STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION

CASE 10,849

COMMISSION HEARING

IN THE MATTER OF:

Application of Amoco Production Company for amendment of the deliverability testing rules for the Prorated Gas Pools of Northwest New Mexico, (Blanco, Mesaverde, Basin-Dakota, Tapacito-Pictured Cliffs, and South Blanco-Pictured Cliffs Pools), Rio Arriba, Sandoval and San Juan Counties, New Mexico

ORIGINAL

TRANSCRIPT OF PROCEEDINGS

BEFORE: WILLIAM J. LEMAY, CHAIRMAN

WILLIAM WEISS, COMMISSIONER

JAMI BAILEY, COMMISSIONER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

October 14, 1993

A P P E A R A N C E S

FOR THE OIL CONSERVATION DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Attorneys at Law
By: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

FOR MERIDIAN OIL, INC.:

KELLAHIN & KELLAHIN
Attorneys at Law
By: W. THOMAS KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

* * *

I N D E X

* * *

E X H I B I T S

APPLICANT'S EXHIBITS:

* * *

WHEREUPON, the following proceedings were had at 9:07 a.m.:

CHAIRMAN LEMAY: We will now call Case Number 10,849.

MR. STOVALL: Application of Amoco Production Company for amendment of the deliverability testing rules for the Prorated Gas Pools of Northwest New Mexico, (Blanco, Mesaverde, Basin-Dakota, Tapacito-Pictured Cliffs, and South Blanco-Pictured Cliffs Pools), Rio Arriba, Sandoval and San Juan Counties, New Mexico.

CHAIRMAN LEMAY: Call for appearances in Case 10,849.

MR. CARR: May it please the Commission, my name is William F. Carr with the Santa Fe law firm, Campbell, Carr, Berge and Sheridan.

I represent Amoco Production Company, and I have one witness.

CHAIRMAN LEMAY: Thank you, Mr. Carr. Are there additional appearances in Case 10,849?

MR. KELLAHIN: Mr. Chairman, I'm Tom Kellahin of the Santa Fe law firm of Kellahin and Kellahin, appearing on behalf of Meridian Oil, Inc., in support of the Applicant.

I do not have a witness.

CHAIRMAN LEMAY: Will you read a statement --

MR. KELLAHIN: Yes, sir.

CHAIRMAN LEMAY: -- Mr. Kellahin? Thank you.

Additional appearances in Case 10,849?

If not, I think the witness -- Stand and be sworn.

(Thereupon, the witness was sworn.)

CHAIRMAN LEMAY: Thank you.

Mr. Carr, you may proceed.

BILL HAWKINS,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your name for the record, please?

A. It's Bill Hawkins.

Q. Where do you reside?

A. In Denver, Colorado.

Q. By whom are you employed?

A. Amoco Production Company.

Q. And what is your current position with Amoco?

A. I'm a petroleum engineer.

Q. Have you previously testified before this Division --

A. Yes.

Q. -- or this Commission?

A. Yes.

Q. At the time of that testimony, were your credentials as a petroleum engineer accepted and made a matter of record?

A. Yes, they were.

Q. In your role as an engineer for Amoco, are you familiar with the deliverability testing requirements for wells in the prorated pools in the San Juan Basin?

A. Yes, I am.

Q. And you're familiar with the Application filed in this case?

A. Yes, I am.

MR. CARR: Are the witness's qualifications acceptable?

CHAIRMAN LEMAY: His qualifications are acceptable.

Q. (By Mr. Carr) Mr. Hawkins, would you briefly state what Amoco is proposing with this Application?

A. Yes, Amoco is seeking to revise the deliverability testing rules regarding exemptions from deliverability tests in the four prorated pools in the San Juan Basin.

Q. Have you prepared certain exhibits for presentation here today?

A. Yes, I have.

Q. And are they contained in a booklet that is dated October 14, 1993?

A. Yes.

Q. Initially would you just identify for the Commission the first two documents in this booklet?

A. Yes, the first page is simply a table of contents of what follows, and we'll go into this in more detail in just a minute.

Next is a tab with a copy of the Application that was filed in this case, and attached to the Application is some proposed language for revising the deliverability test rules.

And I guess the bulk of our presentation is going to come from the tab marked "Exhibits".

Q. Let's go to that tab and to Exhibit Number 1, the first document behind the tab. I'd ask you to refer to this exhibit and review for the Commission Amoco's recommendation.

A. Yes, Amoco recommends that the State of New Mexico amend the General Rules for Prorated Gas Pools -- that's Order R-8170-H -- and the Rules of Procedure for Northwest New Mexico, Order R-333-I, by revising

the average monthly production volume required for exemption from deliverability testing to the pools' current April-to-September Monthly Acreage Allocate Factor, F1, times the Gas Proration Unit Acreage Factor, A.

We also recommend that we adopt this new procedure for the 1994 testing period.

Q. And when would that testing period actually begin?

A. Testing period actually begins in January. There's typically a list of wells that are required to be tested and wells that are exempted from testing put out by the NMOCD, usually in October.

I'm not sure if that list has actually been submitted at this point, but we would recommend that our new procedure be adopted and a list of wells generated that fits that new procedure.

Q. Now, you're not requesting, in fact, deprorationing of any of the pools, are you?

A. No, in fact, I wanted to make that very clear that we're seeking a very simple amendment to the exemption from deliverability testing rules.

We are not seeking to deprorate any of the pools. We do not want to affect how the current proration system protects correlative rights of owners

of pools, and we do not seek to change any of the deliverability test procedures themselves.

Q. And you have reviewed this proposal with representatives of the Aztec office of the Oil Conservation Division?

A. That's correct, I've -- In fact, I've talked at length with Larry Van Ryan when he was Chief Engineer of the Division, and also Frank Chavez of the Aztec office.

Q. Let's go to Exhibit Number 2, and using this exhibit could you generally review the regulatory background for these deliverability tests?

A. Yes, what I've done is just selected five orders that deal with deliverability testing and exemptions from deliverability testing.

The first order in April, 1953, some 40 years ago, Order R-333, the first order that came out and provided the general testing rules and procedures for the San Juan Basin pools, and it provided for annual deliverability test from all wells in the prorated pools.

And there were a number of amendments regarding procedures and how that test should be run, but it wasn't until March of 1973, some 20 years after the first Order, that Order R-333-F-1 was issued, and

that provided for biennial deliverability testing, so every other year for the pools, and it was the first order that provided for exemptions from deliverability tests. And it set the exemptions at 12,000 MCF per year for Pictured Cliffs wells, and 24,000 MCF per year for the deeper formations, the Mesaverde and the Dakota.

The next major order that came out that revised or discussed exemptions from deliverability testing was Order R-333-F-2A in 1979. Basically, this cleaned up the criteria for exemptions from deliverability testing.

It took into account the fact that certain wells may be shut in at times during the year, and so we really need to look at an average monthly production during the months that are produced.

And it also provided for exemption criteria for wells in the multiple-well proration units. We had just come into an infill drilling orders in both the Dakota and the Mesaverde, and so that needed to be taken into account.

The next significant change was in November of 1983 with Order R-1670X and R-333-F-2-B. This order reclassified all the Pictured Cliffs wells producing 250 MCF or more per month as nonmarginal, and it set

the current exemption for Pictured Cliffs wells, exemption from deliverability testing, at 250 MCF per month.

The last order that's been issued was in September, 1987, which is Order R-333-I, and it basically superseded all the previous orders and created what we have now as basically a manual for Rules of Procedure for Northwest New Mexico.

Q. Mr. Hawkins, let's now go to Amoco Exhibit Number 3. Would you identify this exhibit and then review the information on it for the Commission?

A. Exhibit Number 3 is a graphical depiction of our current proration system in northwest New Mexico, and it's -- What I've shown here is kind of a theoretical example. It could be made specific for any given pool that's prorated.

I want to draw your attention, first, to the dark blue line that's labeled "Allowable" with the formula, "F1A + F2AD". This is the formula that we calculate allowables for any pool in northwest New Mexico.

F1 is the acreage allocate factor that's determined every six months in our allowable hearings.

F2 is the deliverability allocate factor that's multiplied times the acreage factor and

deliverability factor, D.

I want to draw your attention to the point where that allowable line crosses the Y axis. And I should talk about the two, what we've plotted here. We're plotting on the Y axis gas proration unit monthly volume, monthly production volume or allowable volume, versus gas proration unit deliverability rate or producing rate.

So the key point here is that where this blue allowable line intersects the Y axis, I've labeled there as F1A. That's the acreage factor portion of the allowable that is assigned to the pool or to a gas proration unit even when the deliverability is zero.

So that's a key point. That's what we're asking to raise an exemption from deliverability testing to. It's the portion of the allowable that's assigned to a gas proration unit even when the deliverability is zero.

Next, I'd like to draw your attention to this green line that shows production volume at 100 percent deliverability.

You can see there's a relationship. It's, you know, a factor of the number of days per month times a daily producing rate. And we're assuming that a well in this case would produce at its deliverability

-- and I realize not all wells produce at their deliverability, but it would be similar to this line.

And at some point the allowable line and the production line would cross over. Where those two lines cross is where the State defines nonmarginal proration units and marginal prorational units.

Basically, gas proration units that cannot produce the allowable that's assigned to them are considered marginal, and gas proration units that can produce more than the allowable are restricted, and they're considered nommarginal.

Now, I'd like to kind of put this in perspective for you, and I'll talk about each of the pools individually.

First, the Basin-Dakota Pool.

The F1 factor right now for the Basin-Dakota Pool is 8762, and that's what we're proposing to exempt deliverability testing at, gas proration units that cannot produce more than 8762 MCF a month.

The current exemption is 2000, so there's a considerable increase.

But the theoretical crossover point to go from marginal to nonmarginal occurs at about 15,000 MCF per month. So there's still a significant volume there that wells can produce in the marginal category, and

would be required to be tested on their biennial basis.

For the Blanco-Mesaverde, the F1 volume is currently 4419 MCF a month. The crossover volume is about 30,000 MCF a month.

So we're raising the deliverability testing exemption, but we're still going to have a significant area there for wells that can be in the marginal category and still be required to be tested.

For the South Blanco-PC, F1 is 426. The crossover point is about 3500 MCF a month. So you can see there's still quite a bit of room for wells to produce before -- and still be required to be tested.

And the Tapacito-PC F1 is 517, and the theoretical crossover point is about 1600 MCF a month.

The point here is that there's quite a bit of room to increase the exemption from deliverability testing and still provide sufficient testing of marginal wells to determine, you know, if they should be classified marginal or reclassified as nonmarginal and provide the information that the State needs to officially run their proration system.

Q. So those marginal wells that fall between the F1A line and the line where the crossover occurs, all of those marginal wells would still have to be tested?

A. That's correct.

Q. Could you refer to Exhibit 4 and explain the impact this rule change would have on Amoco Production properties in the Basin?

A. Yes. In evaluating this proposed exemption, we took a look at the population of Amoco-operated wells in the prorated pools, and there are about -- almost 2700 wells that Amoco operates in the four prorated pools.

Under our current exemption rules -- see, under the column it shows Wells Tested -- we would have to run deliverabilty tests on just over about 2000 of those wells, or about 77 percent, and we would exempt out about 600 of the wells or about 23 percent.

Under the proposed rule change, we would exempt -- or excuse me, we would test just about 1000 wells. So we would reduce the number of wells that would have to be tested by about a half. And we would exempt out 1700 wells, which is about 64 percent of the total Amoco population.

The key thing here is that in the differences in these percentages, we would exempt out about an additional 40 percent of the well population that Amoco operates. And Amoco has a large enough number of operated wells that we feel like this is fairly representative of the San Juan Basin as a whole.

Q. All right. Let's look at the cost savings in the Basin as a whole, and in so doing would you refer to Exhibit 5?

A. Yes, Exhibit 5 would show an estimated average deliverability test cost at about $250 a well. And I'll tell you that that's a very difficult number to come by.

I've looked at it from our operations, from outside operations, and from information that other companies have provided, and it does include a lot of administrative costs and pumper time and things of that nature. So it's fairly subjective and can change from company to company. But this is a reasonable estimate of what a deliverability test might cost.

If we look at the 40 percent of the population of wells in the San Juan Basin that would be exempted, we would estimate that to be roughly 4000 wells out of the Basin that would be exempted by this rule change.

And at the cost of $250 a well, that's a cost savings in the Basin of about a million dollars for every two years.

The total San Juan Basin annual savings we would estimate to be about half a million dollars. This number may be low. We received letters from other

companies, and in fact Meridian estimates that they might save $500,000 a year on their operations alone.

So we know that there is a significant cost savings to be had with reducing some of the deliverability testing in the Basin.

The bottom line on this is that we're trying to eliminate work that adds little value to our proration system.

We want to try to reduce the operating costs associated with San Juan Basin operations and make San Juan Basin gas more competitive within the marketplace.

Q. Let's go to Exhibit Number 6, and I'd ask you to review the exact wording you're proposing.

A. Exhibit 6 shows the proposed revision to Rule 9 (d) in Order R-8170-H, and I'll just read this for you.

"Rule 9 (d) WELLS EXEMPT FROM TESTING - SAN JUAN BASIN:" -- and I've shown the changes here underlined -- "A well automatically becomes exempt from testing if the GPU's average monthly production does not exceed or the GPU is not capable of producing an average volume equal to the larger of 1) the pool's current (April-September) Monthly Acreage Allocate Factor, F1, times the GPU Acreage Factor, A, or 2) 250 MCF per month for Pictured Cliffs formation wells and

2,000 MCF per month for deeper formations. (See 'Gas Well Testing Rules and Procedures'.)"

Two points that I'd like to make here is that we're preserving the current exemption levels as a base level of exemption, and we are also providing some language that will be responsive to the changes in allowables that are set by the NMOCD.

It is feasible that the monthly acreage allocate factor, F1, times the GPU acreage factor, A, would be less than those current base levels, but that has not occurred in the last four years. We've been fairly consistently above those base-level exemptions with this F1 volume.

Q. All right, let's go to Exhibit 7. Would you identity that?

A. Yes, Exhibit 7 is the language, the same -- exactly the same phrase that's underlined. It's inserted in several paragraphs in the proposed revision to Order R-333-I, the Rules and Procedures for Northwest New Mexico.

Shown here is Section 2, the Annual and Biennial Deliverability and Shut-in Pressure tests.

Paragraph A.2. in its entirety deals with exemptions from deliverability tests, and it's shown in its entirety, and this would be the only change that

would need to be made.

Q. Let's now go to the exhibits behind notice tab in the exhibit booklet. What is Exhibit Number 8?

A. Exhibit Number 8 is an affidavit of mailing of our notice of our Application to all of the operators within the prorated pools in the San Juan Basin.

Q. How did you get this list of operators?

A. If we'll turn to the next pages, there's about four pages of list of operators and addresses that I obtained from Frank Chavez in the District Office, Aztec District Office of the NMOCD.

I spoke with both Mr. Stovall and Frank in trying to obtain mailing addresses for all the operators in the four prorated pools, and this information was provided to me by the Aztec District Office.

Q. Is Exhibit 9 a copy of the letter that was actually provided to each of these operators?

A. Yes, if you'll move to the last four pages, just in front of the tab, it shows letters of support. It shows Exhibit 9, and it's dated September 15th. It's the letter that I sent to each of the operators on the list, and it does include the proposed language for them to evaluate and comment on.

Q. What sort of response has Amoco received to this letter?

A. We have received only support to our Application. I've shown here in the back seven letters -- or letters from seven companies that have responded in this case: Bonneville Fuels Corporation, Cinco General Partnership, Dugan Production Company, Marathon Oil Company, Meridian Oil, Pro New Mexico, Inc., and Unocal.

Q. And you've received no objection?

A. I've received no objections.

Q. In your opinion, will approval of this Application and amendment of the rules that you're requesting eliminate unnecessary well testing in the San Juan Basin?

A. Yes, it will.

Q. Will it result in more efficient operations in the Basin?

A. Yes, it will.

Q. And will it otherwise be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, it will.

Q. Were Exhibits 1 through 9 either prepared by you or compiled under your direction?

A. Yes, they were.

MR. CARR: At this time, may it please the Commission, we move the admission of Amoco Exhibits 1 through 9.

CHAIRMAN LEMAY: Without objection, Exhibits 1 through 9 will be admitted into the record.

MR. CARR: And that concludes my examination of Mr. Hawkins.

CHAIRMAN LEMAY: Thank you, Mr. Carr.

Mr. Kellahin?

MR. KELLAHIN: A couple of questions, Mr. Chairman.

CROSS-EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Hawkins, you said you've visited with Larry Van Ryan when he was the Chief Engineer responsible for the Division's proration system?

A. Yes.

Q. Did he approve the concept or endorse the concept of the change?

A. Yes. In fact, I explored a number of different alternatives in reducing deliverability tests and requirements, and since there was already a rule that provided exemption from deliverability testing, Larry and I both felt that this would be a good place

to start and try to modify the existing rule rather than change or add some new rule that was not already within the test procedures.

Q. He concurred in the concept and the objective?

A. Yes.

Q. Did he approve the specific language that you're proposing for the rule change?

A. I don't think I had a chance to go over the specific language, but I did talk to him and finally focus in on the F1 volume as a number that would be not arbitrary, set at the six-month hearings that the NMOCD holds. And it certainly seems to make sense that if a well can't even produce its acreage portion, regardless what its deliverability is, it shouldn't have to be tested. And he concurred with that.

Q. The only purpose for the deliverability test for those category of wells is to factor in its allowable on the schedule, right?

A. That's correct.

Q. And if it doesn't have the ability to produce a sufficient amount of gas, then it's going to get the volume calculated based upon acreage alone?

A. Yeah. In fact, in this case it would only be assigned its actual production from the last six-month

period. So...

But in order to calculate a shadow allowable and see if it's going to go back into the nonmarginal category would be the primary purpose for the deliverability test.

Q. And I guess that was the point of my question: You don't see anything in the implementation of the particular language of the suggested rule change that's going to give us a kind of paperwork problem, a clerical difficulty, in managing the system?

A. No, I do not.

Q. Did you do the same thing with Frank Chavez in the district office?

A. Yes, I did.

Q. And does he endorse this particular option as an economic savings for the industry?

A. Yes. And in fact, he offered some proposed language back to me, which I've incorporated, and that is the base level -- preserving the base-level exemption that we have.

Q. Out of all your efforts to notify various parties affected in any of these pools, did you receive any objections at all?

A. No, I did not.

MR. KELLAHIN: Thank you, Mr. Chairman.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Additional questions of the witness? Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. You mentioned that other tests are performed on these nonmarginal wells, but you did not go into any detail. As representative of a lessor whose leases are extended through production in paying quantities, I'm particularly interested in what other tests will be conducted, other than these deliverability tests.

A. I'm trying to think when I said that. This is the only test -- deliverability test along with shut-in test -- that's required to be run on these prorated pools.

And what I'm trying to do is eliminate the number of tests that have to be run. We're focusing in on the lowest echelon, if you will, of wells that can still have an allowable set for them and do not require a deliverability test, okay? All other wells would be tested, just as they are today.

So I'm thinking maybe you misunderstood my statement. I don't recall saying there would be other tests run.

I think I'm just pointing to wells that

produce a volume larger than this F1, and those wells would continue to be tested, just as they have been in the past.

Q. As far as being able to demonstrate production in paying quantities, would our interests be covered by this proposed language?

A. As far as I'm aware of, yes. That production in paying quantities is an economic-type calculation based on total monthly production, and it wouldn't require a deliverability test to enter into that calculation.

COMMISSIONER BAILEY: That's all I have.

CHAIRMAN LEMAY: Thank you, Commissioner Bailey.

Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. Do you ever use the deliverability test information as a variable-rate transient test for engineering data?

A. Certainly, I think people, engineers, look at the information that comes from the deliverability tests.

And there would still be deliverability tests required of some of these wells. The first, initial

delivery would require a deliverability test. Anytime there was a rework of the well that might change the deliverability, it would be required to be tested.

But for the most part, we're going to be focusing on the lowest wells that produce in the Basin, and typically they're going to be the older wells that have produced for a long time, and we have a history of deliverability tests already on those wells. And for the most part, those are the wells that will be affected by this change.

Q. Well, in your experience do these deliverability tests lead to workovers?

A. They may. But I think a lot of times the changes in production history and some of the information you get from the first deliverability tests can provide information that would at least lead an engineer in the direction of, does this well need some work or not?

And to continue to test it every two years, in my opinion, if it's this low a rate, may not provide any additional information for us.

COMMISSIONER WEISS: That's the only questions I have. Thank you.

CHAIRMAN LEMAY: Thank you, Commissioner Weiss.

EXAMINATION

BY CHAIRMAN LEMAY:

Q. Mr. Hawkins, when was the effective date you recommended for this to be implemented?

A. Well, I think in order for us to start the process, we would need to make it effective immediately, because we're going to need to generate a list of wells that would be exempted based on this proposal to come out as soon as possible prior to the, you know, January 1st, 1994, testing period.

That list typically comes out in October. It's based on the year's production from July through June of the previous year, okay? July -- In this case, it would be July, 1992, through June of 1993. Look at that 12-month production period, calculate which wells would be exempted out based on that 12-month period, and publish a list generally in October.

And that part wouldn't change. We would still go back to that same 12-month period and look at the production, compare that to the F1 that was currently in effect. It should be the April to September 1 we just did -- Well, it's going to just be changed. I think the new order is going to be coming out. But it will be the numbers that I quoted in my testimony here. -- and see which of those wells have

produced more than the F1 or which have produced less, and develop the schedule of testing based on that.

Q. I was trying to get the timing. You're using not the proration period calendar month but a June-to-June calendar to analyze the ability of the well to produce --

A. Yeah.

Q. -- whether you get the exemption. But then you're going to an F1 factor established by the most recent hearing, which would be the October-to-April allowable?

A. No.

Q. You'd go back to the previous --

A. The April-to-September.

Typically, the way this has been done -- okay? -- is that we -- as soon as the June production is available, which is August or September, okay, this schedule is supposedly put together, and it's not finished or completed until September or October and mailed out at that time.

So it would typically be done prior to that October-to-April schedule you're talking about, okay?

And it focuses on production from that same 12-month period that I just spoke of. That's not a change, that's the same system that's in place today.

All we would be doing is taking the summer period allowable, which is generally the only one we're going to know after the reporting of June production, and look at that 12-month period, compare it to the F1 allowable that we have in effect, and set the testing for the next year.

Q. The 12 months don't exactly match, but they're close enough because you're dealing with a year, June to June, but you're -- in establishing the F1, you're dealing with the summertime allowable which would really be April to October, six-month time period.

A. Right.

Q. You're looking at a year's production slightly before a six-month calculation of -- or at least a six-month F1 order that was based on a number of factors --

A. Right.

Q. -- but mainly previous production.

A. I think what you're looking at is, you're looking at the latest production information, the closest 12-month period you can look at, okay, along with the most current F1 factor. And the list of wells to be exempt would be generated at the end of the summer, early -- first of the fall. And that allows

operators to start to plan how they want to do their tests for the following year, start scheduling tests.

And that has -- These time periods have kind of been established over the last ten years, I think, been modified. For a while we were doing the -- putting the list out in late fall, and I think operators needed more time, and so it was shifted backwards and the list was generated back in late summer or early fall in order to provide time for people to prepare for their following year's tests.

So I'm not suggesting that we change the timing or how -- the production period that's examined, even today.

All I'm saying is that instead of using 2000 MCF a month to determine the exemptions, we would use the F1 that's in effect, and typically that's going to be the April-to-September F1.

The other one probably has not yet been generated through hearing or order.

Q. Okay, I think I understand what you're proposing.

A. Okay.

Q. Any loss in information that we use to track a history in the San Juan Basin, following up on Mr. Weiss's question, example, we've gotten good shut-in

information. It may be the only basin in the country where we truly do have --

A. Uh-huh.

Q. -- have good current information.

Do you feel that that information obtained from the nonmarginal wells would be sufficient to keep a good record of San Juan Basin performance?

A. Yes, and in fact there will still be a fairly significant portion of marginal wells in most of the pools that will still be tested.

You have to look at it like there's really three echelons of wells. There's the lower echelon of marginal wells that is exempted, a middle echelon of marginal wells that is tested, and then an upper echelon of nonmarginal wells that is tested.

All we're doing is expanding that lower echelon a little bit to probably as high as we think we can go and still get the information that we need to run the proration system and cut as much of the work out that we don't really think is adding much value.

Q. And there would be no possibility of this lower echelon of marginal wells ever being reclassified and therefore no need for a deliverability test on those?

A. Well, I can't say that. It's not going to

happen in first year.

But as we start to lower -- If we were to lower allowables in the system, okay, the next time that that pool came up for testing we would look at how many wells are now producing, in the last year, more than their F1 that's set at hearing.

And any of those wells that may have been exempt a year ago or, you know, for that previous testing period might now not be exempt because we've lowered the allowable.

So this will be responsive, if the State wanted to tighten up and lower the allowables, if market demand were to be reduced for some reason, and it will be responsive if allowables are raised and market demand increases.

So it can fluctuate with the system and still exempt out a lowest echelon of wells.

CHAIRMAN LEMAY: Thank you.

Additional questions? Commissioner Weiss?

FURTHER EXAMINATION

BY COMMISSIONER WEISS:

Q. Today, what is the purpose of the deliverability test? How does it govern an allowable? Could you tell me?

A. Well, if you'll look at our Exhibit 3, it's

the graph that I presented. Under the -- On the blue line there's a formula for allowable, and that formula is F1A + F2AD, and the D comes from the deliverability test from the wells in the prorated pools. And so that D is used in this formula to calculate the allowable for the pool -- or for that proration unit, I should say.

What I'm trying to say is that if a proration unit can't even produce the first part of that, the F1A, it doesn't even need the D.

Q. Okay, I was just unclear on how we used it today.

A. Yeah, that's -- the primary purpose -- When we look through our prorated rules, that's what we state we run the deliverability test for.

COMMISSIONER WEISS: Okay, thank you. That was the only other question I had.

CHAIRMAN LEMAY: Thank you, Commissioner Weiss.

Additional questions of the witness?

MR. STOVALL: Mr. Chairman, for a -- Do you have another question?

MR. CARR: Well, Mr. Lyon has a question, and he's -- getting it garbled in the translation. We have no objection, if the Commission does not, for Mr. Lyon

to directly ask the witness the question.

CHAIRMAN LEMAY: Fine. I think, for the record, Mr. Lyon, would you identify yourself?

MR. LYON: I'm Victor Lyon, I'm a consultant in Santa Fe.

CHAIRMAN LEMAY: Thank you. You may ask the witness a question.

MR. LYON: Mr. Hawkins, you've talked about exempting wells in your proposed rule.

The proration system is based on gas proration units, and many of those proration units have more than one well.

THE WITNESS: That's correct.

MR. LYON: The current rules also require that both wells in a proration unit should have deliverability tests.

Now, under your proposal, if you deal with this on a well basis, one of the wells on a proration unit might be tested and the other would not, which would not conform to the current rules.

But I just wonder what your intention was as to whether a proration unit that exceeded the F1 factor, both wells would be tested.

THE WITNESS: Certainly. I think maybe I've been using the word "well" and "proration unit"

synonymously, and that's a mistake.

The language that we've proposed deals with gas proration units. And so if a multi-well gas proration unit -- if the total production from that gas proration unit exceeds F1, then the wells have to be tested, and that's the way the rule is written.

On the other hand, if there's a gas proration unit that has only one well, then you're synonymously talking about -- We'll say, for the Pictured Cliffs, one well is in the gas proration unit, that is the well that gets tested.

But this does take into account exactly what you're talking about, and it does deal with gas proration unit monthly volume and gas proration unit deliverability and exemption from the wells within that gas proration unit from testing.

So there would be no change to the current system, just as you explained it.

MR. LYON: Thank you.

CHAIRMAN LEMAY: Thank you, Mr. Lyon.

Additional questions of the witness?

MR. STOVALL: Mr. Chairman, I'd like to just bring something to the Commission's attention that I think in recent years we have only had one case before the Commission in which an operator failed to make

deliverability tests and was brought to the -- actually to a Division examiner, I believe.

And the rule specifically provided that the allowable be canceled, and I think the Division in that case granted an exception and canceled the deliverability portion of the allowable, which would be consistent with this.

And I think that's something to consider, is that, is it consistent? And I think it's something that could affect some future enforcement of the deliverability testing rules.

So I think that's a -- And I think Mr. Carr was the attorney in that case, if I remember. Is that not correct, Mr. Carr?

MR. CARR: That's correct.

MR. STOVALL: That that was the basis for calculating it?

MR. CARR: That is correct.

CHAIRMAN LEMAY: Thank you, Mr. Stovall.

Additional questions of the witness? If not, he may be excused. Thank you, Mr. Hawkins.

And now entertain statements or -- Mr. Kellahin, did you want to make a statement?

I should ask, are there any more witnesses? I don't think we had any at the initial request of this

hearing, so -- Thank you, Mr. Hawkins.

Mr. Kellahin?

MR. KELLAHIN: Mr. Hawkins has done me the courtesy of including Meridian's statement in his exhibit book, and I don't presume to read it to you, simply to paraphrase the fact that Meridian is here in full support of Amoco's Application.

Meridian is, in fact, the largest operator in the San Juan Basin for those four prorated pools.

They have provided in their letter information to say that of approximately 4300 operated wells, by Meridian, that some 2600 of those wells would not have to be tested if the Commission adopts the proposal made by Mr. Hawkins today.

It is their calculation that that savings will be realized in terms of about $500,000 a year, which is important to them.

In terms of what's important to you, they do not see the rule change is going to affect either the database, the calculations for allowable, or any meaningful bit of engineering data that might affect the Commissioner of Public Lands Office or anyone else using the system or that data.

So we fully support the Commission making the rule change as Amoco has proposed.

CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

Additional statements in Case 10,849?

Mr. Carr, could you provide the Commission with a draft order?

MR. CARR: Be happy to do that.

CHAIRMAN LEMAY: Thank you, Mr. Carr.

If there are no other questions or statements, this case will be taken under advisement.

(Thereupon, these proceedings were concluded at 9:49 a.m.)

* * *

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL October 15, 1993.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 14, 1993 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Maurice Trimmer	R.W. Byram	SF
William F. Carr	Campbell, Carr Berge + Sheridan	Santa Fe
J W Hawkins	Amoco Prod. Co.	Denver
W. T. Kellahin	Kellahin & Kellahin	Santa Fe
Steve Brenner	Cumbre Court Reporting	Santa Fe
Clay [illegible]	MARATHON	MIDLAND, TX
Lisa Gholston	Marathon Oil Co	Midland, TX
Dow Campbell	Marathon Oil Co.	Midland, TX
VICTOR LYON	Pro se	Santa Fe
Mike Brown	Manzano Oil	Roswell
KEN BARBE	MANZANO OIL	ROSWELL
BRIAN AUSBURN	MANZANO	Houston

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 14, 1993 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION