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OCT 18 1991

OIL CONSERVATION DIVISION

October 18, 1991

Mr. William J. LeMay  
Oil Conservation Division  
310 Old Santa Fe Trail, Room 206  
Santa Fe, New Mexico 87501

HAND DELIVERED

Mr. Gary Carlson  
Office of the State Land Commissioner  
State Land Office Building  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

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Mr. William Weiss  
New Mexico Petroleum Recovery  
Research Center  
New Mexico Tech Campus  
Socorro, New Mexico 87801

FEDERAL EXPRESS

RE: Hallwood Petroleum Inc. Application for  
Rehearing of Case No. 10377  
Commission Order R-9586

Gentlemen:

On behalf of Hallwood Petroleum Inc., please find enclosed our Application of Rehearing of the referenced case. This case was heard by the Commission on August 29, 1991 and was decided by Order No. R-9586 entered October 3, 1991.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

Enclosure

cc: Robert Stovall, Esq.

William F. Carr, Esq.

Bruce Bowman, Hallwood Petroleum Inc.

1trt1018.629

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION

RECEIVED

OCT 1 8 1991

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION COMMISSION  
FOR THE PURPOSE OF CONSIDERING:

GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR OCTOBER, 1991  
THROUGH MARCH, 1992.

CASE: NO. 10377  
ORDER NO. R-9586

**APPLICATION OF HALLWOOD PETROLEUM INC.  
FOR REHEARING**

Comes now HALLWOOD PETROLEUM, INC. pursuant to the provisions of Section 70-2-25 NMSA (1978) and applies to the New Mexico Oil Conservation Commission ("Commission") for a Rehearing of the above-captioned case and order in so far as it applies to the Catclaw Draw-Morrow Gas Pool and in support thereof states:

GROUNDNS FOR REHEARING

POINT I: COMMISSION SET ALLOWABLES FOR THE CATCLAW  
DRAW-MORROW GAS POOL BASED UPON CRITERIA  
OTHER THAN MARKET DEMAND FOR POOL PRODUCTION  
IN VIOLATION OF SECTION 70-2-3(E) NMSA-1978.

New Mexico's Market Demand Prorationing System is based on the relative simple concept of allocating surplus gas production capacity on a reasonable basis

Page 2

because production in excess of market demand has been defined as "waste" in the New Mexico Oil & Gas Act.<sup>1</sup>

While the mechanics of doing so are complex, the process is easy to describe: the Commission determines what the market demand is for pool production within a proration period and then allocates that market share to the individual prorated pools; then the Commission determines if the producing capacity of the pool exceeds that demand for that proration period; if the Commission finds that there is a surplus of gas production capacity then and only then, does it prorate production.<sup>2</sup>

In practice to make the process work, once a pool is initially prorated it continues to be prorated during periods of Excess Gas Deliverability (demand less than total pool production capacity) and during periods of Excess Market Demand (demand in excess of pool production capacity). However, allowables at less

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<sup>1</sup> N.M.Stat. Ann. Sec. 70-2-1 et seq. (1978)

<sup>2</sup> See Sullivan, Handbook of Oil and Gas Law, pp. 311-335, (1955).

than capacity are set ONLY during periods where market demand <sup>IS LESS THAN</sup> ~~exceeds~~ pool production capacity.<sup>3</sup> Thus, if the Commission finds that there is a surplus of gas production capacity then it allocates total market demand to individual producing proration units in the form of production allowables which are LESS THAN the capacity of the non-marginal wells to produce. Only during a proration period of Excess Gas Deliverability is prorationing necessary and therefore production allowables set which will result in production rates at less than the producing capacity of the non-marginal wells. Conversely, during a proration period of Excess Market Demand proration is unnecessary. If the Commission finds that there is no surplus of production capacity, then it is obligated to set allowables so that the highest capacity wells are unrestricted.<sup>4</sup>

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<sup>3</sup> See Glenn Taylor, "The Excess Gas Market-Recent Legal Problems Precipitated by Excess Gas Deliverability and Applicable Regulatory Provisions," Institute on Oil and Gas Law, pp. 94-95.

<sup>4</sup> See Tex.Nat.Res.Code Ann. Sec 86.081 (Vernon 1978) for Texas Market Demand Prorationing System statutory scheme which prorates Texas gas ONLY when there is a surplus of supply available from that common reservoir. Also see Stephen M. Hackerman, "Market Demand Prorationing and Ratable Taking," Oil and Gas Conservation Law and Practice, Paper No. 11, pp. 2-7, Rocky Mt. Min. L. Fdn. 1985.

In prior years, the Commission struggled with setting allowables in prorated pools because the state was in a gas surplus production capacity situation.<sup>5</sup> However, for at least the last two proration periods the Catclaw Draw Morrow-Gas Pool has been in a continuous Excess Market Demand situation. The Commission has failed to recognize the reversal in the relationship between supply and demand when it set the current allowables for the Catclaw Draw Morrow-Gas Pool.<sup>6</sup>

In the subject case the testimony was that allowables set to meet current market demand for Catclaw Draw-Morrow would result in "capacity allowables" but would not cause waste, or violate correlative rights. Specifically, Hallwood Petroleum Inc. sought and proved by substantial uncontested and undisputed evidence that the Division's preliminary allowable estimate of 160,818 MCF for an average

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<sup>5</sup> Glenn Taylor, "The Excess Gas Market-Recent Legal Problems Precipitated by Excess Gas Deliverability, and Applicable Regulatory Provisions," Institute on Oil and Gas Law, pp. 94-95.

<sup>6</sup> Oil Conservation Commission Order No. R-9586, attached hereto as Exhibit "A".

monthly pool allowable grossly underestimated market demand for this pool. Hallwood's expert testified that an average monthly pool allowable of 458,282 MCF for the Catclaw Draw Morrow-Gas Pool was necessary in order to meet market demand.<sup>7</sup> The Commission's decision to set the average monthly pool allowable at 242,288 MCF is unjustified, unsupported and contrary to New Mexico Law and impairs Hallwood Petroleum Inc.'s correlative rights.

POINT II: COMMISSION ORDER R-9586 (Finding Paragraph 10) INCORRECTLY DEFINES "ALLOWABLES" AND THEREBY ERRONEOUSLY SETS ALLOWABLES FOR THE CATCLAW DRAW-MORROW POOL AT SUBSTANTIALLY LESS THAN MARKET DEMAND

The Commission incorrectly defines "allowables"<sup>8</sup> and misapplies "prorationing"<sup>9</sup> to justify denying the level of allowables requested by Hallwood Petroleum Inc for the Catclaw Draw-Morrow Gas Pool. The Commission states in Finding (10) that "Allowables will by

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<sup>7</sup> Hallwood Petroleum Inc.'s Exhibits to Oil Conservation Commission Hearing attached hereto as Exhibit "B".

<sup>8</sup> H. Williams and C. Meyers, Manual of Terms, p. 37 (1987).

<sup>9</sup> H. William and C. Meyers, Manual of Terms, p. 775 (1987).

definition restrict production from the highest capability wells." Nowhere in the OCD rules and regulations or the Oil & Gas Act are "allowables" defined in that manner.

To the contrary, under the prorationing scheme in New Mexico allowables must be set based only on market demand for production from prorated pools in Southeast New Mexico regardless of the capacity of the wells to produce.<sup>10</sup> Section 70-2-16 NMSA (1978) establishes the basic outline of the proration system. The prorationing statute for natural gas is "pool limited." There is no overall statewide prorationing scheme, nor is there a scheme for the assignment of state-wide allowables. By amendments adopted in 1949 the New Mexico Legislature expanded the definition of "waste" in the Oil & Gas Act to include the production of natural gas in excess of market demand.<sup>11</sup> "Allowables" for prorated pools in Southeast New Mexico are then set

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<sup>10</sup> N.M.Stat. Ann. Sec 70-2-3(E) (1978).

<sup>11</sup> W. Perry Pearce, "Natural Gas Prorationing in New Mexico: An Attempt to Just and Equitable Allocation," Univ. of Colorado Law Review, Vol. 57, Issue 2, Winter 1986.

for each spacing unit in a pool based upon a formula that allocates back to each non-marginal spacing units its fair share of that market demand independent of what that spacing unit is capable of producing.

POINT III: COMMISSION ORDER R-9586 (Finding Paragraph (10)) IS NOT SUPPORTED BY SUBSTANTIAL EVIDENCE BECAUSE CONTRARY TO THE EVIDENCE, THE COMMISSION SPECULATES THAT THE PRODUCTION FROM THE HALLWOOD NO. 9 WELL SHOULD DECLINE OVER THE NEXT FEW MONTHS.

The record is void of any evidence from which the Commission could reach this conclusion.<sup>12</sup> Having reached this conclusion, it has no relevance upon the subject of prorationing for the Catclaw Draw-Morrow Gas Pool.

POINT IV: THERE IS NEW EVIDENCE NOT AVAILABLE AT THE TIME OF THE HEARING WHICH WILL CHANGE THE RESULT OF ORDER R-9586

The impact of Order R-9586, unless modified upon Rehearing, will cause market demand for gas production from a pool in New Mexico to be satisfied by other

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<sup>12</sup> See Hallwood Petroleum Inc.'s Oil Conservation Commission Hearing Exhibits, attached hereto as Exhibit "B".

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production to the detriment of the owners of production in the Catclaw Draw-Morrow Pool, including the State of New Mexico. Gas Company of New Mexico has confirmed the market demand for gas production from this pool which cannot be met by the current level of allowables assigned in Order R-9586.<sup>13</sup>

WHEREFORE, HALLWOOD PETROLEUM INC. respectfully requests the Commission grant a Rehearing in the above styled cause and that after rehearing, the Commission modify that portion of Order R-9586 dealing with the Catclaw Draw-Morrow Gas Pool to increase the average monthly pool allowable to 458,282 MCF for the October 1991-March 1992 proration period.

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin

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Santa Fe, New Mexico 87504

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ATTORNEYS FOR HALLWOOD PETROLEUM  
INC.

appt1017.629

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<sup>13</sup> Gas Company letter dated October 15, 1991 attached hereto as Exhibit "C".

EXHIBIT "A"

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

*CASE NO. 10377*  
*ORDER NO. R-9586*

**GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR OCTOBER, 1991  
THROUGH MARCH, 1992.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on August 29, 1991, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 3rd day of October, 1991 the Commission, a quorum being present and having considered the testimony, the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) This hearing was called for the purpose of accepting nominations and other evidence and information to assist in determining October, 1991 through March, 1992 gas allowables for the prorated gas pools in New Mexico. Fourteen of the prorated gas pools are in Lea, Eddy and Chaves Counties in Southeast New Mexico and the other four prorated gas pools are in San Juan, Rio Arriba and Sandoval Counties in Northwest New Mexico.

(3) Amendments to the Gas Proration Rules approved by Commission Order No. R-8170-H in December, 1990 provide for allowables to be established for 6-month allocation periods beginning in April and October of each year. The October, 1991 through March, 1992 allocation period will be the second under the amended rules.

(4) Average monthly allowables for Oct. 91 - Mar. 92 for each pool should be based on monthly average individual pool sales for Oct. 90 - Mar. 91, with administrative adjustments where appropriate.

(5) Oil Conservation Division (OCD) personnel prepared Market Demand and Allowable Determination Schedules for the prorated gas pools in New Mexico. These contained preliminary allowable estimates for the Oct. 91 - Mar. 92 period and were developed in accordance with procedures set forth in Division Order R-8170-H, Rules 5(a)1 and 5(a)2. Producers, purchasers and transporters of gas were asked to review these preliminary allowables and to participate in the August 29, 1991 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) Revised preliminary allowable estimates for each prorated pool were submitted at the hearing by OCD as Exhibits 1 and 2. These estimates contained updated production data and differed slightly from the preliminary estimates which had been mailed out earlier.

(7) OCD Exhibit No. 3 was submitted to compare the proposed Oct. 1991 - Mar. 92 allowables to production and allowable volumes for Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91.

(8) The OCD Director of Natural Gas Marketing submitted at the time of the hearing as Exhibit No. 6 a series of graphs in slide form which showed the following:

- (a) Statewide gas production from New Mexico has increased over the last three years from 781 BCF in 1988 to over 965 BCF in 1990. Through June, 1991, year-to-date production exceeds production for the same period in 1990.
- (b) The gas producing rate is growing faster in the northwest part of the state than in the southeast due to the increase in coal seam gas production.
- (c) Statewide gas production is expected to increase during the Oct. 91 - Mar. 92 allocation period compared to Oct. 90 - Mar. 91.
- (d) Although total gas production in the northwest portion of the state has increased and is expected to continue to increase, conventional gas production has decreased since January, 1990.

(9) Hallwood Petroleum, Inc. presented exhibits and testimony to support an increase in allowable for the Catclaw Draw-Morrow Gas Pool. An increase in the monthly F1 factor for the Oct. 1991 - Mar. 1992 allocation period from 34,265, as proposed in OCD Exhibit No. 1 to 127,550 was requested. The following information was submitted to justify the increase:

- (a) The gas proration unit which contains Hallwood's Catclaw Draw Unit Well Nos. 1Y and 13 was shut-in 44 percent of the time from January, 1990 through March, 1991. The unit was over-produced 300,014 MCF as of March 31, 1991. During the above period, daily allowable averaged 764 MCF per day. Producing capability for the proration unit is 1,600 MCF per day.
- (b) Hallwood's Catclaw Draw Unit No. 9 has been worked over recently and is currently producing 5,100 MCF per day. Since May 22, 1991, the well has produced 342,000 MCF. Calculated absolute open-flow for the well was 17,658 MCF per day.
- (c) Hallwood submitted a letter from Gas Company of New Mexico indicating their willingness to purchase additional gas from the pool. Letters of support for the increased allowable from the other producers in the pool, Fasken, Hondo and Texaco were also submitted.

(10) Hallwood's information supports an increase in the allowable for the Catclaw Draw for Oct. 91 - Mar. 92. The proposed increase in F1 to 127,550 (over 4 MMCF per day for a gas proration unit with an acreage factor of one) would assign allowables in excess of the indicated producing capacity to all wells except Well No. 9 and therefore appears excessive. Allowables will by definition restrict production from the highest capability wells. The producing capacity of Well No. 9 may be expected to decline over the next few months. An F1 of 75,000 (2.46 MMCF per day) together with the overproduction limit (222,888 MCF) should provide sufficient opportunity for operators to produce their non-marginal wells. An adjustment of 95,470 (including the 14,000 adjustment) proposed by OCD in Exhibit No. 1 should be added in order to increase total monthly allowable to 242,288 MCF and increase the F1 factor to 75,000.

(11) Marathon Oil Company provided exhibits and testimony in support of an allowable increase in the Blinebry Gas Pool. Marathon wants to increase total pool allowable from 467,669 MCF per month (as proposed in OCD Exhibit No. 1) to 697,959 MCF per month for the Oct. 91 - Mar. 92 period. This would increase the monthly F1 factor from 30,746 to 50,308; the daily allowable for a gas proration unit with an acreage factor of one would increase from approximately 1 MMCF per day to 1.65 MMCF per day. Marathon based their request on the following information:

- (a) Tests from three Marathon wells in the pool were submitted showing daily per-well producing capabilities of between 1.5 and 1.9 MMCF per day.
- (b) A graph of production and allowables for Marathon's non-marginal wells shows the wells with an overproduced status for the period from January, 1989 through June, 1991. Since January, 1991, production from the wells has exceeded allowable.
- (c) Total sales from the pool (marginal and non-marginal wells of all operators) have exceeded allowables since January, 1991.
- (d) Marathon's witness testified that all operators in the Blinebry Pool had been contacted and that all except John Hendrix are in agreement with the requested increase. Marathon testified that John Hendrix preferred the Oil Conservation Division's preliminary allowable. No operator or interest owner appeared at the hearing in opposition to the Marathon request.
- (e) A Marathon marketing witness testified that there is plenty of demand on the spot market for the additional gas. The witness also testified that Northern Natural Gas would welcome the additional gas into their system.

(12) Marathon's evidence supports a daily allowable increase. Increase to approximately 1.25 MMCF per day for a Blinebry well with an acreage factor of one will allow the non-marginal wells to produce at higher rates and help determine if further increases are justified for future allocation periods. An adjustment of 152,320 (including the 73,000 adjustment proposed by OCD in Exhibit No. 1) should be added in order to increase total monthly pool allowable to 566,989 MCF and increase the F1 factor to 38,125 (1.25 MMCF per day).

(13) Chevron USA presented exhibits and testimony in strong support of the minimum allowable rates which have been established for the Eumont and Jalmat Pools. They said the minimum allowables have provided a reliable basis for planning drilling and remedial operations. Chevron expects to increase the number of producing wells in the Eumont Pool from 80 to 98 by October, 1991. Chevron's production from the Eumont Pool is expected to increase from approximately 15 MMCF to 22 MMCF per day by December, 1991.

(14) An Amoco witness recommended slight reductions in the OCD preliminary allowables for the Northwest New Mexico pools as follows:

Basin Dakota	(66,613)
Blanco Mesaverde	(16,554)
Blanco Pictured Cliffs	(8,675)
Tapacito	(3,290)

The non-marginal pool balances for the last two years and a comparison of production to allowables for April and May, 1991 were submitted to support the recommended reductions. Because allowables are based on production for the prior like period, pool balancing is not a major factor.

(15) A Unocal witness submitted data in support of the OCD revised preliminary allowable estimates for the Northwest pools. Unocal expects that pipeline constraints due to line construction over the next several months will curtail production through the Oct. 91 - Mar. 92 period and that the Oil Conservation Division allowable estimates will be adequate. Unocal is not in agreement with the reductions proposed by Amoco since they are based on April and May, 1991 production information. Unocal reduces production volumes during the summer allocation period to save allowable for the winter months.

(16) Allowables for the four Northwest pools should be consistent with the levels shown on OCD Exhibit No. 2. OCD Exhibit No. 3 shows that Oct. 91 - Mar. 92 allowables will be lower than the Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91 periods. Testimony by the Oil Conservation Division Gas Marketing Director, Amoco and Unocal indicates that OCD Exhibit No. 2 allowables should be adequate.

(17) Allowables for the Catclaw Draw and Blinebry Pools should be established as set forth in Finding Paragraph Nos. (10) and (12) above. Allowables assigned to other Southeast New Mexico Pools should be consistent with the levels shown in OCD Exhibit No. 1.

(18) Under the provisions of Order Nos. R-8170-E and R-9463, the Burton Flat-Morrow Pool is unprorated until October, 1991. A hearing has been scheduled for September 19, 1991 to evaluate the effects of the above action and determine if the pool should remain unprorated.

IT IS THEREFORE ORDERED THAT:

(1) OCD Exhibit No. 1 submitted at the time of the hearing shall be amended by adding a monthly allowable adjustment of 95,470 MCF to the Catclaw Draw-Morrow Gas Pool. This adjustment includes the 14,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(2) Said OCD Exhibit No. 1 shall be further amended by adding a monthly allowable adjustment of 152,320 MCF to the Blinebry Gas Pool. This adjustment includes the 73,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(3) OCD Exhibit No. 1, as amended by Decretory Paragraphs Nos. (1) and (2) above, and OCD Exhibit No. 2 are attached hereto as Exhibits "A" and "B", respectively, and shall be made a part hereof; further, said Exhibits shall be the basis for allowable assignments in the prorated gas pools in New Mexico for the months of Oct. 91 - Mar. 92. Allowables shall be assigned as follows:

- (a) Each marginal gas proration unit (GPU) shall be assigned a monthly allowable equal to the average monthly amount of gas produced by such GPU during the period April, 1991 through June, 1991.
- (b) Each non-marginal GPU shall be assigned a monthly allowable using the appropriate acreage allocation factor (F1) and the appropriate acreage times deliverability allocation factor (F2), if applicable, for each pool as shown on OCD Exhibit Nos. 1 and 2 attached to this order.

(4) The Oil Conservation Division is hereby directed to prepare proration schedules for the Oct. 91 - Mar. 92 allocation period in accordance with this order and other Division Rules, Regulations and Orders. Copies of this order shall be included in each proration schedule.

Case No. 10377  
Order No. R-9586  
Page No. 7

(5) 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.

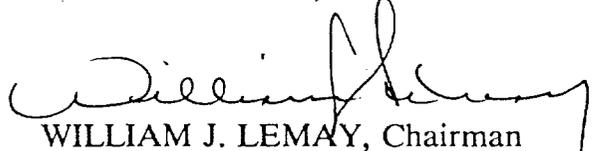
STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



WILLIAM W. WEISS, Member



GARY CARLSON, Member



WILLIAM J. LEMAY, Chairman

S E A L

Exhibit "A"  
 Case No. 10377  
 Order No. R-9586

ENGP216AT-ENGP216A-01 MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE RUN-DATE 09/09/91  
 RUN-TIME: 08:13:57 PRORATED GAS POOLS - SOUTHEAST NEW MEXICO  
 FOR OCT 91 THRU MAR 92

	ATOKA PENN	BLINEBRY	BUFFALO BURTON FLAT VALLEY PENN	CARLSBAD MORROW	CATCLAH DRAM MORROW	EUMOCHT INDIAN BASIN MORROW	INDIAN BASIN UPPER PENN	JALMAT JUSTIS GL	TUBB			
( 1 ) AVERAGE MONTHLY POOL SALES	113,401	414,669	214,667	436,754	237,631	146,818	2,218,783	196,828	3,229,032	884,356	39,436	231,773
OCT90-MAR91												
ALL VOLUME ARE IN MCF.												
( 2 ) TOTAL NOMINATIONS	21,768				407,167	131,173	3,600,000	126,500	22,669			9,112
AVG MONTH VOL.												
( 3 ) ADJUSTMENTS.	27,000	152,320			95,470	204,616	4,000	328,000	319,475		6,000	35,000
( 4 ) MONTHLY POOL ALLOWABLE	140,401	566,989	214,667	436,754	293,631	242,288	2,423,399	200,828	3,557,032	1,203,831	45,436	266,773
OCT91-MAR92												
(LINE 1 + LINE 3.)												
( 5 ) MONTHLY MARGINAL POOL ALLOWABLE	32,121	157,145	118,757	183,645	213,958	92,288	1,385,423	75,247	2,542,064	801,231	14,064	154,974
OCT91-MAR92												
( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLE	108,280	409,844	95,910	253,109	79,673	150,000	1,037,976	125,581	1,014,968	402,600	31,372	111,799
OCT91-MAR92												
( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS	3.42	10.75	2.00	6.88	3.97	2.00	56.72	.86	5.49	22.00	9.00	11.00
( 8 ) MONTHLY ACREAGE ALLOCATE FACTOR	11,660	38,125	47,955	36,789	20,068	75,000	18,300	146,024	184,875	18,300	3,485	10,163
OCT91-MAR92												
(LN 6 / LN 7)												

F1 FACTORS FOR OTHER POOLS  
 BURTON FLAT STRAIN F1 = 10,000  
 MCKEE ELLEN F1 = 25,000

Exhibit "B"  
Case No. 10377  
Order No. R-9586

ENGP216AT-ENGP216A-01  
RUN-TIME: 08:13:57

MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
PRORATED GAS POOLS - NORTHWEST NEW MEXICO  
FOR OCT 91 THRU MAR 92

	BASIN DAKOTA	BLANCO MESA VERDE	BLANCO P.C. SOUTH	TAPACITO
( 1 ) AVERAGE MONTHLY POOL SALES OCT90-MAR91 ALL VOLUME ARE IN MCF.	8,033,542	13,999,619	1,185,220	204,195
( 2 ) TOTAL NOMINATIONS AVG MONTH VOL.	795,852	555,611	56,094	41,426
( 3 ) ADJUSTMENTS.		46,000		
( 4 ) MONTHLY POOL ALLOWABLE OCT91-MAR92 (LINE 1 + LINE 3.)	8,033,542	14,045,619	1,185,220	204,195
( 5 ) MONTHLY MARGINAL POOL ALLOWABLE OCT91-MAR92	4,180,677	6,597,257	515,312	81,801
( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLES OCT91-MAR92 LINE 4 - LINE 5	3,852,865	7,448,362	669,908	122,394
( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS	433.65	599.93	456.61	91.74
( 8 ) NUMBER OF NON-MARGINAL ACREAGE TIMES DELIVERABILITY FACTORS	206,913	442,938	27,586	9,304
( 9 ) MONTHLY ACREAGE ALLOCATE FACTOR OCT91-MAR92	5,330	3,103	366	333
(10) MONTHLY ACREAGE TIMES DELIVERABILITY ALLOCATE FACTOR OCT91-MAR92	7.44	12.61	18.21	9.86

EXHIBIT "B"

STATE OF NEW MEXICO

Oil Conservation Division

*August 29, 1991 Hearing  
for  
Prorated Gas Allowables For  
October 1991 - March 1992*

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*Summary Comments and Exhibits*

*By*

*Hallwood Petroleum, Inc.*



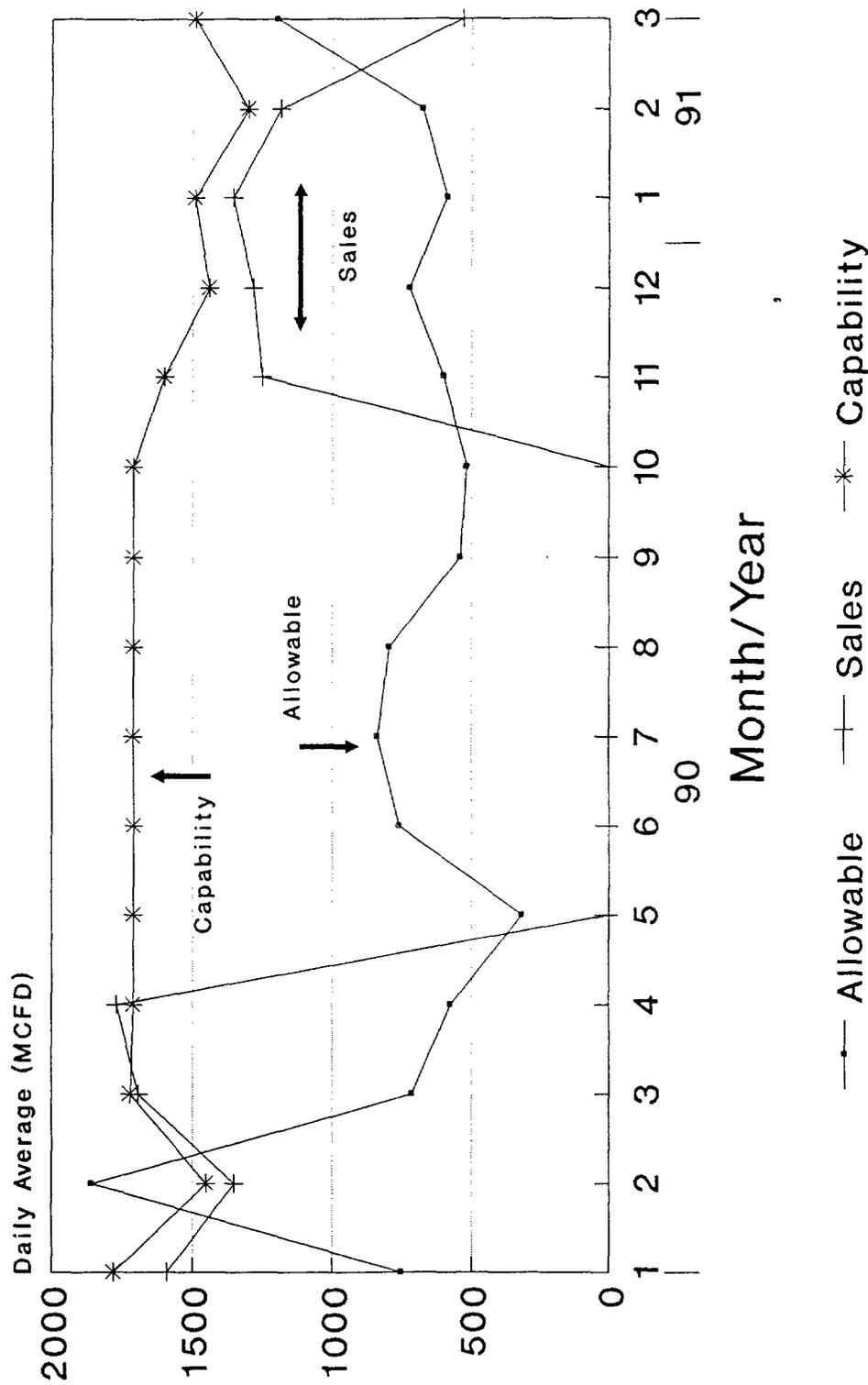
**CATCLAW DRAW UNIT #1Y AND #13**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

- This proration unit is currently a non-marginal unit.
- Hallwood has been shutting this unit in (or curtailing production) during summer to build allowable.
- During the 15-month period January 1990-March 1991, this proration unit was produced only 44% of the time (200 days out of 455 days).
- Despite this restricted production level this proration unit is still 300,014 MCF overproduced as of 3/31/91.
- Hallwood has withheld this gas from the market, for allowable/overproduction reasons, even when we had the opportunity to sell the gas.
- This proration unit is a good example highlighting the need to raise non-marginal unit allowables, as average assigned allowable (January '90 - March '91) has only been 44.3% (764 MCFD) of this proration unit's capability of 1616 MCFD.

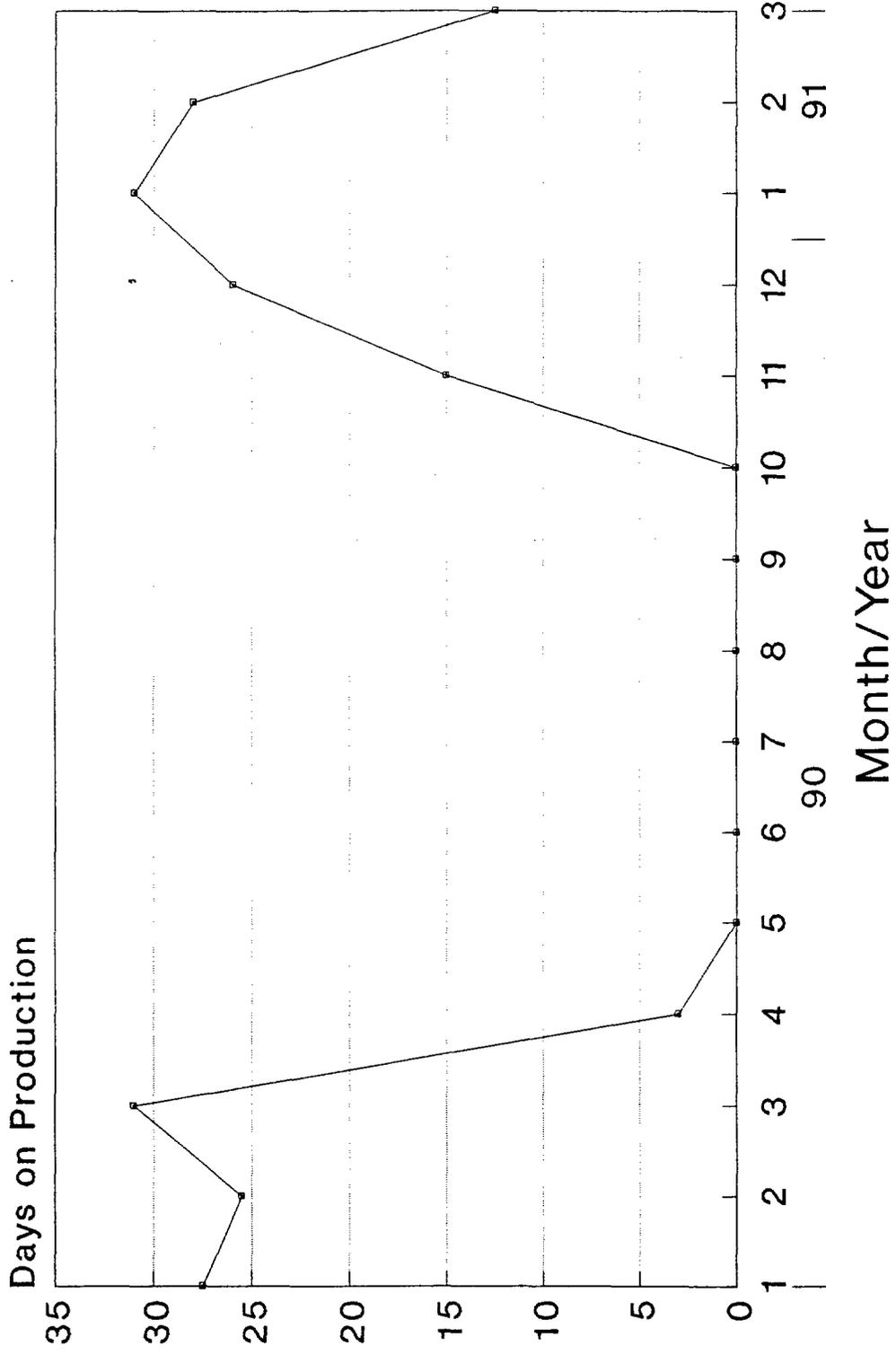
10/30/91  
MORROW

# CDU #1Y and #13 - Daily Averages

## Allowable, Sales, Capability



# CDU #1Y and #13 - Days on Production 1/90 through 3/91



**CATCLAW DRAW UNIT #2 AND #14**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

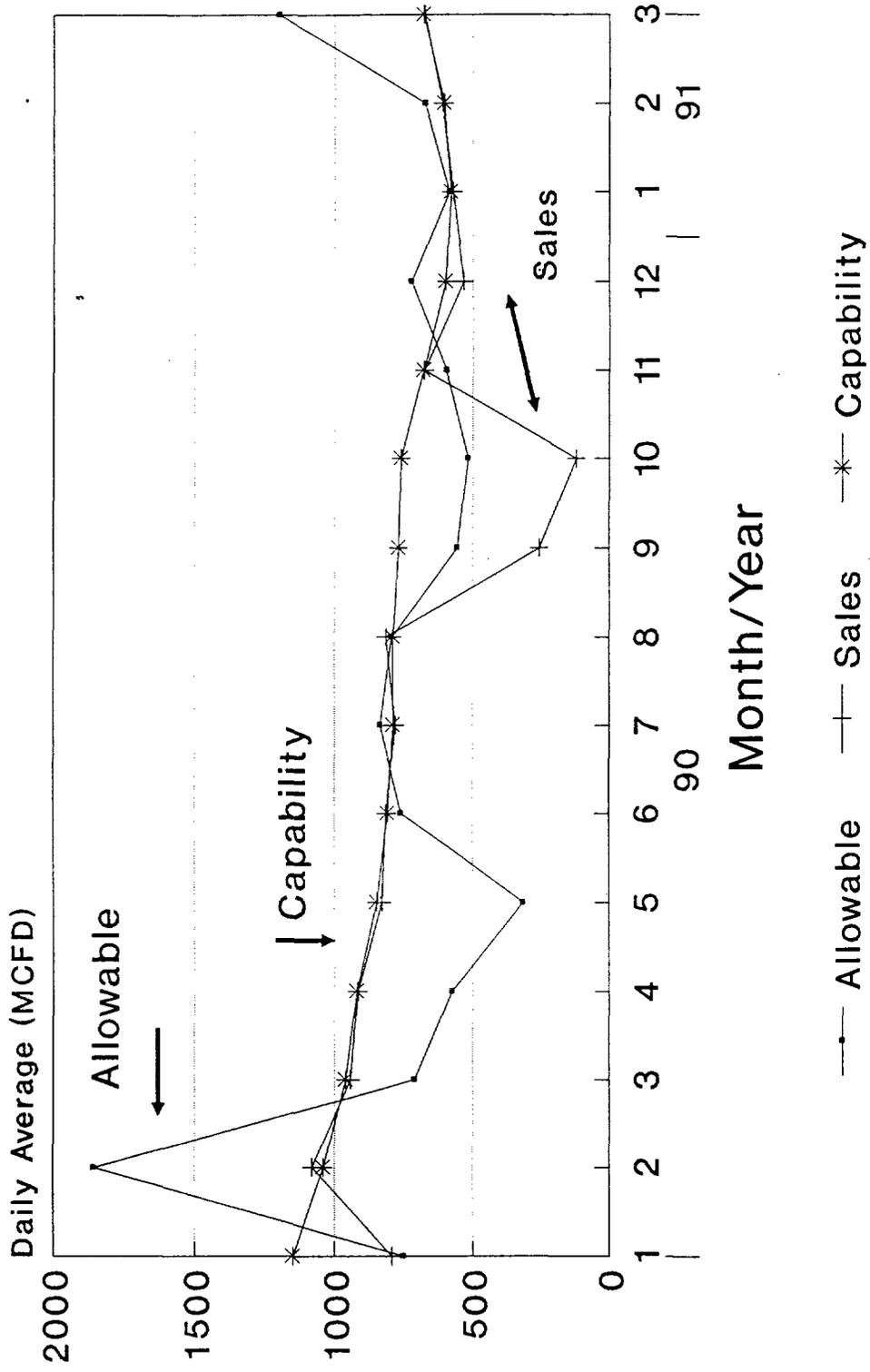
- This proration unit is a non-marginal unit but should be reclassified as marginal, as the unit has not produced its allowable in 8 consecutive months (since November 1990).
- This proration unit has been able to produce 89% of the time recently (January '90 - March '91) or 405 days out of 455 days.
- This unit is currently underproduced 31,544 MCF as of 7/31/91.
- Proration of this non-marginal unit has been working adequately, primarily due to the fact that production has been declining and average assigned allowable (January '90 - March '91) has been 96% (764 MCFD) of the unit's capability of 799 MCFD.
- This example helps illustrate that, if non-marginal allowables were increased, proration units such as this one would become reclassified as marginal and allowed to continue producing at essentially the same rates.

#2

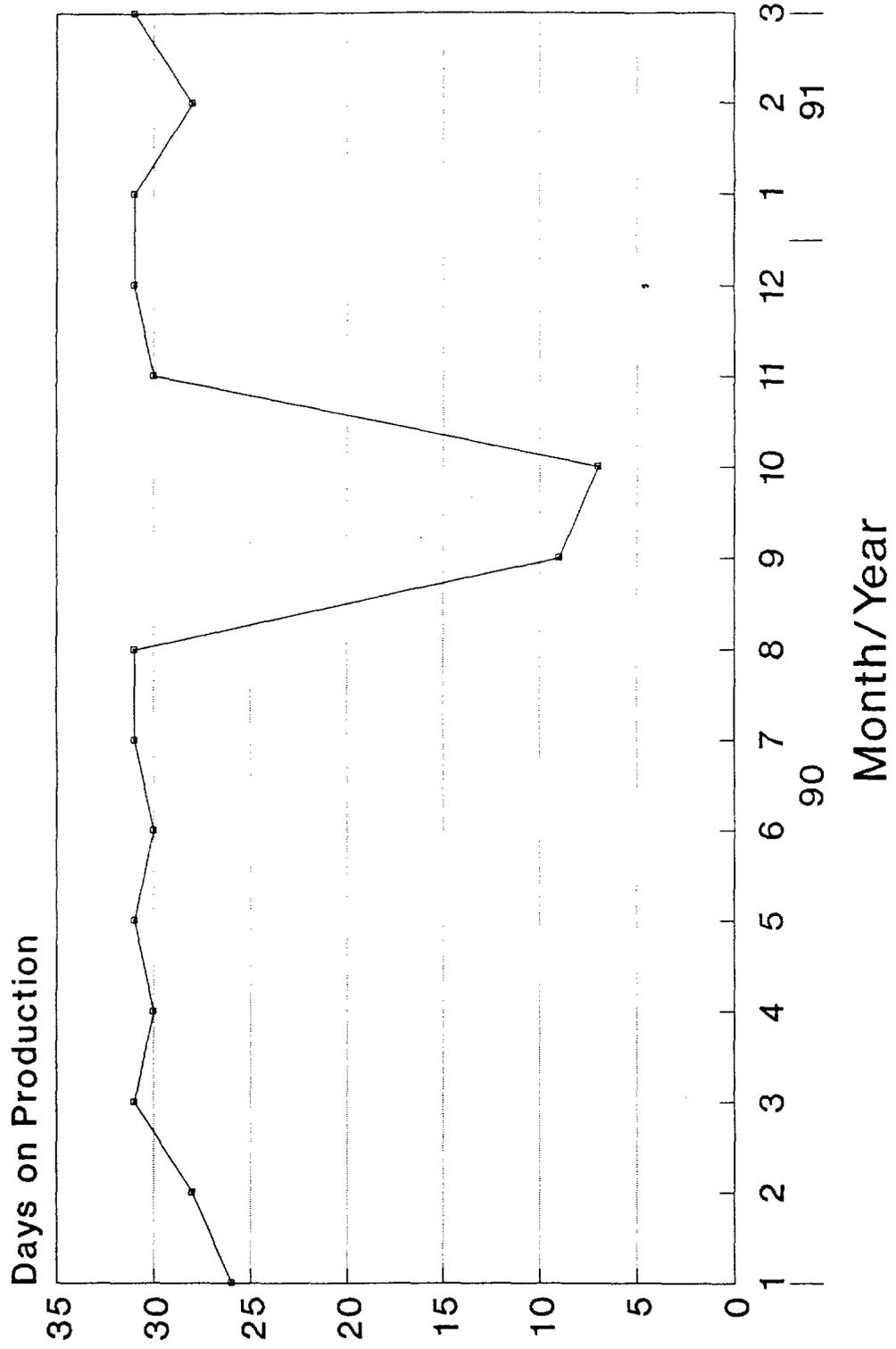
Meets  
Criteria  
to Be Rec'd  
as MA.

# CDU #14 & #2

## Allowable, Sales, Capability



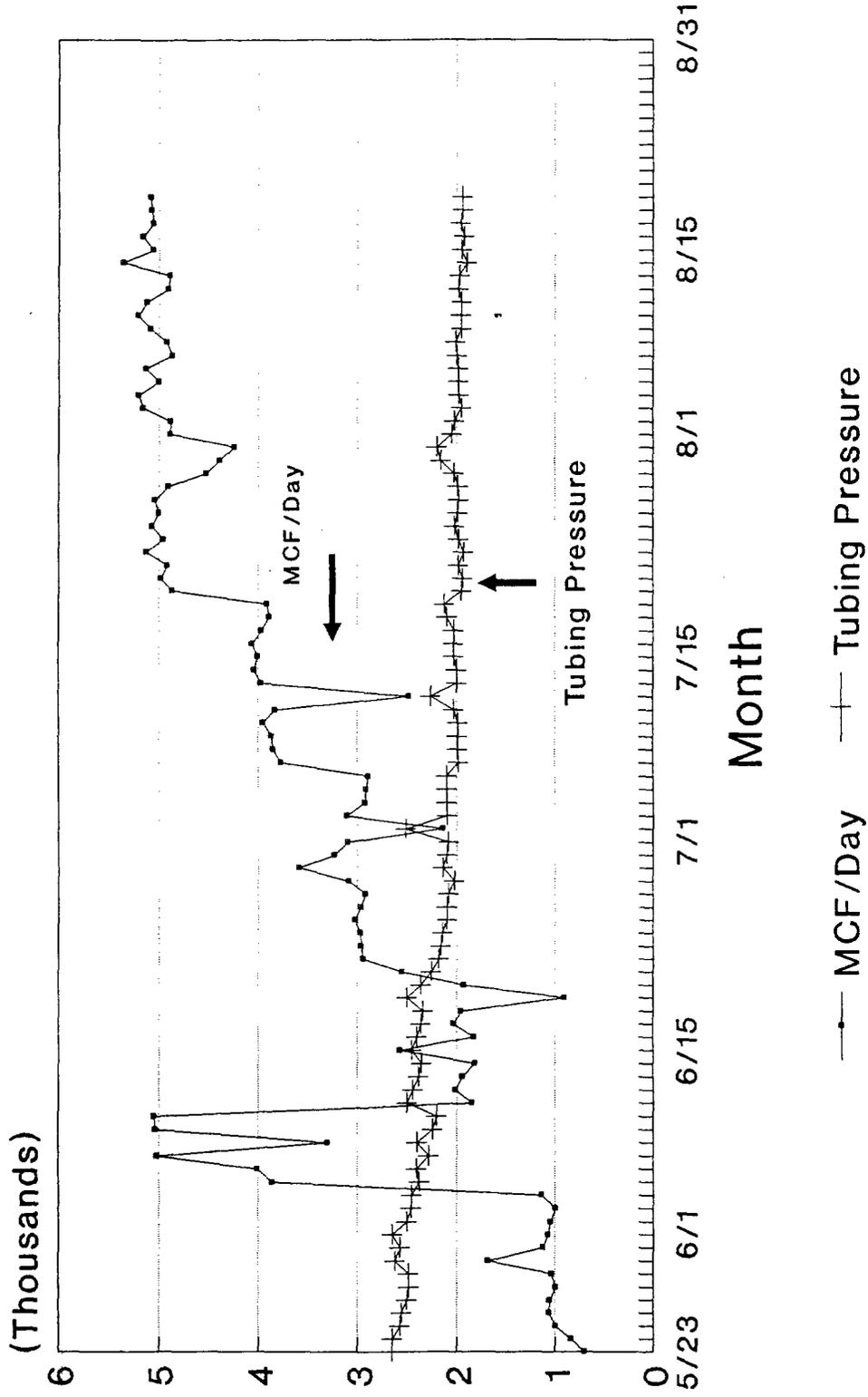
# CDU #14 & #2 - Days on Production 1/90 through 3/91



**CATCLAW DRAW UNIT #9**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

- This one-well proration unit was classified as marginal, but will most likely be reclassified as non-marginal.
- Hallwood recompleted the well in May 1991. Four zones in the Morrow "A" and "B" were perforated (73' net). The well has produced at rates up to 5800 MCFD and has a calculated AOF (absolute open flow) of 17,658 MCFD.
- C-104 form was filed on July 30, 1991.
- Post recompletion production (since May 22, 1991) has been approximately 342,000 MCF. Current production is averaging 5100 MCFD at 1950# FTP.
- This proration unit has demonstrated capability (and supporting gas sales) that is over 8 times the current top allowable for a standard 640-acre GPU (gas proration unit).
- This proration unit illustrates the need to raise the pool allowable to a level such that non-marginal units can be produced at rates commensurate with their capability.

# CDU #9-Post Recompletion Production Catclaw Draw (Morrow) Field



**CATCLAW DRAW (MORROW) FIELD**  
**Recent Monthly Pool Sales Volumes**

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	<u>Period</u>	<u>MCF/Mo.</u>	<u>MCFD</u>
(1)	Oct. 1990 - Dec. 1990 (From proration schedule)	158,408	5210
(2)	Oct. 1990 - March 1991 (From Victor Lyon)	184,712	6076
(3)	January 1991	194,381	6394
(4)	Average of 2 and 3 equals expected "winter monthly sales"	189,546	6235

**CATCLAW DRAW (MORROW) FIELD**  
**Marginal Well Production Estimate**

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<u>Operator</u>	<u># Proration Units</u>	<u># Wells</u>	<u>MCF/Month</u>
Barbara Fasken	2	2	7,800
Hondo	1	2	22,000
Texaco	1	1	<u>20,500</u>
		Subtotal	50,300 MCF/mo
*Hallwood	6	11	152,882
			=====
		Total	203,182 MCF/mo

\*Includes all but 2 proration units (3 wells) consisting of the Catclaw #1Y and #13 unit and Catclaw #9 unit.

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 2 Non-Marginal Proration Units**

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	<u>MCF/Month</u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546 (not 146,818)
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	203,182 (not 92,282)
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	255,100
(7) Number of non-marginal acreage factors	2.00 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	127,550
(9) Average daily rate	4196 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 1 Non-Marginal Proration Unit**

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	<u><b>MCF/Month</b></u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	243,158
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	215,124
(7) Number of non-marginal acreage factors	1.00 (Catclaw #9 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	215,124
(9) Average daily rate	7076 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 3 Non-Marginal Proration Units**

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	<u><b>MCF/Month</b></u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	179,470
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	278,812
(7) Number of non-marginal acreage factors	3.00 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U., Catclaw #2 & #14 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	92,937
(9) Average daily rate	3057 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 6 Non-Marginal Proration Units**

	<u>MCF/Month</u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	114,454
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	343,828
(7) Number of non-marginal acreage factors	6.01 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U., Catclaw #2 & #14 P.U., Catclaw #5 & #15 P.U., Hondo-Pure Fed. #1 & #2 P.U., Nan Bet #1 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	57,209
(9) Average daily rate	1882 MCFD

# COMPARISON OF SIMILAR PRORATION UNITS

## CATCLAW DRAW (MORROW) FIELD

OPERATOR	PRORATION UNIT	04/91 STATUS	04/91 - 09/91 ALLOWABLE	O/U STATUS (03/31/91)	01/91 SALES
Hallwood	Catclaw #2 & #14	N	22,117 MCF	31,544 <sup>1</sup>	17,702
Hallwood	Catclaw #5 & #15	M	21,660 MCF	-26,189 <sup>2</sup>	21,896 <sup>3</sup>
Hallwood	Nanbet Com #1	M	20,181 MCF	-138,086 <sup>2</sup>	22,813 <sup>3</sup>
Hondo	Pure Federal #1 Pure Federal #2	M M	#1 - 5,961 MCF #2 - 16,336 MCF 22,297 MCF	-232,355 <sup>2</sup>	21,855 <sup>3</sup>
Texaco	E.J. Levers - Fed	M	19,927 MCF	36,776 <sup>2</sup>	20,768 <sup>3</sup>

<sup>1</sup> 07/31/91 status - underproduced.

<sup>2</sup> Estimation if treated as non-marginal. Recommend reclassifying Catclaw #2 and #14 as marginal. With the exception of some over production volumes (which may be subject to error). Also recommend leaving all of these units as marginal due to the similar production nature.

<sup>3</sup> AVE = 21,833 or 98.7% of non-marginal (22,117) allowable.

1 6 1 1

EXHIBIT "C"

# GAS COMPANY OF NEW MEXICO

October 15, 1991

EM Nominee Partnership Company  
4582 South Ulster Street Parkway  
Sanford Place III, Suite 1700  
P. O. Box 378111  
Denver, CO 80237

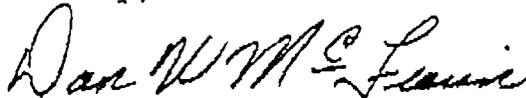
RE: Effects of a 1991 Six-Month Winter Allocation to Gas Company  
of New Mexico of 75,000 Mcf in the Catclaw Draw Morrow.

Dear Mr. Gregory:

Gas Company of New Mexico has a contract with EM Nominee to purchase up to 15,000 MMBTU a day of gas produced from their wells in the Catclaw Draw Morrow Field and Pool. The allowables that have been set by the Oil Conservation Division (OCD) for the 1991-1992 winter allocation period will not be adequate to prevent their Catclaw Draw Unit #9 from becoming shut-in for overproduction.

Without production from this well, EM Nominee will be unable to meet the 15,000 MMBTU a day volume. The loss of this supply may result in the need for Gas Company to purchase gas from off-system suppliers. This gas will be priced significantly higher and could come from out-of-state sources. This would negatively affect New Mexico's rate payers and the State Treasury.

Sincerely,



Dan W. McFearin  
Manager, Supply Planning

DMF:lt

cc: Lindsay McMurray  
File

Nominee.PDM

EXHBIT "C"

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION COMMISSION  
FOR THE PURPOSE OF CONSIDERING:

GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR OCTOBER, 1991  
THROUGH MARCH, 1992.

CASE: NO. 10377  
ORDER NO. R-9586

RECEIVED

OCT 18 1991

OIL CONSERVATION DIVISION

APPLICATION OF HALLWOOD PETROLEUM INC.  
FOR REHEARING

Comes now HALLWOOD PETROLEUM, INC. pursuant to the provisions of Section 70-2-25 NMSA (1978) and applies to the New Mexico Oil Conservation Commission ("Commission") for a Rehearing of the above-captioned case and order in so far as it applies to the Catclaw Draw-Morrow Gas Pool and in support thereof states:

GROUND'S FOR REHEARING

POINT I: COMMISSION SET ALLOWABLES FOR THE CATCLAW DRAW-MORROW GAS POOL BASED UPON CRITERIA OTHER THAN MARKET DEMAND FOR POOL PRODUCTION IN VIOLATION OF SECTION 70-2-3(E) NMSA-1978.

New Mexico's Market Demand Prorationing System is based on the relative simple concept of allocating surplus gas production capacity on a reasonable basis

Page 2

because production in excess of market demand has been defined as "waste" in the New Mexico Oil & Gas Act.<sup>1</sup>

While the mechanics of doing so are complex, the process is easy to describe: the Commission determines what the market demand is for pool production within a proration period and then allocates that market share to the individual prorated pools; then the Commission determines if the producing capacity of the pool exceeds that demand for that proration period; if the Commission finds that there is a surplus of gas production capacity then and only then, does it prorate production.<sup>2</sup>

In practice to make the process work, once a pool is initially prorated it continues to be prorated during periods of Excess Gas Deliverability (demand less than total pool production capacity) and during periods of Excess Market Demand (demand in excess of pool production capacity). However, allowables at less

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<sup>1</sup> N.M.Stat. Ann. Sec. 70-2-1 et seq. (1978)

<sup>2</sup> See Sullivan, Handbook of Oil and Gas Law, pp. 311-335, (1955).

than capacity are set ONLY during periods where market demand exceeds pool production capacity.<sup>3</sup> Thus, if the Commission finds that there is a surplus of gas production capacity then it allocates total market demand to individual producing proration units in the form of production allowables which are LESS THAN the capacity of the non-marginal wells to produce. Only during a proration period of Excess Gas Deliverability is prorationing necessary and therefore production allowables set which will result in production rates at less than the producing capacity of the non-marginal wells. Conversely, during a proration period of Excess Market Demand proration is unnecessary. If the Commission finds that there is no surplus of production capacity, then it is obligated to set allowables so that the highest capacity wells are unrestricted.<sup>4</sup>

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<sup>3</sup> See Glenn Taylor, "The Excess Gas Market-Recent Legal Problems Precipitated by Excess Gas Deliverability and Applicable Regulatory Provisions," Institute on Oil and Gas Law, pp. 94-95.

<sup>4</sup> See Tex.Nat.Res.Code Ann. Sec 86.081 (Vernon 1978) for Texas Market Demand Prorationing System statutory scheme which prorates Texas gas ONLY when there is a surplus of supply available from that common reservoir. Also see Stephen M. Hackerman, "Market Demand Prorationing and Ratable Taking," Oil and Gas Conservation Law and Practice, Paper No. 11, pp. 2-7, Rocky Mt. Min. L. Fdn. 1985.

In prior years, the Commission struggled with setting allowables in prorated pools because the state was in a gas surplus production capacity situation.<sup>5</sup> However, for at least the last two proration periods the Catclaw Draw Morrow-Gas Pool has been in a continuous Excess Market Demand situation. The Commission has failed to recognize the reversal in the relationship between supply and demand when it set the current allowables for the Catclaw Draw Morrow-Gas Pool.<sup>6</sup>

In the subject case the testimony was that allowables set to meet current market demand for Catclaw Draw-Morrow would result in "capacity allowables" but would not cause waste, or violate correlative rights. Specifically, Hallwood Petroleum Inc. sought and proved by substantial uncontested and undisputed evidence that the Division's preliminary allowable estimate of 160,818 MCF for an average

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<sup>5</sup> Glenn Taylor, "The Excess Gas Market-Recent Legal Problems Precipitated by Excess Gas Deliverability, and Applicable Regulatory Provisions," Institute on Oil and Gas Law, pp. 94-95.

<sup>6</sup> Oil Conservation Commission Order No. R-9586, attached hereto as Exhibit "A".

monthly pool allowable grossly underestimated market demand for this pool. Hallwood's expert testified that an average monthly pool allowable of 458,282 MCF for the Catclaw Draw Morrow-Gas Pool was necessary in order to meet market demand.<sup>7</sup> The Commission's decision to set the average monthly pool allowable at 242,288 MCF is unjustified, unsupported and contrary to New Mexico Law and impairs Hallwood Petroleum Inc.'s correlative rights.

POINT II: COMMISSION ORDER R-9586 (Finding Paragraph 10) INCORRECTLY DEFINES "ALLOWABLES" AND THEREBY ERRONEOUSLY SETS ALLOWABLES FOR THE CATCLAW DRAW-MORROW POOL AT SUBSTANTIALLY LESS THAN MARKET DEMAND

The Commission incorrectly defines "allowables"<sup>8</sup> and misapplies "prorationing"<sup>9</sup> to justify denying the level of allowables requested by Hallwood Petroleum Inc for the Catclaw Draw-Morrow Gas Pool. The Commission states in Finding (10) that "Allowables will by

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<sup>7</sup> Hallwood Petroleum Inc.'s Exhibits to Oil Conservation Commission Hearing attached hereto as Exhibit "B".

<sup>8</sup> H. Williams and C. Meyers, Manual of Terms, p. 37 (1987).

<sup>9</sup> H. William and C. Meyers, Manual of Terms, p. 775 (1987).

definition restrict production from the highest capability wells." Nowhere in the OCD rules and regulations or the Oil & Gas Act are "allowables" defined in that manner.

To the contrary, under the prorationing scheme in New Mexico allowables must be set based only on market demand for production from prorated pools in Southeast New Mexico regardless of the capacity of the wells to produce.<sup>10</sup> Section 70-2-16 NMSA (1978) establishes the basic outline of the proration system. The prorationing statute for natural gas is "pool limited." There is no overall statewide prorationing scheme, nor is there a scheme for the assignment of state-wide allowables. By amendments adopted in 1949 the New Mexico Legislature expanded the definition of "waste" in the Oil & Gas Act to include the production of natural gas in excess of market demand.<sup>11</sup> "Allowables" for prorated pools in Southeast New Mexico are then set

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<sup>10</sup> N.M.Stat. Ann. Sec 70-2-3(E) (1978).

<sup>11</sup> W. Perry Pearce, "Natural Gas Prorationing in New Mexico: An Attempt to Just and Equitable Allocation," Univ. of Colorado Law Review, Vol. 57, Issue 2, Winter 1986.

for each spacing unit in a pool based upon a formula that allocates back to each non-marginal spacing units its fair share of that market demand independent of what that spacing unit is capable of producing.

POINT III: COMMISSION ORDER R-9586 (Finding Paragraph (10)) IS NOT SUPPORTED BY SUBSTANTIAL EVIDENCE BECAUSE CONTRARY TO THE EVIDENCE, THE COMMISSION SPECULATES THAT THE PRODUCTION FROM THE HALLWOOD NO. 9 WELL SHOULD DECLINE OVER THE NEXT FEW MONTHS.

The record is void of any evidence from which the Commission could reach this conclusion.<sup>12</sup> Having reached this conclusion, it has no relevance upon the subject of prorationing for the Catclaw Draw-Morrow Gas Pool.

POINT IV: THERE IS NEW EVIDENCE NOT AVAILABLE AT THE TIME OF THE HEARING WHICH WILL CHANGE THE RESULT OF ORDER R-9586

The impact of Order R-9586, unless modified upon Rehearing, will cause market demand for gas production from a pool in New Mexico to be satisfied by other

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<sup>12</sup> See Hallwood Petroleum Inc.'s Oil Conservation Commission Hearing Exhibits, attached hereto as Exhibit "B".

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production to the detriment of the owners of production in the Catclaw Draw-Morrow Pool, including the State of New Mexico. Gas Company of New Mexico has confirmed the market demand for gas production from this pool which cannot be met by the current level of allowables assigned in Order R-9586.<sup>13</sup>

WHEREFORE, HALLWOOD PETROLEUM INC. respectfully requests the Commission grant a Rehearing in the above styled cause and that after rehearing, the Commission modify that portion of Order R-9586 dealing with the Catclaw Draw-Morrow Gas Pool to increase the average monthly pool allowable to 458,282 MCF for the October 1991-March 1992 proration period.

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin  
P.O. Box 2265  
Santa Fe, New Mexico 87504  
(505) 982-4285  
ATTORNEYS FOR HALLWOOD PETROLEUM  
INC.

appt1017.629

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<sup>13</sup> Gas Company letter dated October 15, 1991 attached hereto as Exhibit "C".

EXHIBIT "A"

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

*CASE NO. 10377*  
*ORDER NO. R-9586*

**GAS ALLOWABLES FOR THE PRORATED GAS  
POOLS IN NEW MEXICO FOR OCTOBER, 1991  
THROUGH MARCH, 1992.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on August 29, 1991, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 3rd day of October, 1991 the Commission, a quorum being present and having considered the testimony, the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) This hearing was called for the purpose of accepting nominations and other evidence and information to assist in determining October, 1991 through March, 1992 gas allowables for the prorated gas pools in New Mexico. Fourteen of the prorated gas pools are in Lea, Eddy and Chaves Counties in Southeast New Mexico and the other four prorated gas pools are in San Juan, Rio Arriba and Sandoval Counties in Northwest New Mexico.
- (3) Amendments to the Gas Proration Rules approved by Commission Order No. R-8170-H in December, 1990 provide for allowables to be established for 6-month allocation periods beginning in April and October of each year. The October, 1991 through March, 1992 allocation period will be the second under the amended rules.

(4) Average monthly allowables for Oct. 91 - Mar. 92 for each pool should be based on monthly average individual pool sales for Oct. 90 - Mar. 91, with administrative adjustments where appropriate.

(5) Oil Conservation Division (OCD) personnel prepared Market Demand and Allowable Determination Schedules for the prorated gas pools in New Mexico. These contained preliminary allowable estimates for the Oct. 91 - Mar. 92 period and were developed in accordance with procedures set forth in Division Order R-8170-H, Rules 5(a)1 and 5(a)2. Producers, purchasers and transporters of gas were asked to review these preliminary allowables and to participate in the August 29, 1991 hearing by providing information which would assist in arriving at the final allowable assignments.

(6) Revised preliminary allowable estimates for each prorated pool were submitted at the hearing by OCD as Exhibits 1 and 2. These estimates contained updated production data and differed slightly from the preliminary estimates which had been mailed out earlier.

(7) OCD Exhibit No. 3 was submitted to compare the proposed Oct. 1991 - Mar. 92 allowables to production and allowable volumes for Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91.

(8) The OCD Director of Natural Gas Marketing submitted at the time of the hearing as Exhibit No. 6 a series of graphs in slide form which showed the following:

- (a) Statewide gas production from New Mexico has increased over the last three years from 781 BCF in 1988 to over 965 BCF in 1990. Through June, 1991, year-to-date production exceeds production for the same period in 1990.
- (b) The gas producing rate is growing faster in the northwest part of the state than in the southeast due to the increase in coal seam gas production.
- (c) Statewide gas production is expected to increase during the Oct. 91 - Mar. 92 allocation period compared to Oct. 90 - Mar. 91.
- (d) Although total gas production in the northwest portion of the state has increased and is expected to continue to increase, conventional gas production has decreased since January, 1990.

(9) Hallwood Petroleum, Inc. presented exhibits and testimony to support an increase in allowable for the Catclaw Draw-Morrow Gas Pool. An increase in the monthly F1 factor for the Oct. 1991 - Mar. 1992 allocation period from 34,265, as proposed in OCD Exhibit No. 1 to 127,550 was requested. The following information was submitted to justify the increase:

- (a) The gas proration unit which contains Hallwood's Catclaw Draw Unit Well Nos. 1Y and 13 was shut-in 44 percent of the time from January, 1990 through March, 1991. The unit was over-produced 300,014 MCF as of March 31, 1991. During the above period, daily allowable averaged 764 MCF per day. Producing capability for the proration unit is 1,600 MCF per day.
- (b) Hallwood's Catclaw Draw Unit No. 9 has been worked over recently and is currently producing 5,100 MCF per day. Since May 22, 1991, the well has produced 342,000 MCF. Calculated absolute open-flow for the well was 17,658 MCF per day.
- (c) Hallwood submitted a letter from Gas Company of New Mexico indicating their willingness to purchase additional gas from the pool. Letters of support for the increased allowable from the other producers in the pool, Fasken, Hondo and Texaco were also submitted.

(10) Hallwood's information supports an increase in the allowable for the Catclaw Draw for Oct. 91 - Mar. 92. The proposed increase in F1 to 127,550 (over 4 MMCF per day for a gas proration unit with an acreage factor of one) would assign allowables in excess of the indicated producing capacity to all wells except Well No. 9 and therefore appears excessive. Allowables will by definition restrict production from the highest capability wells. The producing capacity of Well No. 9 may be expected to decline over the next few months. An F1 of 75,000 (2.46 MMCF per day) together with the overproduction limit (222,888 MCF) should provide sufficient opportunity for operators to produce their non-marginal wells. An adjustment of 95,470 (including the 14,000 adjustment) proposed by OCD in Exhibit No. 1 should be added in order to increase total monthly allowable to 242,288 MCF and increase the F1 factor to 75,000.

(11) Marathon Oil Company provided exhibits and testimony in support of an allowable increase in the Blinebry Gas Pool. Marathon wants to increase total pool allowable from 467,669 MCF per month (as proposed in OCD Exhibit No. 1) to 697,959 MCF per month for the Oct. 91 - Mar. 92 period. This would increase the monthly F1 factor from 30,746 to 50,308; the daily allowable for a gas proration unit with an acreage factor of one would increase from approximately 1 MMCF per day to 1.65 MMCF per day. Marathon based their request on the following information:

- (a) Tests from three Marathon wells in the pool were submitted showing daily per-well producing capabilities of between 1.5 and 1.9 MMCF per day.
- (b) A graph of production and allowables for Marathon's non-marginal wells shows the wells with an overproduced status for the period from January, 1989 through June, 1991. Since January, 1991, production from the wells has exceeded allowable.
- (c) Total sales from the pool (marginal and non-marginal wells of all operators) have exceeded allowables since January, 1991.
- (d) Marathon's witness testified that all operators in the Blinebry Pool had been contacted and that all except John Hendrix are in agreement with the requested increase. Marathon testified that John Hendrix preferred the Oil Conservation Division's preliminary allowable. No operator or interest owner appeared at the hearing in opposition to the Marathon request.
- (e) A Marathon marketing witness testified that there is plenty of demand on the spot market for the additional gas. The witness also testified that Northern Natural Gas would welcome the additional gas into their system.

(12) Marathon's evidence supports a daily allowable increase. Increase to approximately 1.25 MMCF per day for a Blinebry well with an acreage factor of one will allow the non-marginal wells to produce at higher rates and help determine if further increases are justified for future allocation periods. An adjustment of 152,320 (including the 73,000 adjustment proposed by OCD in Exhibit No. 1) should be added in order to increase total monthly pool allowable to 566,989 MCF and increase the F1 factor to 38,125 (1.25 MMCF per day).

(13) Chevron USA presented exhibits and testimony in strong support of the minimum allowable rates which have been established for the Eumont and Jalmat Pools. They said the minimum allowables have provided a reliable basis for planning drilling and remedial operations. Chevron expects to increase the number of producing wells in the Eumont Pool from 80 to 98 by October, 1991. Chevron's production from the Eumont Pool is expected to increase from approximately 15 MMCF to 22 MMCF per day by December, 1991.

(14) An Amoco witness recommended slight reductions in the OCD preliminary allowables for the Northwest New Mexico pools as follows:

Basin Dakota	(66,613)
Blanco Mesaverde	(16,554)
Blanco Pictured Cliffs	(8,675)
Tapacito	(3,290)

The non-marginal pool balances for the last two years and a comparison of production to allowables for April and May, 1991 were submitted to support the recommended reductions. Because allowables are based on production for the prior like period, pool balancing is not a major factor.

(15) A Unocal witness submitted data in support of the OCD revised preliminary allowable estimates for the Northwest pools. Unocal expects that pipeline constraints due to line construction over the next several months will curtail production through the Oct. 91 - Mar. 92 period and that the Oil Conservation Division allowable estimates will be adequate. Unocal is not in agreement with the reductions proposed by Amoco since they are based on April and May, 1991 production information. Unocal reduces production volumes during the summer allocation period to save allowable for the winter months.

(16) Allowables for the four Northwest pools should be consistent with the levels shown on OCD Exhibit No. 2. OCD Exhibit No. 3 shows that Oct. 91 - Mar. 92 allowables will be lower than the Oct. 89 - Mar. 90 and Oct. 90 - Mar. 91 periods. Testimony by the Oil Conservation Division Gas Marketing Director, Amoco and Unocal indicates that OCD Exhibit No. 2 allowables should be adequate.

(17) Allowables for the Catclaw Draw and Blinebry Pools should be established as set forth in Finding Paragraph Nos. (10) and (12) above. Allowables assigned to other Southeast New Mexico Pools should be consistent with the levels shown in OCD Exhibit No. 1.

(18) Under the provisions of Order Nos. R-8170-E and R-9463, the Burton Flat-Morrow Pool is unprorated until October, 1991. A hearing has been scheduled for September 19, 1991 to evaluate the effects of the above action and determine if the pool should remain unprorated.

IT IS THEREFORE ORDERED THAT:

(1) OCD Exhibit No. 1 submitted at the time of the hearing shall be amended by adding a monthly allowable adjustment of 95,470 MCF to the Catclaw Draw-Morrow Gas Pool. This adjustment includes the 14,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(2) Said OCD Exhibit No. 1 shall be further amended by adding a monthly allowable adjustment of 152,320 MCF to the Blinebry Gas Pool. This adjustment includes the 73,000 MCF adjustment originally proposed in said OCD Exhibit No. 1.

(3) OCD Exhibit No. 1, as amended by Decretory Paragraphs Nos. (1) and (2) above, and OCD Exhibit No. 2 are attached hereto as Exhibits "A" and "B", respectively, and shall be made a part hereof; further, said Exhibits shall be the basis for allowable assignments in the prorated gas pools in New Mexico for the months of Oct. 91 - Mar. 92. Allowables shall be assigned as follows:

- (a) Each marginal gas proration unit (GPU) shall be assigned a monthly allowable equal to the average monthly amount of gas produced by such GPU during the period April, 1991 through June, 1991.
- (b) Each non-marginal GPU shall be assigned a monthly allowable using the appropriate acreage allocation factor (F1) and the appropriate acreage times deliverability allocation factor (F2), if applicable, for each pool as shown on OCD Exhibit Nos. 1 and 2 attached to this order.

(4) The Oil Conservation Division is hereby directed to prepare proration schedules for the Oct. 91 - Mar. 92 allocation period in accordance with this order and other Division Rules, Regulations and Orders. Copies of this order shall be included in each proration schedule.

Case No. 10377  
Order No. R-9586  
Page No. 7

(5) 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

*Bill Weiss*

WILLIAM W. WEISS, Member

*Gary Carlson*

GARY CARLSON, Member

*William J. Lemay*

WILLIAM J. LEMAY, Chairman

S E A L

Exhibit "A"  
Case No. 10377  
Order No. R-9586

ENG216AT-BMGP216A-01 RUN-TIME: 08:13:57	MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE PRORATED GAS POOLS - SOUTHEAST NEW MEXICO FOR OCT 91 THRU MAR 92										RUN-DATE 09/09/91	
	ATOKA PENN	BLINEBRY	BUFFALO VALLEY PENN	BURTON FLAT MORROH	CARLSBAD MORROH	CATCLAW DRAW MORROH	EUFONT INDIAN BASIN MORROH	INDIAN BASIN UPPER PENN	JALMAT	JUSTIS 6L	TUBB	
( 1 ) AVERAGE MONTHLY POOL SALES OCT90-MAR91 ALL VOLUME ARE IN MCF.	113,401	414,669	214,667	436,754	237,631	146,818	2,218,783	196,828	3,229,032	884,356	39,436	231,773
( 2 ) TOTAL NOMINATIONS AVE MONTH VOL.		21,768		407,167	131,173	3,600,000	126,500	22,669				9,112
( 3 ) ADJUSTMENTS.	27,000	152,320		95,470	204,616	4,000	328,000	319,475	6,000			35,000
( 4 ) MONTHLY POOL ALLOWABLE OCT91-MAR92 (LINE 1 + LINE 3.)	140,401	566,989	214,667	436,754	293,631	242,288	2,423,399	200,828	3,557,032	1,203,831	45,436	266,773
( 5 ) MONTHLY MARGINAL POOL ALLOWABLE OCT91-MAR92	32,121	157,145	118,757	183,645	213,958	92,288	1,385,423	75,247	2,542,064	801,231	14,064	154,974
( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLE OCT91-MAR92	108,280	409,844	95,910	253,109	79,673	150,000	1,037,976	125,581	1,014,968	402,600	31,372	111,799
( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS	3.42	10.75	2.00	6.88	3.97	2.00	56.72	.86	5.49	22.00	9.00	11.00
( 8 ) MONTHLY ACREAGE ALLOCATE FACTOR OCT91-MAR92 (LN 6 / LN 7)	11,660	38,125	47,955	36,789	20,068	75,000	18,300	146,024	184,875	18,300	3,485	10,163

F1 FACTORS FOR OTHER POOLS  
BURTON FLAT STRAHN F1 = 10,000  
MORNING MCKEE ELLEN F1 = 25,000

Exhibit "B"  
Case No. 10377  
Order No. R-9586

ENGP216AT-ENGP216A-01  
RUN-TIME: 08:13:57

MARKET DEMAND AND ALLOWABLE DETERMINATION SCHEDULE  
PRORATED GAS POOLS - NORTHWEST NEW MEXICO  
FOR OCT 91 THRU MAR 92

	BASIN DAKOTA	BLANCO MESA VERDE	BLANCO P.C. SOUTH	TAPACITO
( 1 ) AVERAGE MONTHLY POOL SALES OCT90-MAR91 ALL VOLUME ARE IN MCF.	8,033,542	13,999,619	1,185,220	204,195
( 2 ) TOTAL NOMINATIONS AVG MONTH VOL.	795,852	555,611	56,094	41,426
( 3 ) ADJUSTMENTS.		46,000		
( 4 ) MONTHLY POOL ALLOWABLE OCT91-MAR92 (LINE 1 + LINE 3.)	8,033,542	14,045,619	1,185,220	204,195
( 5 ) MONTHLY MARGINAL POOL ALLOWABLE OCT91-MAR92	4,180,677	6,597,257	515,312	81,801
( 6 ) MONTHLY NON-MARGINAL POOL ALLOWABLES OCT91-MAR92 LINE 4 - LINE 5	3,852,865	7,448,362	669,908	122,394
( 7 ) NUMBER OF NON-MARGINAL ACREAGE FACTORS	433.65	599.93	456.61	91.74
( 8 ) NUMBER OF NON-MARGINAL ACREAGE TIMES DELIVERABILITY FACTORS	206,913	442,938	27,586	9,304
( 9 ) MONTHLY ACREAGE ALLOCATE FACTOR OCT91-MAR92	5,330	3,103	366	333
(10) MONTHLY ACREAGE TIMES DELIVERABILITY ALLOCATE FACTOR OCT91-MAR92	7.44	12.61	18.21	9.86

EXHIBIT "B"

STATE OF NEW MEXICO

Oil Conservation Division

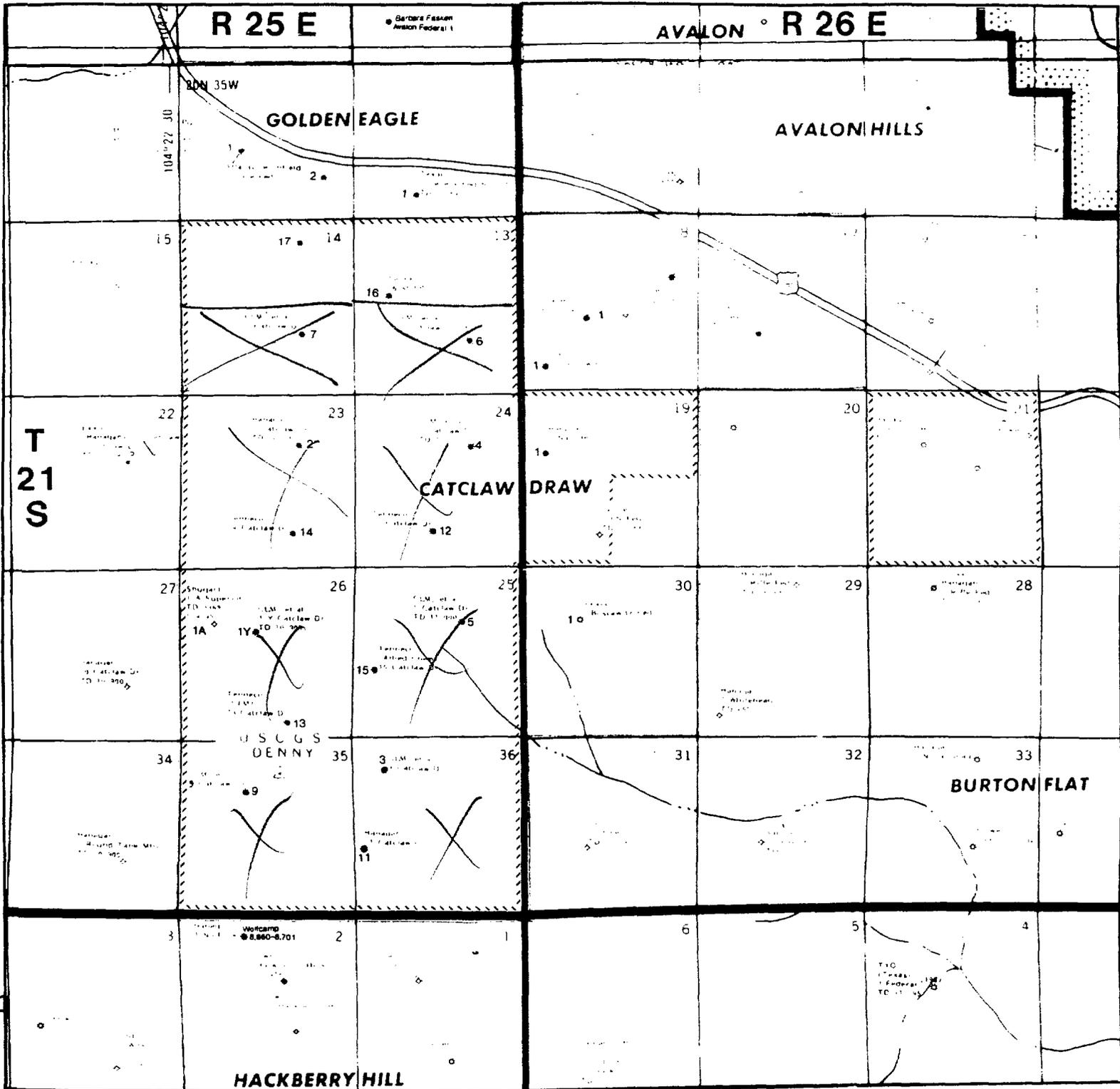
*August 29, 1991 Hearing  
for  
Prorated Gas Allowables For  
October 1991 - March 1992*

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*Summary Comments and Exhibits*

*By*

*Hallwood Petroleum, Inc.*



- Field Boundary
- Hallwood Acreage
- Producing Wells
- Shut-in Wells
- P&A'd Wells

HALLWOOD PETROLEUM, INC.		
Retained	Drill	Lease
1		
2		
3		
4		
5		

**CAT CLAW DRAW FIELD**  
**EDDY COUNTY, N.M.**  
 Derald G. Aik Scale 1:2500' Date 2/77

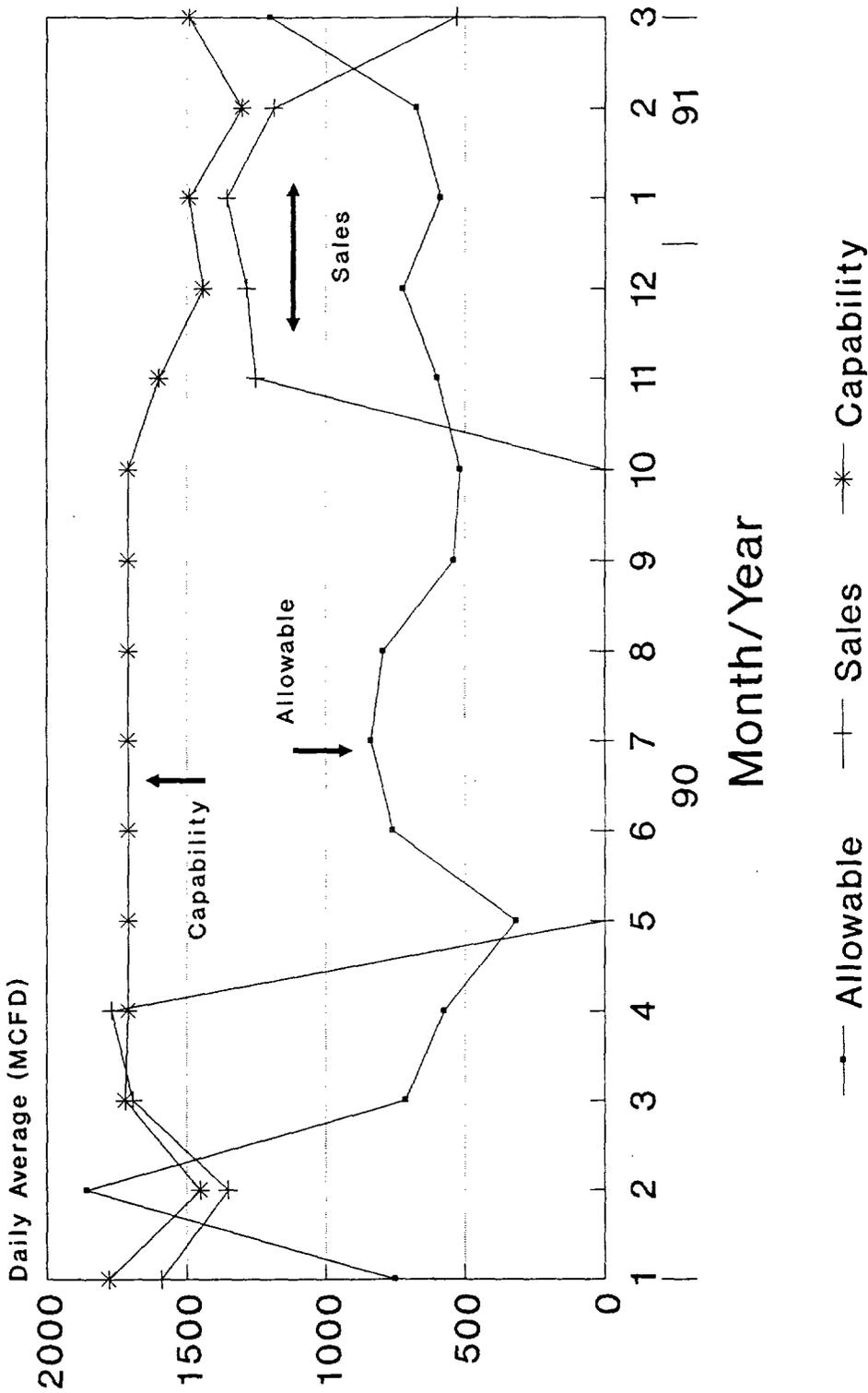
**CATCLAW DRAW UNIT #1Y AND #13**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

- This proration unit is currently a non-marginal unit.
- Hallwood has been shutting this unit in (or curtailing production) during summer to build allowable.
- During the 15-month period January 1990-March 1991, this proration unit was produced only 44% of the time (200 days out of 455 days).
- Despite this restricted production level this proration unit is still 300,014 MCF overproduced as of 3/31/91.
- Hallwood has withheld this gas from the market, for allowable/overproduction reasons, even when we had the opportunity to sell the gas.
- This proration unit is a good example highlighting the need to raise non-marginal unit allowables, as average assigned allowable (January '90 - March '91) has only been 44.3% (764 MCFD) of this proration unit's capability of 1616 MCFD.

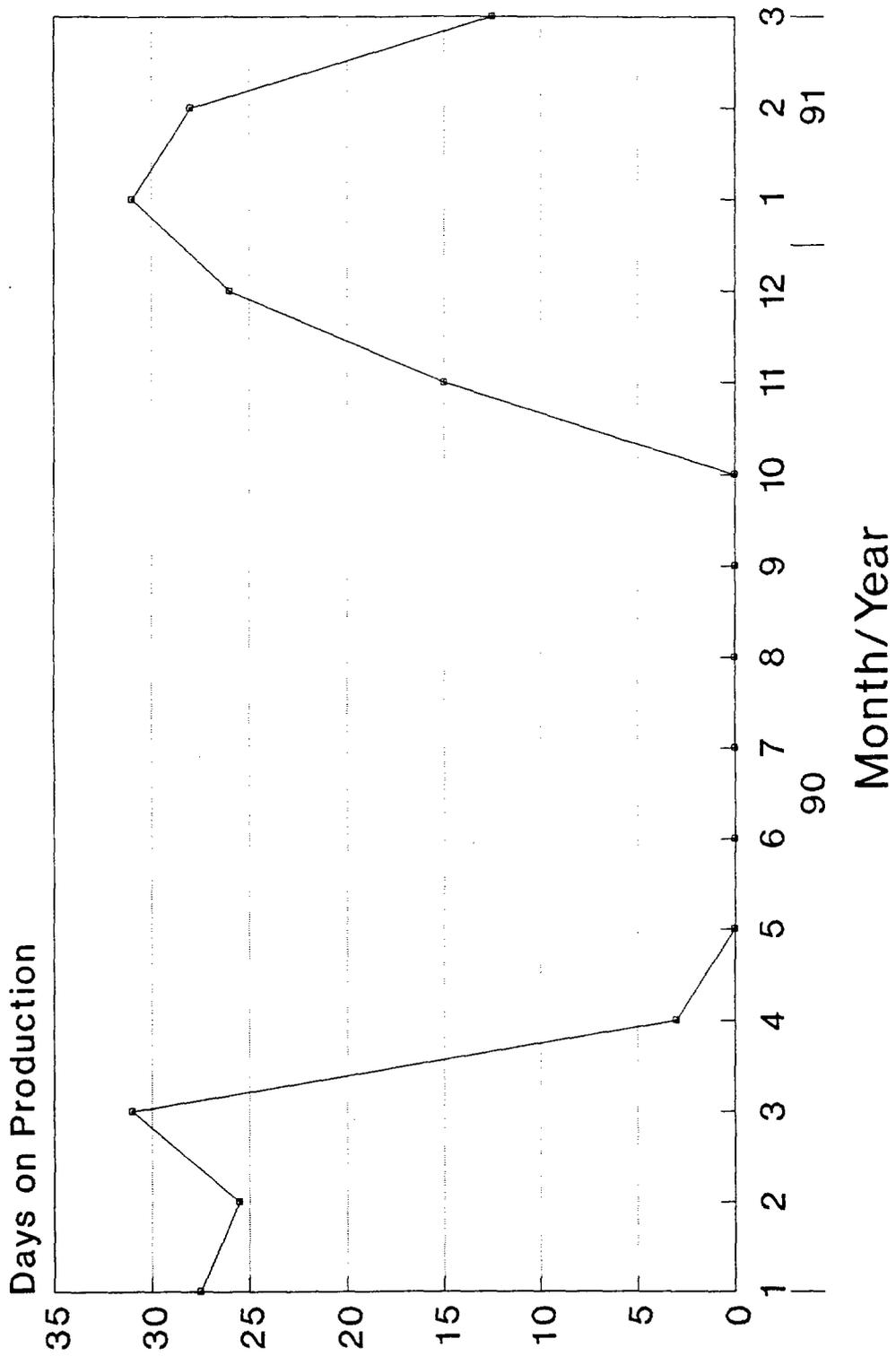
*0/p  
1/3 BCF  
MORROW*

# CDU #1Y and #13 - Daily Averages

## Allowable, Sales, Capability



# CDU #1Y and #13 - Days on Production 1/90 through 3/91



**CATCLAW DRAW UNIT #2 AND #14**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

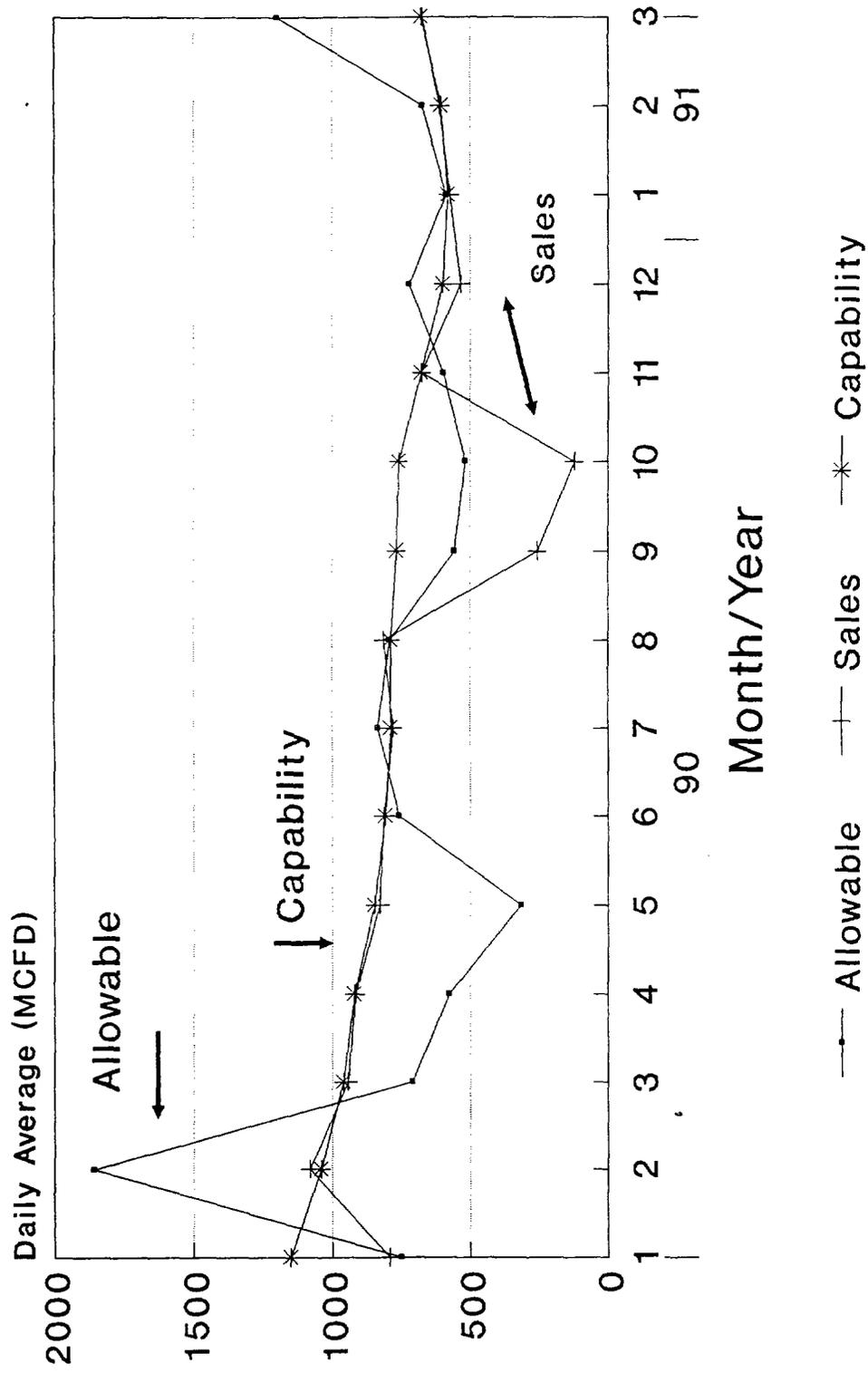
- This proration unit is a non-marginal unit but should be reclassified as marginal, as the unit has not produced its allowable in 8 consecutive months (since November 1990).
- This proration unit has been able to produce 89% of the time recently (January '90 - March '91) or 405 days out of 455 days.
- This unit is currently underproduced 31,544 MCF as of 7/31/91.
- Proration of this non-marginal unit has been working adequately, primarily due to the fact that production has been declining and average assigned allowable (January '90 - March '91) has been 96% (764 MCFD) of the unit's capability of 799 MCFD.
- This example helps illustrate that, if non-marginal allowables were increased, proration units such as this one would become reclassified as marginal and allowed to continue producing at essentially the same rates.

#2

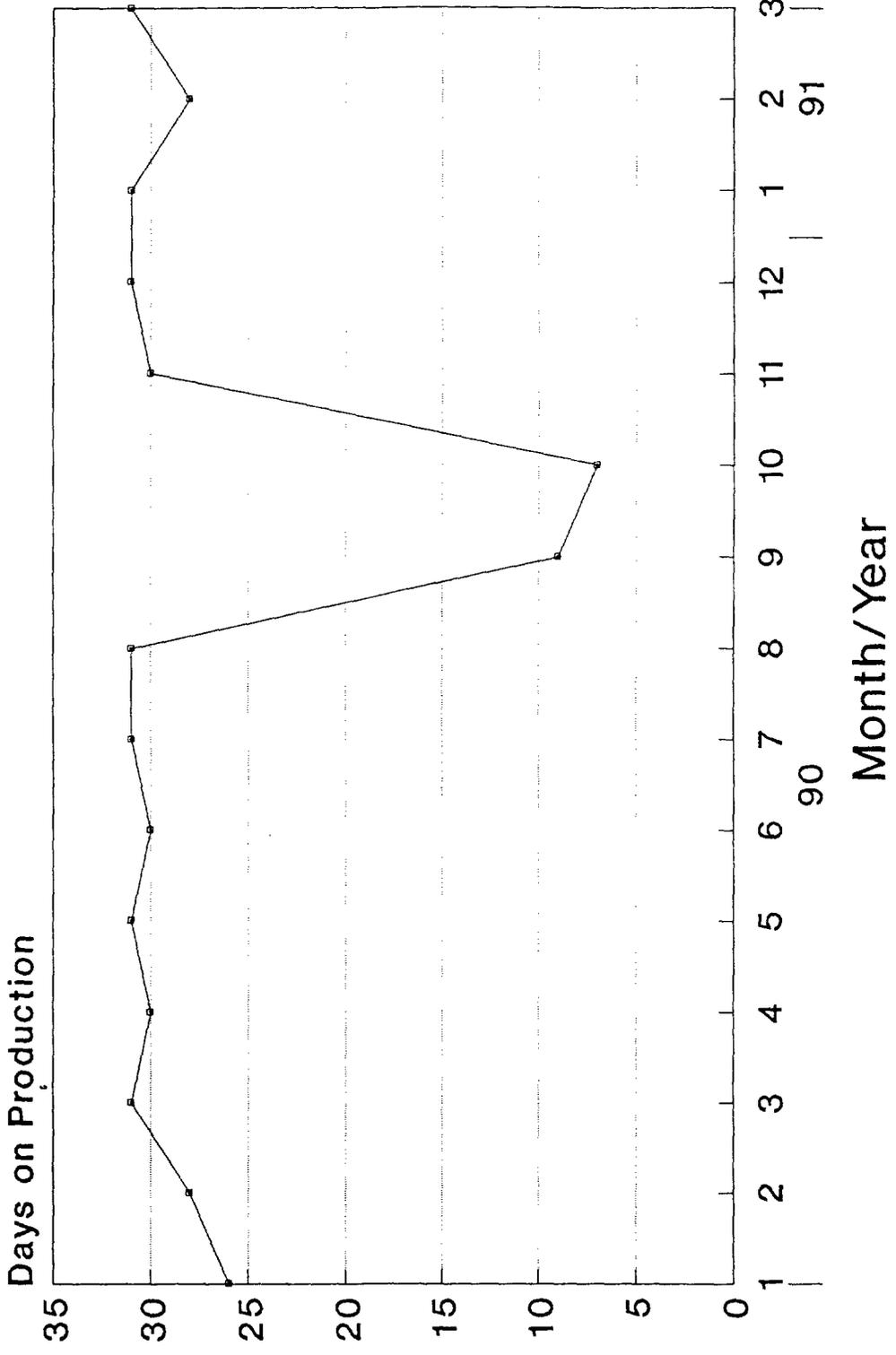
Meets  
CR  
to be reclass  
as MA.

# CDU #14 & #2

## Allowable, Sales, Capability



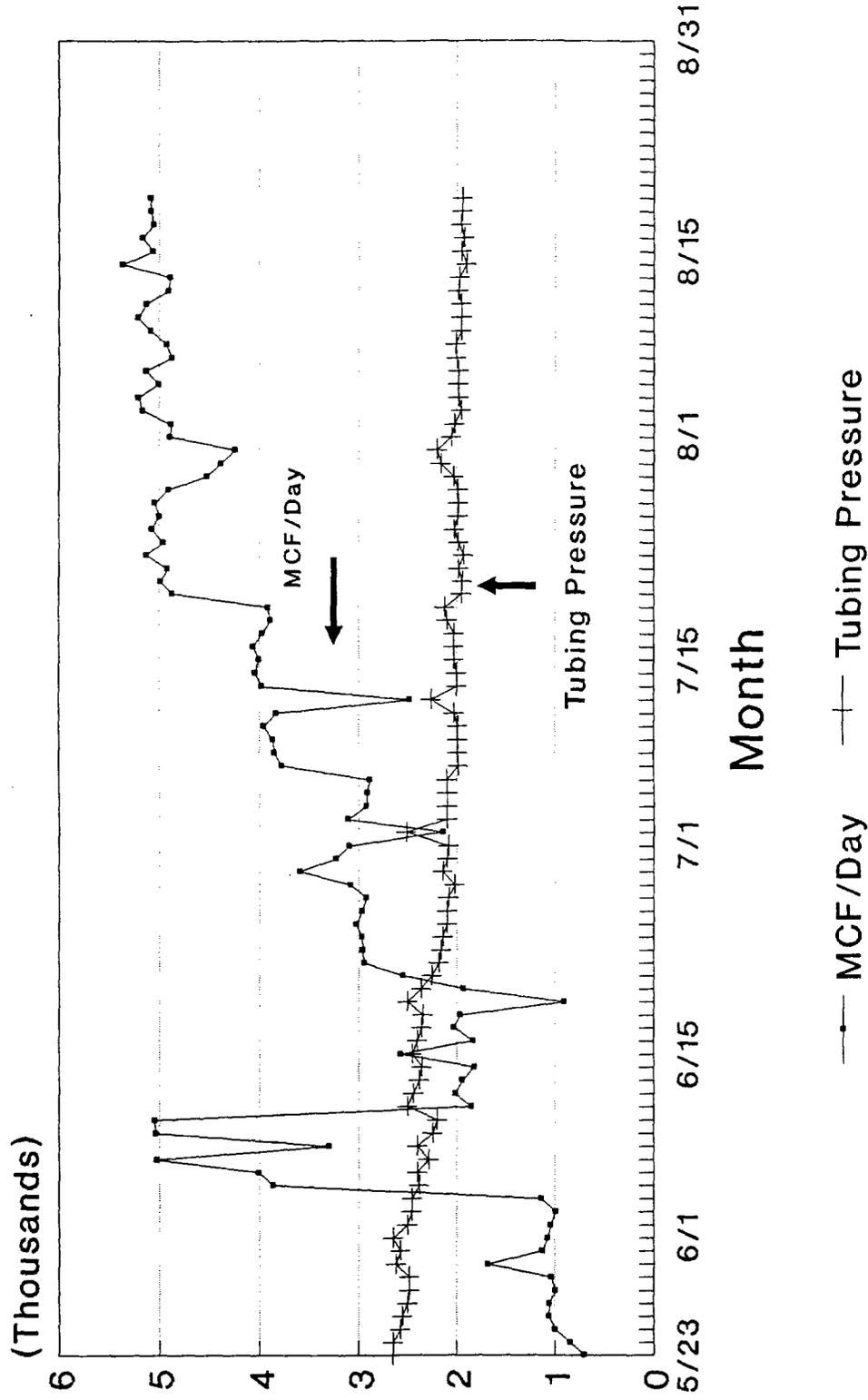
# CDU #14 & #2 - Days on Production 1/90 through 3/91



**CATCLAW DRAW UNIT #9**  
**Proration Unit**  
**Catclaw Draw (Morrow) Field**

- This one-well proration unit was classified as marginal, but will most likely be reclassified as non-marginal.
- Hallwood recompleted the well in May 1991. Four zones in the Morrow "A" and "B" were perforated (73' net). The well has produced at rates up to 5800 MCFD and has a calculated AOF (absolute open flow) of 17,658 MCFD.
- C-104 form was filed on July 30, 1991.
- Post recompletion production (since May 22, 1991) has been approximately 342,000 MCF. Current production is averaging 5100 MCFD at 1950# FTP.
- This proration unit has demonstrated capability (and supporting gas sales) that is over 8 times the current top allowable for a standard 640-acre GPU (gas proration unit).
- This proration unit illustrates the need to raise the pool allowable to a level such that non-marginal units can be produced at rates commensurate with their capability.

# CDU #9-Post Recompletion Production Catclaw Draw (Morrow) Field



**CATCLAW DRAW (MORROW) FIELD**  
**Recent Monthly Pool Sales Volumes**

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<u>Period</u>	<u>MCF/Mo.</u>	<u>MCFD</u>
(1) Oct. 1990 - Dec. 1990 (From proration schedule)	158,408	5210
(2) Oct. 1990 - March 1991 (From Victor Lyon)	184,712	6076
(3) January 1991	194,381	6394
(4) Average of 2 and 3 equals expected "winter monthly sales"	189,546	6235

**CATCLAW DRAW (MORROW) FIELD**  
**Marginal Well Production Estimate**

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<u>Operator</u>	<u># Proration Units</u>	<u># Wells</u>	<u>MCF/Month</u>
Barbara Fasken	2	2	7,800
Hondo	1	2	22,000
Texaco	1	1	<u>20,500</u>
		Subtotal	50,300 MCF/mo
*Hallwood	6	11	152,882
			=====
		Total	203,182 MCF/mo

\*Includes all but 2 proration units (3 wells) consisting of the Catclaw #1Y and #13 unit and Catclaw #9 unit.

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 2 Non-Marginal Proration Units**

---

	<u><b>MCF/Month</b></u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	203,182
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	255,100
(7) Number of non-marginal acreage factors	2.00 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	127,550
(9) Average daily rate	4196 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 1 Non-Marginal Proration Unit**

---

	<u>MCF/Month</u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	243,158
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	215,124
(7) Number of non-marginal acreage factors	1.00 (Catclaw #9 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	215,124
(9) Average daily rate	7076 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 3 Non-Marginal Proration Units**

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	<u>MCF/Month</u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	179,470
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	278,812
(7) Number of non-marginal acreage factors	3.00 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U., Catclaw #2 & #14 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	92,937
(9) Average daily rate	3057 MCFD

**CATCLAW DRAW (MORROW) FIELD**  
**Allowable Determination**  
**With 6 Non-Marginal Proration Units**

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	<u><b>MCF/Month</b></u>
(1) Average monthly pool sales, 10/90 - 3/91	189,546
(2) Total nominations	410,000 (Hallwood)
(3) Adjustments	268,736 (Catclaw #9, #16, #17 - anticipated production)
(4) Monthly pool allowable, 10/91 - 3/92	458,282
(5) Monthly marginal pool allowable, 10/91 - 3/92	114,454
(6) Monthly non-marginal pool allowable, 10/91 - 3/92	343,828
(7) Number of non-marginal acreage factors	6.01 (Catclaw #9 P.U., Catclaw #1Y & #13 P.U., Catclaw #2 & #14 P.U., Catclaw #5 & #15 P.U., Hondo-Pure Fed. #1 & #2 P.U., Nan Bet #1 P.U.)
(8) Monthly acreage allocation factor, 10/91 - 3/92	57,209
(9) Average daily rate	1882 MCFD

# COMPARISON OF SIMILAR PRORATION UNITS

## CATCLAW DRAW (MORROW) FIELD

OPERATOR	PRORATION UNIT	04/91 STATUS	04/91 - 09/91 ALLOWABLE	O/U STATUS (03/31/91)	01/91 SALES
Hallwood	Catclaw #2 & #14	N	22,117 MCF	31,544 <sup>1</sup>	17,702
Hallwood	Catclaw #5 & #15	M	21,660 MCF	-26,189 <sup>2</sup>	21,896 <sup>3</sup>
Hallwood	Nanbet Com #1	M	20,181 MCF	-138,086 <sup>2</sup>	22,813 <sup>3</sup>
Hondo	Pure Federal #1 Pure Federal #2	M M	#1 - 5,961 MCF #2 - 16,336 MCF	-232,355 <sup>2</sup>	21,855 <sup>3</sup>
Texaco	E.J. Levers - Fed	M	22,297 MCF	36,776 <sup>2</sup>	20,768 <sup>3</sup>

<sup>1</sup> 07/31/91 status - underproduced.

<sup>2</sup> Estimation if treated as non-marginal. Recommend reclassifying Catclaw #2 and #14 as marginal. With the exception of some over production volumes (which may be subject to error). Also recommend leaving all of these units as marginal due to the similar production nature.

<sup>3</sup> AVE = 21,833 or 98.7% of non-marginal (22,117) allowable.

EXHIBIT "C"

# **GAS COMPANY OF NEW MEXICO**

October 15, 1991

EM Nominee Partnership Company  
4582 South Ulster Street Parkway  
Sanford Place III, Suite 1700  
P. O. Box 378111  
Denver, CO 80237

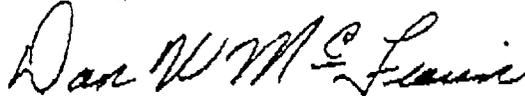
RE: Effects of a 1991 Six-Month Winter Allocation to Gas Company  
of New Mexico of 75,000 Mcf in the Catclaw Draw Morrow.

Dear Mr. Gregory:

Gas Company of New Mexico has a contract with EM Nominee to purchase up to 15,000 MMBTU a day of gas produced from their wells in the Catclaw Draw Morrow Field and Pool. The allowables that have been set by the Oil Conservation Division (OCD) for the 1991-1992 winter allocation period will not be adequate to prevent their Catclaw Draw Unit #9 from becoming shut-in for overproduction.

Without production from this well, EM Nominee will be unable to meet the 15,000 MMBTU a day volume. The loss of this supply may result in the need for Gas Company to purchase gas from off-system suppliers. This gas will be priced significantly higher and could come from out-of-state sources. This would negatively affect New Mexico's rate payers and the State Treasury.

Sincerely,



Dan W. McFearin  
Manager, Supply Planning

DMF:lt

-cc: Lindsay McMurray  
File

Nominee.PDM

EXHIBIT "C"