reading.) In order for either Gas Company of
7 New Mexico or Gathering Company to be able to contract for
8 gas to supply our New Mexico customers we must be able to
9 compete effectively against the interstate pipelines and also
10 against industrial or large individual users who would like to
11 assure themselves full gas supplies at all times by bidding
12 directly for gas in the field.

13 The New Mexico Natural Gas Pricing Act passed into
14 law last month imposes limitations on the prices which may be
15 charged by producers for gas produced from wells in the State
16 for delivery and consumption in intrastate commerce. Section
17 6 of this Act provides that these price limitations are not
18 to apply under ordinary circumstances of the wells, the drilling
19 or the first intrastate sale which commenced on or after
20 January 1, 1975.

21 Section 6, however, then goes on to provide that price
22 regulations under the Act nevertheless will be applicable to
23 one of the so-called new wells if it is drilled within an
24 established proration unit which was producing or capable of
25 producing natural gas before January 1, 1975, from the same

1 formation unless the Oil Conservation Commission grants the
2 well an exception based upon the findings that the new well
3 was justified for reasons other than avoiding the application
4 of the Gas Pricing Act.

5 The proposal put forward by the Commission in this
6 case for the establishment of an administrative procedure
7 under which these exemptions may be granted is in my opinion
8 a sensible and forward looking step. If exemptions of this
9 sort are to be granted they need to be granted promptly and one
10 of the best ways to speed up matters of this kind is for every-
11 one involved to be fully informed about the ground rules ahead
12 of time. A good example of this is the order issued November 14,
13 1974 in Case Number 5264 in which this Commission authorized
14 under certain specified conditions the drilling of so-called
15 infield wells in the Blanco-Mesaverde Pool in San Juan
16 and Rio Arriba Counties. A good many infield Mesaverde wells
17 have been drilled since January 1, 1975 and all indications
18 are that the pace of such infield drilling is going to be
19 stepped up considerably during the next few years.

20 There appears to be no basic policy change for the
21 Commission to make. By it's November 14, 1974 order it has
22 already found and determined that infield drilling is
23 necessary and appropriate for the prevention of waste and that
24 it will increase the recoverable reserves which ultimately will
25 be produced from the pool. This being so, the only determina-

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 tion necessary for a filing with the Commission for the
2 drilling of new wells in the pool is justified for reasons
3 other than avoiding the application of the Natural Gas Pricing
4 Act which seemed to be that the well had been completed
5 and will be producing infield gas only from that formation
6 and that another infield well has not already been drilled on
7 the same proration unit and that all other requirements of
8 the previously issued orders such as those in the November 14th
9 1974 order have been complied with.

10 Questions such as these limit themselves primarily
11 to handling through administrative approval or hearing
12 examining, rather than leaving them to be taken care only by
13 accident on the part of the full Commission.

14 This is the first and much the most important of
15 my recommendations. Second, even the hearing examiners can
16 get involved in too much work. It therefore seems imperative
17 that any order now issued in this proceedings specify with
18 precision exactly what information is to be furnished in
19 support of each exemption request. A relatively simple form
20 would seem to be the best answer. The order also should
21 provide for the publication of notice of all examiner hearings
22 of this kind so that if anyone has any question as to whether
23 a particular well properly qualifies for an exemption, that
24 the issue may be raised and heard before the full Commission
25 because this should be a relatively rare happening and the

1 need for speedy action of this application is easy to see.
2 I would hope that a notice prior to no more than two or three
3 weeks would be required.

4 So far as I'm aware the Blanco-Mesaverde Pool is
5 the only gas pool in the State where this Commission has
6 already authorized poolwide infield drilling. It seems
7 reasonable to specify, however, as gas supplies continue to
8 dwindle and the demand increase that similar orders will have
9 to be issued during the next several years for at least some
10 more of the State's gas reservoirs. If an infield drilling
11 is proposed for any such additional field while the Natural
12 Gas Pricing Act is still in effect it should seem altogether
13 appropriate to include in the original order authorizing the
14 infield drilling the exemption procedure under Section 6 of
15 the Natural Gas Price Act which are to apply for that field.
16 Thus there would be no wasted time and effort devoted to an
17 unnecessary second hearing. (End of reading.)

18 I would like to express Southern Union's appre-
19 cation for giving us the opportunitiy to read our viewpoints
20 into the record.

21 MR. RAMEY: Now, you mentioned something about
22 notification on the examiner hearings, Mr. McCrary, are you
23 aware that the Commission publishes these in newspapers of
24 general circulation, plus the newspaper in the county where
25 the case has a bearing?

1 MR. McCRARY: Yes, sir.

2 MR. RAMEY: And also anyone by contacting our office
3 may be put on the mailing list for dockets?

4 MR. McCRARY: Yes, sir.

5 MR. STAMETS: Mr. McCrary, I believe you indicated
6 that you thought the Commission should justify just one
7 infield well to a unit, is that correct?

8 MR. McCRARY: No, if there was a justified motive --
9 right now your present order is just for one infield well, I
10 believe, on a poolwide Blanco-Mesaverde. You can drill one
11 well on there, I believe. If that order was to be changed to
12 one or more wells, or whatever order you issued, if you issued
13 an order poolwide like the Blanco-Mesaverde for two wells,
14 that would be sufficient on there, but right now under the
15 present order I think you can only drill one infield well in
16 the Blanco Pool in there, isn't that right?

17 MR. RAMEY: I think that's --

18 MR. STAMETS: Well, that's the only one that you get
19 an added bonus on your allowable for it.

20 MR. NUTTER: Mr. Ramey and Mr. McCrary, I think in
21 response to your question there, the Commission rules never
22 have prohibited the drilling of an additional well in the
23 Blanco-Mesaverde, the only thing was that the deliverabilities
24 were not additive in the allowable formula.

25 MR. McCRARY: No, but it was a statewide order

1 wasn't it? It just made it real simple for anybody to come
2 in and apply for the pool and get approval of it, didn't it,
3 rather than have a full hearing?

4 MR. ARNOLD: Excuse me, we did have a fixed spacing.

5 MR. NUTTER: We had a fixed spacing pattern.

6 MR. McCRARY: Yes, that's right.

7 MR. NUTTER: But there was no prohibition against
8 getting approval for an unorthodox location and drilling a
9 well on an off pattern. The only thing was, the deliverabilities
10 were not active and you didn't get an allowable benefit by
11 drilling the second well on the unit and this is true in
12 all of the other pools in the State too. In the southeast
13 you get the allowable based on the acreage that's assigned
14 to the unit and the second well doesn't increase the allowable
15 there but it has been beneficial in many cases for operators
16 to go in and drill a second well in the unit in the Southeast
17 even though there are no allowable increases, simply to
18 increase production and bring the production up to the allowable
19 but I think that's a common misconception that the second well
20 was prohibited in the Blanco-Mesaverde, although it never
21 really was --

22 MR. McCRARY: We didn't mean to infer in here
23 that it was prohibited. Our intention was when we applied
24 for an infield well that when we applied we were automatically
25 granted this exception on that and that it wouldn't take

1 another administrative order, just whoever approves the
2 infield well to approve a simple form stating that the well
3 wasn't drilled for the sole purpose of the Pricing Act.

4 MR. STAMETS: I think Mr. McCrary has raised an
5 interesting point here whether or not in an administrative
6 procedure the Commission should limit its approval to one
7 well and if the Commission did that what the effect might be
8 in the Southeast like the Jalmat and the Eumont. I think in
9 most instances when additional wells are completed on those
10 proration units that a hearing is generally required anyway
11 so that might not be a big problem.

12 MR. RAMEY: Only if they are nonstandard locations,
13 otherwise they are approved.

14 MR. STAMETS: Most of them are nonstandard locations
15 in there.

16 MR. NUTTER: Mr. Ramey, if I might make another
17 comment here. We were talking awhile ago about having a
18 notification and a certain waiting period for administrative
19 approval for infield wells. I think in the case where the
20 Commission has entered an order and approved infield drilling
21 in a pool on a poolwide basis that there should be no waiting
22 period there.

23 I think that Mr. Stamets is probably right too in
24 that that well file should include a certification that this
25 well was a justified well but I don't think that there should

1 be any waiting period for that inasmuch as the Commission
2 had previously, after notice of hearing, approved the infield
3 well per se but the individual well certification as Mr.
4 Stamets pointed out, probably might be necessary.

5 MR. STAMETS: I agree definitely with that and I
6 hope I didn't leave the impression that I thought that this
7 notification should go out in every instance and it is
8 possible that even in the case of a replacement well that this
9 wider method might not be required.

10 MR. NUTTER: Of course, I'm not sure if it is the
11 Commission's determination as to which wells require the
12 certification. I think that may be the Public Service
13 Commission's prerogative as to which wells need a certification
14 and which ones don't. It's the Commission's job to issue the
15 certification.

16 MR. McCRARY: Our opinion is that we don't need a
17 certification on any infield wells to obtain the price.

18 MR. NUTTER: But you are going to need it on the
19 individual wells?

20 MR. McCRARY: Yes, and eliminate the Commission work
21 where an infield drilling has been approved. It would be a
22 simple matter just to include a simple form at the time the
23 application for the infield well was made and at the time
24 they approved your infield well in the Blanco-Mesaverde, if
25 I understand it right, it's automatic, it's just a matter of

1 sending in the application for the drilling, is that not right?
2 And at the same time you approved that you could approve the
3 certification on the well rather than going back two or three
4 different times to require paperwork floating in. But we
5 feel that for our own protection we are going to need that.

6 MR. STAMETS: I don't think either that the Commission
7 would need the Public Service Commission to advise us as to
8 which wells need certification. It seems to me that the law
9 is fairly clear on that point when it refers to proration units
10 which were producing or are capable of producing. Of course,
11 it's possible that the Public Service Commission might make
12 some sort of an internal decision which could alleviate some
13 of these matters.

14 MR. RAMEY: I would hope that we wouldn't have to
15 go to those extremes.

16 MR. LUCERO: Is there some statutory authority that
17 requires us to go to that extreme?

18 MR. NUTTER: The entire statutory authority, Mr.
19 Lucero, is right there in that bottom paragraph.

20 MR. LUCERO: You aren't asking for a legal opinion?
21 You expressed an opinion involving the Public Service Commission.

22 MR. NUTTER: It says that it shall apply to all
23 wells that were -- it shall not apply to all wells that are
24 drilled after January 1, 1975, but it shall apply to wells
25 that are drilled on existing proration units unless the

1 Commission has certified them. I don't know -- as I expressed
2 earlier it seems that the wells which were drilled in the
3 interim from 1975 to 1977 were obviously not drilled to
4 circumvent the Pricing Act. I don't know whether the Public
5 Service Commission agrees with that observation or not.

6 MR. COHEN: May I speak for the Public Service
7 Commission? I'm David Cohen, I'm an attorney with the
8 Commission. Our reading of the Act is rather limited as to
9 our participation which really Section 7, the abandonment
10 procedure, there is nothing in there that speaks to our
11 involvement in certification at all and personally I don't
12 think that we have the capability to certify wells at this
13 time. I don't think we have any authority or jurisdiction
14 in this area.

15 MR. LUCERO: I'm glad you made that statement because
16 you are connected with the Public Service Commission and I
17 didn't read that into the Act myself.

18 MR. RAMEY: Any other questions of the witness?
19 He may be excused.)

20 (THEREUPON, the witness was excused.)

21 MR. CATON: We will give you a typed copy of the
22 statement for inclusion in the record.

23 MR. RAMEY: Thank you.

24 Any statements? State your name, please.

25 MR. BIDERMAN: Yes, sir, I'm Paul Biderman,

1 Assistant Attorney General. We do have some responsibility
2 under the Act. Section 8(d) charges us with the responsi-
3 bility of enforcing the maximum allowable base price limita-
4 tions and while the record doesn't put us into the exemption
5 question it does, of course, indirectly in that if a producer
6 were to start to receive too high a price because the well was
7 not justified or was not certified. If it not justified,
8 obviously we have to enforce that aspect of it.

9 As far as I can see, we haven't studied this question
10 and I don't mean to give it a legal opinion that I can
11 necessarily stand behind at this time but it certainly seems
12 logical that any well that was drilled and started producing
13 before 1977 obviously was not drilled for the purposes of
14 circumventing an act that didn't exist and I certainly see no
15 problem in a blanket grandfather clause that would just drop
16 that whole problem.

17 As far as the more immediate problems, I think we
18 have to agree with reading the -- with just about everything
19 that has been said -- reading the provisions about justifica-
20 tion that it does require that such well was justifiable. The
21 provision is that the Act shall apply to a well that was
22 drilled in an established proration unit unless the Commission
23 exempts such well upon a finding that such new well was
24 justified for reasons other than avoiding the Act. It seems
25 that the Act is clear enough. It doesn't say anything about

1 a hearing which it does say in other parts so I don't think
2 that's necessary, but it does say, such well, it does indicate
3 individual wells and it does say a finding by the Commission.
4 I would think, as far as I can see, that pretty much comports
5 with what has been said before that there should be an
6 individual certification by the Commission staff at least to
7 the effect that an individual is within an area or within a
8 type of production that justifies this kind of exemption.

9 I would say, at least initially, our reaction is
10 to the sole proposal that the administrative approach is
11 all right as mentioned and that the pre 1977 well should just
12 be granted a blanket exemption. It's just logical, there is
13 no way a well could have been drilled to avoid the Act.

14 MR. RAMEY: Thank you, Mr. Biderman. Any other
15 statements?

16 MR. CAMPBELL: Mr. Chairman, Jack M. Campbell,
17 Campbell, Bingaman and Black.

18 You asked a question about the relationship, I
19 guess the relationship, between what we are doing here and
20 the Federal Power Commission need, provision in Order R-778.
21 I don't know if it will cast any light on it or not but there
22 has been an application filed for certification on an infield
23 well in the Blanco-Mesaverde Pool with documentation, including
24 a certified copy of the Commission order authorizing infield
25 drilling and its findings and conclusions therein and other

1 documentation from the Commission files having to do with the
2 approval by the Commission for the drilling of the well with
3 the request that that well be certified under 770-A in that
4 its documentation reflects, of course, that it is more than a
5 thousand feet from the previous well, any other well.
6 Unfortunately, as happens frequently, I guess, that application
7 got temporarily lost in the maze of paperwork back there and
8 was on somebody's desk for three weeks but very recently, as
9 a matter of fact the first part of this week, telegrams have
10 been exchanged and without suggesting that we can anticipate
11 that the Commission is going to act quickly on it, that seems
12 to be the present indication that they intend to and it may
13 be that if they act favorably with that kind of application
14 for certification then this Commission won't have to do
15 anything further in connection with furnishing the FPC any kind
16 of additional documentation or certification, I certainly
17 couldn't guarantee that would be the case but that may happen
18 and I would assume that maybe in the future when this procedure
19 is worked out the documentation in this may be an additional
20 element that the producers who are seeking certification from
21 the FPC may wish to include in their application.

22 MR. RAMEY: Thank you, Mr. Campbell. Mr. Kellahin?

23 MR. KELLAHIN: Jason Kellahin appearing for
24 Consolidated Oil and Gas, Incorporated. Consolidated Oil
25 and Gas, Incorporated's principal concern is with these

1 Blanco-Mesaverde infield wells and I think the position has
2 been pretty well stated. We certainly do subscribe to
3 Mr. Biderman's comment that those drilled prior to 1977
4 should be given a blanket exemption without having to come
5 back in and make individual applications.

6 Now, as to the future wells we also agree with Mr.
7 McCrary that the basic finding on this has already been made by
8 the Commission and any procedure for obtaining certification of
9 these wells as being necessary should be made as simple as
10 possible. I think it could even be made a part of your notice
11 of intention to drill that shows that it is an infield well and
12 the Commission will automatically certify it as being a
13 necessary well based on their findings in Order 1670-T. As
14 to the other wells there can, of course, be problems but we
15 do urge a simple procedure whereby prompt action can be
16 obtained. We have waited and waited and waited on the FPC
17 to act on some of these matters and we hate to see a similar
18 situation develop in the State.

19 It may and probably is beyond the scope of this
20 hearing but we would urge the Commission to seriously consider
21 adopting some kind of standards whereby a proration unit
22 may be resolved and in turn abandoned in some fashion or
23 other. It may not have a great deal of bearing on the
24 matter before the Commission at this time but it will be most
25 helpful on FPC proceedings if we can say this is a brand

1 new proration unit at some stage and in many instances
2 operators are now going back in on units where wells have
3 been plugged and abandoned three, four and five years ago and
4 have to go through the problem of getting a new price cleared
5 with the FPC simply because that unit had been dedicated
6 under a prior commitment. So we would urge the Commission to
7 consider that perhaps at some future date.

8 MR. RAMEY: Thank you, Mr. Kellahin. I certainly
9 hope we don't get involved as the FPC has been.

10 Any other statements?

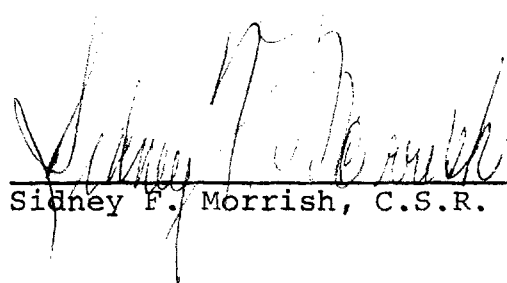
11 MS. TESCHENDORF: I have one. The Commission has
12 received a telegram from Amoco Production Company stating:
13 (Reading.) Amoco Production Company believes that exemptions
14 in Section 6 of the Natural Gas Pricing Act law of 1977,
15 Chapter 73 should be granted for wells drilled to protect
16 correlative rights or to improve the ultimate recovery of gas
17 from a reservoir and support the necessary procedures for
18 granting these exemptions. (End of reading.)

19 MR. RAMEY: Anything further? The Commission will
20 take the case under advisement and the hearing is adjourned.

21 (THEREUPON, the hearing was adjourned.)
22
23
24
25

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill and
ability.


Sidney F. Morrish, C.S.R.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

am
western union
Telegram
western union
Telegram
western union
Telegr

IPMFEKA SANA
1-009072C108 04/18/77
TWX AMOCO PROD HOU
001 HOUSTON, TEXAS APRIL 18, 1977
PMS MR. JOE D. RAMEY
NEW MEXICO OIL CONSERVATION COMMISSION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

1977 APR 18 AM 10:14

RE: CASE 5900 - APRIL 19, 1977 COMMISSION HEARING DOCKET

AMOCO PRODUCTION COMPANY BELIEVES THAT EXEMPTIONS TO SECTION 6 OF THE
NATURAL GAS PRICING ACT (LAWS 1977, CH 73) SHOULD BE GRANTED FOR WELLS
DRILLED TO PROTECT CORRELATIVE RIGHTS OR TO IMPROVE THE ULTIMATE
RECOVERY OF GAS FROM A RESERVIOR AND SUPPORTS ADMINISTRATIVE PROCEDURES
FOR GRANTING THE EXEMPTION.

PLEASE ENTER THIS TELEGRAM INTO THE RECORD OF THE HEARING ON CASE
NO. 5900.

AMOCO PRODUCTION COMPANY

J. M. BROWN
DIVISION ENGINEERING MANAGER
HOUSTON, TEXAS
APRIL 18, 1977

1201 EST

IPMFEKA SANA