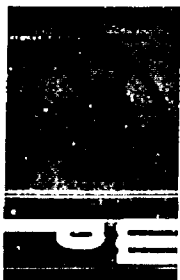


CASE 4436: Application of EL PASO
FOR AMENDMENT OF THE GENERAL RULES
FOR PRORATED GAS POOLS.

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6671 • ALBUQUERQUE, N.M. 87101



BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
December 2, 1970

EXAMINER HEARING

IN THE MATTER OF:

Application of El Paso Natural Gas
Company for the amendment of the
General Rules and Regulations govern-
ing the prorated gas pools of New
Mexico and the amendment of the
Special Rules and Regulations govern-
ing the Tapacito-Pictured Cliffs and
Basin-Dakota Gas Pools located in
Rio Arriba, San Juan and Sandoval
Counties, New Mexico.

Case No. 4436

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

I N D E X

<u>WITNESS</u>	<u>PAGE</u>
ELVIS A. UTZ	
Direct Examination by Mr. Hatch	5
Cross Examination by Mr. Morris	47
NORMAN WOODRUFF	
Direct Examination by Mr. Morris	49
Cross Examination by Mr. Buell	76
R. B. FREELS	
Direct Examination by Mr. Russell	78
Cross Examination by Mr. Morris	84
Redirect Examination by Mr. Russell	90
Cross Examination by Mr. Hatch	90
Recross Examination by Mr. Morris	91
JOHN CAMERON	
Direct Examination by Mr. Kellahin	92

E X H I B I T S

	<u>Marked</u>	<u>Admitted</u>
Mr. Utz's Exhibits 1 through 12		46
El Paso's No. R-5	54	75
El Paso's No. 11	65	75
El Paso's No. 12	70	75
Texas Pacific's Exhibits 1 through 4		

MR. NUTTER: The Hearing will come to order, please. The first case this morning will be Case Number 4436 which is the Application of El Paso Natural Gas Company for certain amendments to our Gas Prorationing Rules. At the outset I would like to briefly recap what has happened on Case 4436. On October 14, 1970, in this same room, Mr. Morris presented Mr. Norman Woodruff who on behalf of El Paso Natural Gas Company presented their proposals for these Pool Rule Amendments. Subsequent to Mr. Woodruff's Direct testimony he was Cross Examined by Mr. Utz, Mr. Kendrick, Mr. Hinkle, Mr. Russell, Mr. Kellahin, Mr. Utz again. After this, Mr. Kellahin presented Mr. John Cameron who testified to a proposal by Chevron Oil Company and Mr. Cameron was Cross Examined by Mr. Morris, Mr. Buell, I have got Mr. Morris again and Mr. Hatch. Subsequent to this, Mr. Utz was presented by Mr. Hatch and testified to his proposal. He was cross examined by Mr. Morris and Mr. Arnold. After this, in response to the request of numerous operators who were at the Hearing, this case was continued until today. That is where we stand now. I don't know what the order of procedure should be this morning. I will ask for appearances first and then after we have got the appearances we will ask if anyone has any Direct testimony they want to

present.

MR. MORRIS: I am Richard Morris of the firm of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe, appearing on behalf of El Paso Natural Gas Company. Mr. David Burleson of El Paso also appearing for the company. I might state just briefly that we probably will have some rebuttal testimony to present but we have nothing further as part of our Direct case to present.

MR. NUTTER: You would prefer to wait until the end of the Hearing to present your rebuttal testimony?

MR. MORRIS: Yes.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, appearing for Chevron Oil Company appearing in association with W. M. Balkovatz, a member of the Colorado Bar. I would also like to enter an appearance on behalf of Aztec Oil Gas Company in association with Quilman B. Davis, a member of the Texas Bar. Chevron Oil Company, depending on the course the Hearing takes, may also like to offer some additional testimony.

MR. NUTTER: We made a provision that Mr. Cameron would be here and would be available for Cross Examination today.

MR. KELLAHIN: Mr. Cameron is here and available.

MR. DAVIS: Aztec Oil and Gas Company does not plan to put on any Direct testimony.

MR. MILLER: Pat Miller, Atlantic Richfield in Denver. We do not plan any testimony but wish to make a statement.

MR. SMOTHERMON: Jerry Smothermon, Consolidated Oil and Gas Company. We plan no Direct testimony, however, we would like to make a statement.

MR. RUSSELL: George F. Russell, Roswell, New Mexico appearing on behalf of Texas Pacific Oil Company and we will have some Direct testimony.

MR. BUELL: For Pan American Petroleum Corporation, Guy Buell. Pan American does not plan at this time to put on any evidence or testimony.

MR. BROWN: Clyde Brown, Continental Oil Company. We don't plan to put on any testimony, Mr. Examiner, but we do plan to make a statement of our position.

MR. NUTTER: Where are you from, Mr. Brown?

MR. BROWN: Houston.

MR. HOCKER: R. L. Hocker, Amerada Hess Corporation of Tulsa, just a statement.

MR. KASTLER: Bill Kastler, appearing on behalf of Gulf Oil Corporation, a statement.

MR. HASELTINE: O. L. Haseltine, appearing for Southern Union.

MR. MITHCELL: Hugh Mitchell, appearing for Four Corners Gas Producer's Association, Inc. We may make a statement.

MR. NUTTER: If there are no further appearances at this time, I believe we will take up where we left off and does anyone have any questions they wish to ask of Mr. Cameron at this time?

I won't call Mr. Cameron to the stand then.

Does anyone have any Direct testimony they wish to offer?

MR. HATCH: If no one else, I believe Mr. Utz from the Commission Staff indicated at the last Hearing that he would like to offer additional testimony at this time.

MR. NUTTER: Take the stand please, Mr. Utz.

ELVIS A. UTZ

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

DIRECT EXAMINATION

BY MR. HATCH:

Q Mr. Utz, will you state your name and position for the record?

A Elvis A. Utz, Engineering Supervisor of the Gas Department, Oil Conservation Commission.

Q Are you familiar with Case 4436 and what it proposes?

A Yes, I am.

Q Have you previously testified in this case?

A Yes, I have testified. I testified in October briefly.

Q Just briefly, what did your testimony indicate at that time?

A The testimony at that time was pretty much unprepared. I just did testify that I had a recommendation which I briefly outlined and a few other statements which I don't really recall at this time without reading the record.

Q Was your testimony along the idea that you would make a proposal offering certain changes in the method of calculating pool allowables?

A That's correct.

Q And has that proposal of yours been circulated to interested persons?

A Yes, it has. I wrote a memorandum dated October 17th, 1970 to Mr. Porter, secretary --

MR. NUTTER: November 17?

A Didn't I say November 17, 1970 to Mr. Porter, Secretary-Director of the Commission outlining pretty much in detail the way we operate the pool balancing procedure, pool adjusting procedure at the present time and making my recommendation for a revision along with some advantages that I thought my recommendation had. That memorandum was circulated, I believe, to the complete mailing list.

Q It seems that the principle purpose of Case 4436 has to do with the classification of wells. What is the relevance of your proposal to that case?

A El Paso sometime in September requested and received a Hearing for their proration Rule proposal which involved namely a revision in the method of classifying wells. These changes are aimed presumably at the underage carried in a pool which in our present adjusting procedure reduces current allowables. This in turn causes difficulty in meeting market demands and balancing wells. My proposal, I believe, will solve this problem and give the producers an opportunity, and I do stress opportunity, to produce more allowable underproduction.

Q And you have some testimony now to offer in connection with your proposal that has been circulated?

A Yes. I have an opening statement to make to kind

clarify the thing and clear the air for presentation of my Exhibits.

As previously stated, the El Paso proposal is mainly one for changing the marginal well classification procedure. To pinpoint it further, a change in the manner of determining a well's producing ability or its ability to produce gas. My proposal, I believe, will solve the problem and will de-emphasize the need of changing our present definition of a well's producing ability. At the present time, and for roughly, the past twelve years we have classified wells basically by comparing the high months with the average six-month's allowable. In detail, the classification procedure at the present time is as follows:

For non-marginal wells, we determine the high months production. We determine the six-month's average allowable. We compare the six-month's average allowable versus the high months production. If the six-month's average allowable is equal to or greater than the high month the well remains non-marginal. For marginal wells we calculate the non-marginal allowable for the six-month's period. Two, we determine the six-month's production. That is for the total period. Three, we compare the six-month's total allowable to the six-month's total production. If the well has underproduced the allowable

it remains non-marginal. If the well overproduces its calculated allowable it goes back to non-marginal and the overproduction is charged to the well status and in this manner a marginal well does not produce more than a calculated non-marginal at any one time; temporarily only, maybe during a six-month period. If the well has been classified marginal for only one six-month's proration period and, of course, when it was classified all the underage was cancelled because a marginal well carries no status whatsoever. Then that underproduction is reinstated to the well's status and he gets credit for the cancelled underage less whatever was subject to the normal cancellation rules.

Now, it's been said, at least I think it has, at least I heard it had, that our present procedure or the procedure I have just outlined was probably not in the Rules, might have been illegal. I would like to contest that a moment. Rule 16A, R-1670 reads as follows: "After the production data is available for the last month of a gas proration period any well which has an underproduced status in the beginning of the preceeding gas proration period and which did not produce its allowable during at least one month of such preceeding gas proration period may be classified as a marginal well unless prior to the end of said preceeding gas

proration period the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified."

Now, I think our classification procedure at the present time is more lenient than this particular Rule as far as marginal classification of wells is concerned. I feel that if I followed that particular Rule I would have fewer marginal wells than I have got now.

The last sentence of that paragraph, "However, a well which in any month of said proration period has demonstrated its ability to produce" -- I emphasize the word ability, "to produce its allowable for said proration period shall not be classified as a marginal well." Now, I think we are doing precisely what I just stated. I think the only quibble and this is a twelve-year-old quibble is that how do we define ability. I have chosen to define ability and when I say I, the Commission Staff and our attorney and secretary-director has been advised of every move I made in classifying wells and we now define it and have for many years defined a well's ability to produce as being its highest month's production for the preceeding six-month's proration period. I think it's a good definition. I think it's probably as good a definition as we could get for the very simple reason that

if a well can produce "X" amount of gas in one month out of a six-month's proration period under the like producing conditions he could darn sure do it in the six-months out of the six-month's proration period. I don't think anyone can argue too much about that. I wanted to point that out, too.

The New Mexico Statutes of 1953, Chapter 65-3-13 tells the Commission in effect to allocate gas insofar as practical to prevent drainage between tracts in a pool which is not equalized by counter-drainage. By counter-drainage we mean rectangular tracts. This to me means, as supervisor of the Gas Department that I am obligated to give each producer in a prorated gas pool a reasonable and noticeable opportunity to produce his fair share of gas under his tract.

The Commission Order R-1670 and pertinent preceding Orders established a proration formula for each pool. It also established a well balancing procedure whereby overproduced wells are curtailed after carrying overproduction through a reasonable period of time and underproduction and a well which has underproduction is carried through a reasonable period of time before it is cancelled. Underproduced wells have underproduction cancelled after carrying this underproduction for a reasonable and noticeable period of

time. This reasonable and noticeable period of time is the process of carrying underproduction on questionable wells and underproduction which is questionable as far as whether it is producible underage or not in a six-month's period and this Rule allows that. When using this procedure, the operator is given noticeable opportunity to produce his formula allowable. This is the purpose of the balancing procedure established by this Order and I think it is a good balancing procedure. The Applicant's proposed classification procedure cancels an operator's underage before the operator has the noticeable opportunity to produce his underproduction in accordance with the balancing procedures set out above. Any time you classify a well marginal, as I previously stated, the underage is cancelled completely. From that point on the only person that knows what the non-marginal allowable is for that well is the Oil Conservation Commission because we run that on our machines and as far as I know no one else gets that data.

In Northwest New Mexico we have a proration formula which gives 75 percent allowable weight to the deliverability of a non-marginal well and by way of footnote, studies made by me and other staff members in the past years indicate this relationship is near to 20 to 30 percent. This proposal

will further deviate from protecting the correlative rights by placing an even higher number of wells on a hundred percent pipeline deliverability allowable.

I have taken a stand in this case for the following reasons: One, I believe the manner in which wells are classified marginal is important to the protection of correlative rights. Two, I would like a Rule written by the Commission which tells me how to classify wells and thus eliminate this twelve-year old disagreement as to the manner we are now classifying wells. Three, I want to once and for all adequately advise the operators and the Commission of the manner by which wells are now classified and the errors of the proposed method. Four, to show and advise the interested that the deficiency in our proration procedure is not in well classification procedure but in the manner by which pool allowables are assigned and to propose at this Hearing a revised method of setting pool allowables. I believe that completes my opening statement, thank you.

MR. NUTTER: That is the opening statement.

Q (By Mr. Hatch) You have mentioned that you intend to offer testimony concerning the proposal of yours. Would you review for the Commission the present method of calculating pool allowables and continue on with your testimony and your proposal?

A Yes, sir, I refer you now to Exhibit No. 1 in this case which is the before mentioned memorandum. I will in the process, run through this memorandum, won't take more time than necessary in order to properly advise everybody and make a decent record.

Present Pool Allowable Calculation Procedure.

Each month after the gas purchasers' nominations have been reported at the allowable hearing and the gas purchasers' production reports have been received, each prorated gas pool's allowable is determined in accordance with the following illustrated procedure. Of course, these are not accurate figures. These are figures to show you how it's done. Current nominations, say, of ten million, the first month's previous and this is adjusted, I want to be adequately clear about that, this nomination is adjusted and adjusted by this formula every month, no exceptions, and adjusted by two previous months. The first previous month's nomination, say were 9,000. The first previous month's allowables, say, was 9500. We will have a negative 500 adjustment made on the premise that the pool had more allowable for that month than the nominations. The second previous month's production is available at this time. We will say the pool produced 8,000. The second previous month's beginning net allowable of 9,000. This beginning allowable is the kicker in this whole deal. The

beginning net allowable is the amount of allowable including adjustment for supplements, any other corrections, that the pool has coming at the beginning of the producing month. If there is a considerable amount of underproduction in the pool and this beginning net allowable is low and the adjustment is severe and, in this example, the adjustment will be a negative 1,000. So, with these two adjustments, the current month's allowable would not be 10,000, it would be 8500. I might say at this point, and hope I don't repeat myself later, that this has caused us untold problems. I haven't liked this procedure personally for many years. It completes the short circuit or six-times provisions and it actually, on numerous occasions in the past years, has caused pools to have a negative allowable which is absolutely absurd. We all know that all prorated pools produce some gas and all we are trying to do is allocate that production. This apparently was done before my time in an effort to try to have some sort of a running balance on a pool but whoever did it I would like to advise them at this time it don't work.

Q Mr. Utz, do you know of any place in the present Pool Rules governing the prorated gas pools where this procedure is set out?

A I know of no place in the current Rules or can't

remember of any Rules in the past twenty years where this has been set up.

Q But it has been used?

A It's been used for many, many years. It's been used for approximately fifteen years that I can vouch for.

Q I think you have already suggested that perhaps using this system has resulted in abnormally high or abnormally low allowables at certain times?

A Yes, sir.

Q Would you like to continue through your memorandum to what you suggest to replace this method?

A Well, first, let me finish this method. I am not quite through with it. After the pool allowable of 8500 is established, we must estimate the marginal allowable. The only reason for estimating a marginal allowable is so we can determine what the current non-marginal allowable would be. The estimated marginal allowable is accomplished as follows. Each marginal well is assigned the average production for its six-month's proration period, the previous six-month's proration period. This has changed from time to time but this has been a manner in which we have done this for many years. While I am on that subject I have perused the records available to me and it appears this is not too bad an estimate, pretty close. Then, of course, the remaining 6500 is the non-marginal

pool allowable which is in accordance with the pool proration formula. The method I suggest to replace this is as follows:

Each month the sum of the purchaser's nominations for gas from a given pool for the following month would be considered the pool's current allowable for that month provided however -- I have always got to get that provided however in -- the Commission would adjust these nominations if in its opinion the nomination did not truly reflect actual expected production for that month. The adjustments, if made, would be on the basis of a pool's past production allowable, over and under production and any other current historical data which may be a valid consideration for maintaining a balanced pool and this is the purpose for which this is made. I am trying to assign reasonable consistent allowables and to keep a balanced pool and by keeping a balanced pool it simply means allowable equals production. By keeping a balanced pool I think it gives the operators and purchasers, in particular, a much better opportunity to balance their wells.

I know I will be asked this so I think I will go ahead and get it over with now. How am I going to make these adjustments or how am I going to recommend these adjustments be made? I don't know all the answers. I tried to come up

with some but the erratic nature of production was not easy to contend with but I would use all the information available to me and I would use production history for the past year for the like period of time. I would use production history for the last preceeding month's available at the time we are setting the pool's allowable. I would use the pool status, last available pool status to determine whether an adjustment should be made to try to bring the pool in better balance and I would, if there is any doubt, I would contact the purchasers, particularly the larger purchasers, and consult with them as to what, if any changes, they thought might be required in order to assign allowables consistent with the production, their anticipated production. This can be done within ten to fifteen days of the proration month. For example, if they had a blowup in a gasoline plant or something, it certainly would affect production for a current month. There would be no particular need for assigning a whole batch of allowables that would not be produced. The next month maybe they can get their plant fixed and make it up and their anticipated production is substantially higher and if it is, the pool ought to have that allowable. I frankly would hesitate and I propose to be very chinchy, for lack of a better word, in using this adjusting provision. I would much rather

take the purchaser's nominations. I think by using the purchaser's nominations in this manner I think the quality of the purchaser's nomination very likely might improve.

Q Mr. Utz, one thing bothers me here and I don't think you have made it clear yet. Would there be testimony given at the Gas Allowable Hearing concerning each of these factors that might be considered in setting the allowable or would this be something that is investigated after the Gas Allowable Hearing but before the allowables are set? In other words, would there be testimony given at the Gas Allowable Hearing concerning past production, historical past production, for a like month?

A Mr. Hatch, any history, historical data that was available at the time of the Hearing and this Hearing is held in the middle of the month preceeding the proration month, I would give, if I give the testimony to the Commission at that time. I wouldn't necessarily, in my opinion, I wouldn't necessarily want to make recommendations for these adjustments at that time. The main reason being because I would not know what the last pool status was until we were in the process of putting up the proration schedule and that would be after the Hearing.

Q The pool status in the past that has not been part

of the testimony given in a Gas Allowable Hearing?

A No, sir.

Q But has been used through these mathematical things as it became available?

A That's right.

Q But certainly if you were going to use some of these other things they should be available before the Gas Allowable Hearing, would be available to give testimony on if they were to be considered?

A Well, I think it would be well to give testimony on them to advise the Commission or the Examiner, whoever is hearing the case, to have the situation. I wouldn't necessarily recommend that we make the recommendations for adjustments at that time. The latter data might prove it to be wrong. We are already tied in to a bad procedure. I wouldn't want to tie into another bad one.

Q Would you continue?

MR. NUTTER: Mr. Utz, at this point I would like to ask you, this provision that you could adjust these nominations if it is deemed necessary, is this something new or something already in the prorations Rules which procedure hasn't been used?

A Mr. Nutter, you know the answer to that question.

There is already in the Statutes, already in the Rules.

MR. NUTTER: Nothing new you are proposing here?

A Something we ought to start using which has laid dormant for many years. The advantages of these adjusted revisions -- one, this procedure will assign pool allowables more consistent with actual production and therefore eliminate the severe fluctuations that have been prevalent in the past.

I think this is a good time to start through the Exhibits. Exhibit No. 2 -- and as a preface before I go through these Exhibits -- I have prepared historical Exhibits for the Basin-Dakota, Blanca-Mesa Verde and South Blanco in Northwest New Mexico and Jalmat and Eumont in Southeast New Mexico.

Q That is not all of the prorated gas pools?

A It's not. The three Northwest New Mexico pools represented 92 percent of the production. However, in the month of September the two Southeast New Mexico pools represented 42 percent for the month of September so it's, I think, it's a pretty accurate cross section of what to expect and I would have, I might say, have the sample Exhibits prepared for all 23 prorated gas pools but I just didn't have the time to do it with my drawer full of proration schedules and a hand full of pencils and the Friden rotary calculator, it didn't turn out that way so I only prepared five.

Q Did you go through each of these Exhibits? On a few of them there are some corrections to be made. Would you point out the correction on each of the Exhibits that has a correction as you go through them?

A Yes, I will. I will run through all the Exhibits on the before mentioned pools.

The first Exhibit No. 2, is a graph from one-year period, one-year history, from August through July. The dots, and I might add the elusive dots in the pool allowable that has been assigned for each month. The nominations is a circle on the curves. The square is the production on the curves.

Q Will you explain to the Examiner the basis for these figures, where you got your information?

A All this data was in the proration schedule and taken out of the monthly proration schedules and is actual data.

Q Why did you select this particular period of time?

A It's the most recent two-month's proration period I had available to me.

Q No particular reason except for the --

A To make the data the most current data I had for two proration periods. You will note that the black dots

are pretty elusive, comes and goes, jumps around, the production is much more consistent. The nominations are still more consistent. You will note the nominations do rise in the high demand periods as they should. I would say that if allowables had been assigned on the basis of nominations only that there would be seven months out of this twelve on which the pool would be in better balance.

Exhibit No. 3 --

Q Before you go to Exhibit No. 3, I think it might not be significant but our nominations by about the middle of the p... you have a number 4B on the Exhibit? What does that mean?

A That is a code number for me. You were not supposed to call that to anybody's attention.

Q It's on the Exhibit. Would you explain what it is?

A I just stated what it was. That 4 should be 7, seven months better by a single nominations than the way we had it.

MR. NUTTER: That is, 4B means seven months better?

A Our attorney is sharper than I am. He picked up three more.

Q (By Mr. Hatch) I have a 2 on mine. I am talking about Exhibit 2.

A I have a 2. It might be a 2. My 7's are bad.

MR. NUTTER: 4B means two better?

A I would have to count them to be sure. I won't have to count on this next Exhibit because it's pretty easy to read. This shows the actual, the black dots again, the elusive black dot which shows the actual pool status. You will recall, you operators, that were in on this meeting some months ago when all this reared its head up, that I made a proposal at that time that we allocate retroactively based a hundred percent on production and in that manner we would have a balanced pool each proration month. Well, I didn't sell that very well so this is my next best recommendation and I don't propose that we can completely balance a pool each month but I think we can come a devil of a lot closer than we have in the past. So this Exhibit shows what we have done in the past. By looking at the black dots you can see that the pool has been out of balance most of the time. Two months it was pretty close. The points on the curve -- that is a new term, a square point -- on the curve would be the balance had they used nominations entirely and you don't have to have 20-20 vision to see that the nominations would have given us a better balanced pool all the way through. There is one point that completely eluded me in the process

of reproducing these and that was the point for March which I don't think all of you have on your Exhibits. If you want to put it there, it's a plus three point nine.

Q Is there one missing for July as well?

A Yes, there is one missing or one missing that isn't on mine for July, the last point, and that would be point four, just two squares above the zero line. That was one of the few good months.

Exhibit 4, Blanco-Mesa Verde Gas Pool historical data, historical production, you will again note the black dot is pretty elusive but very substantially the production is not too bad, the nominations are still better. The two things I wanted to show on this type of Exhibit is that the nominations are more consistent throughout the last twelve months and the erratic nature of our current pool adjusting procedure.

Q By consistent, do you mean actually closer to actual production?

A Yes, sir.

Q Go ahead.

A Which, of course, means closer to actual market demand.

Q Any corrections on Exhibit 4?

A I hope not.

Q I have a seven better than a six better?

A I wish you wouldn't call that to my attention but I will go along with the seven nomination months being better.

Exhibit 5, over and underproduction status for Blanco-Mesa Verde Pool, the black dots represent actual status. I don't believe there are any corrections to be made on this Exhibit. You will again notice that had nominations been used a hundred percent setting monthly allowables we would have had about eight months for the better pool status, two months a tide.

Exhibit No. 6, South Blanco Picture Cliff Pool, I chose this pool because it was one of the larger Picture Cliff Pools in the San Juan Basin. Again you notice here the erratic nature of current allowables. By current producer by noting inconsistency of black dots, the production not bad, nominations better. As a matter of fact, the nominations would have been better in the nine months out of twelve.

Exhibit 7, Over and Under Status, South Blanco Pool. The erratic nature of pool shown by the black dots using nominations one-hundred percent the pool status would have been pretty darn good. As a matter of fact, it would

have been better ten months out of the twelve.

Southeast New Mexico, Jalmat Pool, Exhibit No. 8.

This is a mess. I don't know how the purchasers took. I don't know how they nominated, I don't know how they produced but it certainly didn't fall on any particular pattern except erratic even though the nominations were probably the least sorry of the lot.

Exhibit No. 9, the over and under status for Jalmat Pool, this looks a little better as far as nominations, over and under are concerned. You will note that almost in all cases, eight out of the twelve months the actual pool status was further away, further out of balance, further away from zero, if we had used a hundred percent nominations for pool allowables. In all due respect, I will say that the month of September and March we hit here almost on the button which is purely accidental.

Eumont Gas Pool, this also is pretty erratic but I think it shows without a doubt that the current allowables are more erratic than the nominations. You will notice the months of December and January, some of them went off the chart, those figures indicate. That figure, 6.18 for production, 6.27 for nominations, clear above the production figure, 6.97 for allowable for the month of January and it's up

above the nomination point so half the months, six out of the twelve, would have been better to use nominations.

Exhibit No. 11 is the over and under for the Eumont Gas Pool. This is a little better picture, ten months out of the twelve the nominations status would have been better than the actual status. I might point out at this point that I would hope and I think that we can improve on the nominations status in most of these instances. I don't think we can hit it a hundred percent, my gosh, if I can't sit behind that desk of mine and have better allowables assigned to pools and better status of pools than the way we do it now then I will turn it over to somebody. I may have to eat those words but I don't think so. I think that completes the Exhibits, at least all but Exhibit No. 12.

Going back to the recommendation or the memorandum, Item 2, "When pool allowables are more consistent, the so-called "six-times" overproduction rule will work more effectively. This is Rule 15 (A) for Southeast New Mexico and Rule 15 (B) for Northwest New Mexico of Order No. R-1670.". The six times Rule is designed to keep wells from becoming six times overproduced during a proration period and I think it's a good Rule. When allowables are not reasonably consistent this Rule simply does not work. As previously stated on

many occasions we have had negative allowables. When we have negative allowables every darn well in the pool is shut in under the six-times Rule because the six-times Rule compares the six times overproduction against current allowable. Maybe that's wrong, maybe we could do something better than that but I don't think we have to change that if we have some consistency to our allowables. Many times I have given administrative authority or administrative exception to these six-times Rule. That is a Rule. That is in an Order and I have no darn business giving administrative exception to a Rule in an Order but I have in order to allow producers to produce some gas for the current months in pools with extremely low allowables or negative allowables.

Q Do you recall any case in which all of the wells of the pool have actually been shut in?

A No, I don't think we have allowed at any time all wells to be shut in a pool.

MR. NUTTER: To follow the Rule, when you have a negative allowable you have to do that?

A Absolutely.

Q (By Mr. Hatch) Go ahead.

A Item 3, "When the "beginning net allowable" is not used in setting pool allowables, the underage carried on

individual wells does not affect the current pool's allowable. Therefore the cancellation of underage by classification to marginal becomes unimportant with respect to setting current pool allowables." Now, I touched on that a while ago in my pool balancing procedure and, really, I wish I could quit calling it pool balancing procedure because it doesn't balance anything. It's a pool balancing procedure. When there is a substantial amount of underage carried in a pool it affects the beginning net allowable but by making it extremely low, therefore causing an extraordinary negative adjustment to the current nominations. It's been a complaint by purchasers, particularly one purchaser, that this was the problem and it was depriving them of current allowables and they could not balance wells and I am afraid they are right. I don't know how you balance wells without any allowable. By not using this beginning net we will deprive wells of current allowable. We will not deprive the pools of current allowable and we will negate the necessity of having to be so chintzy with our pool classifications. As I see this, we would have a certain amount of backlog, underage backlog, if you please, and this underage backlog would be carried through every proration period and would do no harm whatsoever. It would do quite a bit of good in my opinion and

this is one of the principle reasons I took a stand in this case and I don't want to see this underage completely cancelled right down to the nub. This is where the operators can look at a proration schedule and see what allowable their wells have coming to them and, so help me, most of that allowable is producible allowable and has been produced in many cases in the past. If we cancel that allowable through the process of classification, then the operator won't know what his allowable is unless he figures it out for himself. I think I know operators well enough to know that many won't do this or don't do it.

Number 4, "When the cancellation of well underproduction is accomplished by the usual cancellation rules of Order No. R-1670, Rules Nos. 14 (A) and 14 (B), the operator is afforded a reasonable opportunity to produce his well's assigned allowable." I think I have touched briefly on that by saying that a certain backlog of underage is good. It advises you producers of what you have coming as far as allowable is concerned and gives the well a reasonable and noticeable period of time, six months, in order to determine whether the well needs remedial action to produce its allowable or whether there is anything at all that an operator can do about getting that underage produced. I think it's

good advise to the operators and I think it does protect correlative rights. After all, we assign the allowables to these wells based on the formula and that formula is supposed to protect correlative rights. Whether it does or not, it's another question but the Commission has ruled it does and that's what I assign to the wells and any time the wells have underage, that is part of the allowable it has and has it coming and I think it should have the opportunity to produce them.

Number 5, "The purpose of the present balancing, cancellation and redistribution procedure is to allow certain wells in a pool to produce allowable which cannot be produced by certain other wells in the pool. This is done to help the pool meet its market demand. The overproduced wells are then balanced by the redistribution of the underproduction in accordance with the pool formula. This process however should be an internal pool with the pool formula. This process however should be an internal pool process and should not affect the assigned pool allowable. By permitting underproduction to be redistributed directly to the non-marginal wells and not to be considered in determining current pool allowable (current pool allowable would be based on nominations only, as adjusted) the recommended method of assigning pool allowables should

give our balancing procedures an opportunity to better accomplish their purpose."

I think I have said before that in my opinion a well should be given a reasonable opportunity and a reasonable time to produce its underproduction. Under this Rule it's six-months. If it carries underage and is not made up by overproduction during that six-month period then it's cancelled but I don't, of course -- this Rule actually in fact circumvents the formula. I am not objecting to the Rule but I do think we should not circumvent the formula any more than necessary. Then when the underage is carried through a six-month period then it's cancelled. For example, if we have a million, say, cubic feet of production that has been carried through a six-month's period that million cubic feet is subject to cancellation in practically all instances is cancelled. Now, that underproduction is allowable which some wells in the pool presumably have had to produce in order to meet the market demand. Those are the wells that received that cancelled underage and it's redistributed by the proration formula. If a well is overproduced it receives more allowable. It either balances or comes closer to being balanced. This is what I mean by being an internal process. In the past we have been a little lax in administering

this cancellation and redistribution procedure particularly during the changeover time when we were trying to get out of the old machines and into the new ones. Instead of putting out a redistribution schedule without affecting pool allowances we throw all this cancelled underage into the beginning net which made a whale of a net allowable for that month and I don't think this is proper. I think we ought to quit. I don't think this cancelled underage should have been the current pool allowable in any way but should go to the remaining non-marginal wells in order to balance the wells and I think with a little effort on the part of the purchasers by using this Rule they can balance their wells in pretty fair shape.

Now, I don't want to belabor this point too much but I suggest at this time that the proposed method, or my proposed method, since there are two here, will not prematurely cancel underproductions for these, I would like to call them twilight wells or questionable wells, that may produce this underage on a monthly basis. If a well is marginal he gets that cancelled monthly whether you realize it or not. That is exactly what happens to him because he does not receive a non-marginal allowable. He receives only his production and his status is zero.

Number 6, "When assigning allowables in this manner, the necessity for classifying wells to marginal so closely to the well's "probable ability to produce" is not necessary. Thus, wells will not fluctuate from marginal to non-marginal as often and less administrative and supplemental paperwork on everyone's part is involved."

The determination of a well's ability cannot be done accurately and is at best an estimate, I don't care whose you use, and is all based on past performance. Any attempt to classify wells so very close to the average calculated non-marginal allowable will cause wells to fluctuate from marginal to non-marginal and vice versa. This causes more accounting corrections on the part of the operators, on the part of the purchasers, on the part of the Oil Commission as well as supplemental paperwork to reinstate allowables. Properly, we should reinstate allowables and issue supplements on all wells which change classification. On those that go up we don't, on those that go up I am afraid we should. We didn't this last time because there were 270 wells that went up and overproduced during the last proration period and we had some machine errors in the status, 270 supplements are not too easy to issue and I didn't want to issue them and I did not issue them until the machine

corrections were made so that when I did issue them I could issue a correct status but those supplements should be issued in order to advise the purchaser, the producer and other interested parties of the correct status of these wells. This will also cause, any time a well changes classification, to manually calculate quite a number of allowables. It even causes us to do substantially more auditing of the E.D.P. records and we do audit the E.D.P. records because they are wrong sometimes. So to boil it down in a nutshell, by not reclassifying these wells we eliminate a whole batch of administrative problems. We go along carrying this underage which does not affect current pool allowables. It advises operators of where they stand and it causes us no administrative problems whatsoever. One of the advantages of E.D.P. machines is that they calculate a million figures about as easily as they calculate a thousand and heaven knows it's a whole lot easier to calculate these numbers there in a proration where everybody can see them than for us to issue paperwork to reinstate them. From here on out we will have a lot of changes in classification because the pools are getting down to the nitty-gritty.

Number 7, "By placing more emphasis on consistent pool allowables and six-month balancing and cancellation procedures, the administrative load for purchaser, producer, and

the Commission is reduced."

I will point out that the El Paso proposal will cause the following things:

A. All purchasers to make additional semi-annual reports on a well's ability to produce. There will be no data available except in the purchaser's records, as far as I know, to audit this figure and I am particularly thinking of the days on line.

B. -- and I might say at this time, too, in connection with that that this data I understand now in the new proposal of El Paso's will be furnished to the operators, too, so they will be advised of this figure late in the proration period. Whether it's early enough for them to do anything about it, I am not absolutely sure about that.

B. Will cause the Commission more card punching. We have to punch these data on the cards in order to put them in the machines. This is about 8,000 cards every six months and I don't think this is necessary. I think we have got data in the machines. The machines can pick up.

C. Cause the Commission more problems in gathering this data from some purchasers every six months. Nobody knows better than I some of the problems in gathering production data. The monthly reports of C-111's from the

purchasers. About the 17th or 18th of the month I usually spend about a half day on the phone to try to get production datas so that we can close out in the E.D.P. room and start calculating the next proration schedule. I don't particularly like to do this. Some of the purchasers object, too.

MR. NUTTER: Tell them what that guy told you the other day.

A Because I call them collect.

MR. NUTTER: What did that guy tell you the other day, Elvis?

A He thought I was nitty picking because I wanted the records.

D. Cause the producers to calculate allowables which the Commission does now on the E.D.P. and puts in the proration schedule. Also causes operators to request reinstatements of allowables which is not necessary.

E. I think I practically covered this one a while ago, too, but E is to the affect that E.D.P. makes all these calculations very easily and is a very definite advantage. I am not an E.D.P. man and this is quite a statement for me but it does make these calculations quite easily and prints them out on a proration schedule with little or no effort on the part of anybody and is a very definite advantage in

notifying the Commission and operators and any other interested parties of what the well statuses are and what the allowables are and what the underproductions are and, I think, the El Paso proposal takes away this advantage.

Number 8, "The proposal is consistent with the Commission's obligation to protect the correlative rights of the gas producers and is the proper first step toward improving our gas proration procedures."

As per the Statutes, the Commission's duty is to give all producers a reasonable opportunity to produce their fair share of the pool allowables. I contend this is the Commission's obligations. I believe the Commission has also gone far enough in the business of blessing pipeline takes by assigning allowables equal to these takes. I think that completes going through Exhibit 1, Mr. Hatch.

Q Mr. Utz, you reviewed the present method of classifying wells and I don't think you touched on Exhibit 12?

A No, I did not.

Q Would you go back to Exhibit 12 and explain what that shows and the statement about the present method of classifying wells?

A Yes, I will. I had intended to cover this Exhibit when I was on the subject of well classification. This is a four year history from April 1966 to October 1970 and someone

I am sure will want to know why I used April and October. I used them because it's a month later than we have this data available and during the changeover procedure we were a month late on a few occasions of getting this data available to us in ordering classifying wells so the data is just as accurate and reflects the following:

In April 1966 in Northwest New Mexico we were using a thirty percent cushion or seventy percent of the average well's allowable comparing it to high month. Now, this thirty percent was no accident. I did it intentionally, and I recommended we do it intentionally for the purpose of protecting correlative rights and giving the purchasers an opportunity, the operators an opportunity, to carry a little more underage which may be producable and which they should have the opportunity to produce if they can. The seventy percent was questioned by one purchaser.

Q Mr. Utz, is this percentage used in both the Northwest and Southeast?

A Yes, it is.

Q Go ahead.

A So on April 1967 we changed to ninety percent of the average allowable compared to high month. You will note the substantial increase in marginal wells at that time in Northwest New Mexico. It didn't make too much idfference in

Southeast New Mexico. We used ninety percent then over to April of 1970 at which time for the same reason we relinquished and went to a hundred percent of the average allowable compared to high month so at the present time the only cushion, is you want to call it that, we have is as far as carrying underage on questionable marginal wells is concerned is the difference between the average allowable and the highest month's production. Sometimes this isn't much. You will notice that the percentage of marginal wells from April 1966 went from about twenty-four percent up to in April 1970 of sixty-seven percent in the Northwest and twenty-five percent in the Southeast. You will note that in Southeast New Mexico from April to October 1970 this year we had a ten percent increase in marginal wells and I can't explain it except that I have checked the figures and I know it's so. I would have to go back to the detailed classification data and try to analyze and see what happened. I did look at the allowables and the allowables looked to be pretty consistent and I don't believe it's an increase in allowable that did it.

You will also note at the same time we lost three percent of marginal wells in San Juan Basin. I think a large part of this three percent was due to El Paso putting

compressors in the field. I think a large part of the 270 wells that went from marginal to non-marginal was due to the same thing and I think this is the majority of the three percent.

I contend therefore that had these wells carried this underage we wouldn't have had to issue supplements to reinstate it. It could have been sitting right there ready for them to produce. There would have been no reclassification necessary.

I think that takes care of Exhibit No. 12, Mr. Hatch.

Q I gathered you did not think it is very easy a job to exactly classify the producing ability of a well and has been one of the reasons for using some of these percentages in past years, is that true?

A Yes, that's true.

Q And if I understood your testimony correctly, you have gone over the present method of classifying wells. I am not sure I have understood you as saying one way or the other way whether it is your recommendation that the present method be continued?

A I have some closing recommendations which I will make at this time if you care for me to?

Q Yes?

A I am opposed to any change in the classification procedure at this time. I think we should write a Rule clarifying our present classification procedure and I also think that this Rule should retain the current provision for operators to apply administratively near the end of the probation period for a non-classification where an operator sees his well is liable to be classified marginal and the underage cancelled and he thinks and he has reason to believe he can show that this underage could be produced, I think it ought to be left there and I think he ought to have an opportunity to produce it. As a matter of fact, I will be just a little more severe with that recommendation. I will say that any time a producer has underage that can be produced he ought to have the opportunity to produce it.

I urge consideration of my proposal in setting pool allowables. However, if the Commission through its Examiner does see fit for a change in the classification procedure, then I strongly urge that with the data which is already in the machine system rather than creating something new, something new and unknown to all but the purchasers. Now, I probably shouldn't have said that because under the new provisions the purchasers will be advised even though

it's quite late or maybe too late to do anything about it and this new procedure, proposed procedure, of El Paso's is difficult to administer.

The use of production history for a previous proration period would be easier, more practical and more equitable. This figure would be available to everyone in the industry including the producers and the figure I am talking about would be the production data for the past proration period whether by using an average or some part of it. Now the reason I urge this strongly is to eliminate all of this extra paperwork. Heaven knows between the federal government and the Oil Commission you people are burdened now with enough paperwork. I know I am because I have to contend with it. There isn't any way I can see of administering the El Paso proposal without burdening us with more paperwork which I am trying my best to eliminate paperwork and this data that I recommend that we would use is already in the machine system. All we have to do is program it to pick it up. That is all I have.

Q We went over Exhibit 12 and you have gone over the present method. Would Exhibit 12 in your testimony there indicate that there has been a change there in the method of classifying wells by recommending the retention of the present method or system? You do not intend to go back

using any of these percentages?

A No.

Q But it would be entirely on a hundred percent?

A A hundred percent average allowable as compared to the highest month.

Q I am not quite clear. You say if the Commission through the Examiner decides to make some change in the classification procedure you would suggest using figures that are already in the machine but I am not quite sure -- I did not understand exactly what figures you would use, you are recommending that they use, in arriving at the classification of a well?

A Wells high month in a machine.

Q You would continue to use high month?

A If they want to deviate from the high month, I would suggest they use some set of production figures along with the high month, say a six-month's average.

Q Six-month's average production?

A Six-month's average production versus six-month's average allowable.

MR. NUTTER: You would use production and allowable figures which are in the machine?

A Right, instead of creating new data. Now, I am

not saying here that this will give the operators a better break as far as producing some of the producable underage because I don't think it will but if we are going to change classification procedure then I am saying let's use something we have already got in the machine instead of creating new data.

Q (By Mr. Hatch) Mr. Utz, were Exhibits 1 through 12 prepared by you?

A Yes, they were prepared by me.

MR. HATCH: I would like to introduce Exhibits 1 through 12 at this time. I believe they are marked Utz Exhibits.

MR. NUTTER: Utz Exhibits 1 through 12 will be admitted in evidence.

A They are not marked that way. They are marked OCC Exhibits. If you want to change this, you may.

MR. NUTTER: OCC Exhibits offered by Utz, 1 through 12, will be admitted in evidence.

Q (By Mr. Hatch) Do you have anything further?

A I have nothing further unless you have some clarifying questions.

MR. NUTTER: We will recess the Hearing until 11:00 o'clock at which time Mr. Utz will be available for

Cross Examination.

(Whereupon, a 15 minute recess
was held.)

MR. NUTTER: The hearing will come to order, please.
Mr. Hatch, do you have any more on Direct Examination of Mr.
Utz?

Q (By Mr. Hatch) I don't think you made it clear
whether your proposal in your testimony would apply to North-
west New Mexico and Southeast New Mexico?

A I think what is good for Northwest is good for
Southeast and if it is good for proration in one area it
is good for proration in both areas.

Q We are talking about calculating pool allowables?

A Yes, sir.

Q And what about your recommendations to retaining
the present method of classifying wells? Is your recommen-
dation the same for both Northwest and Southeast?

A Yes.

MR. NUTTER: Any other questions of Mr. Utz?

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Utz, I have a couple of questions. First,
does the present procedure for determining pool allowables

work to correct those allowables to actual production?

A That was the intent of it but it doesn't do it.

Q Are you saying that the Rules themselves don't do it or that the present practice doesn't do it or --

A Well, I presume, Mr. Morris, you are referring to the pool adjusting procedure.

Q Yes?

A That I testified here on Exhibit 1. There is no Rule for this. It is a practice and a policy procedure that I inherited and I have been doing it ever since. I think it goes without my saying it that my opinion of it is not good.

Q You have reviewed El Paso's proposal that was presented at the original Hearing in this matter?

A Yes, been sometime though.

Q Is it your statement that El Paso's proposal, if adopted, would work to deny marginal wells the right to produce the allowable, that would deny them the right that they have under the present practice and procedure?

A Mr. Morris, it would deny and I think definitely it would deny the operator the opportunity to produce and it would deny him the information that he has on non-marginal wells. That is the status and the allowable he would have

coming to him and I think the information, by leaving the well non-marginal, would be beneficial toward getting some of that underage produced.

MR. MORRIS: Those are all the questions I have.

MR. NUTTER: Any other questions of Mr. Utz? He may be excused.

Mr. Morris, would you like to call your witness and present your case?

MR. MORRIS: Mr. Examiner, at the outset I said our testimony would be rebuttal testimony. That might have been an incorrect characterization. Actually what we have is in the nature of supplemental Direct testimony and if the Examiner will allow some latitude we might get over into some area of rebuttal in an attempt to shorten the Hearing and the testimony that we present. Our witness will be Mr. Norman Woodruff who testified in a previous case and I ask that he be sworn.

(Witness sworn.)

NORMAN WOODRUFF

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

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Woodruff, please state your name, where you reside, by whom you are employed and in what capacity?

A I am F. Norman Woodruff, work with El Paso Natural Gas Company, residing in El Paso, Texas. I am the Company's manager of gas prorations' operations.

Q And you have testified previously in this case at the Hearing held on October 14, 1970?

A Yes, I have.

Q Were you present throughout the Hearing on October 14 and throughout the Hearing that has been held on this case today?

A Yes, sir, I have and have been.

Q Do you recall the evidence that was presented at the Hearing on October 14th by Mr. Cameron, the witness for Chevron Oil Company and have you studied the proposals that he made at that time?

A Yes.

Q Would you comment concerning Chevron Oil Company's proposals and give El Paso's position with respect to that?

A Mr. Cameron pointed out in his testimony that there were circumstances in the Indian Basin Gas Pool in Southeast New Mexico where wells are choked when they are produced many times that would prevent the procedure which

we had recommended for the Northwest Gas Pools from giving accurate results. We recognize that to be correct and in order to cure this problem we will recommend some revisions to our Rules to provide for a procedure for testing the wells to permit the operator to show that they are capable of producing their allowables under those circumstances.

Q Now, Mr. Cameron made some suggested Rule changes on behalf of Chevron Oil Company. Would you comment on those proposed Rule changes?

A Mr. Cameron proposed in the last sentence of his proposed Rule 16A and I will quote, "Each well's monthly producing ability will be assumed to be the lesser of, one, the maximum production during any month of the preceeding gas proration period or, two, the most recent test deliverability multiplied by 30.4 days."

I believe that it is fair to say that Mr. Cameron's lack of familiarity with the San Juan Basin deliverability figures cause him to believe this was a figure indicative of a well's ability to produce into the existing pipeline where actually that deliverability is a figure calculated for proration purposes giving a theoretical deliverability which obviates variations in manner of completion of a well and the differences in pipeline pressure.

His objective, though, we think is good, that he wanted to provide an actual test of deliverability to substitute in instances where the figures which would be furnished by the purchaser may be in error and, as I say, our suggested Rules will recognize this point.

Now, his suggestion that, and I will repeat the number one feature that the "maximum production during any month of the preceeding gas proration period be used" is essentially the existing procedure. A continuation of that does not give us the benefits which we believe are necessary to make proration work in the San Juan Basin.

I think it may be well for me to state at this time to reiterate a statement I made at the original Hearing so that particularly those who are primarily interested in the Southwest will be aware --

Q You mean Southeast?

A I mean Southeast, will be aware that proration as we have known it historically has not been working in the Northwest. It has not been working to the extent that there have been periods where we have known that we would not be able to meet market demand because of the many overproduced wells that we were unable to balance and would have to shut in in accordance with existing Rules. We are now operating

under the second exception granted for a year's period of time permitting us to bring wells back into the balance so that we will have fields in order enabling us to meet our market demand for the coming winter period. This has been a situation existing now for about several years at any rate. What we are trying to accomplish and the Rules that we initially recommended and essentially the same objections will be reflected in our revisions as to accomplish what improvement is possible in the existing mechanism of proration to try to make proration as we know it work for as long as possible. I reiterate that it has not been working because we have had to have two exceptions. Consequently, any improvements that can be made in the procedure and at the same time give full protection to correlative rights should be made so as to make the proration Rules more workable.

Q Do you have your proposed Rule changes prepared in the form of an Exhibit including the revisions that you have just referred to?

A Yes, I do and I would identify as Exhibit No. 5-R. I don't know that we have this Exhibit before the Examiner.

MR. MORRIS: May I ask the Reporter to mark a copy of that?

(Whereupon, El Paso's Exhibit
No. 5-R was marked for identification.)

MR. MORRIS: May I state for the record that the original Rule changes were marked as Exhibit 5 at the Hearing of October 14th. This Exhibit is marked as Exhibit is marked as 5-R to show that it is the revised proposed Rules.

Q (By Mr. Morris) Do you have a copy of that Exhibit before you, Mr. Woodruff?

A Yes, I do.

Q Would you explain the revisions that you are recommending and review this Exhibit?

A Yes, I will and I would like to state in the beginning that there have been several suggestions presented, both those of Mr. Cameron, those of Mr. Utz, written suggestions furnished to all parties by Pan American which we have had advantage of and have adopted those which we thought were meaningful corrections or improvements in our Rules and our changes are largely to accomodate the problems and needs that others pointed to us. I believe that each party has in his hands a copy of Exhibit 5-R.

I don't believe it will be necessary for me to go through each of the Rules. For your ready understanding,

however, I would like to explain that for each Rule we have stricken through that portion of the original Rule that was replaced. We have shown in capital-lettered words the recommendations that we made in the previous Hearing on this matter. We have shown in capital-lettered words underlined the changes that we are proposing today.

You will find that there are no changes on the first page. On the second page at the top you will note that we have inserted a proviso and I should start with the sentence at the bottom of the first page that "This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the third, fourth, and fifth month of the current gas proration period, unless a productivity test is taken in accordance with Rule 16B below."

An explanation we previously provided for the three most recent months of production to be those which would be analyzed, there was a problem apparently from the statements of some that this three most recent months might not be the same for all purchasers. This suggestion, that it be the third, fourth, and fifth month was made in the Pan American's suggested Rule which we think was a good suggestion and we have included in here.

Now, going to Rule 16B you will find corrections, or I say corrections, I would like to say they are changes, so that it reads now, "Each gas purchaser shall furnish to the Commission and to the operator ..." I would like to stop and say this too was a suggestion so that the operator would be fully aware of what the purchaser furnished to the Commission. "Prior to the 20th day of the last month of each proration period, the actual average daily producing ability for the third, fourth and fifth months of the current gas proration period (this shall be the total production for these months divided by the actual number of days produced during the same three months) of each gas well to which it is connected;"

I would like to stop there. These are a lot of words. I trust that the meaning is clear but to explain in case it's necessary, that we are providing here that the purchaser who had furnished to the Commission this data for the third, fourth and fifth month furnished this data to the Commission and to the operators by the 20th day of the sixth month of the proration period. In other words, that would be ten days before the balancing date, beginning of the next proration period.

Now, if I may continue, "Provided, however, if the

well is mechanically restricted, the operator may conduct a flow test on the well during the last month of the proration period consisting of not less than three days (72 hours) nor more than eight days (192 hours) of flow into purchasers pipeline at a rate sufficient to show that the wells should not be classified marginal, and submit the results of such tests, converted to average daily producing ability to the Commission prior to the 15th day of the month following the last month of each proration period; the producing ability indicated by such tests will be used in lieu of the average producing ability submitted by the purchaser. (This test shall be taken and submitted in a manner acceptable to the Commission) Upon receipt of this information from the gas purchaser or producer the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire room."

What I have read to you encompasses all of the changes recommended by El Paso to the Rules offered at the time of our last Hearing. It may be well for me to briefly explain this last portion that I have discussed with you permitting the operator to submit a test under circumstances where there are mechanical restrictions to provide both the

time and the mechanism to the operator to present to the Commission data which shows that the well should not be classified marginal. Under circumstances, for instance, such as those testified to by Mr. Cameron applicable to the Indian Basin Pool where wells are choked and do not produce their full producing capacity, a purchaser, in making the report which we propose to the Commission, would make it through a machine procedure which would take the total volume produced and divide it by the total days that the well was turned on to the line. Now, this would give what we believe is needed, and improved reflection of delivery capacity in pools of Northwest New Mexico and other pools where there is no choking. As I say, it is a machine procedure though and if a well is choked the machine is going to automatically report what is in the record. Under those circumstances, the operator would be privileged to take a test and that would supersede what the purchaser had submitted.

I believe that completes my presentation of our revised recommendations.

Q In the original Hearing on October 14 Mr. Cameron expressed a great deal of concern over having one of Chevron's wells classified as marginal, expressed a general fear of adverse results that would flow to the reclassification of

any well as a marginal well. Would you comment and respond to that testimony?

A I believe that a clear understanding of the Rules that we proposed and, proposed at that time, since the intent is the same as explained in my previous testimony, will clearly reflect that the intention and recommendation of El Paso is to permit a marginal well to produce all the gas that it would have been permitted to produce had it been non-marginal. To say it another way, had it never been classified marginal. It is our intent. We do believe that our recommendation will result in that. We did recommend that any well which had a marginal classification and which was found to have a changed circumstance which caused it to become non-marginal would have its allowable reinstated to the full extent that it would have had had it never been marginal.

We have no desire, and our recommendation is not to deny a marginal well one cubic feet of production less than it would have been privileged to produce as a prorated well.

Q Would El Paso's proposal as now presented deny marginal wells any right to produce allowable which they now have?

A They would not.

Q Mr. Cameron also testified --

A If I might say in my testimony relative to our Rules, and in accordance with what I have just said, if there is any question in which the existing Rules do it and the procedure which is utilized, we would want it clarified to assure that there is no penalty.

Q Mr. Cameron testified that he thought a marginal classification would be about the worst thing that could happen from an operator's standpoint. Would you care to comment further upon that testimony?

A El Paso is the owner of interest in and the operator of 3,434 wells in the San Juan Basin and we are the owner of interest and operator of 54 other wells throughout the State of New Mexico in prorated pools so that we -- would you strike in prorated pools? I cannot say that all of those wells are in prorated pools because there are a number of pools that are not prorated. We have every interest as a producer to insure that our wells received the full opportunity to produce their full allowable without denial whatsoever. We believe there is absolutely no justification of his concern that there is some stigma to the classification to a well as marginal. We do not have that concern

under the Rules as we propose, administered as we propose.

During his testimony he also said that they thought it might be possible for a purchaser to take advantage under his contract of the circumstance where the Commission classifies a well as marginal. Now, El Paso purchases from the two Chevron wells in the Eumont Pool. We have reviewed that contract. We are familiar with the contract that we use in the various pools throughout the State of New Mexico for the purchase of gas from others and I can state without concern that we have no right under our contract to take advantage or to reduce our contractual obligations because the Commission classifies a well as marginal. That concern, so far as El Paso's contracts are concerned, is unfounded.

Q Turning now, Mr. Woodruff, to Mr. Utz' memorandum of November 17 and to his testimony concerning that proposal that he has given in this Hearing today, have you studied the proposal by Mr. Utz and have you been hear at this Hearing today and heard his testimony?

A Yes, I have.

Q Would you comment upon that proposal and state El Paso's position with respect to it?

A We have studied Mr. Utz' proposal and listened to

his testimony today which reflects that his proposal is directed towards changing the procedure for determining a pool's current allowable. Our application and our testimony has been direct toward the mechanism which would be used, which we recommend be used, when a well in a pool is no longer capable of producing its allowable and probably should have a marginal classification.

The Rules proposed by Mr. Utz, in my opinion, in no way corrects or cures the problem which has caused us concern and to which we have testified to in the San Juan Basin, the problem of having allowable accumulated to wells which are physically incapable of producing them. We do not believe that his recommendation is responsive to the need that we are concerned with, the need which as I have reminded the group today has been reflected in the necessity of coming before the Commission on two prior occasions and asking for a year's extension to the balancing provisions because we were unable to meet the market demand out of San Juan Basin Pools under the existing procedure that was in use.

I would say that Mr. Utz indicated that some one, or a purchaser or somebody had come in from time to time and urged adjustments. It was El Paso that came in and urged

these adjustments from time to time in order to try to effectuate improvements in the procedure being used, realizing that the circumstances that I have testified to were upon us and that some improvement or every improvement should be made if it was reasonable and continued to protect correlative rights so as to try to make proration as we know it work.

I think it is clear to us and I hope clear to others that we either try to improve our Rules and the procedure used in administering them so that we can live under the Rules or else we are faced with living under exceptions. The future is not going to be better than the past. What we are doing as honestly and as conscientiously as we know how is to try to analyze where improvements in existing Rules and administration of them can be made without violating correlative rights so as to try to make proration work as long as it is possible. That is our objective. That is the aim of our Rules and that is what we believe will result from the application of them.

Q Have you studied the Exhibit that was presented by Mr. Utz at the previous Hearing?

A Yes, I have.

Q What did that study show?

A The Exhibit that you have reference to I believe

was, I am not sure how it was identified. Mr. Utz, it was your Exhibit in which you graphically showed the comparison between nominations, production and allowable for the period during 1969 and 1970. I believe it may be Exhibit 2. Do you recall the number of that Exhibit?

MR. UTZ: What pool?

A Blanco-Mesa Verde. You had one graphic representation.

MR. UTZ: The nominations, production and allowable, Exhibit 1.

A Exhibit 1. Yes, I have studied Mr. Utz' Exhibit No. 1.

MR. NUTTER: One with three lines on it?

A Which has the three lines. The graphic representation of nominations production and allowable for the Blanco-Mesa Verde Pool for 1969 and 1970, portion of 1970 in which he sought to show that the current allowable procedure was resulting in the assignment of unusual anomalous allowables. I would particularly refer to those who have the Exhibit in hand to take note of the month of March 1970 in which he showed a very significant increase in allowable which appears to have not been justified by either nominations or production. I have prepared and there is currently being

handed out an Exhibit which we would like to offer an Exhibit No. 11.

MR. MORRIS: May I ask the Reporter to mark that at this time?

(Whereupon, El Paso's Exhibit No. 11 was marked for identification.)

A Which excerpts from Mr. Utz' graphic representation the allowables assigned for the period December 1969 through June 1970. This graph, Exhibit No. 11, was prepared to show why that anomalous allowable occurred. I find in Mr. Utz' testimony today that he gave recognition to this also and I think that my testimony will essentially be the same as his in terms of both the problem which caused it and the way of correcting it.

Back in January of 1970 on the balancing date when wells are analyzed to determine whether they should be classified as marginal from a non-marginal status a group of wells were reclassified. These wells had an allowable accumulated of 7.8 billion cubic feet of gas. The Commission took this 7.8 billion cubic feet of gas and in fact threw it out. This was 7.8 billion cubic feet of underproduction which was cancelled. This 7.8 billion cubic feet of production

with the allocation formula for the pool. Had they done that rather than following the procedure they had, the allowable for the month of March would have been as shown by the dotted line on this Exhibit so the anomalous condition was due to the process utilized in getting this allowable back to the prorated wells. The interesting thing that you should note is that for April, May and June the allowables by either method are the same. There is no dotted line but such is the case. This to me is an indication and a proof that the existing mechanism for calculating a pool allowable does, without question, correct the allowables to actual production. That is the purpose for the mechanism. It is mathematically perfect. It does that and is a circumstance where regardless of which procedure is followed it brings it right back to the exact figure.

Now, Mr. Utz said that he inherited this and there is nobody that has been in the gas business as long as he has but I was around at the time that this was developed. It was not my procedure but I analyzed it very carefully because I wanted to understand that it accomplished that very thing and I proved beyond a question that mathematically it does adjust pool allowables to actual production. It further corrects any circumstance where allowables are

that is cancelled from a pool, a pool that has a pool status as of a date. When you take away 7.8 billion of underage, it reflects 7.8 billion more overage or in effect would indicate for that month that there had been 7.8 billion more production than there had been allowable.

Now, the procedure utilized in calculating allowables today and which has historically been used causes two months later for this correction to be made in subsequent allowables so we find that in March this 7.8 billion was returned to the pool in the form of additional allowables. The nominations didn't reflect it but it was a correction for what had occurred in January.

Now, mathematically there is nothing wrong with doing it this way. It gets the allowable back into the pool to the wells that are still prorated, whether they are overproduced or underproduced. This procedure has been utilized by the Commission during this period of exception and while it's given some anomalous results it really has not inaccurately assigned allowables to wells.

Prior to the exception, the Commission did as Mr. Utz indicated I believe, that he thinks should be done in the future, they took this 7.8 billion cubic feet of underage and they allocated to all of the prorated wells in accordance

significantly at variance with actual production and that's clearly shown in this Exhibit where we had an allowable in March that was way high compared to production but this mechanism of calculating allowables brought it into line again. That is the reason for this mechanism that's used. That was the purpose for instituting it.

Now, had we based our allowables solely on nominations and had once caused this anomalous condition to occur, we would have found that allowables in the future would have been up and down and up and down which is hard perhaps for the Transcript to reflect in terms of meaning but those of us who have worked with proration through the years know that in the early years of proration when an error occurred this did result. You had severe fluctuations in allowables caused by an error and it never worked itself out. Consequently, this mechanism that is used was developed to level out the allowables to minimize fluctuations and still assure that allowables were equal to production. It's the most effective mechanism for allocating production, for allocating -- correction again, for determining a pool allowable and keeping it in line that I am aware of anywhere in any prorated pool that we do business in.

We do not find that the suggestion of Mr. Utz

improves upon that and we recommend that we continue the procedure we have historically used as being the most effective and most accurate of which we are aware. It further has a major feature in it. It removes from the judgement of anyone the necessity of correcting allowables to actual production. It does it automatically. No one has to make the decision that it's to be done. It's done automatically. No purchaser can ficticiously nominate either higher or lower than he is going to actually take without finding the adjustment two months later on. It removes from anybody's control the determination of a pool allowable. We think that is a basic ingredient of any meaningful proration procedure. We think it should be continued.

Q Mr. Woodruff, if I understand you correctly, and I have used layman terms here, you do not see any need for a change in the method of assigning pool allowables. You think that that is correct. The problem to which you have addressed yourself and which the Commission should address itself is preventing the underage, so much underage to accrue in the first place, is that a fair statement?

A That is a fair statement with an elaboration. We have no desire nor do we recommend nor is it our intent to cause underage to be cancelled for any well that is physically

capable producing that underage but to the extent that this is done and it has been done in the past and we are attempting to minimize this in the future, it does result in indicated overproduction of the wells it had to produce that market demands in amounts that have made it impossible in the San Juan Basin to balance wells. We are seeking an improvement so as to minimize this circumstance.

Q Have you compared how your proposed method would work with the present method being followed for classifying and reclassifying wells from marginal to non-marginal status?

A Yes, we have made a study and the results of this study is reflected in Exhibit No. 12 which is being passed out.

MR. MORRIS: May I ask that the Reporter mark Exhibit No. 12?

(Whereupon, El Paso's Exhibit No. 12 was marked for identification.)

A Exhibit No. 12 is a comparison of the present method with the proposed method for classifying wells marginal for the proration period ending July 31, 1970. You will find for each of the prorated gas pools in Northwest New Mexico a listing of the number of wells and the volumes of the gas cancelled, that volumes of underproduction cancelled, for

those wells by the Commission under their current procedure for classifying wells marginal. El Paso undertook a study of those wells that were marginal into its system. May I clarify that. El Paso undertook a study of the wells tied into its system which were under produced and in order to determine under our proposed procedure how many wells would be classified marginal and how much under production would be cancelled for redistribution to the remaining prorated wells in the pool. The procedure used is reflected in the notes and assumptions on this Exhibit. We used a procedure which we believe assured us that every well that was a potential marginal well was included in our study. There was something like 1200 underproduced wells tied into our system. Our study analyzed 706. There is a column showing this 706 and how it was broken down by pools. We feel confident that the 110 wells which the Commission reclassified as marginal would be included within the 706. To be sure there is no misunderstanding, this 110 wells are marginal wells tied into our system, not marginal wells for the entire San Juan Basin. Our study showed that there would have been 248 wells classified marginal and that there would have been 7.6 billion cubic feet of underage cancelled and redistributed to the remaining non-marginal wells. This compares with

approximately five billion cubic feet which would have been cancelled and redistributed or which was cancelled and in effect redistributed by the Commission under the current procedure. This is a difference in volume of about 2.7, I believe, billion cubic feet of gas. To some this may be large to others small and to some important and to others possibly unimportant. I think it is important and has to be analyzed in terms of its comparison with the amount of overproduction accumulated to wells because the status would be changed for wells by giving them more allowable which in turn increased their overproduction. As of the latest date for which information is available to us, which is the end of October, there was cumulatively accumulated to marginal wells in all of the prorated pools of Northwest New Mexico 11.3 billion cubic feet of underage. So this 2.7 billion improvement and the reassignment of allowable is a significant amount in terms of the total overproduction.

Q You said marginal wells but you mean accrual to non-marginal wells?

A I believe I will attempt to explain it again so that there will be no question about what I am saying. I fear that I may have said overproduced when I should have said underproduced or something different.

The 11.3 billion that I referred to was the accumulative overproduction as of October 31, 1970. Now, to the extent that the additional 2.7 billion of underage accumulated to marginal wells was cancelled and redistributed to the remaining prorated wells, it would have reduced this overproduced status of the prorated wells resulting in less overproduction to be made up making it easier to balance. This is an immediate benefit. There is a further benefit from month to month with this additional 138 wells classified as marginal. They will not in subsequent months receive a full allowable which they are incapable of producing it so on a current basis there will be no more accurate allowables assigned to the remaining prorated wells. So we think that this is a very effective and meaningful way of resulting in more accurate allowables on a current basis; again, not denying any well its fair and full equitable share of the market demand. We picture no violation of correlative rights as a result of this. In effect, the protection may be improved under our proposal. No marginal well will be denied any allowable it would have received had it been non-marginal at all times.

Q Mr. Woodruff, do you have anything further with respect to Exhibit No. 12?

A No, sir.

Q In summary of El Paso's recommendations in this case, would you briefly outline El Paso's position at this point with respect to its recommendations to the Commission?

A El Paso's recommendations are that the change in the procedures which we have presented in Exhibit 5-R be adopted for the Northwest New Mexico Prorated Gas Pools and we recommend that no further changes be made in the proration procedure at this time.

We would recommend, should the Commission consider that the change in the Rules in Southeast New Mexico must be made consistent with Northwest, that these Rules also be applied to Southeast New Mexico. I certainly concur with Mr. Utz in saying that if a Rule is a good Rule, it's equally good for any pool that is prorated and we believe that that is what we have recommended here, a good and improved Rule.

Q Your recommendation, however, is that the changes that you have outlined be adopted at this time for Northwest New Mexico only, is that correct?

A I am recommending that they be adopted for Northwest New Mexico. I feel that it is incumbent upon us, however, since we do operate wells in prorated pools of Southeast New Mexico to request that should these be applied in Northwest

New Mexico prorated pools that the same revisions be adopted in Southeast New Mexico. The problem to which we have testified and the problem which we are trying to correct currently exists only in the Northwest New Mexico and that is why we have concentrated our studies and testimony to where the problem exists.

Q Were Exhibits 5-R, 11 and 12 prepared by you or under your direction?

A They were.

MR. MORRIS: We offer Exhibits 5-R, 11 and 12 again.

MR. NUTTER: El Paso's Exhibits 5-R, 11 and 12 will be admitted in evidence.

(Whereupon, El Paso's Exhibits
5-R, 11 and 12 were admitted
in evidence.)

MR. MORRIS: That is all I have on Direct Examination.

MR. NUTTER: We will recess the Hearing until 1:30 at which time Mr. Woodruff will be available for Cross Examination.

(Whereupon, the Hearing was
recessed until 1:30 P.M.)

MR. NUTTER: The Hearing will come to order. Were

you through with your Direct Examination of Mr. Woodruff?

MR. MORRIS: Yes.

MR. NUTTER: Mr. Woodruff is available. Does anyone have any questions they wish to ask him?

MR. BUELL: I have one.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Woodruff, would you turn to your Exhibit 5-R please?

A Yes, I have it before me.

Q We are having a little bit of trouble with the first phrase, balancing of production, Rule 15B. Does it make complete sense to you the way it is currently written and I use my word "currently" on purpose?

A This is a damned if you do and damned if you don't situation. Would you care to point out to me the portion that is questionable and let me explain what the intent of it is and let me see if we can clarify it.

Q I will read it the way I am recommending and the way I am hopeful you will except. "If at any time a well is overproduced in an amount equalling six times its average monthly allowable for the last six months it shall be shut in during that month and each succeeding month until it is

overproduced less than six times its average monthly allowable for the preceeding proration period".

A That is what I said.

Q You have no objection to making that change?

A I can see no objection to that change of phraseology.

MR. NUTTER: You would eliminate the word "current" twice and add "For the preceeding proration period" at the end of the sentence?

MR. BUELL: In lieu of the last six months, preceeding proration period is more readily identifiable and I would add average monthly allowable for the preceeding proration period.

MR. NUTTER: Now I don't follow you. Read it again.

MR. BUELL: "If at any time a well is overproduced in an amount equalling six times its average monthly allowable for the preceeding proration period it shall be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceeding proration period".

A That accomplishes the same thing, Mr. Examiner. I consider the proposal that we made did.

MR. NUTTER: Thank you, Mr. Buell. Is that all?

MR. BUELL: Yes.

MR. NUTTER: Are there any further questions of Mr. Woodruff? If not, he may be excused. Mr. Russell, you have a witness you wish to call?

MR. RUSSELL: Yes, sir. John F. Russell, appearing on behalf of Texas Pacific Oil Company. I have one witness.

R. B. FREELS

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

DIRECT EXAMINATION

BY MR. RUSSELL:

Q Will you please state your name, name of your employer and the capacity in which you are employed?

A My name is Ron Freels, I work for Texas Pacific Oil Company, Incorporated. I am manager of oil and gas sales and regulations.

Q You have previously qualified to testify before this Examiner, have you not?

A Yes, I have.

Q Are you familiar with the original position or proposal of El Paso Natural Gas Company as outlined or proposed in the October 14 Hearing?

A Yes.

Q Now, in view of their proposal, have you examined the records of some of your wells to determine what effect the adoption of their proposal would have on these wells?

A Yes, I have.

Q And in that connection, have you prepared an Exhibit?

A Yes.

Q In fact, it is numbered Exhibits 1, 2, 3 and 4, is that correct?

A That's correct.

Q In as much as we do not have copies for everyone will you explain what you have done insofar as the Exhibit is concerned and go into as much detail as necessary so these people will understand your figures?

A I went back beginning with the month of the first period of 1969 and reviewed our wells that are connected to the El Paso system to determine the effect that the El Paso Rules would have on classifying our wells as marginal and I have selected four wells which I think demonstrate a potential problem with the proposed El Paso Rules.

The first Exhibit, Exhibit No. 1, is Texas Pacific Oil Company Danglade No. 2 in the Blinebry Pool, Lea County,

New Mexico. On this well I have tabulated the allowable, the production, the underproduction, the cumulative underproduction, for each month, January through June 1969. This well, under the El Paso proposal, would be reclassified as a marginal well. It is underproduced going into the proration period. It was still underproduced at the close of the proration period. It's average monthly production as determined by the last three months of the period which are the days on production divided or the total production divided by the days on production times the average number of days in the month. This figure is less than the average allowable. This well would have been reclassified as a marginal well by the El Paso proposal and the 15,894 MCF at the end of the period would have been cancelled. Current deliverability tests shows it capable of producing in excess of 32,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well as marginal.

Q For the benefit of the people present, would you give the cumulative underproduction figure going into the period and at the end of the period and the average monthly allowable?

A Yes, the well was 2,085 MCF underproduced at the

beginning of the period. At the conclusion, 15,895 MCF underproduced. The average monthly allowable was 12,216. The average monthly production as determined by the last three months, 10,324 MCF per month. This is as a comparison. The well is capable of 32,000 MCF per month.

Q Go to Exhibit 2.

A Exhibit 2 is a similar comparison of our data at the Owens Number 1 Blinebry Pool, Lea County, New Mexico. This well entered the proration period 24,930 MCF underproduced. At the conclusion of the proration period it was 50,062 MCF underproduced. The average monthly allowable for the well during that period was 16,288 MCF. The average monthly production based on the last three months was 15,289 MCF. Under the El Paso proposal this well would be classified as marginal and all the 50,062 MCF underproduction would have been cancelled. Subsequently, the well has demonstrated a capability of producing an excess of 44,000 MCF per month and has made up most of the underage. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

Exhibit 3 is a similar comparison for Texas Pacific State "A" account one well 27 in the Jalmat Pool, Lea County, New Mexico. This well entered the period, the

proration period at 13,243 MCF underproduced. It closed the period 32,513 MCF underproduced. The average monthly allowable for that period was 8,549 MCF. The average monthly production based on the last three months was 8,022 MCF. This well would have been classified marginal under the El Paso proposal and the 32,513 MCF underage would have been cancelled. Current deliverability tests show this well capable of producing in excess of 32,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

The final Exhibit, No. 4, is Texas Pacific's State "A" account one well 21 in Jalmat Pool. The same comparison of data was made on this well. It entered the proration period 3,663 MCF underproduced. At the conclusion of the period the well was 22,068 MCF underproduced. Let me point out a few additional comments on this thing. As it turned out the first month, January, at the beginning of the period the well actually overproduced its allowable 13,130 MCF. The following month it overproduced its allowable 7,730 MCF. Subsequent four months it was underproduced. In fact, the last three months the well was shut in no production whatsoever. So again this well would have fit the El Paso classification, would have been classified marginal

and 22,068 underage would have been cancelled. Current deliverability tests show this well capable of producing 33,000 MCF per month. The New Mexico Oil Conservation Commission method presently in use did not classify this well marginal.

Q For the three months there was no production was that due to mechanical difficulties?

A No, this well was shut in. The gas was not needed.

Q Have you made any computations and what the difference in procedure would mean to you company in dollars and cents?

A I have only for those four wells. There were other wells that would have been classified. I felt these were the best examples. For these four wells the total underage cancelled was something in the order of 120,000 MCF, worth to Texas Pacific about \$20,000.

Q Now, you have heard the proposal by Mr. Utz of the Commission as to his recommendations on this matter, have you not?

A Yes, I have.

Q And of the two, which position does your company support?

A We wholeheartedly support Mr. Utz in his proposal.

We think it will work and one other thing which concerns all of us also is that the method that is being proposed by El Paso would put a considerable additional on the operator or the producer, ourselves, and I am sure on Mr. Utz. I am especially concerned about the burden placed on the producer. I don't think it should be necessary to have to audit our individual wells every six months just to be sure a well wasn't classified marginal erroneously.

Q Were Exhibits 1 through 4 prepared by you?

A Yes, they were.

MR. RUSSELL: Mr. Examiner, at this time I move the introduction of Texas Pacific's Exhibits 1 through 4.

MR. NUTTER: Texas Pacific's Exhibits 1 through 4 will be admitted in evidence.

(Whereupon, Texas Pacific's Exhibits 1 through 4 were admitted in evidence.)

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

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Freels, on your Danglade Well No. 2, the first Exhibit, why was the actual production during the last three

months so much at variance with the capability, producing capability, of the well?

A I can answer this in a manner that I would assume because El Paso did not need the gas. They generally tell us when they want the gas from these wells.

Q Did this well or any of the other wells covered by your Exhibits, were they producing under choke?

A I don't recall that they were producing under choke but you can see by the number of days on the Exhibit that they were not on production the full time. The Danglade was on production 62.6 days out of the 90 days. I say on production, too. I want to clarify this one point. This was the days that production was recorded from these wells and I don't know for sure whether they were on that the rest of the time and they did not produce. I assume they were shut in.

Q Do you know whether or not these wells were actually producing under choke or not?

A No, I don't. I really doubt that they were. I think El Paso generally operates these wells. They tell us when and where they want it produced and we comply as best we can.

Q In order to cause the variance between your producing

capability and your actual production the wells had to be --

A Restricted.

Q -- restricted in some manner?

A That's right, and it's very obvious that they were restricted at least on the number of days they were on production. I don't know because I am not going to answer your question. I don't know if a choke arrangement or not.

Q Have you had time to study the revised Rule changes proposed by El Paso at this Hearing?

A I have had the opportunity to study while we have been in the Hearing and if anything, I would be more opposed to this new set of Rules than the ones you had before and the primary reason being what I think would be an unnecessary requirement to take additional deliverability tests on a well just to define whether it should be marginal or not. That is my only real objection.

Q Are any deliverability tests required of you now?

A Yes, in fact, we conduct a deliverability test anytime El Paso asks for it.

Q If that be the case, this wouldn't be an additional burden?

A It would be if I had to ask for it. El Paso has

the liberty of potentialing our wells at any time they wish. We require they potential them in a manner we think is right.

Q Would you agree that if you avail yourself of the testing as contemplated by Rule 16B of the Revised Rules, that the cancellation that you have forecast for these wells would not occur? In other words, you could come and take a test showing your producing capability and the wells would not be classified marginal and the result that you state would occur under our proposal would not occur?

A Kind of lost it. Let me see if I can answer your question. The additional requirement to test a well would, I think, avoid the cancellation of underage. We could avoid that anyway. The Rules you have proposed leaves that the only alternative we have to avoid it. We have to go test the well as I read your Rule and that is an additional burden on us as a producer.

Q Mr. Freels, do you operate any wells in Northwest New Mexico?

A I think we own an interest in quite a large number of wells, none of which we operate. Most of them are in units operated by others and a large number by El Paso.

Q Have you studied the effect of El Paso's proposal

upon any of your wells in which you have an interest in Northwest New Mexico?

A No, I have not.

Q Do you know whether you would have the same situation that you have presented by these Exhibits occurring with respect to any well in which you have an interest in Northwest New Mexico?

A I think it would be pretty obvious if I haven't studied the Northwest I couldn't answer your question.

Q Mr. Freels, some of these wells that you have in your Exhibits here are actually in balance, is that correct?

A What do you mean?

Q Are balanced during the proration period?

A You mean did they balance out during the proration period?

Q Yes?

A One or two of them actually overproduced.

Q Yes?

A At the beginning of the period. In fact, Exhibit No. 4 is a very good example of that. It entered the period underproduced and the following month it became overproduced in its status and it was overproduced in the next subsequent month and then underproduced because it was shut in.

Q If the Rules took into account, let's say, it could be stated, for example, to their application to wells in balance, would that alleviate the objection that you have?

A If it would alleviate the necessity for me to continually monitor our wells. As I read the Rules now, I am going to be required at the end of each six-month's period to review each of my wells to see whether it is overproduced at the beginning of the period, overproduced at the end of the period, which is a rather time consuming operation for me and that is one of my biggest objections. What I am saying is, we have a system now that is working for me in Southeast New Mexico. It's causing me personally very little effort to follow it to make sure I am maintaining my position and the proposal you have will not improve my position but it will require additional work of me and that is one of my primary reasons for being opposed to this.

Q Do you or someone in your company keep track of whether your wells are making your allowable, I assume?

A We do not specifically watch that on a month-to-month basis. With the proposal facing us now, we would have to do it two times a year. Now we do it at the convenience and opportunity, when it arises. We do it with the staff

we have now by being flexible.

Q Does your company have any objection to the proposed Rules being adopted in Northwest New Mexico if they are not adopted in the prorated pools of Southeast New Mexico?

A I don't think I have the authority to answer that. I haven't been given that specific authority.

Q You have not studied it?

A I have not looked at the Northwest.

MR. MORRIS: Thank you. That's all the questions I have.

MR. NUTTER: Any further questions of Mr. Freels?

REDIRECT EXAMINATION

BY MR. RUSSELL:

Q Mr. Freels, is it your understanding that Rule 16B, as proposed, sets up a flow test to determine the ability of the well only if the production was mechanically restricted?

A That is the way I read it, yes.

Q So that in the examples on your Exhibits, if the restriction was other than from a mechanical point of view, this would offer you no help, would it, this 16B?

A No, I don't believe it would.

MR. RUSSELL: I have no further questions.

CROSS EXAMINATION

BY MR. HATCH:

Q Mr. Freels, you said you were in favor of Mr. Utz' proposal. I am not sure if you mean his proposal concerned with the pool classifications?

A I have no objection.

Q Or his proposal to leave the well classification as it is?

A Well, my concurrence is primarily to leave the well classification manner as it is now. I have no objection to how it wishes to allocate the allowable to the fields. I do not object to that at all.

MR. HATCH: That's all.

MR. NUTTER: Any further questions?

RECROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Freels, on our Rule 16B, where we have used the word mechanically restricted, if that provided that if the well is restricted for any reason, took out the word mechanical, would that alleviate the problem somewhat?

A That would potentially. It is still the only alternative as I read it. The only way I could avoid a marginal well classification would be through going out and conducting a test of the well which in itself is an expensive item, too.

MR. NUTTER: You are talking about restricted by pipeline pressure, Mr. Morris?

A That's what I thought you meant. That is one of the primary restrictions we face, is the pipeline pressure.

MR. NUTTER: Any further questions of Mr. Freels? You may be excused. Does anyone have any other testimony they wish to offer in this case? Mr. Kellahin.

MR. KELLAHIN: If the Examiner please, Jason Kellahin, appearing for Chevron Oil Company. I would like to call Mr. John Cameron who has testified here before.

JOHN CAMERON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A John T. Cameron.

Q Mr. Cameron, by whom are you employed and in what position?

A Chevron Oil Company. I am supervising proration engineer.

Q And did you testify in the case presently before the Commission, the Examiner Case 4436 at the Hearing in

October?

A Yes, sir.

Q At the time of your testimony you made a proposal to the Commission as to how you felt the proration situation should be handled. Do you still advocate that proposal?

A No, sir, we do not advocate the proposed Rules that we submitted as our Exhibit No. 2.

Q Have you made some changes then in your proposal, is that what you are saying?

A We would like to withdraw that proposal that was submitted as our Exhibit No. 2. As Mr. Woodruff suggested, we have come to realize that deliverability tests that are taken in Northwest New Mexico do not really serve and would not really serve a useful purpose in the classification of wells from non-marginal to marginal. We made a study of the effect of those, the use of those deliverability tests in the Basin-Dakota Pool and we determined that the first balancing period of this year had our proposal been in operation only an additional five wells would have been reclassified from non-marginal to marginal if deliverability had been used in addition to the high month's production and in most of those wells the high month production was more indicative of the well's capacity than the deliverability was.

Q Then you subscribe to El Paso Natural Gas Company's proposal?

A We do not object to El Paso's modified proposal if it were applied only to the Northwest New Mexico Pools.

Q Now, how about the application of El Paso Natural's proposal to Southeastern New Mexico?

A We still object and still urge that the El Paso proposal not be applied to Southeast New Mexico Pools. We disagree with Mr. Woodruff's earlier comment that a good proposal for one pool ought to be good for another. I don't believe that is necessarily so. The pools of Southeast New Mexico are commonly restricted by choke and this seems to be a basic point of difference in the way the pools are operated in Southeast New Mexico as compared to Northwest New Mexico.

Even the modification that El Paso has added to their original proposal would not alleviate all the problems that we visualize in the El Paso proposal in Southeast New Mexico. For example, in the Indian Basin Pool we talked about earlier, during the same 1969 period that we examined our own wells and tested them concerning those wells in October we also have examined the effect of the El Paso proposal on the other wells in that pool and during the first period of 1969, there were 54 total wells in the Indian Basin Pool.

Of those 54, seven were marginal. Of the remaining 47 non-marginal wells under El Paso's proposal 43 would have been reclassified from non-marginal to marginal at the end of the first proration period.

Now, assuming that El Paso modified proposal had been in effect at that time, that is to say the operator would then be given an opportunity to have tested the well to prove that its capability to produce was greater than its last three-months' production then those 43 wells that would have been reclassified would have to be retested by the operator during the 25-day period as I calculated from the time the operator received the purchaser's report until the 15th of the following month when it was due at the Commission. So the operator of those 43 wells would have had to first determine that his wells would have been erroneously classified. He would then have to conduct a three-day deliverability test at least and these are wells most of which will produce ten million feet a day at their capacity. I don't believe there is any way to get those volumes of gas through the plant facilities there and I don't think all 43 of those wells could physically have been tested in that 25-day period. Furthermore, the existing system is working quite well in that field. All of the problems that would have been created

in that pool would have been for nothing because the existing system is working very well for everyone, the operators, the purchasers and so forth.

In addition, in that pool, as well as others, I understand, the purchaser of gas who is required to make the reports would be required by El Paso's proposal, the purchaser of that gas often purchases at a central point and he does in fact in the Indian Basin. I don't believe that the purchaser even knows the days that these individual wells are on the stream and he would have to set up some sort of procedure with the operator of the wells to advise him whether they are actually being produced.

There are a great number of problems that seem to be to me would prohibit the use of El Paso's Rules in Southeast New Mexico and, as I said before, we have no objection to El Paso's Rules if they are restricted to the Northwest Pools.

Q Your testimony has been directed toward the Indian Basin using that material by way of illustration or is it different from the other pools?

A I think there are other pools perhaps not quite as drastic in their difference from Northwest Pools but are Southeast Pools where chokes are commonly used in the Atoka-

Penn Pool. One of the pools we operate in we do in fact use a choke in one of our wells, two non-marginal wells, and it is commonly operated on a 1764 choke and wellhead pressure at 600PSI in excess of the purchaser's line pressure. The well's average production has no meaning whatever as to the well's capability to produce.

Q You heard the testimony of Mr. Utz and his proposal. How do you stand in regard to that?

A I am not in favor of Mr. Utz' proposal where it had to do with the setting of pool allowables. In the first place, I don't think that the setting of pool allowables has caused the problem which El Paso has had in the past in Northwest New Mexico. I think that the problem is not in the magnitude of the pool allowables but in the distribution of the net allowables to wells in the pools and particularly in the recognition of wells that are incapable of producing allowables and more particularly in recognition of the wells whose purchaser does not have a need for the gas. I think one of the largest problems in Northwest New Mexico has been the multi-purchaser situation in several of the fields in which one purchaser has a market for a volume of gas in excess of the allowable of the wells to which it is connected and the other purchaser has a market that is less than its allocated

share. For this reason, the wells that are connected to one purchaser become overproduced, the wells connected to another become underproduced.

The classification system is supposed to eventually cancel underproduction and redistribute it to the wells which are capable of producing it but there is a time lag that has caused the problem. I think actually that the problem is on its way to solution if it hasn't already been solved. One of the things that has helped is El Paso's taking of gas from Southern Union which I understand they started in August. I would like to think that would go a long way in solving their problem.

The current system, while it is slow in classifying wells and cancelling production, I think it has worked in the Basin-Dakota in early '68 when El Paso first brought this problem to the Commission's attention, and there were 993 marginal wells in the Basin-Dakota Pool. That was about 55 percent of the wells in the pool and in November of this year that number had increased to about more than 500 marginal wells so that there are now 74 percent of the Basin-Dakota wells which are now marginal. This was simply the current system working in reclassifying wells from non-marginal to marginal. I really think that the existing system of

classifying wells will eventually work in Northwest New Mexico also.

Back to your question about Mr. Utz' proposal to the setting of pool allowables. I would hate very much to see the existing system changed. This is a system that has been tried in at least three states for many many years. It has been successful in setting pool allowables equal in the long run to production. There is a lag and it takes time for it to work but eventually allowable is set equal to production. Since production is demand then it is accomplishing the purpose of setting the pool allowable equal to the demand. The use of nominations on the other hand without adjusting them to past production I don't believe would work. Unrealistic nominations on the part of purchasers -- they can't always predict in advance what their demands are going to be. I have a feeling that the system would get completely out of hand because of erroneous nominations if they are not adjusted for past production.

Q Now, you heard some testimony today to the effect that the same system should be used Statewide for handling proration problems. If that is the case, which system do you recommend?

A I am not sure why it's necessary to have the same

system but if it is deemed necessary by the Commission to use the same system both in Northwest and Southeast we urge the existing system continue in effect. It has worked in Southeast with a minimum of problems and I think it is going to work in Northwest New Mexico also. I would urge the current system continue in effect for a period of time to determine whether El Paso's recent purchases of gas will solve the problem.

Q Do you have any other recommendation?

A I don't have any recommendations. I would like to make a comment I have. The damage or lack of it that might accrue to an operator because of a well being placed in a marginal status. I still believe that an erroneous classification of a well from non-marginal to marginal is very damaging and potentially very damaging to an operator.

First, obviously, marginal allowable is less than his allocated allowable so it's therefore less than his fair share of the pool. Now, if in every case while the man is in marginal classification the well is produced wide open that would remove that stigma from the marginal classification. As to its effect on contracts, this is not idle speculation, the marginal classification has jeopardized contracts of ours in other states and it has also been used

in pools in which we operate in New Mexico and a purchaser has claimed release of take-or-pay obligations. In fact, in the Indian Basin Pool the purchaser was deficient on takes of his contract takes, in the year 1967. He recognized those deficiencies and he was willing to pay the shortage of gas that he had failed to take. However, as I said, the purchaser takes at a central point there to allocate the deficiency back to the individual wells in the pool. The procedure that the purchaser took was to pay no deficiencies to any marginal well that was marginal at the first, on the first day of 1967. In other words, any well that was in a marginal classification on the first day of 1967 in that field there was no way he could accrue a deficiency of a take-or-pay contract. This is not the only field, incidently, in which the contract could be placed in jeopardy by marginal classifications. Our own contracts in the Atoka Field set out a daily contract quantity which is equal to 20,000,000 cubic feet a day multiplied by a fraction, the numerator of which is our own New Mexico Commission allowable, the denominator which is the total field allowable. The marginal well allowable is less than a non-marginal well allowable so that our allowable over a period of time would be less and our DCQ would therefore

be reduced. This is not the same if we were in a marginal classification that we would be damaged to any extent but the problem comes when you are erroneously classified to marginal. You can be damaged by it.

Q Do you have anything to add, Mr. Cameron?

A I believe not.

MR. KELLAHIN: That completes the examination of the witness.

MR. NUTTER: Any questions of Mr. Cameron? He may be excused. Does anyone else have any direct testimony to offer? Are there any statements to be made?

MR. BUELL: If it please the Examiner, for Pan American Petroleum Corporation, we are in an unusual situation here today and usually before we come to a Hearing we are aware of the problem and have analyzed it. Here, until Mr. Utz and El Paso had educated us, we didn't realize the tremendous problem that does exist. We were aware, of course, that there were wells that should be classified as marginal that weren't. We had no idea of the magnitude of those wells in that category until we have seen the evidence here. We also knew there was overproduction and underproduction but again we did not visualize the degree until Mr. Utz and El Paso had presented it.

Actually, as far as we can tell, none of these problems were particularly giving Pan American problems. We have been unable to evaluate El Paso's proposal as it will effect Pan American's operations and, of course, Mr. Utz' proposal we cannot evaluate them because of the judgement factor involved in his recommendations. We do know this is a basic truth. It's impossible to have a successful gas proration system if you have a significant number of wells classified as capable and assigned an allowable that they are actually incapable of producing, it's just impossible. We have read and studied the El Paso proposal and it appears to us that it will rapidly and at least somewhat accurately classify those wells as marginal that should be so classified.

We have one concern about the recommendations of Mr. Utz and that concern is the judgement factor. I don't want that to indicate a lack of confidence in Mr. Utz. If we had some assurance that he would be here forever applying the judgement factor our concern would probably fade away but, unfortunately, Mr. Utz will not be here making the judgement factor. We have had experience in states where judgement adjustment has been used. Our experience has been good and bad. Good, when someone of Mr. Utz' background

and experience and knowledge was making the adjustment. Bad, when someone did not have that degree of knowledge and understanding was making the adjustment.

In view of this, it's Pan American's recommendation that the Commission adopt the El Paso proposal. Let's see if it will bring our problem to a manageable proportion. It could well be that the wells presented by Cameron for Chevron and Freels for Texas Pacific will not be the rare exception but will be the rule. If that is the case, we have to come to you with a recommendation for a change but as an interim measure adopt the El Paso proposal. If it doesn't work properly, if it doesn't bring the problem to a manageable level, let's consider our other alternatives, including the recommendations of Mr. Utz which I feel have merit and our only reservation is the fact that we do not know how long Mr. Utz will be making the judgement.

MR. NUTTER: Thank you, Mr. Buell.

MR. MILLER: Pat Miller, Atlantic Richfield, Denver. Atlantic Richfield has interest in both Northwest and Southeast so I think our comments will apply to those. We would also like to precis our remarks by saying we have no objection to the present system. We are in the same category as Chevron and the only reason we'd be here today

on one side or the other is because it looks like we might change the system.

We would protest El Paso's Application for the same reasons as were brought out by Mr. Utz in his earlier testimony. In addition, we have two other problems which were not brought up by Mr. Utz. One is we think that this essentially gives the purchaser the right to determine the marginal and non-marginal wells. I think this has been illustrated by Texas Pacific's testimony on their wells. I think we can determine from the testimony of Chevron and Texas Pacific that there is a problem. In having these classified as marginal wells and that this classification if it's to be made should be a Commission function and not of the gas purchaser.

The second problem seems to me it has not been discussed except maybe inferentially in El Paso's Application is the problem that has been discussed by this Commission many times and by this Examiner many times in the Northwest Region and this is a 100 percent deliverability on wells in the Northwest. We talked about this before. This has been rejected by the Commission as not a good Rule. It seems to me that a classification of marginal and non-marginal based upon the purchaser's right to determine this could

eventually lead you in the Northwest to a 100 percent deliverability factor which we rejected on numerous occasions before this Commission. It seems to me in connection with what Mr. Utz has said, the El Paso proposal will increase the reclassification of marginal and non-marginal wells and will in that area increase the paperwork of both the Commission and the purchaser and producer.

We have said, El Paso has said at least, that the formula currently in effect has worked. They have also said it has not worked. There are underproduction problems and obviously it has not worked because they have asked for exemptions from the current formula. It seems to me it can't both work and not work. If it does not work I suggest that we adopt Mr. Utz' proposal at least for an extended period of time. I would suggest that his proposal be adopted by an administrative change in the Commission and to calculate the full allowables on a basis that he has suggested and if this does not solve the problems of El Paso in their Northwest and Southeast areas then they can come in again at a later date and have some redetermination of this problem.

It seems to me that Mr. Utz' solution will probably work. I think El Paso's problem which, which was under

production can be solved because Mr. Utz says the two advantages to his plan are enumerated in his Exhibit No. 1, his Plan 3 and 5. in which he says the beginning net allowable is not used when the beginning net allowable, the underage does not affect the pool allowable and then in 5 he discusses the purpose of the balancing system, thinks his proposal will give balancing a better chance to work. I would suggest that we give Mr. Utz' proposal a chance to work before we adopt any formal Rules other than the allocation of the pool allowables.

Let me say when I say we recommend Mr. Utz' proposal we recommend both portions of his proposals, that is the calculations of the pool allowable and also the marginal well status Rule being construed as it is. That is, of course, provided the Commission feels the change is needed. We are perfectly willing to operate under the Rule as it is.

MR. HOCKER: R. L. Hocker for Amarada Hess Corporation. Primarily, Amarada opposes the adoption of El Paso's proposed Rules for gas wells in Southeast New Mexico. We have wells connected with Northern Natural in the Southeast that are produced using chokes lasting their maximum producing ability part of the time even though the revised

plan of El Paso's we should be attempting to run production tests on choked wells during the last ten days of the balancing period. At the very same time other operators would be trying to do the same.

Basically, there have been three adjustment systems discussed. The present method now in use had the new method based on nominations and classifications on the high month's producing ability and El Paso's system designed to cure problems in Northwest New Mexico area. Our preference would be the use of two systems if possible. If we could utilize two systems we would prefer the present system now in use be maintained for the Southeast New Mexico area and either the new method based on nominations by Mr. Utz or the revised El Paso proposal could be adopted for the Northwest New Mexico area only. However, if only the one system has to be used, we would prefer the new method suggested by Mr. Utz today at least on a trial basis for one or two years.

As I began, we are opposed to the El Paso proposal as it applies to the Southeast New Mexico area only.

MR. NUTTER: Thank you.

MR. KELLAHIN: Jason Kellahin. I think Chevron would probably have to take somewhat the same position as

Pan American in regard to the proposal made by Mr. Utz because of the judgement factor. Certainly we would agree that as long as Mr. Utz is supplying the judgement that would be quite satisfactory. We have to look at a long range program and we do propose provisions which leaves an open-end situation such as has been suggested. Now, in regard to the proposal that has been made by El Paso Natural, in the first place it has not been demonstrated that there is any problem in Southeastern New Mexico. I haven't heard any testimony by El Paso or anybody else raising the question about the situation as has been shown to exist in Northwestern New Mexico. In fact, the only application of El Paso was confined to Northwestern New Mexico and we feel if any action is taken at all it should be confined to Northwestern New Mexico on the basis of testimony that has been offered. Mr. Woodruff in his testimony said that the current system is not working in Northwestern New Mexico. I think perhaps there has been a misinterpretation of what the current system is supposed to be doing. The Statutes under which this Commission operates confines its authority to preventing waste and in preventing waste it has to correct correlative rights.

The brunt of Mr. Woodruff's testimony is to the effect that El Paso can't meet its market demand out of the

Northwest New Mexico Pools under the present system, that, in fact, they have had ask for two extensions of the balancing period in order to alleviate the situation and on that basis the system is not working. This is the same argument that was presented in the Jalmat case with the theory that the ability or need to meet the market demand was a factor to be considered by this Commission adopting proration Rules was rejected by the New Mexico Supreme Court in the Continental Oil Case and we think it forms no basis for the adoption of Pool Rules here today.

The purpose of this Commission, first of all, we are not arguing whether they should or should not adopt proration regulations. They have already done so predicated on the prevention of waste. The only thing we are looking at is protection of correlative rights and I think that is the essential fact that must be considered in considering El Paso's proposal. We feel, and I will not reiterate the testimony offered by Mr. Cameron, we feel that the proposal made by El Paso will not protect correlative rights and in fact will cause some impairment of correlative rights as has been demonstrated by Mr. Cameron's testimony and the testimony offered by Texas Pacific. El Paso apparently takes the position that there be no impairment of contract rights

under the take-or-pay provisions, I think we must bear in mind there are a number of different purchasers and a number of different contracts and if you are adopting statewide Rules they have to be adopted to fit all those contracts and all purchasers. Perhaps El Paso's contracts would not be affected. I don't know, I expect in some cases they would and in some cases they wouldn't but, in any event, I feel we have demonstrated that contract rights would be affected by their proposal and that is a valid reason for rejecting it.

MR. SMOTHERMON: Jerry Smothermon, Consolidated Oil and Gas, Denver, Colorado. Consolidated operates gas wells in prorated pools in Northwest New Mexico and that is our primary concern. We at this time oppose El Paso Natural Gas' recommended change to existing Rules and Regulations. I won't elaborate. We particularly take exception to El Paso Natural Gas' interpretation of days produced. This was touched on at the October 14 Hearing and it appears between pages 51 and 56 of the transcript of that Hearing. As I interpret it, they contend that days produced is synonymous with valve-open time and I think all the operators sitting here in this room are quite aware that line pressure goes up 50 pounds and backs up if it isn't produced for 10 days. We don't interpret those 10 days as produced time as

not passing gas through the meter. Under their proposal they put a lot of weight on days produced. We can't accept their interpretation of it. We do support Mr. Utz' recommendation and I will reiterate what was mentioned earlier that both recommendations that we continue to use the present system for well reclassification and with Mr. Utz' interpretation of well's ability being the highest month's production in the six month's proration period versus the six-months average allowable and also we think it is to the advantage of Consolidated at least that we try Mr. Utz' proposal for the balancing of the pool as he has outlined in his testimony. Thanks. That's all I have, thank you.

MR. NUTTER: Thank you.

MR. BROWN: Clyde Brown, Continental Oil Company. We have studied the proposal of El Paso Natural Gas Company and the proposal of Chevron and the proposed procedures suggested by Mr. Utz and the various modifications suggested. The proposal that concerns most here today is that set forth by El Paso Natural Gas Company. For instance, in one area in Northwestern New Mexico our engineers have investigated and found that 37 out of 86 wells would be classified as marginal under the El Paso proposal whereas they would not be reclassified under the existing procedure. This results even

though these wells are capable of producing five hundred to a thousand MCF of gas per day. This would, of course, result in the cancellation of a significant amount of underproduction.

We have found it difficult to evaluate El Paso's proposal without knowing the status of every gas well in the State of New Mexico. However, we believe that the El Paso proposal does contain possible pitfalls and that it would not be a good regulation and it would tend to result in a reclassification of more and more wells to marginal status and such a procedure would signal the early end of gas prorationing and the protection of correlative rights by this Commission.

Some of the suggested modifications would tend to improve the El Paso proposal in our judgement but we are afraid the basic shortcomings remain. For instance, El Paso is both a producer and purchaser and in reclassification of wells to marginal could conceivably arise in circumstances aside from the well's ability to produce such as compressor capacity, location and line pressure and according to the November 1970 proration schedule of the Northwest area, approximately 64 percent of the wells in that area are already classified as marginal and this means, as we see it, as being a matter of 64 percent of the wells are not prorated

now and the El Paso proposal, if adopted, would go on this trend. We feel this trend would tend to negate some of the take-or-pay provisions of our gas contracts. We believe that the procedural changes suggested by Mr. Utz suggestions represents retention of the better features of the existing system. Mr. Utz' proposal should provide sufficient flexibility to allow gas purchasers to supply their gas market and retain in the Commission the ability to protect correlative rights.

Adoption of El Paso's proposal gives far too much control to the purchaser, so much so it might be an advocacy of the Commission's ability to control gas production in a manner to protect correlative rights. We urge the Commission to adopt Mr. Utz' procedure and operate this for a period of one year in the Northwest and see how it works. This would be much more practical and far reaching than the untried El Paso proposal and we recommend Mr. Utz' suggestion for a period of one year.

MR. HOOVER: John Hoover, Gulf. The majority of our wells in the State have reached the point that the producing rate is very sensitive to line pressure and as a result of that, in order to keep our allowable up, the purchaser in order to comply with contract which specifies

a certain line pressure is in the process of lowering his entire system but due to a delay in obtaining an approval from the federal offices, probably be the latter part of next year before line pressure is down to contract pressure. In the meantime, in order to keep things going and produce our allowable, they are moving compressors around in some cases from well to well so that is a variation of the production and you might not have a compressor on a well during the test period and we would be on the defensive in keeping a proper classification and when the contract pressure is down to line pressure we could be in better shape.

Gulf's position at the original Hearing, we opposed El Paso's proposal and we suggested that the existing system be continued. Our position has not changed because we feel that the existing system best protects the correlative rights of producers. If a change has to be made, we have no objection to using the Commission's proposal as explained by Mr. Utz to place it in effect for a period of time to see how it works.

MR. DAVIS: Quilman Davis representing Aztec Oil and Gas Company. We have studied all of the proposals that have been made and modifications submitted here today. We have had a lot of difficulty, as stated by Mr. Buell, in

evaluating what the net results of these changes will be. We have had no comparative figures, we have been unable to develop those figures ourselves. We really don't know what will happen under any of the proposals that have been suggested. We feel that the intent and the purpose of prorationing as established here probably will start working under the present Rules as a result of the addition of deliveries of gas to El Paso through the Southern Union Gas Company or Southern Union Gas Company in their connection. However, our main interest is permitting the delivery of gas from the Basin because that's where our funds come from and in view of that we have no objection to the adoption of the Rules as proposed by El Paso.

MR. NUTTER: Anyone else? If no further statements I do have a telegram here from Humble Oil and Refining Company. "New Mexico Oil Conservation Commission, State Land Office Building, Santa Fe, New Mexico. Attention; A. L. Porter: In RE Case #4436. Application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing prorated gas fields Humble Oil and Refining Company prefers the current statewide Rules with the suggested revisions of pool allowable calculation procedure as proposed in the November 17, 1970 memorandum of the New Mexico

Oil Conservation Commission. We see no problems with the current New Mexico gas proration procedures concerning the classification of gas wells between marginal and prorated status. We do recognize several improvements in the procedure outlined in the Commission's memorandum that should improve balancing of over and underproduction. We feel the proposed administrative change in the method of calculation of allowable should be given a fair trial to eliminate Northwestern New Mexico gas proration problems that have precipitated this Hearing. The changes as recommended by El Paso Natural Gas at the October 14, 1970 Hearing should not be adopted at this time for the following reasons:

1. It would be a very drastic change from the present Rules.
2. The purchaser would gain considerable control over the settling or allowables for individual wells.
3. Take-or-pay provisions in many gas contracts between producers and purchasers would be materially affected.
4. A large number of wells would unnecessarily be made marginal.
5. Administrative work load of all concerned would be increased.

Therefore, Humble Oil and Refining Company respectfully recommends no change in the general gas proration Rules

and the adoption of the proposed administrative changes in allowable calculations as proposed by the Commission staff. L. H. Byrd, Humble Oil and Refining Company, Midland, Texas."

I have a letter from Pan American, Guy, I guess your statement takes care of that. Thank you. Does anyone else have anything they wish to offer in this case? If there is nothing further, we will take the case under advisement and take a 15 minute recess.

STATE OF NEW MEXICO)
)
 COUNTY OF BERNALILLO)

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

Soveida Gonzales
 COURT REPORTER

I do hereby certify that the foregoing is a complete and correct transcript of the hearing held by me on the above captioned matter.

 New Mexico Oil Conservation Commission

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date DECEMBER 2, 1970 TIME: 9:00 A.M.

NAME	REPRESENTING	LOCATION
<i>USE USE</i> JERRY D. SMOTHERS	San Antonio Oil Co.	Denver
RL Harker	Amcado Hess Corp.	Texas
RE McCleskey	Pan American	Ft Worth, Tex
A. P. BEER	ATLANTIC RICHFIELD CO.	FREMONT, WY
J. P. MILLER	"	DENVER
R. B. Freels	Texas Pacific Oil Co.	Dallas, Texas
G. Ronald PLATT	Chevron Oil Co.	Denver, Col.
William G. Davis	Ag. Co. Inc.	San Antonio
Conrad L. HAZEN	JOURNEAU OIL CO.	DALLAS
JOHN T. CAMPBELL	CHEVILW OIL CO.	DENVER
W. M. BALKOVITZ	" " "	"
C. J. Boudy	Pan American	Denver
V. T. LYON	Continental Oil Co.	Hobbs
Prentice Wells	Artec Oil & Gas Co.	Dallas
R. E. Anderson	Anadarko Production Co.	Ft. Worth
WV KESTLER	Gulf Oil Corp.	ROSWELL, NM
JIT Hoover	"	"

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE

NEW MEXICO

Hearing Date

DECEMBER 2, 1970

TIME: 9 A.M.

NAME	REPRESENTING	LOCATION
Bill D. Baker	H. L. Brown, Jr.	Midland
H. L. GASTON, JR.	H. L. Brown, Jr.	MIDLAND
Clyde Brown	Continental Oil Co.	Houston
Jim MAZZIA	Continental Oil Co.	Casper
Chas. Tamm	"	"
C. W. Stumhoffer	ANADARKO PROD. Co.	FT. WORTH
Jason Kellahin	Kellahin & Son	Las Alamos
Guy BUELL	PAN AM	FT. WORTH
ROGER LAPHAM	SUN OIL CO.	DALLAS
JIM COLLINS	CITIES SERVICE	BALDREVILLE
Hugh Mitchell	Four Corners Gas Producers, Inc.	OKLA
E. R. Manning	El Paso Natural Gas	Farmington, New Mexico
Richard S. Martin	Montgomery Ward	El Paso, TX
Rich Kendrick	CCC	Santa Fe
Foster Morrell	Independent	Cytec
J. C. Minnons	Jenneco	Roswell
H. E. BARRETT	NORTHERN NATURAL	Denver
		OMAHA

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO



BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
October 14, 1970

EXAMINER HEARING

IN THE MATTER OF:

Application of El Paso Natural Gas
Company for the amendment of the
General Rules and Regulations govern-
ing the prorated gas pools of New
Mexico and the amendment of the
Special Rules and Regulations govern-
ing the Tapacito-Pictured Cliffs and
Basin-Dakota Gas Pools located in
Rio Arriba, San Juan, and Sandoval
Counties, New Mexico.

Case No. 4436

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. NUTTER: Hearing will come to order, please.
First case this morning will be Case 4436.

MR. HATCH: Case 4436, Application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing the prorated gas pools of New Mexico and the amendment of the Special Rules and Regulations governing the Tapacito-Pictured Cliffs and Basin Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties, New Mexico.

MR. MORRIS: I am Richard Morris of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe, appearing on behalf of the Applicant, El Paso Natural Gas Company. At this time I would like to introduce to the Examiner Mr. David T. Burleson, an attorney with El Paso Natural Gas Company and member of the Oklahoma Bar and I ask he be permitted to participate with me in the presentation of the Applicant's case.

MR. NUTTER: Are there other appearances in this case?

MR. BUELL: For Pan American Corporation, Guy Buell.

MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant, Cox and Eaton, Roswell, appearing on behalf of Atlantic Richfield and Humble Oil and Refining Company.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, appearing on behalf of Chevron Oil Company.

MR. RUSSELL: John F. Russell, Roswell, appearing on

behalf of Texas Pacific Oil Company.

MR. NUTTER: If there are no further appearances, you may proceed.

MR. MORRIS: Mr. Examiner, we probably will have just one witness, Mr. Norman Woodruff. I ask that he stand and be sworn at this time.

(Whereupon, the witness was sworn.)

MR. MORRIS: Mr. Examiner, before proceeding I would like to make one introductory comment. El Paso's Application in this case concerned the change of Order R-1670 only in so far as that Order relates to Northwest prorated gas pools. The Application as presented by El Paso did not extend to prorated gas pools of Southeast New Mexico. I notice on the Docket, the Notice of Hearing that was given in this case, that it is stated that the Application pertains to the prorated gas pools of New Mexico without restricting the Application to Northwest New Mexico. Now, El Paso's evidence that we intend to present in this case is directed to Northwest New Mexico. We have not prepared a case to present with respect to Southeast New Mexico. However, it would be possible to relate the amendments that we have proposed by our Application to all the prorated gas pools this date both in Southeast New Mexico and Northwest New Mexico if that is the Commission's desire. There is nothing in our

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

Application that would not pertain, that is there is nothing in our proposed rules, that would not pertain to Southeast New Mexico if that be the Commission's desire.

As the testimony in this case will show the immediate need and the real problem that we are addressing ourselves to is in Northwest New Mexico rather than Southeast New Mexico. To make it clear, we have no objection to the Application of the proposed rules to Southeast New Mexico but we are not in a position at this time of actually advocating that the rules be extended to Southeast New Mexico. We are here to support our Application which was limited to the Northwest part of the State.

MR. NUTTER: Mr. Morris, while we recognize that the immediate problem as far as El Paso Natural Gas Company is concerned relates to Northwest New Mexico, the Examiner is under instructions from the Commission to consider the Application to apply to both areas. Any amount of testimony you can direct to both areas will be appreciated.

MR. MORRIS: Before proceeding, I also would like to state, Mr. Examiner, that we have made Exhibits that we intend to offer in this case available to those having entered an appearance in this case and also others in the audience that are in attendance in so far as they have been available. I think the Exhibits have been generally available. I think everyone

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO
1213 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO

has them except perhaps with respect to Exhibits that we have marked as Exhibits 2, 3 and 4. We will make those Exhibits available to anyone who did not get copies of those Exhibits following the Hearing today.

MR. HINKLE: Mr. Examiner, Clarence Hinkle. I think I should advise the Examiner at this time that we have no objection to going ahead and putting on the testimony but at the close of the testimony put on by El Paso we intend to make a motion to continue this case to give sufficient time to get together evidence and so forth to present to the Commission if we want to oppose it or object to it because we have not had sufficient time to really prepare for this Hearing.

MR. NUTTER: You have no objection to the hearing of the evidence at this time, though?

MR. HINKLE: No.

F. NORMAN WOODRUFF

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

DIRECT EXAMINATION

BY-MR. MORRIS:

Q Mr. Woodruff, will you please state your name and where you reside?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A F. Norman Woodruff, El Paso, Texas.

Q By whom are you employed and in what capacity?

A I am employed by El Paso Natural Gas Company as their manager, Gas Proration Operations.

Q Mr. Woodruff, have you previously testified before the New Mexico Oil Conservation Commission and its examiners and had your qualifications established as a matter of record?

A Yes, I have.

MR. MORRIS: Are the witness' qualifications satisfactory?

MR. NUTTER: Yes, they are.

Q (By Mr. Morris) Mr. Woodruff, at the outset, would you state generally the purpose of this Hearing and the problem to which your Application in this case is addressed?

A The purpose of this Hearing is to request the Commission to adopt a revised basis for classifying wells as to marginal in an effort to minimize the assignment of allowables to marginal wells that cannot be produced and in turn assuring that currently this allowable go to the wells that are prorated which must produce that portion of the market demand. I think it may be well at this time since the operators did not receive any mailing from the Commission, a copy of our letter of Application, for me to read pertinent portions of it which set out

the desired end to which our rule amendments were designed.

Q Is that Application to the Commission marked and presented to the Commission as Exhibit No. 1?

A Yes, it is. It is a letter dated September 22, 1970 to Mr. Porter over my signature. I would like to begin reading at the beginning of the second paragraph: " This Hearing is the culmination of the several meetings with operators and discussions with Commission staff that have been held during this year in order to determine the form of relief needed to deal with the particular problems encountered in complying with the proration rules applicable to the pools of Northwestern New Mexico.

Basically, we believe our proposal sets forth: 1. A preferable way for determining when wells should be classified as marginal, and, 2. A preferable means of determining that portion of the market demand which should be attributed to marginal wells.

These amendments will aid in accomplishing the over-all objectives of minimizing the assignment of allowables to marginal wells in volumes exceeding their producing capacity. This in turn will reduce the overproduction required of prorated wells in order to offset any excess apportionment of current market demand to marginal wells as allowable.

We believe the attached amendments to the rules to be

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

self-explanatory and we further believe these amendments will accomplish the above objectives.

We would like to explain our reasons for excluding a portion of existing Rule 15 (B. This rule authorizes the Commission to permit a well to produce each month in order to avoid undue hardship. As we recall, this was specifically requested in order to avoid the question of loss of lease where production is judged to be necessary each month. We propose the deletion of the last clause which, as we interpret it, would require the Commission to shut-in a well ignoring the need for production to hold the lease in an instance where production during any month exceeded the specially authorized allowable. We believe the other portions of this rule clearly give the Commission the authority to control the production from the wells under the circumstances without the necessity of this clause."

Q Mr. Woodruff, in this letter you initially referred to this Hearing as being the culmination of several Hearings and meetings with operators and discussions with the Commission staff which have been addressed to this particular problem. Would you discuss the meetings that have been held and the Hearings that have been held dealing with this problem that are a prelude to this Application?

A Yes, I will. First, a Hearing was heard on August 14, 1968 in Case No. 3834 at which time El Paso asked for an excep-

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY CONVENTIONS

1120 SIAMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO
1213 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO

tion to the balancing provisions of the rules applicable to San Juan Basin pools so as to have an additional year to bring wells into proration balance. This request was granted by Order Number R-3479 dated August 20, 1968. This Order gave the producers of wells until August 1, 1969 to make up the over production and under production status of wells existing as of February 1, 1968. This Order Number R-3479 provided that another Hearing would be held six months later so that the Commission could be made aware of the progress during the interim period and determine whether the Order should be continued for the remaining six-month period. This Hearing was held on February 19, 1969 and resulted in Order Number R-3479A dated February 28, 1969 continuing the exception to the balancing provisions.

It became evident to El Paso that another exception would be necessary and we applied for a Hearing by letter dated January 13, 1970. At this time we also furnished a copy of our Application and a draft memorandum to San Juan Basin operators. This was transmitted by a memorandum dated January 13, 1970 which advised the operators of the Hearing and called a pre-hearing conference of the operators at 1:00 P.M. on February 3rd, 1970, the afternoon before the Hearing date. At the time of the pre-hearing conference we advised the operators that we would pursue at the time of the Hearing the

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO
1213 FIRST NATIONAL BANK EAST • PHONE 236-1294 • ALBUQUERQUE, NEW MEXICO

next day only the request for the exception for the balancing provisions of the rules and would defer our request for an amendment for the marginal-well-rules provisions to a later date. This whole matter was discussed in great detail at the time of the operator's meeting which was attended by a number of the Commission's staff personnel.

The next day, on February 4, the Hearing was held in Case Number 4302 and resulted in our Application being granted by Order R-3923 dated February 20, 1970. This Order granted producers of wells until February 1st, 1971 time to make up the overproduction or underproduction attributal to wells as of August 1, 1969. We are still operating under this exception.

At the time of the February 3rd operator's meeting it was agreed another meeting would be desirable. This meeting was called by the Commission by memorandum dated March 2nd, 1970 and was open to producers statewide for a 10:00 A.M. meeting on March 18, 1970. The Commission memorandum also transmitted a revised-proration procedure suggested by the Commission staff. Following study of the Commission proposal El Paso furnished a letter dated March 13, 1970 to gas producers in New Mexico in which we asked the proposal of the Commission and transmitted a revision and clarification of the

proposals made by El Paso at the time of the February 3rd meeting.

The March 18, 1970 meeting was held and well attended by operators from both the Northwest and Southeast areas of New Mexico. A decision on calling a Hearing to discuss this matter was deferred pending further study. In the interim El Paso personnel discussed this matter with Commission staff informally on several occasions and concluded that the Application for this Hearing that we are having today should be made.

Q Mr. Woodruff, during your explanation of the events leading up to this Hearing you have referred to several Hearings and several conferences held with the Commission and with the operators. At this time, in that connection, would you identify for the record the material contained in Exhibits 2, 3 and 4?

MR. NUTTER: Mr. Woodruff, before you respond to that question I would like to recess this Hearing for three minutes. I have got another Hearing starting at 9:30. I have to go call that one in order to recess it.

(Whereupon, a short recess was held.)

MR. NUTTER: Hearing will come to order. Mr. Woodruff, will you proceed with your answer?

A Responsive to the request, Exhibit 2 will consist of

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO
1213 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

a January 13 memorandum to all operators in the San Juan Basin area over my signature to which was attached our January 13 Application to the Commission requesting an extension of the following provisions of Rule 14a, Rule 15a and Rule 15b of Order R-1670 and also including a memorandum pertaining to calculation of allowables in the San Juan Basin.

Exhibit 3 is a memorandum from the Commission to all gas producers and purchasers dated March 2nd, 1970 calling a meeting on proration procedures for March 18, 1970.

Exhibit 4 is a memorandum from El Paso Natural Gas Company dated March 13, 1970 for gas producers of New Mexico. Those are the pieces of correspondence that are not currently a part of previous records of the Commission. I would suggest that we also ask that the record of the two previous Hearings mentioned be made a part of this Hearing.

MR. MORRIS: Mr. Examiner, I would ask that the examiner and the Commission take administrative notice of the record proper, the transcript of proceedings, and the order entered in Case Number 3834 that Mr. Woodruff has referred to that resulted in Order Number R-3479 dated August 20, 1968 and in Order R-3479A dated February 28, 1969.

MR. NUTTER: Do you have the date of the Hearing preceding that Order Number?

MR. MORRIS: Just offhand I don't.



dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 F RST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. NUTTER: I believe you mentioned it earlier.

A The second Hearing of the second Order was February.

MR. MORRIS: February 19, 1969.

MR. NUTTER: And that was the Case number reopened and the Order Number was 3479A.

MR. MORRIS: Right, also Case Number 4302, Hearing held on February 4, 1970 resulting in Order R-3923 dated February 20, 1970.

MR. NUTTER: The Examiner and Commission will take administrative notice of the contents of Cases 3834 and 4302 which resulted in Orders Numbers R-3479 and R-3479A and R-3923 respectively.

Q Now Mr. Woodruff, do the rules changes suggested by El Paso in its current Application, are these the same rule changes that were discussed and proposed in your various operator's meetings?

A We are proposing today an amended version of what was discussed during the operator's meetings. At the time of the operator's meetings we were suggesting a procedure which would have provided for a determination to be made monthly of a well's ability to produce and for it's allowable to be limited during any month that the allowable would have exceeded that producing ability. At the time of the operator's meetings we had concluded that that type of procedure was necessary and in order to make

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMAS BLOC • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-294 • ALBUQUERQUE, NEW MEXICO 87108

proration as we know it work for the maximum length of time under circumstances where the market demand was approaching the time when it would be equally or in excess of the delivery capacity of wells in the pool. We are still of the opinion that this procedure is the most desirable for us in a prorated pool. However, we, as I stated, our Application has requested an amended version of this procedure.

Q If you are of the opinion that the original procedure is the most desirable for us in a prorated gas pool, why is El Paso proposing the amended version that is put forth in its Application in this Hearing rather than the original version?

A It is our belief that it is important to place into operation at the earliest possible moment an improved means for determining a marginal well classification. We have concluded that the time required for reprogramming of machine data processing operation to accomodate our original proposal as discussed during the operator's meetings is of such length that it could not be accomplished by the end of the current exception to the balancing provisions which will terminate on February 1, 1971. It is our belief and we understand in discussions with the Commission that our amended version is something that can be accomplished timely with a minimum of change. It does encompass many of the desirable features of our original proposal and we have concluded

that it is important to go this step at this time so as to have a revised approach to classifying marginal wells in operation just as soon as possible.

Q Mr. Woodruff, before going into detail on the rule changes that we are proposing in this Hearing, would you state and perhaps state again if you have already covered this general concept of the present Application and also point out where it differs from the current practice being followed by the Commission in the treatment of over and under production.

A Very good, I think it would be --

Q And classifications?

A Briefly, the current practice for classifying a well marginal is to determine it's maximum producing ability during any one month of the preceeding proration period and to compare this maximum month's producing ability with the average month's allowable during that proration period. If a well's indicated producing ability is less than it's average allowable then the Commission currently would classify it as marginal. We are recommending that the determination of producing ability be made by requiring purchasers of gas to report to the Commission at the end of each proration period the average producing ability of the well reflected by it's performance during the three most recent months of operation. When I say "average producing ability" I mean it's actual full capacity to produce which would be

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SHAW BLVD. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

determined by taking its total production during this three-month period and dividing that total production by the days per minute to produce. Since it is the practice of all operators, certainly of El Paso's and we understand of others, to open the wells without restriction when they are turned on, this would then reflect or give a very good reflection and an indication of a well's producing ability. So then we would in essence only substitute this three-month average producing ability reflecting the most recent evidence for the current practice of determining its capability to produce during the maximum month's production of the preceeding six-months' period, comparing that producing ability that we would determine with the average monthly allowable during the preceding six-month period. To me it's just that simple. All we are doing is changing the way of determining what the producing capacity of a marginal well is.

Q Now, in general, why is that change necessary in your opinion?

A It is necessary in order to minimize the assignment of allowable to marginal wells in excess of their ability to produce. When an allowable is assigned in excess of their ability to produce, it is necessary that that portion of the market demand represented by that allowable be produced by the wells that are capable of producing it, the prorated wells.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

This results in overproduction of their current allowable and the difficulty that we have testified to in various Hearings and that we are trying to alleviate to the full extent that it is possible the accumulation of overproduction unnecessarily on wells because we have difficulty in bringing them back into balance.

Q In your opinion, will your proposed rules and regulations, amendments to rules as proposed by this Hearing, tend to meet this problem?

A Yes.

Q Will you now refer to Exhibit 5 which is the test of your proposed rule changes and discuss those proposed rule changes?

A I might state that those who received copies of Exhibit 1, our letter of Application, will find attached to that letter the proposed changes that we have now referred to as Exhibit 5 in case you want to review them and unless the Examiner would prefer me to do otherwise I will read these rules into the record.

MR. NUTTER: That will be fine, pointing out the difference with respect to the existing rules as you go, please.

Q (By Mr. Morris) Mr. Woodruff, would you go ahead and read the Rules into the record making any comments that you wish to make as you read them?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A Fine. I might state in doing this and in trying to respond to the Examiner's request that we have taken the rules and made amendments in those portions that we deemed necessary in the order that the rules occur and I believe it may be well for me to read these. For instance, Rule 98 refers to something which isn't explained until you get to 16A and B. I will go through this and I will make comments, if I think it is helpful as I go, but again reiterate to some extent what I have already explained, the intent of this, after I have completed it.

MR. NUTTER: That will be fine.

A These are proposed changes to Order R-1670. These are verbatim. "Proposed Changes to Order R 1670 - General Rules and Regulations for Prorated Gas Pools - New Mexico - Northwest New Mexico. C. Allocation and Granting of Allowables. Rule 9(B). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set but in Section E, Rules 16(A) and 16(B). D. Balancing of Production. Rule 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it has overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any

such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship."

I think, Mr. Examiner, it might be well to stop here and to read into the record that portion of the existing Rule 15(B) that we are amending that we are suggesting be deleted.

MR. NUTTER: This is the portion you mentioned in your letter of Application?

A That is right. The reasons for it I believe need no further explanation since they are explained in that and I shall read it into the record. Rule 15(B) has a last clause reading as follows: "Providing further that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut-in until all over production is made up." I think it is well for me to state in addition to the explanation in the letter that we understand this applies to this special allowance of 500 MCF per month and would, as we interpret it, require the Commission to shut-in a well that produced in excess of this 500 MCF per month even if in doing so it may jeopardize the lease. Consequently, we are recommending this clause be deleted. I might say, in elaboration, we found this to be something which we thought was important to change in the Rules and in a real sense does not relate to the classification of marginal

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1794 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

wells. Now I will continue with the printed portion of Exhibit 5 starting with "E Classification of Wells." "Rule 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceeding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the most recent three months available (see 16(B) below). A well will not be classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

Rule 16(B). Each gas purchaser shall furnish to the Commission, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available of each prorated gas well to which it is connected. Upon receipt of this information from the gas purchaser, the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

Rule 16(C). (Old Rule 16(B). The Secretary-Director may reclassify a marginal or non-marginal well at any time the

well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

Rule 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC - Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A). Basin Dakota - Order R-1670C, delete Rule 16(A)."

Mr. Examiner, I believe that in my previous discussion of the purpose of our request I have pretty well covered why these changes from the original Rules have been offered. I will address myself to that again if you desire that I do so.

Q (By Mr. Morris) Mr. Woodruff, let me interrupt here by asking what I hope to be a few explanatory questions. The Rule 9(B) that you are proposing here differs from the existing Rule in that the existing Rule would use the high month, that is the maximum production from a well from any month of the gas-proration period, whereas your proposed Rule uses an average monthly producing ability?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A For the three latest months for which production is available, that is correct.

Q Right. That is in effect the key to the whole change that we are proposing in these Rules?

A That's correct.

Q Do you consider that there is any need for elaboration on any other portion of these Rules or how they would actually be applied in practice by the Commission if adopted?

A I believe it would be well for me to elaborate on Rule 18 to explain what I would recommend be done in accordance with the last words there which would provide for reclassification as a non-marginal well and its allowable and net status adjusted accordingly.

Q Would you by illustration, if possible, explain how El Paso would recommend that this Rule be applied by the Commission if it is adopted?

A It is our recommendation that a marginal well that is being reclassified non-marginal naturally have reinstated all of the allowable that would have been available to it had it been a prorated well operating under the Rules applicable to prorated wells. It may be well for me to give what I hope will be a simple and understandable example of just what I mean by that. It may be easier for everyone to understand this if they will draw a little sketch with a straight line divided into

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

112" SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

three parts. Let's label the beginning of that line "1" the first division "2", the third division "3" and the end of the line "4". Let's consider 1, 2, 3 and 4 to be balancing dates and the periods between each number to be balancing or proration periods and let's assume for the example that on balancing date Number 3, the Commission determined that a well that has been marginal will be reclassified non-marginal to be prorated. Now, if this well that is being reclassified during the proration period 2 to 3 produces more than it would have received as an allowable had it been a prorated well then we would think it correct to go back into the proration period between 1 and 2 and determine what allowable this well would have received had it been prorated during that period and would have accumulated as under production so that that under production during proration period "1" to "2" would offset any overproduction accumulated by the well during proration period "2" to "3". Now, this is exactly what would be permitted for a prorated well and we think a marginal well should be held -- I mean a marginal well that is to be reclassified as prorated should have the same opportunity to produce its full share of the market demand as indicated by its allowable as a prorated well would have had. I think there are some who consider that a marginal well is a penalized well. It is certainly not our intention to penalize

a marginal well. A marginal well classification denies it nothing under our proposal. It will be entitled and will receive everything that a prorated well would receive in the way of opportunity to produce its full share of the market demand.

Q Mr. Woodruff, does your proposal differ from the present Commission practice in this regard?

A I understand that in the instance of a well under the circumstances that I have just explained where it overproduced during the preceeding six-month period, that the present practice is not to go back and to determine whether there may have been underproduction that would have been accumulated and had it been non-marginal the preceeding six-month period so to this extent it will be a change from the present practice and we think it's appropriate because this is necessary to avoid penalty of a marginal well under circumstances when it overproduces the allowable that it would have received had it been prorated during the six-month period immediately preceeding the time it's reclassified.

I think it may be well to give one other example using our same graph and assume that this well that is to be reclassified did not overproduce its allowable during the immediately preceeding proration period between "2" and "3". Then this well would carry forward for production during the proration period "3" and "4" the difference between its production and what

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

would have been allowed had it been prorated during the period "2" and "3" as underproduction which could be produced in the succeeding proration period the same as would have been true had it been prorated at all times. I believe, I hope, that is an understandable explanation.

Q May I ask another question which perhaps would clarify a change that is being proposed with respect to Rule 15(B). Your Rule, proposed Rule 15(B), in the second line refers to the average monthly allowable. Is it a correct statement that this is a change in that the present Rule 15(B) talks in terms of the current monthly allowable?

A Yes, it would be.

Q So here again when we are going from current-monthly allowable to an average situation which ties in with the same change that we previously discussed under Rule 9(B)?

A That is correct.

Q Mr. Woodruff, have you made a study and have you prepared Exhibits that will be of assistance in explaining the current status of operations in the San Juan Basin and which have led you to recommend these proposed Rule changes?

A Yes, I have and I might make introductory remark to state that you will find these Exhibits to be in some respects similar to those presented in previous Hearings and will serve

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

not only to support our conclusions that we need the change in marginal rule classification, but will also bring those present up to date in terms of what has been accomplished in accordance with previous Orders of the Commission particularly as they pertain to exception of the balancing provisions in the Northwest New Mexico prorated gas pools.

Q Would you refer to Exhibits Numbers 6 and 7 together, 6 being the statistical information and 7 being the graphical representation of that same information?

A Yes, Exhibit 6 is the statistical record of the average daily production in millions of cubic feet per day for each month for the years 1964 through 1970 with the period September to December 1970 being the estimated. To be sure that we understand these figures I might refer you to the year 1970 and read this top figure for January. That is 1,305,000,000 cubic feet of gas per day and reflects the average daily volume for the month of January 1970 which El Paso took to the main line from the prorated pools of the San Juan Basin. At the bottom of each column you will notice an average for the year again expressed in millions per day, millions of cubic feet per day. I do want to state that these volumes include those acquisitions from Southern Union Gas Company from the San Juan Basin prorated pools which El Paso has taken to the main lines out to the San Juan Basin.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 253-1294 • ALBUQUERQUE, NEW MEXICO 87108

Because this is a true reflection of our total market demand for gas from these pools and these do differ from some of the statistics filed on previous occasions where we did not include that portion of our demand which was acquired from Southern Union -- I said Gas Company, it should be Southern Union Gas Company and Southern Union Production Company -- it may be well, since it comes to mind at this time, to tell you that following the last time we testified we have received authorization from the Federal Power Commission, as we anticipated at that last Hearing, enabling us to purchase additional volumes of gas from Southern Union Gas Company. This purchase began a couple a months ago and Southern Union is now able to deliver additional volumes of gas to us which ⁽³⁾ having the effect of enabling them to make up underproduction accumulated to their wells in the San Juan Basin. Taking this data that I have just referred to and it's been plotted on the graph which we define as Exhibit Number 7 --

Q Mr. Woodruff, could I interrupt a moment to point out what is an error on the scale of the graph on Exhibit Number 7. At the upper-left-hand corner of the Exhibit 7 refers to the quantities shown in billions. That should be in millions of cubic feet per day.

A That is correct.

Q Please proceed.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 236-1294 • ALBUQUERQUE, NEW MEXICO 87108

A Exhibit 7 shows graphically the volumes of gas produced during the period since 1964 by months. It shows that a peak of demand was reached during the '68, early '69 period and since that time there have been substantial reductions in the volumes of gas purchased by El Paso Natural Gas Company from the San Juan Basin pools.

I think it well to explain that during the period of exceptions that have been granted by the Commission in an effort to aid in balancing wells, El Paso has operated its entire system so as to minimize the need for gas out of the San Juan Basin considering that decreasing our takes to the maximum possible was necessary in order to aid in the balancing of wells. The degree to which we have been able to accomplish this, I believe, is effectively reflected in this graph. The average lines drawn horizontally have values which were reflected on the statistical analysis, but I will give them to you for the year 1968 which is the high point. It was 1,359. The next average for '69 was 1,214, for 1970 1,141. I believe that completes my presentation on that Exhibit.

Q Mr. Woodruff, would you refer to Exhibit No. 8 showing a study of the overproduced wells that are not in balance in the San Juan Basin prorated pools?

A Yes, I will and here as I indicated in my previous remarks we are trying to show to those present what has occurred

during the most recent exception to the balancing rules in the San Juan Basin prorated pools. We started out in August 1st, 1969 with the wells overproduced in number and in volume shown under "Starting Status" columns. Under "Balancing Status" we show what has occurred since that time and as of the end of August 31, 1970.

I think it is pleasing for everyone to note as of the end of August 31 that there were only 35 of the 1,045 wells that were overproduced at the beginning that had not been balanced. I was able to get, after this Exhibit was prepared, information reflecting the status at the end of September's production and you may want to indicate on your Exhibit that there now remains only one well in Ballard, one well in South Blanco and three wells in the Basin-Dakota are only five wells of the 35 that still were unbalanced at the end of September. I think you would also be interested in knowing that none of these wells are overproduced at this time in excess of one month's allowable period. I think this in turn reflects that it has taken or will have taken by the time all wells are balanced 15 months to balance the overproduced status of the wells in the prorated pools of San Juan, New Mexico which existed as of February -- no, which existed as of August 1, 1969.

Q Mr. Woodruff, have you made a similar analysis concerning the underproduced wells in the San Juan Basin?

dearnley-meier

SPECIALIZING IN DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A Yes, I have and this is entitled Exhibit No. 9. It reflects the same type of data as did Exhibit 8 so I think it is important mainly only to refer you to the totals, particularly to the balanced status which shows that there remains only 199 wells of the original 669 wells that were underproduced at the beginning that were underproduced as of August 1, 1969. It is interesting also to see these 199 wells only have still accumulated as underproduction 2.1 billion of the 10.2 billion that they started with, reflecting a makeup of eight billion cubic feet of gas during this period. I think this very clearly reflects the beneficial effects for the underproduced wells that have resulted from the exception granted by the Commission and also to some significant extent by the improved producing capacity resulting from the lowering pipeline pressure to San Juan Basin which has been accomplished by El Paso Natural Gas Company.

Q Mr. Woodruff, I think you covered this earlier but is it El Paso's practice to keep these underproduced wells turned on and on stream all the time in an effort to make up this underproduction?

A Yes, it is.

Q Would you turn next to Applicant's Exhibit No. 10 and explain the information shown there?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 W. 4TH BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A Exhibit 10 reflects the status of overproduction in San Juan Basin prorated pools as of 2-1-68, 8-1-69 and 8-31-70. These three times have been picked because they were the times at which El Paso came before the Commission requesting exceptions to the balancing provisions on previous occasions, this being true only of the first two columns, status 2-1-68 and status 8-1-69 with the status 8-31-70 being the most recent status available for us to show what the current situation is in the San Juan Basin. I am going to refer to the totals at the bottom which show the total condition for all prorated pools and to explain that to us, who maintain close vigilance on the proration status, that the factors on this page are very important criteria for determining whether proration is working or isn't working or whether we are getting wells in balance or are we going to have any problems in getting wells in balance and this is the purpose that we are showing this to you, to show you what has existed in the past during our periods where we analyze our problem to be particularly severe and what the condition is now after having almost completed the second of two periods of exception to the balancing provisions.

You will note that the aggregate cumulative overproduction as of 2-1-68 was 22.1 billion. As of 8-1-69 it was 21.3 billion. As of 8-31-70, it's 15.8 billion. It shows that since 8-1-69 and approximately a year's period of time there has been a

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

reduction of about 5.5 billion. This reduction can be attributed to the exception granted by the Commission giving us additional time to make up overproduction. It can be attributed to the reduction in line pressure. It can be attributed to the great care being given by all parties to trying to bring wells into balance. I guess you might say to doing everything that was within our reasonable power, and when I say "we" I say that collectively, all parties, the purchasers, producers and Commission, to try to bring the prorated pools of the San Juan Basin back into balance. There has been a significant reduction but there still exists 15.8 billion cubic feet cumulative of overproduction. This is an amount still considered to be critical. This is an amount which we still will probably find difficulty in balancing within a six-month's proration period. El Paso considers it extremely important that we be able to live within the proration rules rather than by operating with exceptions because it is only under definitely prescribed rules that we can plan our operations for the future. That's what motivates us to try to devise means which will enable all interested parties in the San Juan Basin to be able to live within the existing Rules and that is the reason why we are before you today with a recommendation which we believe will minimize the problem of accumulating overproduction which will in turn minimize the problem of making it up. We think there

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 245-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEX CO 87108

has been a significant improvement reflected by this statistical data but we still believe that there is a problem that requires additional and continuing consideration in the San Juan Basin to make proration as we know it under existing Rules work.

Before leaving this Exhibit I think it will be well for us to look at the cumulative status as it applies to some of the areas. We have grouped the picture pools. You will see cumulatively that there has been little improvement in total but a significant reduction in average well over production. In the Blanco-Mesa Verde there has been a very decided improvement. The cumulative has reduced from 8.5 to 2.8 and the average per well from 22 -- I think for the record I should say what my figures mean because it's not clear, will not be clear in the transcript, that the 8.5 I referred to is billions of cubic feet which reflected the status as of 8-1-69 and the 2.8 referred to is in billions of cubic feet as of 8-31-70 and that the average per well figures of 22.7 are million and of 9.7 are million. The Basin-Dakota pool has a cumulative as of 8-31-70 of 8.9 billion which is greater than its status as 8-1-69 which was 8.9 billion. However, the average per well is now only 38 million as compared with 49 or 50 million a year ago. I think it's clear to all from the data presented here that the greatest problem for balancing exists in the Basin-Dakota pool. We believe that the Rules that we are recommending will significantly

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87118

contribute to easing this problem and we feel confident that our purchases from Southern Union Gas Company that have just been initiated will tend to improve this circumstance since much of the gas we will be purchasing from them is gas produced from their Dakota well so hopefully this combination of action will bring this condition into more favorable circumstance in the future. I believe that completes my comments on this Exhibit.

Q Mr. Woodruff, the proration Orders that have been entered in the prorated gas pools, Northwest New Mexico, have been entered to prevent waste and protect correlative rights. In your opinion, will your proposal here today help the Commission to implement and maintain and administer those prorationing Rules in those prorated gas pools?

A I believe they will.

Q Would you at this time summarize your recommendations to the Commission?

A Our recommendations to the Commission -- it has taken quite a bit of time in making them, this testimony -- is to revise the procedure for determining when a well is marginal resulting in what we believe will be a more accurate recommendation of its producing ability and minimizing the assignment of market demand in the form of allowable to those wells that

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLOC. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

will be unable to produce. I would like to comment also at this time to say that the Rules that we have proposed are Rules that are an improvement, in our opinion, in any prorated gas pool, that a better determination or more accurate determination of a well's marginal is desirable in any prorated gas pool. My testimony has been addressed to the problem that we have been trying to resolve in the San Juan Basin of Northwest New Mexico for these many years but the application of these Rules to the prorated gas pools of Southeast New Mexico will have equally beneficial effects there as they would in the San Juan Basin not to relieve such an extreme current problem as we have in the San Juan because it does not currently exist in the Southeast, but with such Rules in existence in the Southeast, certainly we will be able and ready at the time such a problem would exist there. We would be better prepared to cope with similar problems in the Southeast should they occur. I believe that's all.

MR. MORRIS: Mr. Examiner, at this time we would offer El Paso Exhibits 1 through 10 into evidence.

MR. NUTTER: El Paso's Exhibits 1 through 10 will be admitted in evidence.

MR. MORRIS: We offer Mr. Woodruff for Cross Examination.

MR. NUTTER: Does anyone have a question to ask Mr. Woodruff?

CROSS EXAMINATIONBY MR. UTZ:

Q I am going to have to plead ignorance in trying to understand your proposal as to how you would reinstate under these wells that have been classified marginal. It's my understanding that you would reinstate underage to wells that have gone from marginal to non-marginal that have been accrued for any period of time?

A No, sir, that's not my recommendation. My recommendation was that you reinstate only the allowable which the well would have received and would currently have available to it had it been a prorated well.

Q For what period of time, one period, six-months period?

A Since our Rules applicable to prorated wells provide that a well may accumulate underproduction during one six-months period and may make it up during the succeeding six-months period that my recommendation was that in determining that a well was to be reclassified from marginal to non-marginal at the end of the second proration period that had it accumulated overproduction during the second proration period or the period immediately preceding its classification that that overproduction would be offset by any underproduction during the first proration period

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 236-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87106

that it would have had had it been prorated so this well will not be penalized for overproduction which will have to be subsequently made up which would not have been true had it been prorated rather than marginal.

Q I think I understand you now. Now let me state it in my words and see if you agree. If a well has been marginal for one proration period and at the end of that proration period it goes non-marginal, you would reinstate the underages that have been cancelled at the beginning of the proration period?

A I would.

Q In other words, marginal one period?

A I would reinstate that underage only to the extent that it was necessary for use during the immediately preceeding proration period to offset overproduction during that period.

Q You would zero the well out?

A Right, because a prorated well can only accumulate for six months and it would have it cancelled in your example at the end of the second period. We are not proposing that a marginal well carry underproduction forward beyond the time that a prorated well would be able to do so. You would go back into the first proration period in your example and pick up underproduction only if it was necessary to offset overproduction in the proration period immediately preceeding your

reclassification.

Q Mr. Woodruff, in your classification scheme at present as well as your proposal, the only way a well can go up is to overproduce during the proration period, is that correct?

A The only way a well can go up?

Q The only way a marginal well can go non-marginal is to overproduce during the proration period?

A No, our Rules would provide, or do provide, that a well which indicates a producing ability based on the average actual production during the three most recent months of production which was in excess of its average allowable during the preceeding-six-month period would be reclassified as prorated or non-marginal whether it had overproduced or was underproduced.

Q Wouldn't you use the same set of data for wells going up as well as wells going down?

A Right. I believe it would be responsive to his question and helpful to say that we believe that this more current determination of producing ability is helpful under circumstances where the pipeline pressure is being lowered and we have wells that have improved producing ability resulting from it. It will enable us to catch those wells more currently and to change their category from marginal to non-marginal when

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEX. CO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87102
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

it is appropriate.

Q Mr. Woodruff, do you know what percent of wells in San Juan Basin are now marginal?

A I do not know. I may have some statistics available to me. It seems to me something in the vicinity of 60 percent. Do you have a figure you could give me?

Q I think it is 63 but I don't have the data right here. Now, using your proposal, how many more or what percentage increase of marginal wells would you anticipate?

A I have no percentage in mind. We did make a study analyzing the wells which we thought were in an underproduced category which might make them subject to reclassification from non-marginal to marginal and we came up with 260 something wells, 260 to 270 wells that would be reclassified under our proposal. We compared that with what would have been reclassified under the existing procedure and we had something like 150 wells that would have been reclassified under current procedure as compared to this other, to our proposal.

Q If I heard you correctly then, you don't anticipate much of an increase?

A No.

Q So the prorated wells under your proposal would be in the neighborhood of 35 percent, is that a fair figure?

A I think 35 to 40 percent, somewhere in that area,

very little difference what we now have where we have five to six thousand wells, is that right?

Q A little over 6,000. I am referring to Exhibit 10. 1117 wells you have overproduced represents about 18 percent of the wells in the Basin. Would you accept that figure?

A Yes.

Q So with that 35 percent of the wells that we will prorate, 18 percent of them are now overproduced and will have great difficulty getting balanced. Is that an erroneous assumption?

A I believe, Mr. Utz, that it is erroneous only to the extent that some wells will have difficulty and some won't. There is a great variety of overproduction, some very little, some more. This average reflects, of course, the average of all overproduced wells. Some wells will have difficulty. They will not be as difficult to balance as we have experienced on previous occasions when we asked for exceptions because we have a lower per well overproduction to make up but I believe my testimony was "we still foresee a problem in balancing wells in a six-month period." We can't assure you whether we can or can't in this current condition but we do believe that we still need to find and to utilize every means of refinement of the existing proration rules that are available

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

so as to aid in balancing wells.

Q Would it be that your current allowables are too low or oscillate too much that cause this 18 percent to be so difficult to balance?

A No, I don't think so.

Q Do you think your method will allow you to balance this 18 percent of the wells by February 1st?

A By February 1st, 1971?

Q Right?

A It will help but, no, I don't think by February 1st, 1971 they will be balanced. This is a step in the right direction. It's a means of helping to balance wells, helping to balance because we currently will be assigning to the prorated wells allowables more in keeping with their true current share.

Q Let me put it another way. Do you think enough of these wells will be balanced to meet the market demand?

A As of what date?

Q February 1st, 1971.

A I believe that operating under the existing balancing Rules we will have no problems with having to shut-in wells this coming winter preventing us from meeting our market demand.

MR. UTZ: That's all I have.

CROSS EXAMINATION

BY MR. KENDRICK:

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. KENDRICK: A. R. Kendrick of Oil Conservation Commission, Santa Fe.

Q (By Mr. Kendrick) In line with Mr. Utz' questions I am a little confused because I understood you to say that Exhibit 8 reflected 35 wells out of August 31, 1970 as being underbalanced or their balance status was in jeopardy and as of September 30 only five wells had not balanced?

A That is correct. During this period of exception which terminates on February 1, 1971, producers were given the opportunity to balance the status which existed as of August 1st, 1969. Exhibit 8 reflects what has been done in balancing that status. It shows that, as I testified, there are only five wells that have not at this time balanced the status existing for those wells as of August 1st, 1969. Now, I think --

Q In other words, the 1117 wells shown as overproduced on Exhibit 10 are not required to balance by February 1st, 1971?

A That's correct.

MR. KENDRICK: Thank you.

CROSS EXAMINATION

BY MR. HINKLE:

Q Mr. Woodruff, under your El Paso proposal to the Commission for amendment of the Rules will a marginal well's production in the next proration period be limited to the last

three months' average regardless of its present capacity to produce?

A The answer is yes but I would like to explain if I may that the Commission would use as a criteria to determine how much of the current month's allowable should be set aside for marginal wells. The delivery capacity of that well and all other marginal wells is determined by the latest three months producing ability. They do that in order to determine the balance of the demand which goes to the prorated wells. Now this is what you might refer to as a tentative allowable for marginal well because ultimately it gets as its allowable when it finally evolves what it produced. I think it may be helpful when it finally evolves what it produced. I think it may be helpful, if I may Mr. Hinkle, to say that El Paso as a purchaser does not consider this tentative allowable as I have described it for a marginal well to be any restriction, that we produce the well 100 percent at the time because it is of a marginal category. It produces ^{what it can} what ever it can produce. We would never propose that its tentative producable be considered as a restriction on a marginal well.

Q The point I am trying to make is suppose a marginal well is reworked and its capacity is increased so it could produce more during the next period. How are you going to handle that and permit it to produce additional gas during the

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 JIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SHAW BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

next proration period?

A Under the routine mechanism that we have described it would produce as a marginal well producing its full capacity. In doing that its characteristic to produce would be affected in this three-months average we would determine and it would then flag this well as a well that should be classified from marginal to non-marginal. Then at that balancing date when this was done, if this well after having been reworked, had overproduced the allowable that it would have received as a prorated well, we suggested that, we recommended, we proposed that you go into the preceding six-months period, calculated what its allowable would have been during that six-months period and offset the overproduction that it had and then from the balancing date on it would be a prorated well with whatever status it carried into that proration period.

Q A marginal well would not be restricted if it's reworked for the next proration period?

A My proposal would not restrict a marginal well during the balance of the proration period in which it was currently operating. This is not to say that the producer could not come in and have his well reclassified before the end of the period or the Commission, recognizing that a change had been made, would reclassify it, and in effect, it may be that Mr. Utz or others would like to help me in answering this in that I

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

believe when you rework a well you have to follow certain forms and, I believe, it's the current practice to immediately classify this well as non-marginal when it's reworked so perhaps my explanation has been superfluous that the practice would be to classify it as to the time; however, we would still propose that the beneficial effects of looking back into the past be practiced for this well that was reworked.

Q If the ability of a well to produce goes up, does it stay marginal?

A In the example I presume you mean a well --

Q If the ability for a well goes up what its last three-months average was but the well is still marginal, are you saying the well will be produced at capacity?

A So long as it is a marginal well it is our operating practice to produce it at capacity.

CROSS EXAMINATION

BY MR. RUSSELL:

Q I just want a little bit of clarification of the mechanics of declaring a well marginal or non-marginal. Under your proposed Rule as I understand the purchasers will furnish to the Commission prior to the 10th day of the month following the last month of each proration the actual daily production for the most recent three months. That goes into the Commission

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

by the 10th of the month preceding proration period. At that point the Commission then determines whether a well is marginal or a prorated well.

A The answer is yes but I need to correct one thing you said to be absolutely correct. It is required under our proposal that the purchaser provide the Commission by the 10th of the month succeeding the balancing date with the data.

Q Which would be the last day of the proration period, correct?

A Ten days, right, after the last day of the proration period, correct.

Q Then the Commission would determine from that information furnished by the purchaser whether an individual well was marginal or non-marginal?

A That's correct.

Q And then they would notify the producers as to whether those are classified one way or the other and you are getting into the tailend of the month before you know whether a well is marginal or non-marginal?

A That is correct. The actual practice is the same as you have now. You have to wait until the data is available before you can analyze the situation. And current reclassification of wells requires that type of procedure at this time.

Q Under your Rule 16(A) you say that a well will not be

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

classified marginal prior to the end of the gas proration period and until the operator or other interested party presents satisfactory evidence to the Commission showing the well should not be so classified. Assuming Mr. Hinkle's example of the reworking would be one such instance what other specific methods or fact situations do you have in mind when you said "presents satisfactory evidence to the Commission"? What other type of evidence?

A I think another type may well be the other I mentioned where the well for some reason or another other than rework improved its producing ability so that it no longer is properly a marginal well and then the operator could not come in and show that the reclassification of marginal was not proper.

Q But it seems you are pretty well limiting it to improved or increased capacity of a well?

A I believe those are the only circumstances where any consideration would be necessary.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Woodruff, I think I understand your answers to Mr. Hinkle in regard to reinstatement of cancelled allowable for the preceding period when a well becomes non-marginal. How far back would you carry that, one proration period or two or three?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A My recommendation and examples shown would only go back, I believe, two proration periods from the date of determination that it should be reclassified from marginal to non-marginal. It would go back and give the marginal well the same privilege of producing allowable that a non-marginal well would have had on any balancing date. A prorated well will have cancelled any underproduction accumulated at the previous balancing date which is the beginning of the last six months proration period.

Q Is that the allowable then that would be reinstated?

A Right.

Q One other question. You say this average daily production would be figured on the production during the last three months. Assuming that there has been no production for the full three-months period, how would that be handled -- a fraction of the period?

A I believe my statement was for the last three months for which production was available. The question is a good one. We would have to go back to when there was production.

Q If you had seven days production you would limit it to that?

A I think you have a special exception which probably requires special consideration. You have got a good example. Normally marginal wells would be producing all this period of

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

time. I think what you have as an example would probably be a well which for one reason or another, for lack of market demand, failed to perform and whether going back to the last three months which it actually produced would be the best procedure or making some current determination I think might require handling this well as a special case because I believe your example is a special case.

Q It is not covered by your proposed Rules?

A It is covered by my proposed Rules in that we would go back to the last three months of production available and average that.

Q Even though it had been some time before?

A Right.

Q Now you have stated your company policy is to produce marginal wells at full capacity throughout the proration period, is that correct?

A That's correct.

Q Do you know whether that is the policy of other producers in Northwest and Southeast New Mexico?

A I cannot speak positively relative to the other purchasers of gas. I believe generally the practice is to produce marginal wells at all times. However, the right of the purchaser to produce or not produce any wells is within the agreement

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

between the producer and the purchaser.

Q You are talking about the producer as opposed to pipeline carrier?

A Right, and whether it is marginal or non-marginal and whether some purchaser does or does not think it is allowable. We are saying that if it should be reclassified as non-marginal that it should have the full benefit of past accumulated under-age that a prorated well would have had.

MR. BUELL: I have a few questions of Mr. Woodruff but since I understand that a motion for continuance will be made and if the Examiner grants that motion I will hold my questions in abeyance because I can find the answers in the interim period and not take the time of the entire group.

MR. NUTTER: Does anyone have any questions they wish to ask at this time?

Q (By Mr. Hinkle) Mr. Woodruff, if your recommendations are adopted by the Commission, would it not have the effect of reducing the production from the marginal wells in the long run?

A In my opinion it would have absolutely no effect on marginal well production. There would be no change in the way of operating marginal wells.

Q Would it reduce the allowable assigned to the marginal wells?

A Only in the sense that current -- what was the word I

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

used -- tentative allowable would be reduced because something in excess of that was not indicated as being something it could produce but what it didn't receive would always be available to it if subsequent performance indicated it was necessary for it to be granted during the period that it would have been entitled to it had it been a prorated well.

Q (By Mr. Hatch) Mr. Woodruff, if you have more than one purchaser in a pool, would each purchaser use -- they could possibly use different three months, couldn't they? In other words, the most recent three months for El Paso may not be the most recent three months for another purchaser?

A It's conceivable that could be the case.

MR. NUTTER: Any further questions?

MR. UTZ: I agree with Mr. Buell that if we are going to have a continuance we shouldn't ask more questions but I think I have a couple here which would clarify Mr. Woodruff's proposal and if you will allow me to ask them.

CROSS EXAMINATION

BY MR. UTZ:

Q Your proposal to determine the ability of a well to produce was to use only three months history, is that right, production history? What three months?

A The latest three months for which production is available.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

Q The end of the proration period, say, is the 31st of July. We get production data in the 15th of August and between the 15th of August and the 1st of September we must classify, balance and go all through this six-months procedure. Now, I believe you said that you would report this data, the purchaser reports this data, by the 10th of the month following the end of the proration period and this example would be the 10th of August?

A Correct.

Q Would July production be available to be reported at that time?

A It is my understanding that it would be. I have my experts with me. I want to be sure my answer is correct. Would we have July data? I am advised that our report would include the production through July.

Q Can you state for the rest of the purchasers?

A Only to the extent that we have reviewed this with the other major purchasers of gas in both Northwest and Southeast and they have indicated to us their ability to do the same thing.

MR. NUTTER: Mr. Hazeltine.

Q (By Mr. Hazeltine) Mr. Woodruff, I will have to say that under the example that we are using of April, May and June information be summarized by August 10 and made available we wouldnt commit ourselves to half of July production rate by the

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS CLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

10th of August.

A I think Mr. Hatch's question was very proper and my answer was correct.

Q (By Mr. Utz) The last available production might be the last three months or last four months where in my example you would not get July production but you would get June, May and April?

A Right.

In accordance with what Mr. Hazeltine has just indicated what he believes there ability to make data available by the 10th of the month following a balancing period that would be the case. Our suggestion was the 10th to try to place in the Commission's hands timely the information you would be using later in the month to make the determination whether a well was or was not marginal and whether a marginal well should be reclassified and we believe the latest data that can be made available to you would be the most meaningful for you to make that determination whether it be on May, June or July or April, May and June.

Q Would you propose some purchaser's report the last three months and other purchasers the first three months or last four months of the proration period or all report the same months?

A I am not proposing that all operators be required to

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

report the identical three months, but rather to report to you timely the latest three months for which production data is available to them and can be reported to you.

Q In other words, what you are saying is they could report either?

A That's correct.

Q I have almost decided what three months we are going to use. You said you would divide that by days permitted to produce. Would you define days permitted to produce?

A Those would be days turned on to the line and would not include any days the well was not permitted to produce.

Q The day the valve was opened on the line?

A That's correct.

Q And if a well did not produce gas due to the fact that the manner in which the pipeline was operated that day would be counted?

A If there is some action on the part of the pipeline company to deny that well access to the line, those days would be omitted.

Q Now, we are changing our definition?

A We are not changing the definition of permitted days. We certainly would not add a day in as permitted, a day where we did not permit it to produce.

Q In other words, a day that a valve was open and the

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

well was not produced would not be counted?

A I did not say that.

Q I don't understand what we are going to divide this 90-day period by?

A Let's assume that a well was turned on and produced for the full three-months period and assume the three-months period consisted of 90 days. The production during that 90-days period would be divided by 90.

Q Even if there was a number of days the well did not produce any gas?

A That's right. If that is a portion of the well's normal producing characteristic to produce spasmodically that would be included in there.

MR. UTZ: That's all the questions I have.

MR. NUTTER: Any other questions?

MR. SIMMONS: I am Jerry Simmons, Tenneco Oil Company out of Denver. What about intermittent operations like intermittent stop clock? That is not in your installation but in operators and at times I notice on reports that your company sends out the days off when the charge is integrated is taken into account the intermittent operation. Would this still be included as the time off or how would those days in a period of a month -- would that be counted in this division?

MR. NUTTER: Mr. Simmons, are you talking about a case

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

where an intermitter would have the well off a full 24 hours?

A Yes, in any case where the well is intermitted or stop clocked.

MR. NUTTER: For a full day?

MR. SIMMONS: Yes, sir, that would be an example.

A I am going to answer your question and I am going to ask confirmation by my experts but here again, as I visualize this, this well is being afforded the opportunity to produce and its lack of production is a reflection of the operator's choice to intermit the well and so if we had 90 days of intermittent operations, of operations where an intermitter created an intermittent operation, you will still divide the total production by 90 days.

MR. NUTTER: Any further questions?

MR. HINKLE: I think Mr. Woodruff has made a very able presentation to the Commission and I think clarified to some extent what they are driving at and what they want. However, one of my clients, Atlantic Richfield, says that they did not receive a Notice of this until about a week or ten days ago and, as you know, in a relatively large company it has to go through the hands of a lot of officials and departments to know how they are going to be affected so they haven't had an opportunity to know or determine whether or not they want to support the recommendations or oppose them and they are going to

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 236-1294 • ALBUQUERQUE, NEW MEXICO 87108

need additional time and I think that is true of other companies. I would like to make a Motion on behalf of Atlantic Richfield that this case be continued for a reasonable period of time, preferably 60 or 90 days. Humble would also like to go on record as being in favor of the continuance.

MR. SMITH: Sid Smith, Ameradra Oil and Gas Corporation. We concur with Mr. Hinkle's proposal. As he said, we have just received the notice about a week ago and we have not had time to consider it.

MR. BUELL: Pan American supports the continuance. Thirty days would suffice. It is our intention to forward to the Commission staff and to the Applicant and to those parties who have made appearances here any recommended changes that Pan American might have in the El Paso proposal. I feel definitely sure there are interested parties here who have not entered an appearance and if they would state their name for the record we would be able to send our recommendations in order for them to evaluate them before the Hearing.

MR. RUSSELL: John F. Russell, on behalf of Texas Pacific Oil Company. We would concur in the Motion of Mr. Hinkle.

MR. LYON: I am G. P. Lyon with Continental Oil Company. Continental Oil Company would also like to concur in the Motion for continuance.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. WATTS: Frank Watts, with Aztec Oil and Gas Company.
We would like to concur in the Motion for continuance.

MR. NUTTER: Mr. Hazeltine?

MR. HAZELTINE: Paul Hazeltine. I would like to enter
an appearance for Southern Union for the record.

MR. NUTTER: Mr. Morris?

MR. MORRIS: Mr. Examiner, naturally El Paso is not in
favor of a continuance but on the other hand we can understand
the need for evaluation of this proposal by companies that have
not had sufficient time to obtain the views of their management
on these matters. We do believe that if the proposal that El Paso
is making is received ultimately with favor by the Commission
that an Order needs to be entered and necessary procedures need
to be followed to adapt this method to operation by the next
balancing date of February 1, 1971 in San Juan Basin because that
exception we are operating under at this time will expire and
balancing will occur on that date.

MR. NUTTER: Before you go any further, would the Order,
the Commission Order, if they entered a favorable Order, affect
the Southeast balancing procedure in any manner that would be
required to be entered a month earlier because, of course, your
February 1st is your balancing date in the Northwest, but January
1st in the Southeast.

MR. MORRIS: I would ask Mr. Woodruff to respond

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

directly to that.

A I would consider it even more important if it is applied in the Southeast but it be promptly acted upon because balancing applies on January 1 rather than February 1 in the Northwest.

MR. NUTTER: If the difference here, is balancing under your proposal as compared to the old one, would it make that much difference in the Southeast at this time?

A It would be appropriate to initiate a procedure on the balancing date. That is what we propose be done.

MR. MORRIS: For this reason, Mr. Examiner, we would have no objection to a 30-day continuance of this Hearing. We would urge the Examiner not to continue the matter longer than 30 days.

MR. HATCH: Mr. Utz has some information he has been working on and I think his question a minute ago was whether producers and other purchasers were interested in hearing any proposal other than El Paso's if this were continued at a later date?

MR. UTZ: Yes, if they were interested in hearing a tentative proposal I have been working on and I haven't had an opportunity to complete. I would be happy to throw it out so they can think about it to the next continuance if it is continued.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. HATCH: Do you mean at this time or by letter?

MR. UTZ: I would be happy to take the stand and give it at this time.

MR. NUTTER: We will take a five-minute recess.

(Whereupon, a recess was taken.)

MR. NUTTER: The Hearing will come to order. Are there further questions of Mr. Woodruff? He may be excused subject to recall if necessary, Mr. Buell.

MR. BUELL: Yes, sir, thank you.

MR. NUTTER: Does that conclude your case, Mr. Morris?

MR. MORRIS: Yes.

MR. KELLAHIN: Jason Kellahin, appearing for Chevron Oil Company. We would like to present one witness.

JOHN T. CAMERON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q State your name?

A John T. Cameron.

Q By whom are you employed and in what position?

A Chevron Oil Company, supervising proration engineer, Chevron Oil Company's Western Division in Denver.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

Q Have you ever testified before the Oil Commission and made your qualifications as an engineer a matter of record?

A Yes, I have.

Q Have you had an opportunity to study the proposed rule changes that have been submitted to us by El Paso Natural Gas Company?

A I received copies of these proposed Rule changes last Tuesday and I have had some opportunity to go over those proposals but in particular how those Rule changes would affect our operations particularly in Southeast New Mexico where we operate.

Q And did you make a study of the effect of those Rules on wells operated by Chevron Oil Company?

A Yes, I have.

Q Have you prepared an Exhibit showing the affects of that?

A Yes, sir. I have prepared an Exhibit labelled Chevron Oil Company's Exhibit No. 1. This Exhibit is our analysis of the effect of one well operated by Chevron Oil Company in the Indian Basin Upper Pennsylvanian Gas Pools in Eddy County in Southeast New Mexico had the El Paso's proposed Rules been in effect during the year 1969. I should say that we operate, Chevron operates, in three prorated gas pools in Southeast New Mexico. We do not operate in any gas pool in Northwest New

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87101

Mexico. Our concern primarily is the effect of these Rules in Southeast New Mexico prorated gas pools. The three pools that we operate in Southeast New Mexico before I get into this Exhibit are the Indian Basin-Upper Pennsylvanian, the Atoka-Pennsylvanian Gas Pool and the Eumont Gas Pool. In the Indian Basin we operate nine wells, all of which are and have always been non-marginal in classification. In the Atoka-Pennsylvanian Pool we operate three wells, two of which are non-marginal and one of which is a marginal. In the Eumont Pool we operate two wells, one marginal and one non-marginal. I have examined the effect of El Paso's proposed Rules on our operations in all three pools had they been in effect for the year 1969. As it happened, our non-marginal well in the Eumont Pool would have been reclassified to marginal at the end of the first proration period under El Paso's Rules. One of our two non-marginal wells in the Atoka Pool would have been reclassified to marginal at the end of the second proration at the end of '69 and as it happens nine of our wells in the Indian Basin-Upper Pennsylvanian Gas Pool would have been reclassified from non-marginal to marginal at the end of the first balancing period at the end of 1969, this in spite of the fact these wells have more than adequate deliverability to produce their share of the non-marginal allowable in any of those six months of that proration period.

On Exhibit 1 I have shown how this would have happened

dearniey-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

for our Bogle Flats Unit Number 2 well in Indian Basin-Upper Pennsylvanian Gas Pool. The columns shown are the allowable shown in production as they actually were for this well for the first half of 1969. As would be expected, the production fluctuates some from month to month, this depending on Indian Basin and other prorated pools on purchaser's demand for gas. The purchaser tell the operator how much gas he wants in any month and the operator delivers that volume of gas. The allowable during this six-months period also fluctuated based on combinations and on actual production from the second previous month in the normal adjustment system that the Commission uses to set the pool allowable. As it happened, during this first six-months production the purchaser who in this case is Natural Gas Pipeline reduced his takes of gas from the field during May and June so that this well and all of our wells reduced their production during May and June. These reductions were not made by shutting the valve of these wells and closing the wells entirely. These reductions were made by choking the well back so that the demand that the purchaser had asked for was delivered each and every day. This well produced each and every day of this balancing period, 91 days. However, because of reduced takes during this last three months its average monthly production as it is defined by El Paso was and would have been 105,974 MCF per month. This is just what the purchaser asked for during

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

that period. Had it happened the average monthly allowable for the entire six-months period was 117,897 MCF per month. This well, incidentally, entered that balancing period in a slightly underproduced status some ten million feet underproduction simply because of reduced takes on the part of purchaser during the latter part of 1968. So by El Paso's definition of a marginal well, this well satisfied every criteria. It entered the period underproduced and its average monthly production for the last three months of this proration period was less than the average monthly allowable for the entire six-months proration period. Therefore, the well would have been reclassified to marginal. This well had, as I said, more than sufficient capacity to produce its allowable, its share of non-marginal allowable. This well and most of the wells in the Indian Basin pools are delivering whatever demand the purchaser asks for with a choke and in this case the wellhead pressure is in the order of 2000 PSI compared with line pressure of about 1000 PSI. So there's plenty of available draw-down by which this well's production capacity could be greatly increased just by increasing the choke.

We estimate this well and all of our wells could deliver as much as 200 million feet a month, not the 106 million feet that was actually delivered during the last three months of this balancing period. When this well was classified to

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

marginal, had El Paso's Rules been in effect, all existing underproduction at that time would have been cancelled and that would amount for this well to 5632 MCF. That would have been immediately cancelled. In the future the well would be assigned a marginal allowable of 105,974 MCF per month. It would not have been allowed to accumulate any underproduction while it was in a marginal classification and we have figured for the rest of the year the well would have lost 51,170 MCF of allowable during the rest of 1969 due to its being in a marginal classification just because it was first assigned an erroneously low marginal allowable and, second, because it was unable to accumulate underproduction.

We looked at all nine of these wells and made a similar calculation and as it happened all nine wells were in very similar situations to this well shown in Exhibit 1. That is, all of them entered the period slightly underproduced and in each case the well's production during the last three months average was less than the month's allowable for that well so that all nine wells would have been classified to marginal at the end of that period. All nine wells had a total underproduction at the end of the period of some 51 million cubic feet of gas that would have been cancelled. Strike that 51 million, I'm sorry, it was 35 million during all of 1969. The total loss of allowable due to cancellation, reclassification and due

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1072 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

to the fact these wells were assigned low marginal allowables and were unable to accumulate underproduction, the total loss of allowable during 1969 was 472,857 MCF or about \$78,000 worth of gas. From the discussion this morning I am still not exactly sure how much of this allowable would have been restored had the wells been reclassified to non-marginal in the future. As it happened, the purchaser's takes during the last three months of '69 increased so that the wells average monthly production during the last three months of the year did exceed the average allowable for that period and by El Paso's definition they would have been classified to non-marginal. From Mr. Woodruff's testimony, I gather part of this underproduction, if not all of it, would have been restored. This would not have to have been the case had these wells been in marginal classification in more than one period. It is my understanding of the Rule it would not have been restored. The purchaser could just have easily have reduced his takes during the last three months of 1969 and these wells could have just as easily stayed in marginal classification for another period in which case this underproduction would have been lost to Chevron as operators.

Q In that connection, do you understand the Rule to provide that the last three month's productive history covers the status of the well?

A Yes, sir, the last three month's productive history

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1409 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

is assumed by El Paso to indicate the well's capacity.

Q And on the basis of your experience the Indian Basin that producing history for the three months is governed solely by the pipeline takes?

A That's absolutely correct.

Q If you carry forward your underproduction to the next proration period, assuming the well were reinstated as a non-marginal well, you would pick that up?

A It's my understanding it goes back for the last period it was marginal and if it had underproduction at the beginning of that period at least part of that underproduction would be restored sufficient to balance any underproduction that accrued during that period.

Q But if the proposed Rule 18 provides that the well would be reclassified on the basis of the most recent three months productive history, could not the same thing occur that occurred in the previous proration period?

A Yes, it very easily could.

Q So the well would continue in a marginal status although actually physically it was a non-marginal?

A Yes, sir. You define a non-marginal as one which is capable of producing its non-marginal allowable. These wells should all be non-marginal.

Q If the allowable, for the purposes of determining a

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

non-marginal well, is based on the average allowable for the six months, would the average production for the last three months period accurately reflect the ability of a well to produce?

A No, sir.

Q That is the conclusion you would reach on the basis of your analysis of your one well?

A That's correct. I have made no judgement and I am unable to make a judgement how this would operate on all Northwest New Mexico pools because we do not operate in them. If the wells in Northwest New Mexico are operated without chokes and if the non-marginal wells are produced into the line either wide open or shut-in completely then it is conceivable that the Rule would work but only under those circumstances would they work even in Northwest New Mexico.

Q You did hear Mr. Woodruff testify this morning to the effect it was their policy to produce marginal wells wide open?

A Yes, sir.

Q Would that have any effect on the situation you have outlined here?

A In the first place, while it may be El Paso's policy, it is not something Chevron can enforce. We can't force them to open marginal wells wide open unless it's in our contract.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1692 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1794 • ALBUQUERQUE, NEW MEXICO 87108

As Mr. Woodruff pointed out, the amount of gas that a purchaser takes from an operator is a matter of contract between purchaser and operator so we couldn't force them to produce marginal wells wide open. Furthermore, El Paso is not the only purchaser in the State. It is not our purchaser in Southeast New Mexico and all of the purchasers may not have this same policy and finally, this is something that sometimes often cases beyond the control of the purchaser. In many cases, the purchaser simply tells the operator how much gas the purchaser demands for that month or for that day. The operator determines which wells to get it from and how to produce them and I wouldn't want it any other way. In some wells it is my understanding El Paso physically operates the well. In those cases El Paso could control this, but this is not always the case.

Q You testified that in your opinion some of your wells have a capacity of two hundred million?

A Two hundred million feet per month, that's correct.

Q And they were classified as marginal and if El Paso's policy is followed by your purchaser you would be putting two hundred million into the line?

A That's correct.

Q Which would probably exceed the demand, would it not?

A If we did it from all nine wells, I am sure it would, Yes, sir.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

Q Now, you mentioned the provisions of the contract. In your opinion, would the proposal made by El Paso have any effect on your gas-purchase contracts?

A Yes, sir, it would and that's one of our primary concerns in El Paso's Rules. It might disrupt the contractual arrangement between the operator and the purchaser. In most cases the purchaser is required to take a certain minimum volume of gas or to pay for that minimum volume of gas if he fails to take it. These take-or-pay provisions are valuable to the operator and we are afraid that the Rule that is proposed here would place those take-or-pay provisions in jeopardy. At least in our pools the Rules proposed would place almost absolute control over whether a well is given a marginal or non-marginal classification in the hands of the purchaser because all he has to do, in essence, is to get a well classified marginal is to reduce his takes during the last three months or even during the last month of a balancing period. If he is able to classify a well as marginal, we are not sure but we think that a marginal classification may relieve him of his obligation to take-or-pay for the gas. Most contracts, ours in particular, generally have in addition to the take-or-pay provision another provision which relieves the purchaser of his take-or-pay obligation if he has taken a certain percent of deliverability, commonly 75 to 80 percent of the deliverability. He takes that much of

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

deliverability, he is relieved of his take-or-pay obligation. While a well is in a marginal classification, its deliverability is officially defined as its allowable and so the purchaser might very well claim that while the well is in marginal classification the purchaser is obligated to take no more than 75 or 80 percent or whatever the contract calls for of the well's marginal allowable. We are afraid this particular power could be used by the purchasers to set aside take-or-pay obligations.

Q Do you have any other observations on the proposed Rules?

A Not on the proposed Rules. We have a suggested alternative to them.

Q Turning to what has been marked as Chevron Oil Company's Exhibit No. 2, would you identify that Exhibit?

A Yes, sir. Chevron Oil Company's Exhibit No. 2 is Chevron's suggested revisions to the Rules for Northwest New Mexico. As I stated in the beginning, we do not operate in Northwest New Mexico and for that reason we had not taken an interest in this particular matter until it was brought to our attention that it had been expanded to include Southeast New Mexico. We are now concerned that the Commission will want eventually, if not now, to adopt uniform Rules over the State of New Mexico and if they do we want the Rules in Northwest New

Mexico to be something we can live with in Southeast New Mexico also.

We are taking this opportunity to present a different alternative to El Paso's proposed Rules. This alternative is designed to more precisely define marginal wells in the same attempt that El Paso has done so that less allowable will be assigned to marginal wells which are incapable of producing them. For this purpose we are suggesting that the deliverability requirements that are already existing in Northwest New Mexico Rules and in Order No. R-333F be used along with the current requirements to determine a well's capabilities to produce. What I have done is take the existing Rules 9(B), 16(A), and 18 of Northwest New Mexico and revised them as little as possible so as to more precisely define a marginal well. I would like to change Northwest New Mexico Rules as little as possible because I think, basically, they are good Rules. We suggest that they be used as best they can and marginal classification be somewhat more precisely defined by using deliverability test.

In Rule 9 -- incidentally, the red underlined portions of this Exhibit shows the changes Chevron is suggesting to the existing Rules. This Rule 9(B) we are suggesting that the allowable assigned to each marginal well be the lesser of the maximum monthly production for the preceding period or the most

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1072 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

recent deliverability test multiplied by 30.4 days. Now, all this did is add the deliverability test as an additional requirement. Currently the Rule requires that the marginal well be assigned the maximum production during any month of the preceding balancing period and we would assign the lesser of that volume or more recent deliverability test.

Rule 16(A) says that any well which is non-marginal will be reclassified to marginal if it appears incapable of producing its non-marginal allowable and the same test would be made, the same criterion would be checked to determine whether this well's capability exceeds the non-marginal allowable, that is to say you would first determine the well's producing ability as the lesser of the maximum production for the preceding period or the latest deliverability test. You would then compare that capacity to the non-marginal allowable for the preceding period. If the capability were less than the allowable it would be reclassified to marginal.

Rule 18 simply sets out the mechanism for taking a well out of marginal classification and back into non-marginal and it is the same as the existing Rule except that there is the additional criterion of the latest deliverability test that is to be used.

Q As to the use of deliverability test you are only

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 254-1294 • ALBUQUERQUE, NEW MEXICO 87108

proposing that to determining a well's ability to produce, is that correct?

A That's correct.

Q You are not proposing to use it in any way as an allocation purpose?

A No, sir, these deliverability tests, it is my understanding, were required for the purpose of determining the deliverability for allocation purposes and we propose that the same deliverability test be used in classifying wells, whether marginal or non-marginal.

Q Does that complete your testimony?

A I will say that we have had very little time to make a complete study of how these proposed Rules would solve El Paso's problem or not, but I did compare the September San Juan Basin proration schedule for the Basin-Dakota Pool simply to see how these Rules would have worked. I looked at all of the wells in the Basin-Dakota Pool which had an underproduced status as of June 1970 and those that were underproduced as of that time I compared their latest allocated allowable to their latest deliverability which is shown on September 1970 Proration Schedule and I found in the Basin-Dakota Pool 76 wells presently classified non-marginal and presently were underproduction were assigned more allowable in September than they were capable of producing based on their deliverability test so that in my

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

opinion all 76 of those wells should probably be reclassified to marginal and I added up the underproduction which those 76 wells had as of June 1st and, of course, if those wells were classified to marginal that underproduction would be cancelled and redistributed to non-marginal wells where it is needed and that underproduction amounted to three and a half billion cubic feet of gas. In other words, if those 76 wells were reclassified to marginal some three and a half billion cubic feet of gas underproduction would be cancelled and would be redistributed to non-marginal wells. I believe this would go a long way toward solving the problem of more prompt and more precise classification of wells from non-marginal to marginal.

Q Were Exhibits 1 and 2 prepared by you or under your supervision?

A They were prepared by me.

MR. KELLAHIN: At this time, I would like to offer in evidence Exhibits 1 and 2.

MR. NUTTER: Exhibits will be admitted in evidence. Any questions of Mr. Cameron?

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Cameron, if you have had little chance to study our proposal, we have had even less chance to study yours. However, I would like to ask just a few questions with, I hope,

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 248-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

the opportunity to ask some additional questions if this matter is continued. You mentioned that in the Indian Basin Field your production practice is to choke back the wells, is this also true in the other fields, the Atoka-Penn and Eumont?

A It's true in the Atoka. I do not know about the Eumont. I have been unable to determine in the time available.

Q Your practice in the Atoka-Penn is approximately the same as in the Indian Basin?

A It's slightly different. We do have some excess capacity in those wells, much less than in the Indian Basin. In Atoka-Penn the wells are operated by the purchaser there, Transwestern. In Indian Basin the wells are not operated by purchasers.

Q Does your purchaser in the Indian Basin follow the practice of allowing marginal wells to produce at capacity?

A I don't know -- what field is that?

Q In the Indian Basin?

A We don't have any marginal wells there so I am unable to determine that. There are five -- I think six, marginal wells in the field and I don't know how they are operated. We don't operate them.

Q In the Atoka-Penn does Transwestern follow that practice?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A It's my understanding they do.

Q In the Eumont does your purchaser follow that practice?

A I don't know.

Q Who is your purchaser in the Eumont?

A I don't know that either.

Q Would it be a fair statement that the situation that you find yourself in in the Atoka-Penn with that type productivity of wells -- excuse me, in the Indian Basin, that in the Indian Basin there being few low productivity wells comparatively that you would expect to find anomalous results in this particular pool by application of El Paso's proposal?

A Well, you certainly would find anomalous results there. I am not sure it's all that unique in other fields. Any pool that's prorated by definition has greater capacity to produce than market demand so the takes from non-marginal wells are going to vary from month to month with the purchaser demand.

Q There is more excess producing capacity probably in the Indian Basin than any other prorated gas pool in Southeast New Mexico at this time?

A I am not sure of that, Mr. Morris, but it does have a large excess capacity. I don't know the status of the other pools.

Q If this is determined to be an anomalous situation,

would it be possible to take care of that anomaly and any other anomaly discovered by making exceptions or applying special pool Rules in those cases?

A No, sir, I don't think it is. It would not relieve all of my objections to El Paso's proposed Rules. The very method proposed by El Paso to me is unworkable in that it simply compares average production to average allowable. Average production and average allowable is proved for different periods of time, but average production to average allowable is supposed to be very close to production. That is what the system is designed to give you, an allowable that is equal to production for the total pool so fluctuation from month to month is bound to reclassify wells to marginal that should not be reclassified as marginal. If you compared average production over any period to average allowable you are going to have wells erroneously classified to marginal. It is just a poor system. In stating that opinion, are you following the same definition of actual average daily producing ability that was testified to by Mr. Woodruff?

A Yes, sir, you are comparing actual average daily production. It is true for a three-month's period rather than a six-month's period. You are comparing that daily production to average monthly allowable for a slightly longer period, for a six-month's period. It's too easy for wells allowable in

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

production to fluctuate sufficiently to classify wells to marginal.

Q Let me ask you, Mr. Cameron, under your Exhibit 2, your suggested revised Rules, if instead of using the maximum production of the well during any month of the preceding gas proration period, if instead we use the average actual producing ability for the most recent three months available and still left in your second proposition measured by the actual deliverability test on the well, would that revision of your revision be more palatable to you?

A To me?

Q To your company?

A We would rather have the maximum production used as the marginal well's allowable simply because there are changes in a well's producing ability from month to month based on changes in pipeline pressures and any other factor and we want the marginal well to be assigned the maximum allowable that it could possibly produce because we want the well to be given an opportunity to produce a non-marginal allowable if it's at all capable of doing so. That's the reason I think the existing maximum monthly production that's in the Rules now is a good Rule.

Q Your idea there is based on the proposition that assigning a lower allowable to a marginal well is actually

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1194 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY CORP., CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 F RST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

going to penalize the production from that well?

A I certainly do, a marginal classification is the worse thing that can happen from an operator's standpoint. It may not be so from a purchaser's but it is from an operator's. If we could entirely rely on the purchaser to take from the wells wide open that would not be the case but that is not always true and we try all we can to keep wells from being classified as marginal. We want them not to have their underproduction cancelled. We want them to accumulate underproduction in the future and we do not want to have take-or-pay clauses placed in jeopardy by marginal allowables.

Q Under actual practice, such as El Paso has testified to, if it is practiced, of keeping marginal wells on the line, the assignment of a marginal allowable would not be a penalty to a well?

A If that were true of every purchaser and every operator, that's true. It is not always true.

CROSS EXAMINATION

BY MR. BUELL:

Q Mr. Cameron, I think it is patently obvious that the Bogle well used on your Exhibit No. 1 is anything but a marginal well. Let me ask you this, if the El Paso recommendation was amended to also require and provide that the purchaser would mail identical data to the operator that he mailed to the

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87106

Commission, do you think that would make their recommendation any more workable?

A I think I would still object to it. The Rules that are being proposed here are being proposed for the Commission to adopt for some indefinite period in the future and they are supposed to work on their own. We are not supposed to have to re-examine our situation at the end of every balancing period to make sure our wells aren't classified to marginal accidentally. We don't want to have to re-examine our production and allowable every month or so to make sure the wells aren't automatically reclassified.

Q Based on your Exhibit No. 1, it is obvious that their recommendation would not be self-executing, so-to-speak, in a fair and impartial way. Do you think that it would be a heavy burden for an operator to examine the data in the case like the Bogle simply write the Commission and say this is definitely not a marginal well?

A Yes, sir, I think that would be a heavy burden.

CROSS EXAMINATION (Continued)

BY MR. MORRIS:

Q Just one other question more or less along the lines of Mr. Buell's question to you. Mr. Woodruff's example that he stated as to how El Paso as one particular purchaser would go about computing this actual daily average producing ability is

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS ELOC. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

not, I suggest to you, the only way that a purchaser might do this or that a producer itself might do this. Let me call to your attention the provision of proposed Rule 16(A) at the end which says that a well will not be classified marginal if prior to the end of the gas proration period the operator or other interested parties presents satisfactory evidence to the Commission that the well should not be so classified. Wouldn't that give you the relief that you are suggesting that you need here and so that if a particular purchaser was not following a satisfactory practice you could protect yourself?

A It was just as I was discussing with Mr. Buell, we do not want to be placed in the position where we have to make sure that our wells aren't erroneously classified marginal. We think it's too great a burden for the operator to have to keep track month to month that somebody that knows about gas well proration and makes sure his well is in balance and be sure his well is not going to be erroneously classified. We think a Rule should be adopted that will work of its own, work automatically without creating all these problems.

Q Do you operate any gas wells in Northwest New Mexico?

A No, sir.

Q Are you familiar with market conditions in Northwest New Mexico in the natural gas business?

dearnley-meier

A Only from what Mr. Woodruff has testified to and previous handouts.

Q From your knowledge, would the difference in market conditions between the Northwest and Southeast possibly justify different Rules to be applied to prorated gas pools in the Northwest as opposed to the Southeast?

A It's possible that different Rules could be applied to Northwest and even should be applied to Northwest. It's different now. My concern is that if the Commission wants uniform Rules we want them to be something that is satisfactory to Southeast operators also.

MR. NUTTER: Any other questions of Mr. Cameron?

CROSS EXAMINATION

BY MR. HATCH:

Q When additional wells in a pool are classified marginal, does that increase the allowable for non-marginal wells?

A Yes, sir, eventually, not that day.

Q If wells are incorrectly classified as marginal, does that mean that excess allowable is assigned to non-marginal wells?

A Yes, sir.

Q Is it possible to ever take that excess allowable away?

A I don't know. I would imagine not. I would imagine that is impossible to take that allowable away. I don't really know, though.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. NUTTER: Any other questions of Mr. Cameron?
He may be excused. Do you have anything further Mr. Kellahin?

MR. KELLAHIN: That's all.

A I didn't mention these proposed Rules as the title shows are for Northwest New Mexico only. We are not proposing these Rules for Southeast New Mexico for two reasons: First, we don't think there is any real need for them at this particular time and, second, there is no deliverability test presently required for Southeast New Mexico so they would be unworkable from that standpoint. If these should ever become necessary, these identical Rules would work in Southeast New Mexico once they required a deliverability test. If you require a deliverability test though, we don't think it's necessary, at least in the Indian Basin, to have a 21-day test.

MR. NUTTER: Thank you. Does anyone else have a suggested revision of Rules for Northwest or Southeast New Mexico or wish to offer any testimony as to the effect of the El Paso proposal.

ELVIS A. UTZ

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

DIRECT EXAMINATION

BY MR. HATCH:

Q Would you state your name and position for the record?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A Elvis A. Utz, Engineer for the Oil Conservation Commission, supervisor of the Gas Department.

Q And you have been present this morning during the entire Hearing?

A Yes, I have.

Q And you heard the testimony of all witnesses?

A Yes, I have.

Q Mr. Utz, do you agree with El Paso, the Applicant in this case, that problems do exist in the assignment of allowances in the prorated gas pools of New Mexico?

A Yes, I do.

Q Do you agree with the Applicant that the way they have suggested is a proper way of correcting those problems?

A No, I don't agree with them at this time. I think there is another method that should be given an ample opportunity to work.

Q I gather from that that you have begun a study in an attempt to find a better method of solving these problems than the one offered by the Applicant?

A Yes, I have.

Q Would you like to present that study as far as you have gone to the Examiner at this time?

A Yes, I will be happy to if I can sort out what few Exhibits I've got here. I think at the outset perhaps that I

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

should clarify the manner in which it is done now. That is, I am referring to classification of wells and the reinstatement of underage due to reclassification of wells. I have noted in some recent days telephone conversations that there is some confusion as to the present manner and I think this probably would be an Order in order to set the record straight.

At the present time we compare the wells highest month's production of the last available proration period to the average allowable for the same period. Now in the past we have had a percentage cushion, I choose to call it. In the past years we started at 70 percent of the high mark which, of course, made fewer marginal wells. Because of objection to this method we have consistently and steadily increased from 70 percent to 80 percent to 90 percent and now we are at a 100 percent so the current method of classifying wells is a high month's production compared to the 100 percent or 100 percent of the highest month's production compared to the average of six-months allowable. That is non-marginal allowable. The manner in which allowable is reinstated to wells that are classified, I'd say classified up from marginal to non-marginal, if a well has only been marginal for one period, one six-month period, and at the end of that six months period he has overproduced the total allowable versus the total production then he is reclassified up to non-marginal and his entire cancelled underage which was cancelled at the beginning

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

of that period is reinstated. I think this is the basic difference between the way we do it now and the way, if I understand it correctly, Mr. Woodruff suggested, if I understand his suggestion, he would just balance the overproduction with whatever underage it took and start the well out non-marginal at zero status. In this connection from time to time we have requests for reinstatement of underage on wells that have been classified two periods. We have not allowed this. I'm not too sure but that we have been wrong. We have also had reinstatement of underage for other reasons which we have denied and I'll say here and now that I'm coming to the point where I believe almost any underage that's requested to be reinstated ought to be reinstated. The premise of that being that allowable in the first place assigned to a well based on the formula and a formula is purported to protect correlative rights and the well ought to have an opportunity, if it is possible, to produce that underage. I might state here that the reason for the high month was selected because it is so simple a figure to arrive at. That figure is in our machine. The machines arrive at that figure, calculate an average allowable and it's an internal operation. It requires no further reports, no more card punching and it's simpler than the proposed suggestion.

The reason I think the high month is a good index of a well's ability to produce is purely and simply that if the

well has the ability to produce "X" amount of gas one month out of the six-months period I see no reason why it wouldn't have that ability to produce it six months out of the six-months period. That's the premise of using high month's allowable.

MR. NUTTER: High months production you mean?

A Highest month's production. Did I say allowable?

MR. NUTTER: Yes.

A Another objection I have to the proposal is administrative work. I have cited some of the administrative work. As an example, the last period we had 271 wells that went from marginal to non-marginal in the San Juan Basin. I have not yet issued 271 supplements. I am trying to figure a way not to but I may have to issue 271 supplements and unless I can figure a way out of it then that's going to increase my paper work 271 pieces of paper, seven copies of each whereas if we can arrive at a method of assigning current allowables without that current allowable being affected by underage carried in the pool why then it seems to me the underage carried to some wells becomes much less important and on these 271 wells I used as an example if we had not cancelled that underage I wouldn't be worried about having to issue 271 pieces of paper.

I think that probably covers my objections to the proposal. Now to go ahead with my proposal, I will refer to Exhibit 1 and bear in mind that I have tried to do this by

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1052 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

myself and in about two days and it is very limited, but I think I have gone far enough that I feel it has some merit and as stated a few minutes ago, the premise is simply to assign current allowables as close to anticipated production as possible. When I started looking for a way to do this I suddenly discovered that production in the Blanco-Mesa Verde Pool has been extremely erratic and why I can't figure out but facts are facts. Exhibit 1 shows the relationship between nominations, production, and allowables. I present that simply to show you that except for the last four months, the months of April, May, June, July of this year the allowables assigned and the production have varied from month to month. One of the things this does it puts our six times rules in jeopardy. When we have a low beginning net in the pool balancing procedure, it decreases the current allowable. With low allowables well then more wells are shut-in due to six times which should not be shut-in. As a matter of fact, under our present pool balancing procedure it's not at all uncommon for a pool to have negative allowables. Therefore all the wells in the pool have negative allowables and therefore under the Rule every well in the pool is shut-in because they are six times overproduced for that month. So if my proposal will work, and I think it would, there would never be any negative allowable. All allowables would always be positive and all allowables would be assigned to a pool that is close to

anticipated production as possible.

What I actually propose is to change our balancing procedure. Now so that you will be informed as to how we do it as the present time and bear in mind that as near as I can find this procedure is not spelled out in the Rule, we just decided here many years ago to do it this way and it's been carried on. We will say that we are working on the current month's allowable. We have current months nomination. We have adjusted those nominations in two ways under our present Rule. I am going to suggest in a little bit that we adjust those nominations in another way but to go ahead with how we do it now, we adjust those nominations by taking the second previous month's production versus the beginning net allowable for the pool. That is the allowable that the pool has coming to it at the beginning of the production month. If the pool has less allowable coming to it than the production, well then we adjust positively to the production but bear in mind that that beginning net allowable has all the underage in it too that is carried in the pool so if there is an excess amount of underage carried in the pool then this adjustment's going to be terrific. The first previous month's adjustment is an adjustment purely and simply based on the nominations for that month versus the allowable assigned that month. If the nominations are greater than the allowable assigned then the adjustment

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

is positive. In the sum of those three figures is the pool allowable. Then the non-marginal anticipated non-marginal allowable or estimated non-marginal allowable is subtracted from that figure, which, of course, gives us the non-marginal allowable for the pool.

I think possibly while I am on the subject of marginal allowables, the marginal allowables used is the total of the average six-months production of all the non-marginal wells. That is a tentative allowable and it is good only for two months and it comes right out. In other words, the second month after that allowable is assigned and production is in the marginal production is the marginal wells allowable for the production month and that difference, whatever it is, positive or minus and mind you it's both ways, we are coming pretty close the way we are doing it, is dropped so that the marginal allowable becomes equal to the marginal production.

Now, in regard to marginal allowable, marginal production, since the proposal was made here that the marginal allowable be assigned equal to the 90 days well's ability and in defense of the way we are doing it now and as a matter of information to those present I would like to state a few figures. This is just for the Blanco-Mesa Verde Pool. The first figure will be allowables, the second figure will be production. January, 5.1, 5.0; February, 6.7, 6.3; March, 6.7, 6.6; April,

dearney-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 242-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS JLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

6.7, 6.5; May, 6.7, 6.4; June, 6.7, 7.0; July, 6.7, 6.0; and August, 7.9 and 7.1. I think that's a pretty close estimate myself and I might show and to back up my statements that sometimes we actually assign less. I'd like to go over here in 1969 and cite some figures of the same type. I think I'll start here probably with July. I believe this is July 1969 where we assigned 4.2 production, 4.2. You can't get too much closer than that. Allowable 5.1, production, 5.2; allowable, 5.1, production, 5.4; 5.1, 5.6; 5.1, 5.6; and 5.1 and 5.1. I take no credit for this but I'll just have to say the average allowable is not too bad.

Now for the proposal that I have and I would like for you to bear in mind that this is not refined and I think it can be refined and I believe it can be made workable toward one end and one end only that is try to equal the month's production, pool production, to the month's allowable. Exhibit 2 simply shows a comparison and it actually starts in June 1969 and ends in July 1970. The curve showing the present method shows the pool overage and underage on a monthly basis. Of course, the purpose of trying to have production equal allowable is to zero the pool every month. If you will recall, I made a proposal here some time ago that we use the second previous month for production to assign current allowables and that way the pool could be zeroed every month so then the only problem

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87138

you would have would be to balance the wells internally and I think as long as overages and underages in a pool are oscillating as under our present balancing Rules that it makes it most difficult to balance wells in the pool and I can certainly see where El Paso has a problem.

You will notice that in June and July the overproduction was pretty high, around six billion. Then in September it went to underproduction, fell way down to over three billion, started back up and in January it was pretty good. For January and February it was pretty close and then in March way down again, April back up to overproduction again.

Now, the red line -- you people don't have the red line which is the proposed method. I have to admit that is not perfect. I think it can be improved on but the way I assign allowables to the wells in the Blanco-Mesa Verde for this period under the proposed method ucrve was using a three month's history one year ago and comparing it to the last three month's production available.

MR. NUTTER: This proposed method is not El Paso's, this is the proposed method that you are going to throw out?

A I am going to throw it in. I think with some study and if this Hearing is continued, I propose to spend a lot of time on it and if I can possibly do so I will have a machine run made on this same period for at least two pools and then I will be in a

dearney-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

position to tell you what it did to the wells in the pool rather than just the pool and I think one refinement to what I have shown here that I would like to try is to use the pool status, last available pool status. In other words, trying to offset the last available pool status you have in the current allowable. At any rate, purely and simply, I think this method will assist El Paso and I am quite sure that it will level out allowables instead of having allowables oscillate which they do and way too much and many times in our current pool balancing procedure two adjustments go the same way so if we make two mistakes then we have a double adjustment and this is what causes our allowables to oscillate like they do.

I believe that this method should be given, after study, of course, an opportunity to work prior to any other method. Now, if this method does not work and we would have to go or should go to a method similar or the method that El Paso proposes here then as near as we can estimate the marginal percent of marginal wells which is now right at 63 percent in the San Juan Basin, and these vary among pools considerably, we estimate that it will probably go to 70 percent. Now, this is strictly a judgement estimate. We have not made any actual runs. Mr. Arnold did take a sampling of two or three hundred wells in two pools, Meson-Dakota and Mesa Verde and that showed

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 7092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

that there would be an increase of close to 10 percent. Now, if we are going to go through all this red tape to prorate 30 percent of the wells in San Juan Basin I am not too sure but that we are spending money unwisely and I am not too sure but whether we are at the end of the road as far as proration is concerned. At least what I am trying to do is simplify proration rather than complicate it and the proposal does complicate it. I think that's all I have.

MR. NUTTER: Any questions of Mr. Utz?

CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Utz, as I understood your testimony at the outset, this is an idea that you have spent a few days working out and it's not at this point a staff proposal of the Commission, is that correct?

A No, it's not a staff proposal. It's my proposal.

Q For the sake of my understanding and maybe others that don't completely understand the method that you are proposing here, would it be possible to have the proposal prepared in writing as to how it would turn out as a proposed Rule change so it could be studied before another Hearing on this matter?

A Actually there would be no Rule change. This is what we do now, is strictly administrative Rule.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-7294 • ALBUQUERQUE, NEW MEXICO 87108

Q Excuse me?

A And the Rules as they are now as far as well classification, I am happy with so I wouldn't suggest a change there. If you are asking me would I object to this being in the Rule, no.

Q Maybe we are not -- I know I am not understanding you, Mr. Utz. Your Exhibit shows how your proposed method would work compared with the present method and some change of method is obviously indicated. I don't understand what your proposed method is or how it compares with the present method and I was wondering if that could be formulated in writing and possibly distributed to the interested parties?

A I am sure it can. As a matter of fact, if anyone wants to look at any proration, the present method is shown in the front of every proration schedule.

Q You mean present method? This is actually the current Commission practice?

A Right.

MR. MORRIS: I have no further questions.

MR. NUTTER: Any further questions?

CROSS EXAMINATION

BY MR. ARNOLD:

Q Why would you say that we flow a well 21 days in order to secure deliverability in the San Juan Basin rather

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4591 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

than 24 hours?

A I think you know the answer to that. The area up there is tight. You don't even get -- if you want to get into how accurate the deliverability tests are, I could go some ways with that. If the area is tight and --

Q You haven't answered the question.

A I'm getting around to it. The area is tight. The well will not stabilize even in the 21-day-flow period. Many wells won't.

Q If you propose that the high month's production is the best way to represent a well's producing ability, wouldn't it be better to take the high day's production in calculating the deliverability?

A I wouldn't object to it.

Q You think that we should calculate deliverability by using the high day?

A What I am trying to say is that the deliverability formula is inherent in the accuracy of the seven-day-shut-in pressure or shut-in pressure or whatever it might be in. If the shut-in pressure is not 100 percent built up or true reservoir pressure then the error is tremendous as far as the deliverability is concerned.

Q Don't you think if we defined the producing ability of a well we should relate it to a stabilized producing ability?

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

A I think if a well produces 30 days it ought to be pretty well stabalized.

Q Do you think that if we produced a well 30 days, shut it in for five months and then you produce it for six months and took an average that the two figures would be comparable?

A It's possible that you shut-in a well for a long period of time and open it up it will produce very good for the first 30 days.

Q Which isn't representative of its producing ability over a period of time, is it?

A Well, I think the condition you state is probably very rare most of the time and we have had testimony here, Mr. Arnold, that all marginal wells are left on 100 percent of the time. You wouldn't have that condition with marginal wells if you were making a comparison for them. You would only have that condition with some non-marginal wells, probably very few.

MR. NUTTER: Any further questions of Mr. Utz? You may be excused. Are you offering these Exhibits, Mr. Hatch?

MR. HATCH: Yes, I would like to offer these Exhibits.

Q (By Mr. Hatch) Did you prepare these Exhibits 1 and 2?

MR. UTZ: Yes, I did, such as they are.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1 WMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

MR. NUTTER: OCC Exhibits 1 and 2 will be admitted in evidence. Does anyone have anything further to offer in this case at this time? In as much as we have had El Paso's proposal and a Chevron proposal and an Utz proposal here and I don't fully understand any of them I want to continue this Hearing for 30 days so I can think about it. This case will be continued and you will get a chance to Cross Examine your witness later, Mr. Buell.

MR. BUELL: Thank you.

MR. NUTTER: To the Examiner Hearing which is scheduled to be held at 9:00 o'clock A.M. in this room on December 2. We would also like to make this provision at this time. Mr. Cameron, we would request you be available to further explain your proposal on December 2. Also, would you enter your company's address in the record so that anyone here that may want to write to you can do so and obtain the proposal from you?

MR. CAMERON: Chevron Oil Company, Box 599, Denver.

MR. NUTTER: Did everyone get that? Chevron Oil Company, Box 599, Denver, Attention: Mr. Cameron, and a copy of his proposal will be available. Mr. Utz will also be requested to reduce his proposal to the form of writing and this will be available from the Oil Conservation Commission Office here in Santa Fe. How long is that going to be?

MR. UTZ: One page will do it, Mr. Nutter. One

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1692 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

thought occurs to me. I don't have a specific proposal of how to adjust the nominations at this time. I know what I have used here but I will be working with it for sometime.

MR. NUTTER: If you can reduce this to writing because people want to see what you are doing, if that could be reduced to writing we will have them available on request as soon as possible. It will be some time before we will be sending the Docket. The Docket goes out 10 days prior to the Hearing so we will try to have it available, say, two weeks from today on request.

MR. SIMMONS: Would it be in order, the last time we had only one proposal to consider but we had an operator's meeting to clear a lot of the air on the question. Would it be in order to have something like that at this time where we have free time to consider?

MR. NUTTER: The operators can have a meeting if they wish. I don't know if we want to sponsor the meeting or not.

MR. SIMMONS: I don't think you sponsored the last one.

MR. NUTTER: If there is nothing further in Case 4436, the Case will be continued as noted before and this Hearing is adjourned.

I N D E XWITNESSPAGE

F. NORMAN WOODRUFF

Direct Examination by Mr. Morris	5
Cross Examination by Mr. Utz	36
Cross Examination by Mr. Kendrick	41
Cross Examination by Mr. Hinkle	42
Cross Examination by Mr. Russell	45
Cross Examination by Mr. Kellahin	47
Cross Examination by Mr. Utz	51

JOHN T. CAMERON

Direct Examination by Mr. Kellahin	60
Cross Examination by Mr. Morris	75
Cross Examination by Mr. Buell	80
Cross Examination by Mr. Morris (Continued)	81
Cross Examination by Mr. Hatch	83

ELVIA A. UTZ

Direct Examination by Mr. Hatch	84
Cross Examination by Mr. Morris	95
Cross Examination by Mr. Arnold	96

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
 1400 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

STATE OF NEW MEXICO)
)
 COUNTY OF BERNALILLO)

I, SOVEIDA GONZALES, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Soveida Gonzales
 Notary Public

My Commission Expires:

3-26-74

I do hereby certify that the foregoing is a complete record of the proceedings of the hearing of Case No. 4436, noted by me on 10/14/72.

[Signature], Examiner
 New Mexico Oil Conservation Commission

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONFIDERING:

CASE No. 4436
Order No. R-4085

APPLICATION OF EL PASO NATURAL GAS COMPANY
FOR THE AMENDMENT OF THE GENERAL RULES AND
REGULATIONS GOVERNING THE PRORATED GAS POOLS
OF NEW MEXICO AND THE AMENDMENT OF THE SPECIAL
RULES AND REGULATIONS GOVERNING THE TAPACITO-
PICTURED CLIFFS AND BASIN-DAKOTA GAS POOLS
LOCATED IN RIO ARRIBA, SAN JUAN, AND SANDOVAL
COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on December 2, 1970,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 28th day of December, 1970, the Commission, a
quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That El Paso Natural Gas Company is the owner and opera-
tor of certain wells in certain prorated gas pools in New Mexico
and is also the owner and operator of pipelines connected to wells
in certain prorated gas pools in New Mexico.

(3) That El Paso Natural Gas Company by its application in
this case sought a hearing seeking the amendment of the General
Rules and Regulations governing the prorated gas pools of North-
west New Mexico and the Special Rules and Regulations governing

the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties to permit substantial change in the method of classifying marginal wells, and the assignment of allowable to marginal wells governed by the aforesaid rules and regulations, as well as a substantial change in the balancing of production procedure required by said rules.

(4) That the Commission, upon its own motion, broadened the notice given concerning the above-described application to permit consideration of the above-described changes for the prorated gas pools of Southeast New Mexico as well.

(5) That Rule 9(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 10(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide that the monthly allowable to be assigned to each marginal well should be equal to its average monthly production during the preceding gas proration period.

(6) That Rule 15(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 15(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide that when a well is overproduced in an amount equaling six times its average monthly allowable it should be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceding proration period.

(7) That Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide for the reclassification from non-marginal to marginal of each underproduced well that does not produce during at least one month of a proration period its average monthly allowable for the period.

(8) That Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to set forth a procedure for adjusting the allowable and net status of a well that has been reclassified from marginal to non-marginal.

-3-

CASE No. 4436
Order No. R-4085

(9) That each of the above-described amendments is necessary in order to prevent waste and to adequately protect the correlative rights of all operators in the subject pools.

IT IS THEREFORE ORDERED:

(1) That Rule 9(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico is hereby amended to read in its entirety as follows:

RULE 9(B). The monthly allowable to be assigned to each marginal well shall be equal to its average monthly production during the preceding gas proration period.

(2) That Rules 15(A) and 15(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico are hereby amended to read in their entirety as follows:

RULE 15(A). Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any well which has not made up the overproduction carried into a gas proration period by the end of said proration period shall be shut in until such overproduction is made up, provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that said special authority shall be rescinded for any well produced in excess of the monthly rate of production authorized by the Secretary-Director.

RULE 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the preceding proration period. (or, in the case of a new well, six times the average monthly allowable for a well of like deliverability and acreage) it shall be shut in during that month and each succeeding month until it is overproduced less than six times

-4-

CASE No. 4436

Order No. R-4085

its average monthly allowable for the preceding proration period, provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that said special authority shall be rescinded for any well produced in excess of the monthly rate of production authorized by the Secretary-Director.

(3) That Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico is hereby amended to read in its entirety as follows:

RULE 16(A). After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of said period shall be classified marginal if its highest single month's production is less than its average monthly allowable for said period, unless, within 15 days after the close of said period, the operator or other interested person presents satisfactory evidence to the Commission showing that the well is not of marginal character and should not be so classified.

(4) That Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico is hereby amended to read in its entirety as follows:

RULE 18. If, at the end of a proration period, a marginal well has produced more than the total allowable for the period assigned a non-marginal unit of like deliverability and acreage, the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly. (If the well has been classified as marginal for one proration period only, any underproduction cancelled as the result of such classification shall be reinstated upon reclassification back to non-marginal status. All uncompensated-for overproduction accruing to the well while marginal shall be chargeable upon reclassification to non-marginal.)

-5-

CASE No. 4436
Order No. R-4085

(5) That Rule 15(B) and Rule 16(A) of the Special Rules and Regulations for the Tapacito-Pictured Cliffs Gas Pool are hereby deleted.

(6) That Rule 16(A) of the Special Rules and Regulations governing the Basin-Dakota Gas Pool is hereby deleted.

(7) That Rule 10(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico is hereby amended to read in its entirety as follows:

RULE 10(A). The monthly allowable to be assigned to each marginal well shall be equal to its average monthly production during the preceding gas proration period.

(8) That Rule 15(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico is hereby amended to read in its entirety as follows:

RULE 15(A). Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any well which has not made up the overproduction carried into a gas proration period by the end of said proration period shall be shut in until such overproduction is made up, provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that said special authority shall be rescinded for any well produced in excess of the monthly rate of production authorized by the Secretary-Director.

If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the preceding proration period, (or, in the case of a new well, six times the average monthly allowable for a unit of corresponding size) it shall be shut in during that month and each succeeding month

-6-

CASE No. 4436
Order No. R-4085

until it is overproduced less than six times its average monthly allowable for the preceding proration period, provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that said special authority shall be rescinded for any well produced in excess of the monthly rate of production authorized by the Secretary-Director.

(9) That Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico is hereby amended to read in its entirety as follows:

RULE 16(A). After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of said period shall be classified marginal if its highest single month's production is less than its average monthly allowable for said period, unless, within 15 days after the close of said period, the operator or other interested person presents satisfactory evidence to the Commission showing that the well is not of marginal character and should not be so classified.

(10) That Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico is hereby amended to read in its entirety as follows:

RULE 18. If, at the end of a proration period, a marginal well has produced more than the total allowable for the period assigned a non-marginal unit of corresponding size, the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly. (If the well has been classified as marginal for one proration period only, any underproduction cancelled as the result of such classification shall be reinstated upon reclassification back to non-marginal status. All uncompensated-for overproduction accruing to the well while marginal shall be chargeable upon reclassification to non-marginal.)

-7-

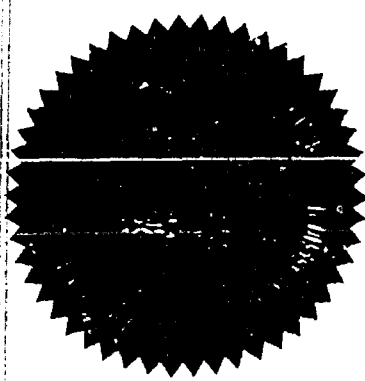
CASE No. 4436
Order No. R-4085

(11) That the provisions of this order shall become effective January 1, 1971.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



David F. Cargo

DAVID F. CARGO, Chairman

Alex J. Armijo

ALEX J. ARMIJO, Member

A. L. Porter, Jr.

A. L. PORTER, Jr., Member & Secretary

esr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE No. 1937
Order No. R-167C

APPLICATION OF THE OIL CONSERVATION
COMMISSION ON ITS OWN MOTION TO CON-
SIDER CONSOLIDATING THE SPECIAL RULES
GOVERNING THE SEVEN PRORATED GAS POOLS
IN NORTHWEST NEW MEXICO, AND TO CON-
SIDER CONSOLIDATING THE SPECIAL RULES
GOVERNING THE SIX PRORATED GAS POOLS
IN SOUTHEAST NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m., on April 13, 1960, at Hobbs, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 20th day of May, 1960, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises:

FINDS:

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

(2) That in the past the Commission has held numerous hearings and taken voluminous testimony from engineers, geologists, and other interested parties and entered many orders creating, delineating, spacing, prorating, and otherwise regulating the Pools now designated the Blinbry, Crosby-Devonian, Eumone, Jalmat, Justis, Tubb, Aztec-Pictured Cliffs, Ballard-Pictured Cliffs, Fulcher Kutz-Pictured Cliffs, South Blanco-Pictured Cliffs, Tapacito-Pictured Cliffs, West Kutz-Pictured Cliffs, and Blanco Mesaverde Gas Pools in the interests of conservation, prevention of waste, and protection of correlative rights.

(3) That it has been found by the Commission that one well will efficiently and economically drain the area of the proration units set out in the Special Pool Rules in each of the several gas pools listed above.

-2-
CASE No. 1937
Order No. R-1670

(4) That the total producing capacity of the wells in each of these pools has been found to be greater than the market demand for gas produced from each of these pools.

(5) That prorationing has been instituted in each of these pools.

(6) That it is both feasible and desirable that the Special Pool Rules for the seven prorated gas pools in Northwest New Mexico be consolidated and that the Special Pool Rules for the six prorated gas pools in Southeast New Mexico be consolidated.

(7) That the following orders should be superseded:

<u>Aztec-Pictured Cliffs Gas Pool</u>	<u>Ballard-Pictured Cliffs Gas Pool</u>	<u>Fulcher Kutz-Pictured Cliffs Gas Pool</u>
R-46	R-846	748
R-565	R-846-A	R-59
R-565-A	R-967	R-565
R-565-C		R-565-A
R-565-D		R-565-C
R-614		R-565-D
R-620		R-614
R-697		R-620
		R-697
<u>South Blanco- Pictured Cliffs Gas Pool</u>	<u>Tapacito-Pictured Cliffs Gas Pool</u>	<u>West Kutz-Pictured Cliffs Gas Pool</u>
R-565	R-1193	R-46
R-565-A	R-1193-A	R-566
R-565-B		R-566-A
R-565-C		R-566-B
R-565-D		R-566-C
R-614		R-566-D
R-620		R-566-E
R-967		R-967
<u>Blanco Mesaverde Gas Pool</u>	<u>Blainebry Gas Pool</u>	<u>Crosby Devonian Gas Pool</u>
R-799	R-264-A	R-639
R-110	R-356	R-639-A
R-128	R-372	R-639-B
R-128-A	R-372-A	
R-128-B	R-464	
R-128-C	R-610-C	
R-128-D&E	R-610-D	
R-967	967	

-3-
CASE No. 1937
Order No. R-1670

Eumont Gas Pool

R-264-A
R-356
R-370
R-370-A
R-370-B
R-371
R-371-A
R-967

Jalmat Gas Pool

R-264-A
R-356
R-368
R-368-A
R-368-B
R-967

Justis Gas Pool

R-264-A
R-356
R-375
R-375-A
R-586-A
R-586-C
R-586-E
R-586-F
R-967

Tubb Gas Pool

R-356
R-373
R-373-A
R-464
R-967

(8) That all provisions in the following orders relative to the regulation of gas wells in prorated gas pools should be superseded:

Blinbry Gas Pool

R-264
R-610
R-610-A
R-610-B

Eumont Gas Pool

R-264
R-520
R-520-A
R-767
R-767-A

Jalmat Gas Pool

R-264
R-520
R-520-A
R-553
R-640
R-663
R-690

Justis Gas Pool

R-586

Tubb Gas Pool

R-264
R-586
R-586-B

-4-
CASE No. 1937
Order No. R-1670

IT IS THEREFORE ORDERED:

(1) That the following orders be and the same are hereby superseded:

Aztec-Pictured
Cliffs Gas Pool

R-46
R-565
R-565-A
R-565-C
R-565-D
R-614
R-620
R-697

Ballard-Pictured
Cliffs Gas Pool

R-846
R-846-A
R-967

Fulcher Kutz-Pictured
Cliffs Gas Pool

748
R-59
R-565
R-565-A
R-565-C
R-565-D
R-614
R-620
R-697

South Blanco-
Pictured Cliffs
Gas Pool

R-565
R-565-A
R-565-B
R-565-C
R-565-D
R-614
R-620
R-967

Tapacito-Pictured
Cliffs Gas Pool

R-1193
R-1193-A

West Kutz-Pictured
Cliffs Gas Pool

R-46
R-566
R-566-A
R-566-B
R-566-C
R-566-D
R-566-E
R-967

Blanco Mesaverde
Gas Pool

R-799
R-110
R-128
R-128-A
R-128-B
R-128-C
R-128-D&E
R-967

Blinebry Gas Pool

R-264-A
R-356
R-372
R-372-A
R-464
R-610-C
R-610-D
R-967

Crosby Devonian Gas
Pool

R-639
R-639-A
R-639-B

-5-
CASE No. 1937
Order No. R-1670

Eumont Gas Pool

R-264-A
R-356
R-370
R-370-A
R-370-B
R-371
R-371-A
R-967

Jalmat Gas Pool

R-264-A
R-356
R-368
R-368-A
R-368-B
R-967

Justis Gas Pool

A-264-A
R-356
R-375
R-375-A
R-586-A
R-586-C
R-586-E
R-586-F
R-967

Tubb Gas Pool

R-356
R-373
R-373-A
R-464
R-967

-6-
CASE No. 1937
Order No. R-1670

(2) That all provisions in the following orders relative to the regulation of gas wells in prorated gas pools be and the same are hereby superseded:

<u>Blinebry Gas Pool</u>	<u>Eumont Gas Pool</u>	<u>Jalmat Gas Pool</u>
R-264	R-264	R-264
R-610	R-520	R-520
R-610-A	R-520-A	R-520-A
R-610-B	R-767	R-553
	R-767-A	R-640
		R-663
		R-690

<u>Justis Gas Pool</u>	<u>Tubb Gas Pool</u>
R-586	R-264
	R-586
	R-586-B

(3) That the Special Pool Rules for the seven prorated gas pools in Northwest New Mexico, and the Special Pool Rules for the six prorated gas pools in Southeast New Mexico, be and the same are hereby consolidated as hereinafter set forth, in the following "Rules and Regulations Governing Prorated Gas Pools in New Mexico."

CASE No. 1937
Order No. R-1670

RULES AND REGULATIONS
GOVERNING
PRORATED GAS POOLS IN NEW MEXICO

* * *

Table of Contents

	<u>Page</u>
GENERAL RULES, NORTHWEST NEW MEXICO.....	1
Special Rules, Northwest New Mexico	
Aztec-Pictured Cliffs Gas Pool.....	11
Ballard-Pictured Cliffs Gas Pool.....	12
Fulcher Kutz-Pictured Cliffs Gas Pool.....	13
South Blanco-Pictured Cliffs Gas Pool.....	14
Tapacito-Pictured Cliffs Gas Pool.....	15
West Kutz-Pictured Cliffs Gas Pool.....	17
Blanco-Mesaverde Gas Pool.....	18
GENERAL RULES, SOUTHEAST NEW MEXICO.....	21
Special Rules, Southeast New Mexico	
Blinebry Gas Pool.....	30
Crosby-Devonian Gas Pool.....	36
Eumont Gas Pool.....	39
Jalmat Gas Pool.....	41
Justis Gas Pool.....	46
Tubb Gas Pool.....	47

CASE No. 1937
Order No. R-1570

I. GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF
NORTHWESTERN NEW MEXICO

(See Special Pool Rules in each pool for orders applicable to those pools only. Special Pool Rules will be found in the same classification order as in the General section, and, unless the special rules conflict with the general rule, the general rule is also applicable.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 1: Any well drilled to the producing formation of a gas pool regulated by this order and within said pool or within one mile outside the boundary of that pool, and not nearer to nor within the boundaries of another designated pool producing from the same formation, shall be spaced, drilled, operated, and prorated in accordance with the regulations in effect in that pool.

RULE 2: Except as provided in the Special Pool Rules, after the effective date of this order each well drilled or recompleted on a standard gas proration unit within a gas pool regulated by this order shall be located at least 990 feet from the outer boundary line of the proration unit, provided however, that a tolerance of 200 feet is permissible.

RULE 3: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rule 2 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or the necessity for exception is based upon topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well, a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written statement that all such operators have been properly notified by registered mail. The Secretary-Director of the Commission shall wait at least 20 days before approving any such exception, and shall approve such exception only in the absence of objection of any offset operators. In the event any operator objects to the exception, the Commission shall consider the matter only after proper notice and hearing.

NOTE: Rule 3 does not apply to Blanco Mesaverde or Tapacito-Pictured Cliffs Gas Pools - See Special Pool Rules, Rule 2.

CASE No. 1937
Order No. R-1670

RULE 4: The provisions of statewide Rule 104, Paragraph (k), shall not apply to the gas pools regulated by this order.

RULE 5(A): The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the gas pools regulated by this order, a standard proration unit shall consist of contiguous surface acreage and shall be substantially in the form of a square in pools having 160-acre standard proration units, and substantially in the form of a rectangle in pools having 320-acre standard proration units, and shall be a legal subdivision of the U. S. Public Land Surveys (quarter-section or half-section, as applicable). A proration unit shall be considered to be a standard gas proration unit when it meets the above requirements and consists of acreage within the appropriate tolerance set out below:

<u>Standard Proration Unit</u>	<u>Acreage Tolerance for Standard Unit</u>
160 acres	158-162 acres
320 acres	316-324 acres

Any gas proration unit containing acreage within the appropriate tolerance limit above shall be considered to contain the number of acres in a standard unit for the purpose of computing allowables.

RULE 5(B): The Secretary-Director of the Commission shall have authority to grant an exception to Rule 5(A) without notice and hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with:

1. The proposed non-standard proration unit consists of less acreage than a standard proration unit, or where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.
2. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.
3. The non-standard gas proration unit lies wholly within a single governmental section.
4. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas from the designated gas pool.
5. The applicant presents written consent in the form

CASE No. 1937
Order No. R-1670

of waivers from:

(a) All operators owning interests outside the non-standard gas proration unit but in the same section in which any part of the non-standard gas proration unit is situated, and

(b) All operators owning interests in acreage offsetting the non-standard gas proration unit.

6. In lieu of subparagraph 5 of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. (This notification to offset operators should consist of the same information that is furnished to the Commission). The Secretary-Director of the Commission may approve the application if, after a period of 30 days following the mailing of said notice, no operator has made objection to formation of such non-standard gas proration unit. (See additional requirement for West Kutz-Pictured Cliffs Gas Pool)

B. NOMINATIONS AND PRORATION SCHEDULE

RULE 6(A): At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser its "Preliminary Nominations" of the amount of gas which each in good faith actually desires to purchase within the ensuing proration period, by months, from each of the gas pools regulated by this order. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste within the ensuing proration period. "Preliminary Nominations" shall be submitted on a form prescribed by the Commission.

RULE 6(B): The term "gas purchaser" as used in these rules shall mean any "taker" of gas either at the well-head or at any point on the lease where connection is made for gas transportation or utilization. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rule 6(A) and Rule 7(A) of this order.

RULE 7(A): In the event a gas purchaser's market shall have increased or decreased, he may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas he actually in good faith desires to purchase during the ensuing

proration month from the gas pools regulated by this order. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month, along with such other information as is necessary to show the allowable-production status of each well on the schedule. "Supplemental Nominations" shall be submitted on a form prescribed by the Commission.

RULE 7(B): The Commission shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The total allowable to be allocated to each gas pool regulated by this order each month shall be equal to the sum of the "Preliminary" or "Supplemental Nominations" (whichever is applicable) for each pool, together with any adjustment which the Commission deems advisable. A monthly allowable shall be assigned to each well entitled to an allowable in each pool by allocating the pool allowable among all such wells in accordance with the procedure set out in Rule 9(C).

RULE 8(B)1: No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed, together with a plat (C-128) showing acreage attributed to said well and the locations of all wells on the lease, and

2: Unless a deliverability test taken in conformance with the provisions of Order R-333-C and D as amended by R-333-E has been submitted, except as provided in Rule 10(C) below.

RULE 8(C): Allowables to newly completed gas wells shall commence:

1. On the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (1000 Rio Brazos Road, Aztec, New Mexico) by the purchaser, or

2. The latest filing date of Form C-104, C-110, and C-128, or

3. A date 45 days prior to the date upon which the well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122-A in conformance with the provisions of Order R-333-C and D as amended by Order R-333-E,

whichever date is the later.

RULE 9(A): The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF per day) for that well shall be known as the AD factor for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160 in pools with 160 acre standard proration units and by 320 in pools with 320 acre standard gas proration units; however, the acreage tolerances provided in Rule 5(A) shall apply. The "AD Factor" shall be computed to the nearest whole unit.

RULE 9(B): The allowable to be assigned to each marginal well shall be equal to the maximum production of said well during any month of the preceding gas proration period except as provided in the Special Pool Rules.

RULE 9(C): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the following manner:

1. Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's "AD Factor" bears to the total "AD Factor" for all non-marginal wells in the pool.

2. Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's acreage factor bears to the total acreage factor for all non-marginal wells in the pool.

RULE 9(D): Annual deliverability tests taken each year shall be used in calculating allowables for wells in the gas pools regulated by this order for the twelve month period beginning February 1 of the following year.

RULE 10(A): If, during a proration month, the acreage

CASE No. 1937
Order No. R-1670

assigned to a well is increased, the operator shall notify the Commission in writing (1000 Rio Brazos Road, Aztec, New Mexico) of such increase by filing a revised plat (Form C-128). The increased allowable assigned the gas proration unit for the well shall be effective on the first day of the month following receipt of the notification by the Commission.

RULE 10(B): A change in a well's deliverability due to retest or test after recompletion or workover shall become effective:

1. On the date of reconnection after workover, such date to be determined from Form C-104 as filed by the operators, or
2. A date 45 days prior to the date upon which a well's initial deliverability and shut-in pressure test is reported to the Commission on Form C-122-A in conformance with the provisions of Order R-333-C and D as amended by Order R-333-E, or
3. A date 45 days prior to the receipt and approval of Form C-104 by the Commission's office (1000 Rio Brazos Road, Aztec, New Mexico); (Form C-104 shall specify the exact nature of the workover or remedial work. If the nature of the work cannot be explained on Form C-104, in that event, Form C-103 shall also be filed in accordance with Rule 1106 of the Commission's Statewide Rules and Regulations);

whichever is later.

RULE 10(C): The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of Order R-333-C and D, as amended by Order R-333-E.

The Secretary-Director of the Commission shall have authority to allow exceptions to the annual deliverability test requirement for marginal wells where the deliverability of a well is of such volume as to have no significance in the determination of the well's allowable. Application for such exception may be submitted in writing by the operator of the well and, if granted, may be revoked by the Secretary-Director of the Commission at any time by requesting the well to be scheduled and tested in accordance with Order R-333-C and D as amended by Order R-333-E.

RULE 11: After notice and hearing, the Commission may assign minimum allowables in order to prevent the premature abandonment of wells.

RULE 12: Except as provided in the Special Pool Rules, the full production of gas from each well, including drilling gas, shall be charged against the well's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

D. BALANCING OF PRODUCTION

RULE 13: The dates 7:00 a.m., February 1, and 7:00 a.m., August 1, shall be known as balancing dates, and the periods of time bounded by these dates shall be known as gas proration periods.

RULE 14(A): Underproduction: Any non-marginal well which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 14(B): Production during any one month of a gas proration period in excess of the allowable assigned to a well for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 15(A): Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period, provided that such overproduction shall be made up during such succeeding period. Any well which has not made up the overproduction carried into a gas proration period by the end of such proration period shall be shut-in until such overproduction is made up.

RULE 15(B): Except as provided by the Special Pool Rules, if, at any time, a well is overproduced an amount equaling six times its current monthly allowable, it shall be shut-in during that month, and each succeeding month until the well is overproduced less than six times its current monthly allowable.

RULE 15(C): Allowable assigned to a well during any one

Alvord
R-2404-A

CASE No. 1937
Order No. R-1670

month of a gas proration period in excess of the production for the same month shall be applied against the overproduction carried into such period in determining the amount of overproduction, if any, which has not been made up.

RULE 15(D): The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in upon a showing at public hearing after due notice that complete shut-in of the well would result in material damage to the well.

RULE 15(E): Any allowable accrued to a well at the end of a proration period due to the cancellation of underage and the redistribution thereof shall be applied against the overproduction carried into said proration period.

E. CLASSIFICATION OF WELLS

RULE 16(A): After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of the preceding gas proration period and which did not produce its allowable during at least one month of such preceding gas proration period may be classified as a marginal well unless, prior to the end of said preceding gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified. However, a well which in any month of said proration period has demonstrated its ability to produce its allowable for said proration period shall not be classified as a marginal well.

(Not applicable to Tapacito - See Special Pool Rules).

RULE 16(B): The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

RULE 17: A well which is classified as a marginal well shall not be permitted to accumulate underproduction, and any underproduction accrued to a well prior to its classification as a marginal well shall be cancelled.

RULE 18: If, at the end of a proration period, a marginal well has produced more than the total allowable for the period assigned a non-marginal unit of like deliverability and acreage, the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

RULE 19: A well which has been reworked or recompleted shall be classified as a non-marginal well as of the date

of reconnection to a pipeline until such time as production data, deliverability data, or other evidence as to the well's producing ability indicates that the well should be classified as a marginal well.

RULE 20: All wells not classified as marginal wells shall be classified as non-marginal wells.

F. REPORTING OF PRODUCTION

RULE 21(A): The monthly gas production from each well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 in accordance with Rule 1114 of the Commission's Rules and Regulations, so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas reported was produced. The operator shall show on such report what disposition has been made of the gas produced.

RULE 21(B): Each purchaser or taker of gas in each of the designated gas pools regulated by this order shall submit a report to the Commission, so as to reach the Commission on or before the 15th day of the month next succeeding the month in which the gas was purchased or taken.

RULE 21(C): Such report shall be filed on either Form C-111 or Form C-114 (whichever is applicable) with the wells being listed in approximately the same order as they are listed on the proration schedule.

RULE 21(D): Forms C-111 and C-114 referred to herein shall shall be submitted in triplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, the remaining copies being sent to 1000 Rio Brazos Road, Aztec, New Mexico and Box 2045, Hobbs, New Mexico, respectively.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the gas pools regulated by this order shall be flared or vented except as provided in the Special Pool Rules.

RULE 23: Failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected well. No further allowable shall be assigned to the affected well until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

CASE No. 1937
Order No. R-1670

RULE 24: All transporters or users of gas shall file gas well connection notices with the Commission as soon as possible after the date of connection or reconnection in accordance with the provisions of Rule 8(C) and 10(B), respectively.

(See Special Pool Rules for each pool for orders applicable to that pool only. Special Pool Rules will be found in the same classification order as in the General section, and, unless the special rules conflict with the general rule, the general rule is also applicable.)

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE AZTEC-PICTURED CLIFFS
GAS POOL

(The Aztec-Pictured Cliffs Gas Pool was created March 15, 1950
and gas prorationing was instituted March 1, 1955)

A. WELL LOCATION AND ACREAGE REQUIREMENTS:

RULE 5(A): A standard gas proration unit in the Aztec-Pictured Cliffs Gas Pool shall be 160 acres.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the Aztec-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Aztec-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

(General Pool Rules also apply unless in conflict with these
Special Pool Rules)

III. SPECIAL RULES AND REGULATIONS FOR THE BALLARD-PICTURED CLIFFS GAS POOL

(The Ballard-Pictured Cliffs Gas Pool was created February 9, 1955 and gas prorationing was instituted October 1, 1956. The Otero-Pictured Cliffs and Canyon Largo-Pictured Cliffs Gas Pools were consolidated into the Ballard Pictured-Cliffs Gas Pool May 1, 1959. This pool also includes acreage that was formerly included in the Fulcher Kutz-Pictured Cliffs Gas Pool.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Ballard-Pictured Cliffs Gas Pool shall be 160 acres.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 12: Gas used on the lease shall not be charged against the allowable.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the Ballard-Pictured Cliffs Gas Pool, except that gas used for "grilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Ballard-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

(Rule 25 does not actually appear as such in any of the existing pool rules.)

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

IV. SPECIAL RULES AND REGULATIONS FOR THE FULCHER KUTZ-PICTURED CLIFFS GAS POOL

(The Fulcher Kutz-Pictured Cliffs Gas Pool was created effective December 22, 1950 from a consolidation of the Fulcher Basin - Kutz Canyon Gas Pools. Gas prorationing was instituted March 1, 1955)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Fulcher Kutz-Pictured Cliffs Gas Pool shall be 160 acres.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the Fulcher Kutz-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Fulcher Kutz-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

V. SPECIAL RULES AND REGULATIONS FOR THE SOUTH BLANCO-PICTURED
CLIFFS GAS POOL

(The South Blanco-Pictured Cliffs Gas Pool was created May 20, 1952 and prorationing was instituted March 1, 1955.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the South Blanco-Pictured Cliffs Gas Pool shall be 160 acres.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the South Blanco-Pictured Cliffs Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the South Blanco-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

(Rule 25 does not actually appear as such in any of the existing pool rules.)

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

VI. SPECIAL RULES AND REGULATIONS FOR THE TAPACITO-PICTURED CLIFFS GAS POOL

(The Tapacito-Pictured Cliffs Gas Pool was created April 18, 1956 and prorationing was instituted August 1, 1958.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2: Wells shall be located at least 790 feet from the outer boundaries of the drilling tract and no closer than 25 feet from any quarter-quarter section line or subdivision inner boundary. The Secretary-Director shall have authority to grant exception without notice and hearing where the application has been filed in due form and where the following facts exist and the following provisions are complied with:

- (A) The necessity for the unorthodox location is based on topographical conditions, and
- (B) 1. The ownership of all oil and gas leases within a radius of 790 feet of the proposed location is common with the ownership of the oil and gas leases under the proposed location, or
2. All owners of oil and gas leases within such radius consent in writing to the proposed location.
- (C) In lieu of Paragraph (B) 2 of this Rule the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to drill an unorthodox location. The Secretary-Director of the Commission may approve the application if, after a period of twenty days following the mailing of said notice, no operator has made objection to the drilling of the unorthodox location.

RULE 5(A): A standard gas proration unit in the Tapacito-Pictured Cliffs Gas Pool shall be 160 acres.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 9(B): The allowable to be assigned to each marginal well shall be equal to the maximum production of said well during any month of the preceding six months.

RULE 12: Gas used on the lease shall not be charged against the allowable

D. BALANCING OF PRODUCTION

RULE 15(B): If at any time a well is overproduced in an

CASE NO. 1937
Order No. R-1670

VI. SPECIAL RULES AND REGULATIONS FOR THE TAPACITO-PICTURED CLIFFS
GAS POOL (CONT'D)

amount equalling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than 6 times its average monthly allowable.

E. CLASSIFICATION OF WELLS

RULE 10(A): A well shall be classified as marginal if it has failed for six consecutive months to produce its average monthly allowable for the six months immediately preceding such reclassification provided such failure was not occasioned by curtailment to compensate for over-production, unless prior to such reclassification the operator or other interested party presents satisfactory evidence showing that the well should not be classified as marginal. However, a well shall not be classified as marginal if, during any one month of the six-month period, said well has demonstrated its ability to produce its six months average allowable.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the Tapacito-Pictured Cliffs Pool, except that gas used for drilling purposes or for maintaining the productivity of a well, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Tapacito-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

VII. SPECIAL RULES AND REGULATIONS FOR THE WEST KUTZ-PICTURED
CLIFFS GAS POOL

(The West Kutz-Pictured Cliffs Gas Pool was created
September 29, 1950 and prorationing was instituted
March 1, 1955.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the West
Kutz-Pictured Cliffs Gas Pool shall be 160 acres.

RULE 5(B): In order to qualify for exception to Rule
5(A) without notice and hearing a proposed non-standard
gas proration unit in the West Kutz-Pictured Cliffs
Gas Pool, in addition to the requirements of Rule 5(B)
of the General Rules, may not exceed 2640 feet in length
or width.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas,
produced from the West Kutz-Pictured Cliffs Gas Pool,
except that gas used for "drilling-in" purposes, shall
be flared or vented unless specifically authorized by
order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the West Kutz-Pictured
Cliffs Gas Pool shall be the Pictured Cliffs formation.

(General Pool Rules also apply unless in conflict with these
Special Pool Rules)

CASE No. 1937
Order No. R-1670

VIII. SPECIAL RULES AND REGULATIONS FOR THE BLANCO-MESAVERDE
GAS POOL

(The Blanco Mesaverde Gas Pool was created February 25, 1949 and prorationing was instituted March 1, 1955. The Blanco-Mesaverde Gas Pool now includes acreage that was formerly included in the LaPlata Mesaverde, Northwest LaPlata Mesaverde, South LaPlata Mesaverde, and the Largo Mesaverde Gas Pools.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 2: Wells shall be located 990 feet from the outer boundary of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

RULE 5(A): A standard gas proration unit in the Blanco-Mesaverde Gas Pool shall be 320 acres.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the Blanco-Mesaverde Gas Pool, except that gas used for "drilling-in" purposes, shall be flared or vented unless specifically authorized by order of the Commission after notice and hearing.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The general and special rules and regulations contained in this order pertaining to the Blanco-Mesaverde Gas Pool shall be limited in their application to the present 4200-5100 foot productive horizon where the productive sands are contained between the top of the Cliff House Sand and the base of the Point Lookout Sand of the Mesaverde.

RULE 26: Surface Pipe. The surface pipe shall be set to a minimum depth of 100 feet, and where shallow potable water-bearing beds are present, the surface pipe shall be set to such shallow potable water bearing beds and a sufficient amount of cement shall be used to circulate the cement behind the pipe to the bottom of the cellar. This surface casing shall stand cemented for at least 24 hours before drilling plug or initiating tests. The surface casing shall be tested after drilling plug by bailing the hole dry. The hole shall remain dry for one hour to constitute

CASE No. 1937
Order No. R-1670

VIII. SPECIAL RULES AND REGULATIONS FOR THE BLANCO-MESAVERDE
GAS POOL (CONT'D)

satisfactory proof of a water shut-off. In lieu of the foregoing test, the cement job shall be tested by building up a pressure of 1,000 psi, closing the valves, and allowing to stand thirty minutes. If the pressure does not drop more than 100 pounds during that period, the test shall be considered satisfactory. This test shall be made both before and after drilling the plug. The Commission shall be notified at least 24 hours prior to the conducting of any test.

RULE 27: Production String. The production string shall be set on top of the Cliff House Sand with a minimum of 100 sacks of cement and shall stand cemented not less than 36 hours before testing the casing. This test shall be made by building up a pressure of 1,000 psi, closing the valves, and allowing to stand thirty minutes. If the pressure does not drop more than 100 pounds during that period, the test shall be considered satisfactory.

RULE 28: All cementing shall be done by the pump-and-plug method. Bailing tests may be used on all casing and cement tests, and drill stem tests may be used on cement tests in lieu of pressure tests. In making bailing test, the well shall be bailed dry and remain approximately dry for thirty minutes. If any string of casing fails while being tested by pressure or by bailing tests herein required, it shall be recemented and retested or an additional string of casing should be run and cemented. If an additional string is used, the same test shall be made as outlined for the original string. In submitting Form C-101, "Notice of Intention to Drill," the number of sacks of cement to be used on each string of casing shall be stated.

RULE 29: Any completed well which produces any oil shall be tubed. This tubing shall be set as near the bottom of the hole as practicable, but in no case shall tubing perforations be more than 250 feet from the bottom. The bottom of the tubing shall be restricted to an opening of less than 1 inch or bullplugged in order to prevent the loss of pressure bombs or other measuring devices.

RULE 30: Any well which produces oil shall be equipped with a meter setting of adequate size to measure efficiently the gas, with this meter setting to be

CASE No. 1937
Order No. R-1670

VIII. SPECIAL RULES AND REGULATIONS FOR THE BLANCO-MESAVERDE
GAS POOL (CONT'D)

installed on the gas vent or discharge line. Well-head equipment for all wells shall be installed and maintained in first-class condition, so that static bottom hole pressures and surface pressures may be obtained at any time by a duly authorized agent of the Commission. Valves shall be installed so that pressures may be readily obtained on the casing and also on the tubing, wherever tubing is installed. All connections subject to well pressure and all wellhead fittings shall be of first-class material, rated at 2,000 psi working pressure and maintained in gas-tight condition. There shall be at least one valve on each bradenhead. Operators shall be responsible for maintaining all equipment in first-class condition and shall repair or replace equipment where gas leakage occurs.

RULE 31: Drilling boilers shall not be set closer than 200 feet to any well or tank battery. All electrical equipment shall be in first-class condition and properly installed.

RULE 32: Wells shall not be shot or chemically treated until the permission of the Commission is obtained. Each well shall be shot or treated in such a manner as will not cause injury to the sand or result in water entering the oil or gas sand, and necessary precautions shall be taken to prevent injury to the casing. If shooting or chemical treatment results in irreparable injury to the well or to the oil or gas sand, the well shall be properly plugged and abandoned.

RULE 33: Bradenhead gas shall not be used either directly or expansively in engines, pumps or torches, or otherwise wasted. It may be used for lease and development purposes and for the development of nearby leases, except as prohibited above. Wells shall not be completed as Bradenhead gas wells unless special permission is obtained from the Commission.

(General Pool Rules also apply unless in conflict with these
Special Pool Rules)

CASE No. 1937
Order No. R-1670

I. GENERAL RULES AND REGULATIONS FOR THE PRORATED GAS POOLS OF
SOUTHEASTERN NEW MEXICO

(See Special Pool Rules in each pool for orders applicable to those pools only. Special Pool Rules will be found in the same classification order as in the General section, and, unless the special rules conflict with the general rule, the general rule is also applicable.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 1: Any well drilled to the producing formation of a gas pool regulated by this order and within said pool or within one mile outside the boundary of that pool, and not nearer to nor within the boundaries of another designated pool producing the same formation, shall be spaced, drilled, operated, and prorated in accordance with the regulations in effect in that pool.

RULE 2: After the effective date of this order each well drilled or recompleted on a standard gas proration unit within a gas pool regulated by this order shall be located not closer than 330 feet to a quarter-quarter section line or subdivision inner boundary line and not closer to the outer boundary line than the footages set out in the table immediately below:

<u>Standard Proration Unit</u>	<u>Footage From Unit Outer Boundary</u>
160 acres	660 feet
320 acres	660 feet
640 acres	1,980 feet

RULE 3: The Secretary-Director of the Commission shall have authority to grant exception to the requirements of Rule 2 without notice and hearing where the application has been filed in due form and where the following facts exist and the following provisions are complied with:

1. The necessity for the unorthodox location is based on topographical conditions, or is occasioned by the recompletion of a well previously drilled to another horizon.

2. (a) The ownership of all oil and gas leases within a radius of 1,980 feet of the proposed location is common with the ownership of the oil and gas leases under the proposed location, or

(b) All owners of oil and gas leases within

CASE No. 1937
Order No. R-1670

such radius consent in writing to the proposed location.

(c) In lieu of Paragraph 2(b) of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his Application for Approval of an Unorthodox Location. (This information to offset operators should consist of the same information that is furnished to the Commission.) The Secretary-Director of the Commission may approve the application, if, after a period of at least 20 days following the mailing of said notice, no operator has made objection to the drilling of the unorthodox location. In the event an operator objects to the unorthodox location, the Commission shall consider the matter only after proper notice and hearing.

RULE 4: The provisions of Statewide Rule 104, Paragraph (k), shall not apply to the gas pools regulated by this order.

RULE 5(A): The acreage allocated to a gas well for proration purposes shall be known as the gas proration unit for that well. For the purpose of gas allocation in the gas pools regulated by this order, a standard proration unit shall consist of contiguous surface acreage and shall be substantially in the form of a square in pools having 160-acre or 640-acre standard proration units, and substantially in the form of a rectangle in pools having 320-acre standard proration units, and shall be a legal subdivision of the U. S. Public Land Surveys (quarter-section, section, or half-section, as applicable). A proration unit shall be considered to be a standard gas proration unit when it meets the above requirements and consists of acreage within the appropriate tolerance set out below:

<u>Standard Proration Unit</u>	<u>Acreage Tolerance For Standard Unit</u>
160 acres	158-162 acres
320 acres	316-324 acres
640 acres	632-648 acres

Any gas proration unit containing acreage within the appropriate tolerance limit above shall be considered to contain the number of acres in a standard unit for the purpose of computing allowables.

RULE 5(B): In establishing a non-standard gas proration

CASE No. 1937
Order No. R-1670

unit for gas pools regulated by this order where the standard gas proration unit is 640 acres, the location of the well with respect to the two nearest boundary lines thereof shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration as follows:

<u>Location</u>	<u>Maximum Acreage</u>
660-660	160 acres
660-1980	320 acres

RULE 5(C): The Secretary-Director of the Commission shall have authority to grant an exception to Rule 5(A) without notice and hearing where application has been filed in due form and where the following facts exist and the following provisions are complied with:

1. The proposed non-standard proration unit consists of less acreage than a standard proration unit, or where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys.
2. The non-standard gas proration unit consists of contiguous quarter-quarter sections and/or lots.
3. The non-standard gas proration unit lies wholly within a single governmental quarter section in pools with 160-acre standard proration units except the Tubb Gas Pool, and within a single governmental section in the Tubb Gas Pool and in all pools with 320-acre or 640-acre standard proration units.
4. The entire non-standard gas proration unit may reasonably be presumed to be productive of gas from the applicable gas pool.
5. The length or width of the non-standard gas proration unit does not exceed 2,640 feet in pools with 160-acre standard proration units, and does not exceed 5,280 feet in pools with 320-acre or 640-acre standard proration units.
6. The applicant presents written consent in the form of waivers from:
 - (a) All operators owning interests outside the non-standard gas proration unit but in the same quarter section in pools having 160-acre standard proration units or in the same section in pools having 320-acre or 640-acre standard proration units, in which any part of the non-standard gas proration unit is situated, and

(b) All operators owning interests within 1,500 feet of the well to which such non-standard gas proration unit is proposed to be dedicated.

7. In lieu of subparagraph 6 of this rule, the applicant may furnish proof of the fact that said offset operators were notified by registered mail of his intent to form such non-standard gas proration unit. (This notification to offset operators should consist of the same information that is furnished to the Commission.) The Secretary-Director of the Commission may approve the application if, after a period of 30 days following the mailing of said notice, no operator has made objection to formation of such non-standard gas proration unit.

R. NOMINATIONS AND PRORATION SCHEDULE

RULE 6(A): At least 30 days prior to the beginning of each gas proration period, the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser its "Preliminary Nominations" of the amount of gas which each in good faith actually desires to purchase within the ensuing proration period, by months, from each of the gas pools regulated by this order. The Commission shall consider the "Preliminary Nominations" of purchasers, actual production, and such other factors as may be deemed applicable in determining the amount of gas that may be produced without waste within the ensuing proration period. "Preliminary Nominations" shall be submitted on a form prescribed by the Commission.

RULE 6(B): The term "gas purchaser" as used in these rules shall mean any "taker" of gas either at the well-head or at any point on the lease where connection is made for gas transportation or utilization. It shall be the responsibility of said "taker" to submit a nomination in accordance with Rule 6(A) and Rule 7 (A) of this order.

RULE 7(A): In the event a gas purchaser's market shall have increased or decreased, he may file with the Commission prior to the 10th day of the month a "Supplemental Nomination" showing the amount of gas he actually in good faith desires to purchase during the ensuing proration month from any gas pool regulated by this order. The Commission shall hold a public hearing between the 13th and 20th days of each month to determine the reasonable market demand for gas for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month along with such other

CASE No. 1937
Order No. R-1670

information as is necessary to show the allowable-production status of each well on the schedule. "Supplemental Nominations" shall be submitted on a form prescribed by the Commission.

RULE 7(B): The Commission shall include in the proration schedule the gas wells in the gas pools regulated by this order delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility, which is reasonably capable of handling the type of gas produced by such well.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The total allowable to be allocated to each gas pool regulated by this order each month shall be equal to the sum of the "Preliminary" or "Supplemental Nominations" (whichever is applicable) for each pool, together with any adjustment which the Commission deems advisable. A monthly allowable shall be assigned to each well entitled to an allowable by allocating the pool allowable among all such wells in that pool in accordance with the procedure set out in the Special Pool Rules.

RULE 8(B): Allowables to newly completed gas wells shall commence in accordance with the provisions of the Special Pool Rules. No gas well shall be given an allowable until Form C-104 and Form C-110 have been filed, together with a plat (Form C-128) showing acreage attributed to said well and the location of all wells on the lease.

RULE 9(A): A well's "Acreage Factor" shall be determined to the nearest hundredth of a unit by dividing the acreage assigned to the well by 160 acres. However, the acreage tolerances provided in Rule 5(A) shall apply.

RULE 9(B): If, during a proration month, the acreage assigned to a well is increased, the operator shall notify the Commission in writing (Box 2045, Hobbs, New Mexico) of such increase by filing a revised plat (Form C-128). The increased allowable assigned the gas proration unit for the well shall be effective on the first day of the month following receipt of the notification by the Commission.

RULE 10(A): A marginal well shall be assigned an allowable equal to its maximum production during any month of the preceding gas proration period.

RULE 10(B): The pool allowable remaining after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in such pool as provided for in the Special Pool Rules.

RULE 11: After notice and hearing, the Commission may assign minimum allowables in order to prevent the premature abandonment of wells.

RULE 12: The full production of gas from each well shall be charged against the well's allowable regardless of what disposition has been made of the gas; provided, however, that gas used on the lease for consumption in lease houses, treaters, compressors, combustion engines and other similar lease equipment shall not be charged against the well's allowable.

D. BALANCING OF PRODUCTION

RULE 13: The dates 7:00 a.m., January 1, and 7:00 a.m., July 1, shall be known as balancing dates, and the periods of time bounded by these dates shall be known as gas proration periods.

RULE 14(A): Underproduction: Any non-marginal well which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 14(B): Production during any one month of a gas proration period in excess of the allowable assigned to a well for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

RULE 15(A): Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period, provided that such overproduction shall be made up during such succeeding period. Any well which has not made up the overproduction carried into a gas proration period by the end of such proration period shall be shut-in until such overproduction is made up. If, at any time, a well is overproduced an amount equalling six times

CASE No. 1937
Order No. R-1670

its current monthly allowable, it shall be shut-in during that month, and each succeeding month until the well is overproduced less than six times its current monthly allowable.

RULE 15(B): Allowable assigned to a well during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction carried into such period in determining the amount of overproduction, if any, which has not been made up.

RULE 15(C): The Commission may allow overproduction to be made up at a lesser rate than would be the case if the well were completely shut-in upon a showing at public hearing after due notice that complete shut-in of the well would result in material damage to the well.

RULE 15(D): Any allowable accrued to a well at the end of a proration period due to the cancellation of underage and the redistribution thereof shall be applied against the overproduction carried into said proration period.

E. CLASSIFICATION OF WELLS

RULE 16(A): After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of the preceding gas proration period and which did not produce its allowable during at least one month of such preceding gas proration period may be classified as a marginal well, unless, prior to the end of said preceding gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified. However, a well which in any month of said proration period has demonstrated its ability to produce its allowable for said proration period shall not be classified as a marginal well.

RULE 16(B): The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

RULE 17: A well which is classified as a marginal well shall not be permitted to accumulate underproduction, and any underproduction accrued to a well prior to its classification as a marginal well shall be cancelled.

RULE 18: If, at the end of a proration period, a marginal well has produced more than the total allowable assigned a non-marginal unit of corresponding size, for that period, the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

RULE 19: A well which has been reworked or recompleted shall be classified as a non-marginal well as of the date of reconnection to a pipeline until such time as production data, deliverability data, or other evidence as to the well's producing ability indicates that the well should be classified as a marginal well.

RULE 20: All wells not classified as marginal wells shall be classified as non-marginal wells.

F. REPORTING OF PRODUCTION

RULE 21(A): The monthly gas production from each well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 in accordance with Rule 1114 of the Commission Rules and Regulations, so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas was produced. The operator shall show on such report what disposition has been made of the gas produced.

RULE 21(B): Each purchaser or taker of gas in each of the designated gas pools regulated by this order shall submit a report to the Commission so as to reach the Commission on or before the 15th day of the month next succeeding the month in which the gas was purchased or taken.

RULE 21(C): Such report shall be filed on either Form C-111 or Form C-114 (whichever is applicable) with the wells being listed in approximately the same order as they are listed on the proration schedule.

RULE 21(D): Forms C-111 and C-114 referred to herein shall be submitted in duplicate, the original being sent to the Commission at Box 871, Santa Fe, New Mexico, the other copy being sent to Box 2045, Hobbs, New Mexico.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, produced from the gas pools regulated by this order shall be flared or vented except as provided in the Special Pool Rules.

CASE No. 1937
Order No. R-1670

RULE 23: Failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected well. No further allowable shall be assigned to the affected well until all rules and regulations are complied with. The Proration Manager shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

RULE 24: All transporters or users of gas shall file gas well connection notices with the Commission as soon as possible after the date of connection, in accordance with the provisions of Rule 8(B) of the Special Pool Rules. (Rule 24 does not actually appear in pool rules, but is Commission policy and added for information and clarification.)

(See Special Pool Rules for each pool for orders applicable to that pool only. Special Pool Rules will be found in the same classification order as in the General section, and, unless the special rules conflict with the general rule, the general rule is also applicable.)

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL

(The Blinebry Gas Pool was created February 17, 1953, and prorationing was instituted January 1, 1954.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Blinebry Gas Pool shall be 160 acres.

(Also see Rule 29 below.)

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal wells in the pool.

RULE 8(B): Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104 and C-110 and a plat (Form C-128), whichever date is the later.

(Also see Rule 29 below.)

RULE 12: The production of intermediate or low pressure gas derived from the staging of the well fluids need not be charged against the well's gas allowable, provided that the said intermediate or low pressure gas is utilized in accordance with the provisions of Rule 34 below.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, shall be flared, vented or otherwise wasted in the Blinebry Gas Pool at any time after ninety (90) days from the date of completion of a well in said pool.

Any operator desiring to obtain an exception to the foregoing provision of this rule shall submit to the Secretary-Director of the Commission an application for such exception accompanied by a sworn statement setting forth the facts and circumstances which justify such exception. The Secretary-Director is hereby authorized to grant such exception when the granting of such is necessary to protect correlative rights, prevent waste, or prevent undue hardship on the applicant. The

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL
(CONT'D)

Secretary-Director shall (a) grant the exception within 15 days following receipt of the application and statement, or (b) set the application for hearing before the Commission at a regularly scheduled monthly hearing; provided, however, that no such applicant shall incur any penalty by reason of a delay in setting the application for hearing. Public notice of the hearing of the application shall be published in the manner provided by law.

Should the Secretary-Director grant an exception to the provision of Rule 22, notification of such exception shall be distributed to the Commission's regular mailing list.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Blinebry Gas Pool shall extend from a point 75 feet above the "Blinebry Marker" to a point 300 feet below the "Blinebry Marker."

The "Blinebry Marker" shall be that point encountered in the Humble Oil and Refining Company State "S" Well No. 20, SW/4 NW/4 of Section 2, Township 22 South, Range 37 East, NMPM, at a depth of 5457 feet (Elevation 3380, Subsea Datum Minus 2077).

RULE 26: Any well drilled and completed in good faith prior to April 11, 1955, which well is situated within the horizontal boundaries of the Blinebry Gas Pool as herein defined, but which produces gas from a depth interval exceeding the vertical limits of the Blinebry Gas Pool as herein defined, is hereby validated and shall be classified as a gas well in the Blinebry Gas Pool, provided that said well conforms to the definition of a gas well in said pool as set out in Rule 27(A) of these rules, and provided that the well is classified as a gas well in the Blinebry Gas Pool under the rules, regulations and orders in effect on April 10, 1955.

RULE 27(A): A gas well in the Blinebry Gas Pool shall mean a well producing from within the vertical and horizontal limits of the Blinebry Gas Pool which:

1. Produces liquid hydrocarbons possessing a gravity of 51° API or greater, or
2. Produces liquid hydrocarbons possessing a

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL
(CONT'D)

gravity of less than 51° API but with a producing gas-liquid ratio of 32,000 cubic feet of gas or more per barrel of liquid hydrocarbon.

RULE 27 (B): A well producing from within the horizontal and vertical limits of the Blinebry Gas Pool and not classified as a gas well, as defined in Section (A) of this rule, shall be classified as an oil well in the Blinebry Oil Pool.

RULE 28: The Proration Manager may reclassify a well under Rule 27 if production data, gas-oil ratio tests or other evidence reflects the need for such reclassification.

For proration purposes, the effective date of such reclassification shall be the first day of the next succeeding month.

The Proration Manager will notify the operator of the reclassified well of such reclassification and the effective date thereof; provided, however, that operator may appeal such reclassification to the Secretary-Director of the Commission in writing.

RULE 29: In the event an oil well in the Blinebry Oil Pool is reclassified as a gas well in the Blinebry Gas Pool, the operator of such well will be afforded the opportunity to form a non-standard gas proration unit for the well; provided, however, that, until such unit is formed, such well shall be allocated a gas allowable commensurate with the acreage contained in the unit formerly dedicated to the oil well in the Blinebry Oil Pool.

In the event such reclassification should cause the occurrence of two gas wells producing from the Blinebry Gas Pool within a single proration unit, the sum total of the allowables allocated to the two wells shall be equivalent to the volume of gas allocated to a single proration unit; provided, however, that the operator of such wells shall have the option to determine the proportion of the assigned allowable to be produced by each individual well.

RULE 30: Acreage dedicated to a gas well in the Blinebry Gas Pool shall not be simultaneously dedicated to an oil well in the Blinebry Oil Pool, and the dual completion of a well so as to produce gas from the Blinebry Gas Pool and oil from the Blinebry Oil Pool is hereby prohibited.

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL
(CONT'D)

RULE 31: At no time will the horizontal boundaries of the Blinebry Gas Pool conflict with or overlap the horizontal boundaries of the Terry-Blinebry Oil Pool.

RULE 32: Gas-liquid ratio tests and determination of the gravity of that liquid hydrocarbon recovered from wells in the Blinebry Gas Pool shall be conducted semiannually during the months of May and October on all wells located in and producing from the Blinebry Gas Pool. Results of such tests will be reported to the Commission on Form C-116 on or before the 15th day of June and the 15th day of November of each calendar year.

RULE 33: Bottom-hole pressure tests will be conducted semiannually during the months of May and October on all gas wells located to the north of an east-west line coinciding with the north lines of Sections 21, 22, 23 and 24, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico, such wells to be producing from within the vertical and horizontal boundaries of the Blinebry Gas Pool and classified as gas wells under the rules contained in this order. Results of such tests will be reported to the Commission on Form C-124 on or before the 25th day of June and the 25th day of November of each calendar year.

All bottom-hole pressure tests, except tests on dually completed wells producing from the Blinebry Gas Pool, will be conducted in accordance with Rule 302 of the Rules of the Commission. Shut-in period will be 48 hours, datum elevation will be 2400 feet subsea, (-2400), and base temperature will be 100° Fahrenheit.

Bottom-hole pressures on dually completed wells producing gas from the Blinebry Gas Pool may be calculated from a 72-hour shut-in pressure at the wellhead, provided that an accurate determination of the fluid level in the hole is made employing sonic or other methods of equivalent accuracy. The gravity of the fluid in the hole shall be that gravity determined by averaging the gravities of those fluids produced on official test in the Blinebry Gas Pool during the regular semiannual gas-liquid ratio and gravity testing period next preceding the subject bottom-hole pressure test period. The gravity to be employed in the calculation of bottom-hole pressures during a particular testing period shall be determined by the Commission. All interested operators shall be duly notified of such determination by the Commission.

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL
(CONT'D)

RULE 34: The following shall apply to all producing wells in the Blinebry Gas Pool:

(A) Gas produced from each well shall be produced into a separate high-pressure separator. The high-pressure gas shall then be metered separately prior to its entering a gas transportation facility.

(B) The distillate separated from the high-pressure gas in the high-pressure separator shall then be directed into a low-pressure separator. The distillate may be commingled with other distillate produced by any other well or wells producing from the Blinebry or Tubb Gas Pools following its separation from the high-pressure gas in the high-pressure separator, provided gas-distillate test facilities are available and periodic tests are made.

Following the separation of distillate and low-pressure gas in the low-pressure separator, the low-pressure gas shall be directed into a low-pressure gas gathering system, and said low-pressure gas need not be measured separately from other low-pressure gas produced on the lease, provided that certain test facilities are available and certain periodic tests made.

(C) Each year during the months of June and July each operator of each gas well producing from the Blinebry Gas Pool shall cause to be taken an annual gas-distillate ratio test. The results of such test shall be submitted to the Commission office (P. O. Box 2045, Hobbs, New Mexico) on or before August 15 following the test. The test shall outline the amount of high-pressure gas produced during the 24-hour test period, the amount of low-pressure gas produced during the test period, the high-pressure gas-distillate ratio, and the low-pressure gas-distillate ratio.

Failure to submit the required test by August 15 shall result in suspension of any further gas allowable until the date the required information is submitted.

(D) In submitting Form C-115 (Operator's Monthly Report) on wells producing from the Blinebry zone in which distillate is commingled and/or the low-

CASE No. 1937
Order No. R-1670

II. SPECIAL RULES AND REGULATIONS FOR THE BLINEBRY GAS POOL
(CONT'D)

pressure gas is commingled with other low-pressure gas produced on the lease, the operator shall estimate if necessary the volume produced by each well in each pool by using the ratios as reflected in the most recent tests submitted.

(E) The Secretary-Director of the Commission shall have authority to grant exception to the provisions set forth in Sections (A) through (D) of this rule, inclusive, where it can be shown that compliance with these rules is not economic or is impractical. Applications for exception shall be submitted in triplicate to the Oil Conservation Commission, P. O. Box 871, Santa Fe, New Mexico, with a copy of each application being furnished offset operators.

(General Pool Rules also apply unless in conflict with these
Special Pool Rules)

CASE No. 1937
Order No. R-1670

III. SPECIAL RULES AND REGULATIONS FOR THE CROSBY-DEVONIAN GAS POOL

(The Crosby-Devonian Gas Pool was created May 27, 1955, and gas prorationing was instituted April 1, 1957.)

A. WELL LOCATION AND SPACING REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Crosby-Devonian Gas Pool shall be 160 acres. (Note: The General Rules regarding administrative approval of non-standard units do not apply to the Crosby-Devonian Gas Pool.)

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal wells in the pool.

RULE 8(B): Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104, Form C-110 and Form C-128 or the approval of a non-standard proration unit or filing of an affidavit of communitization, whichever date is the later.

RULE 8(C): The allowable revision for a well after workover or recompletion shall become effective:

(a) On the date of reconnection after workover, such date to be determined from Form C-104 as filed by the operators, or

(b) A date 15 days prior to the approval of Form C-104 by the Commission's office, (Box 2045, Hobbs, New Mexico); (Form C-104 shall specify the exact nature of the workover or remedial work; if the nature of the work cannot be explained on Form C-104, in that event, Form C-103 shall be also filed in accordance with Rule 1106 of the Commission's Statewide Rules and Regulations.)

whichever date is later.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Crosby-Devonian Gas

CASE No. 1937
Order No. R-1670

III. SPECIAL RULES AND REGULATIONS FOR THE CROSBY-DEVONIAN GAS POOL
(CONT'D)

Pool shall include all the formations that can reasonably be considered to be of Devonian age.

RULE 26: Gas-liquid ratio tests shall be taken in accordance with the provisions of Rule 301 of the Commission Rules and Regulations as scheduled by the Commission.

RULE 27: The casing program for the field shall include three strings of casing set in accordance with the following plan:

(A) The surface string shall be new or reconditioned pipe with a mill test of not less than two thousand (2,000) pounds per square inch and shall be set and cemented at a depth of approximately five hundred (500) feet, such depth being sufficient to protect the fresh water bearing sands of the Santa Rosa formation.

Cementing shall be by the pump-and-plug method, and sufficient cement shall be used to fill the annular space back of the pipe to the surface of the ground or the bottom of the cellar. Cement shall stand a minimum of sixteen (16) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating pressure tests. Before drilling the plug, this string shall be tested by the application of at least one thousand (1,000) pounds per square inch and, if at the end of thirty (30) minutes the pressure shows a drop of one hundred fifty (150) pounds per square inch or more, the cementing job shall be condemned. After corrective measures have been taken, the pipe shall again be tested in the same manner.

(B) The intermediate string shall consist of new or reconditioned pipe that has been tested to two thousand (2,000) pounds per square inch and shall be set at approximately thirty-six hundred (3,600) feet. Cementing shall be by the pump-and-plug method, and sufficient cement shall be used to fill the calculated annular space back of the pipe to a point one hundred (100) feet above the top of the Salado formation. The cement shall stand a minimum of twenty-four (24) hours under pressure and a total of thirty (30) hours before drilling plug or initiating tests. Casing shall be tested by the application of at least twelve hundred (1,200) pounds per square inch pump pressure. If, at the end of thirty (30) minutes, the pump pressure shows a drop of one hundred (100) pounds per square inch or more, the cementing job shall be condemned. After corrective measures have been taken,

CASE No. 1937
Order No. R-1670

III. SPECIAL RULES AND REGULATIONS FOR THE CROSBY-DEVONIAN GAS POOL
(CONT'D)

the pipe shall again be tested in the same manner.

(C) The producing or oil string shall be new or reconditioned casing that has been tested to four thousand (4,000) pounds per square inch and shall be set at a depth not less than the top of the Devonian formation. Cementing shall be with a minimum of three hundred fifty (350) sacks of cement applied by the pump-and-plug method and shall stand a minimum of twenty-four (24) hours under pressure and a total of forty-eight (48) hours before drilling the plug or initiating tests. After cementing, the casing shall be tested by pump pressure of at least thirty (30) minutes. If, at the end of 30 minutes the pressure shows a drop of one hundred (100) pounds per square inch or more, the cementing job shall be condemned. After corrective measures have been taken, the pipe shall again be tested in the same manner.

(General Pool Rules also apply unless in conflict with these
Special Pool Rules)

CASE No. 1937
Order No. R-1670

IV. SPECIAL RULES AND REGULATIONS FOR THE EUMONT GAS POOL

(The Eumont Gas Pool was created February 17, 1953, and proration was instituted January 1, 1954. The Eumont Gas Pool now includes portions of the acreage once included in the Jalco and Langmat Pools (now Jalmat) and all of the acreage formerly in the Arrow and Hardy Pools.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Eumont Gas Pool shall be 640 acres.

RULE 5(B): Any well drilled to and producing from the Eumont Gas Pool, as defined herein, prior to August 12, 1954 at a location conforming with the spacing requirements effective at the time said well was drilled, shall be granted a tolerance not exceeding 330 feet with respect to the required distance from the boundary lines.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal wells in the pool.

RULE 8(B): Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104, Form C-110, and a plat (Form C-128), whichever date is the later.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, shall be flared or vented from any well at any time after ninety (90) days from the date such well is completed. Any operator who desires to obtain an exception to the provisions of Rule 22 of Section I of this order shall submit to the Secretary-Director of the Commission an application for such exception with a sworn statement setting forth the facts and circumstances justifying such exception. The Secretary-Director is hereby authorized to grant such an exception whenever the granting of the exception is reasonably necessary to protect correlative rights, prevent waste, or prevent undue hardship on the applicant under all the acts and circumstances as set forth in the statement. The Secretary-Director shall either (a) grant

CASE No. 1937
Order No. R-1670

IV. SPECIAL RULES AND REGULATIONS FOR THE EUMONT GAS POOL (CONT'D)

the exception within 15 days after receipt of the application and statement or (b) thereafter set the application for hearing by the Commission at a regular monthly hearing; provided, however, that no such applicant shall incur any penalty by reason of a delay in setting the application for hearing. Notice of hearing of the application shall be published in the manner provided by law and the Rules of the Commission. If the exception is granted by the Secretary-Director, a list of such exceptions shall be distributed in the Commission's regular mailing list.

The flaring or venting of gas from any well in violation of any provision of this rule will result in suspension of any further allowable until further order of the Commission.

RULE 22(A): Within 15 days after any oil or gas well within the boundaries of the Eumont Gas Pool is connected to a gas transportation facility, the operator shall file Form C-110 designating the disposition of gas from the well.

RULE 22(B): No extraction plant processing any gas from the Eumont Gas Pool shall flare or vent such gas unless such flaring or venting is made necessary by mechanical difficulties or unless the gas flared or vented is of no commercial value.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Eumont Gas Pool shall extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers and Queen formations.

RULE 26(A): A gas well shall mean a well producing with a gas-oil ratio in excess of 100,000 cubic feet of gas per barrel of oil.

RULE 26(B): A well producing from the Eumont Gas Pool and not classified as a gas well, as defined in Section (A) of this rule, shall be classified as an oil well.

RULE 26(C): Oil wells producing from the Eumont Gas Pool shall be allowed to produce a volume of gas each day not exceeding the daily normal unit oil allowable multiplied by 10,000; provided, however, that such well shall not be allowed to produce oil in excess of the normal unit allowable as ordered by the Commission under the provisions of Statewide Rule 505.

CASE No. 1937
Order No. R-1670

V. SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL

(The Jalmat Gas Pool was created effective September 1, 1954 from a consolidation of the Jalco and Langmat Pools, which were created February 7, 1953. Gas prorationing was instituted in Jalco and Langmat January 1, 1954 and was continued after consolidation to form the Jalmat Gas Pool. The Jalmat Gas Pool now includes acreage that was formerly included in the Jal, Cooper-Jal, Eaves, Falby-Yates, Jalco, and Langmat Pools.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Jalmat Gas Pool shall be 640 acres.

RULE 5(B): Any well drilled to and producing from the Jalmat Gas Pool, as defined herein, prior to September 1, 1954 at a location conforming with the spacing requirements effective at the time said well was drilled shall be granted a tolerance not exceeding 330 feet with respect to the required distance from the boundary lines.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): 1. The pool allowable remaining after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells in the pool as follows:

(a) Twenty-five percent (25%) of the remaining pool allowable shall be allocated among the non-marginal wells in the pool in the proportion that each well's "Acreage Factor" bears to the total "Acreage Factor" for all non-marginal wells in the pool.

(b) Seventy-five percent (75%) of the remaining pool allowable shall be allocated among the non-marginal wells in the pool in the proportion that each well's "AD Factor" bears to the total "AD Factor" for all non-marginal wells in the pool.

2. A well's "AD Factor" shall be determined by multiplying the well's "Acreage Factor" by its "Calculated Deliverability" (expressed in MCF per day). The "AD Factor" shall be computed to the nearest whole unit. In those instances where there is more than one well on a proration unit, the "Calculated Deliverability" for the unit shall be determined by averaging the "Calculated Deliverabilities" of all the wells on the unit.

3. Annual deliverability tests shall be taken on all gas wells in the Jalmat Gas Pool in a manner and at

V. SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL (CONT'D)

such time as the Commission may prescribe. The results of such tests shall determine a well's "Calculated Deliverability". The annual deliverability tests taken each year shall be used in calculating allowables for wells in the Jalmat Gas Pool for the succeeding twelve month period beginning July 1 of that year.

4. No well shall be assigned an allowable until a deliverability test has been filed with the Commission and approved.

5. The Secretary-Director of the Commission shall have authority to exempt marginal wells from the requirement of taking an annual deliverability test in those instances where the deliverability of the well is of such low volume as to have no significance in the determination of the well's allowable.

RULE 8(B): Allowables to newly completed gas wells shall commence:

1. On the date of connection to a gas transportation facility, such date to be determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser;

2. The latest filing date of Form C-104, C-110 or C-128; or

3. A date 45 days prior to the date upon which the well's deliverability and shut-in pressure test is reported to the Commission on Form C-122-C;

whichever date is later.

RULE 8(C): Retests and tests taken after recompletion or workover shall be taken in the same manner as provided in Rule 8(A) 3 above, and any change in the well's "Calculated Deliverability" resulting therefrom shall become effective:

1. On the date of reconnection after workover, such date to be determined from Form C-104 as filed by the operator; or

2. A date 45 days prior to the date upon which a well's deliverability and shut-in pressure test is reported to the Commission on Form C-122-C; or

3. A date 45 days prior to the receipt and approval of Form C-104 by the Commission Office (Box

CASE No. 1937
Order No. R-1670

V. SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL (CONT'D)

2045, Hobbs, New Mexico). (Form C-104 shall specify the exact nature of the workover or remedial work. If the nature of the work cannot be explained on Form C-104, in that event, Form C-103 shall also be filed in accordance with Rule 1106 of the Commission's Statewide Rules and Regulations. Form C-128 (Well Location and Acreage Dedication Plat) shall be submitted by the operator at any time there is a change in the acreage dedicated to said well.),

whichever date is later.

G. GENERAL

RULE 22: No gas, either dry gas or casinghead gas, shall be flared or vented from any well at any time after ninety (90) days from the date such well is completed. Any operator who desires to obtain an exception to the provisions of Rule 22 of Section I of this order shall submit to the Secretary-Director of the Commission an application for such exception with a sworn statement setting forth the facts and circumstances justifying such exception. The Secretary-Director is hereby authorized to grant such an exception whenever the granting of the exception is reasonably necessary to protect correlative rights, prevent waste, or prevent undue hardship on the applicant under all the acts and circumstances as set forth in the statement. The Secretary-Director shall either (a) grant the exception within 15 days after receipt of the application and statement or (b) thereafter set the application for hearing by the Commission at a regular monthly hearing; provided, however, that no such applicant shall incur any penalty by reason of a delay in setting the application for hearing. Notice of hearing of the application shall be published in the manner provided by law and the Rules of the Commission. If the exception is granted by the Secretary-Director, a list of such exceptions shall be distributed in the Commission's regular mailing list.

The flaring or venting of gas from any well in violation of any provision of this rule will result in suspension of any further allowable until further order of the Commission.

RULE 22(A): Within 15 days after any oil or gas well within the boundaries of the Jalmat Gas Pool is connected to a gas transportation facility, the operator shall file Form C-110 designating the disposition of gas from the well.

RULE 22(B): No extraction plant processing any gas from

CASE No. 1937
Order No. R-1670

V. SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL (CONT'D)

the Jalmat Gas Pool shall flare or vent such gas unless such flaring or venting is made necessary by mechanical difficulties or unless the gas flared or vented is of no commercial value.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25(A): The vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation, except,

RULE 25(B): In the area described immediately below, the vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 13: SE/4 NE/4, SE/4

Section 23: E/2 E/2

Section 24: All

Section 25: N/2

Section 26: E/2 NE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 18: SW/4 NW/4, W/2 SW/4

Section 19: W/2

Section 30: NW/4

RULE 26(A): A gas well shall mean a well producing with a gas-oil ratio in excess of 100,000 cubic feet of gas per barrel of oil.

RULE 26(B): A well producing from the Jalmat Gas Pool and not classified as a gas well shall be classified as an oil well.

RULE 26(C): Oil wells producing from the Jalmat Gas Pool shall be allowed to produce a volume of gas each day not exceeding the daily normal unit oil allowable multiplied by 10,000; provided, however, that such wells shall not be allowed to produce oil in excess of the normal unit allowable as ordered by the Commission under the provisions of Rule 505.

RULE 27: That portion of the Rhodes Storage Area lying within the defined limits of the Jalmat Gas Pool shall be exempted from the applicable provisions of the Jalmat Gas Pool Rules. The Rhodes Storage Area shall include the

CASE No. 1937
Order No. R-1670

V. SPECIAL RULES AND REGULATIONS FOR THE JALMAT GAS POOL (CONT'D)

following described area:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM
Section 4: W/2 NW/4, SE/4 SE/4, W/2 SE/4, SW/4
Section 5: All
Section 6: NE/4 NW/4, NE/4, SE/4 SE/4, N/2 SE/4
Section 7: NE/4 NE/4
Section 8: N/2, N/2 S/2, SE/4 SW/4, S/2 SE/4
Section 9: All
Section 10: W/2 NW/4, SE/4 NW/4, S/2
Sections 15 and 16: All
Section 17: E/2 NW/4, E/2
Sections 21 and 22: All
Section 23: SW/4 NW/4, SW/4
Sections 26, 27, and 28: All
Section 29: E/2 NE/4

RULE 28: The dual completion of a well so as to produce oil from the Yates and oil from the Seven Rivers or Queen formations is hereby prohibited.

RULE 29: Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

VI. SPECIAL RULES AND REGULATIONS FOR THE JUSTIS GAS POOL

(The Justis Gas Pool was created January 1, 1950, and gas proration was instituted January 1, 1954. The standard proration unit was changed from 160 acres to 320 acres October 3, 1957.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Justis Gas Pool shall be 320 acres.

C. ALLOCATION AND GRANTING ALLOWABLES

RULE 8(A): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factors for all non-marginal wells in the Pool.

RULE 8(B): Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104, Form C-110 and a plat (Form C-128), or the date of application for a non-standard gas proration unit as provided in Rule 5-C, of the General Rules.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25(A): The vertical limits of the Justis Gas Pool shall be defined as follows:

From the top of the Glorieta formation, found at a depth of 4599 feet (Elevation 3080, Subsea Datum - 1519) in the Gulf Oil Corporation McBuffington Well No. 8, located 350 feet from the South line and 1980 feet from the West line of Section 13, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, to a point 40 feet above the marker encountered at 4879 feet (Subsea Datum - 1799) in said McBuffington Well No. 8.

RULE 25(B): The Hamilton Dome Westates Carlson Federal "A" Well No. 1, located in the NW/4 of Section 25, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, as the completion existed on April 22, 1959, shall be considered to be completed within the vertical limits of the Justis Gas Pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules)

CASE No. 1937
Order No. R-1670

VII. SPECIAL RULES AND REGULATIONS FOR THE TUBB GAS POOL

(The Tubb Gas Pool was created February 17, 1953, and proration was instituted January 1, 1954.)

A. WELL LOCATION AND ACREAGE REQUIREMENTS

RULE 5(A): A standard gas proration unit in the Tubb Gas Pool shall be 160 acres.

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 8(A): The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the proportion that each well's acreage factor bears to the total of the acreage factor for all non-marginal wells in the pool.

RULE 8(B): Allowables to newly completed gas wells shall commence on the date of connection to a gas transportation facility, as determined from an affidavit furnished to the Commission (Box 2045, Hobbs, New Mexico) by the purchaser, or the date of filing of Form C-104, Form C-110 and the plat (Form C-128), or the date of application for a non-standard gas proration unit as provided in Rule 5(C) of the General Rules, whichever date is the later.

RULE 12: The production of intermediate or low pressure gas derived from the staging of the well fluids need not be charged against the well's gas allowable, provided that the said intermediate or low pressure gas is utilized in accordance with the provisions of Rule 27 below.

H. MISCELLANEOUS SPECIAL POOL RULES

RULE 25: The vertical limits of the Tubb Gas Pool shall extend from a point 100 feet above the "Tubb Marker" to a point 225 feet below the "Tubb Marker". Said "Tubb Marker" shall be that point encountered in the Humble Oil and Refining Company State "S" Well No. 20 at a depth of 5921 feet (Elevation 3380, Subsea Datum Minus 2541).

RULE 26(A): An oil well in the Tubb Gas Pool shall be defined as a well which produces hydrocarbons possessing a gravity of 45° API or less.

RULE 26(B): An oil well in the Tubb Gas Pool shall have dedicated thereto a proration unit consisting of 40 acres, more or less, being a governmental quarter-quarter section legal subdivision of the United States Public Land Surveys.

CASE No. 1937
Order No. R-1670

VII. SPECIAL RULES AND REGULATIONS FOR THE TUBB GAS POOL (CONT'D)

RULE 26(C): No acreage shall be simultaneously dedicated to an oil well and to a gas well in the Tubb Gas Pool.

RULE 26(D): The limiting gas-oil ratio for oil wells in the Tubb Gas Pool shall be 2000 cubic feet of gas for each barrel of oil produced.

RULE 27: The following shall apply to all producing wells in the Tubb Gas Pool:

(A) Gas produced from each well shall be produced into a separate high-pressure separator. The high-pressure gas shall then be metered separately prior to its entering a gas transportation facility.

(B) The distillate separated from the high-pressure gas in the high-pressure separator shall then be directed into a low-pressure separator. The distillate may be commingled with other distillate produced by any other well or wells producing from the Tubb or Blinberry Gas Pools following its separation from the high-pressure gas in the high-pressure separator, provided gas-distillate test facilities are available and periodic tests are made.

Following the separation of distillate and low-pressure gas in the low-pressure separator, the low-pressure gas shall be directed into a low-pressure gas gathering system, and said low-pressure gas need not be measured separately from other low-pressure gas produced on the lease, provided that certain test facilities are available and certain periodic tests made.

(C) Each year during the months of June and July each operator of each gas well producing from the Tubb Gas Pool shall cause to be taken an annual gas-distillate ratio test. The results of such test shall be submitted to the Commission office (P. O. Box 2045, Hobbs, New Mexico) on or before August 15 following the test. The test shall outline the amount of high-pressure gas produced during the 24-hour test period, the amount of low-pressure gas produced during the test period, the high-pressure gas-distillate ratio, and the low-pressure gas-distillate ratio. Failure to submit the required test by August 15 shall result in suspension of any further gas allowable until the date the required information is submitted.

(D) In submitting Form C-115 (Operator's Monthly

CASE No. 1937
Order No. R-1670

VII. SPECIAL RULES AND REGULATIONS FOR THE TUBB GAS POOL (CONT'D)

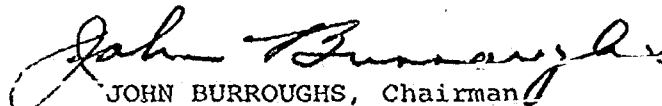
Report) on wells producing from the Tubb zone in which distillate is commingled and/or the low-pressure gas is commingled with other low-pressure gas produced on the lease, the operator shall estimate if necessary the volumes produced by each well in each pool by using the ratios as reflected in the most recent test submitted.

(E) The Secretary-Director of the Commission shall have authority to grant exception to the provisions set forth in Sections (A) through (D) of this rule, inclusive, where it can be shown that compliance with these rules is not economic or is impractical. Applications for exception shall be submitted in triplicate to the Oil Conservation Commission, P. O. Box 871, Santa Fe, New Mexico, with a copy of each application being furnished offset operators.

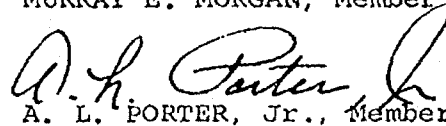
(General Pool Rules also apply unless in conflict with these Special Pool Rules)

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JOHN BURROUGHS, Chairman


MURRAY E. MORGAN, Member


A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

Gulf Oil Company - U.S.

EXPLORATION AND PRODUCTION DEPARTMENT
ROSWELL DISTRICT

Juan Chacin
DISTRICT MANAGER
M. I. Taylor
DISTRICT PRODUCTION
MANAGER
P. E. Wynga
DISTRICT EXPLORATION
MANAGER
H. A. Rankin
DISTRICT SERVICES MANAGER

October 8, 1970

70 OCT 13 1970

P. O. Drawer 1938
Roswell, New Mexico 88201

Oil Conservation Commission
State of New Mexico
Post Office Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Case 4436, Application of El Paso Natural Gas
Company for Amendment of the General Rules and
Regulations Governing the Prorated Gas Pools
of Northwest and Southeast New Mexico

Gentlemen:

Gulf Oil Corporation objects to El Paso's application for amendment of the General Rules and Regulations for the prorated gas pools, and recommends that the existing rules remain in effect. We believe the existing rules protect the correlative rights of operators to a greater degree than would the proposed amendment.

We believe that the determination of a well's capability by using the most recent three months would penalize the producer. There have been many instances in the past when wells capable of producing their allowable are cut back during part of a proration period by the purchaser with the idea of producing the gas sometime during the next balancing period. In our opinion, under El Paso's proposal the producer would constantly be on the defensive in trying to retain his fair share of the allowable.

El Paso proposes that a well will not be reclassified marginal if prior to the end of a gas proration period the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified. We do not receive the production figures from the purchaser until after the middle of a month; therefore, it would be impossible to average the production for the last three months of a proration period and protest to the Commission prior to the end of a proration period. Therefore, if we do not use the last three months for averaging the production, what three months do we use? El Paso proposes that the latest three months be used. It appears that wells would constantly be reclassified because at the end of each month a new three-month period has elapsed. It appears to us that the producer would be at least one month behind in being able to protest reclassification because production figures are almost two weeks late and by the time the Commission notifies the producer of the reclassification to



A DIVISION OF GULF OIL CORPORATION

October 8, 1970

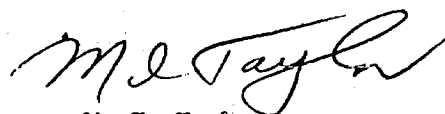
marginal status, a month could elapse.

It should also be pointed out that gas contracts provide that the purchaser will provide compression or lower line pressure to allow a well to produce its allowable. The existing rules allow sufficient time for the producer to notify the purchaser and for the purchaser to install compression without a well losing its fair share of the allowable. We do not believe the proposed amendment provides ample time to make changes without losing allowable.

Gulf recommends that the existing rules remain unchanged, as they have proved to be workable and best protect correlative rights.

Yours very truly,

GULF OIL CORPORATION



M. I. Taylor

JHH:sz



western union

Telegram

KA062 NSC277

1970 DEC 1 PM 4 03

NS MDA097 NP PD=MIDLAND TEX 1 303P CST*

NEW MEXICO OIL CONSERVATION COMM=

STATE LAND OFFICE BLDG SANTA FE NMEXX

ATTN A L PORTER:

IN RE CASE #4436 APPLICATION OF EL PASO NATURAL GAS COMPANY FOR THE AMENDMENT OF THE GENERAL RULES AND REGULATIONS GOVERNING PRORATED GAS FIELDS HUMBLE OIL AND REFINING COMPANY PREFERS THE CURRENT STATEWIDE RULES WITH THE SUGGESTED REVISIONS OF POOL ALLOWABLE CALCULATION PROCEDURE AS PROPOSED IN THE NOVEMBER 17 1970 MEMORADUM OF THE NEW MEXICO OIL CONSERVATION COMMISSION.

WU 1201 (R 5-69)



western union

Telegram

✓

WE SEE NO PROBLEMS WITH THE CURRENT NEW MEXICO GAS PRO-RATION PROCEDURES CONCERNING THE CLASSIFICATION OF GAS WELLS BETWEEN MARGINAL AND PRO-RATED STATUS. WE DO RECOGNISE SEVERAL IMPROVEMENTS IN THE PROCEDURE OUTLINED IN THE COMMISSIONS MEMORANDUM THAT SHOULD IMPROVE BALANCING OF OVER AND UNDER PRODUCTION. WE FEEL THE PROPOSED ADMINISTRATIVE CHANGE IN THE METHOD OF CALCULATION OF ALLOWABLE SHOULD BE GIVEN A FAIR TRIAL TO ELIMINATE NORTHWESTERN NEW MEXICO GAS PRO-RATION PROBLEMS THAT HAVE PRECIPITATED THIS HEARING. THE CHANGES AS RECOMMENDED BY EL PASO NATURAL GAS AT THE

WU 1201 (R 5-69)



Telegram

3

OCTOBER 14 1970 HEARING SHOULD NOT BE ADOPTED AT THIS TIME FOR THE FOLLOWING REASONS .

¶ 1. IT WOULD BE A VERY DRASTIC CHANGE FROM THE PRESENT RULES.

¶ 2. THE PURCHASER WOULD GAIN CONSIDERABLE CONTROL OVER THE SETTLING OF ALLOWABLES FOR INDIVIDUAL WELLS.

¶ 3. TAKE OR PAY PROVISIONS IN MANY GAS CONTRACTS BETWEEN PRODUCERS AND PURCHASERS WOULD BE MATERIALLY AFFECTED.

¶ 4. A LARGE NUMBER OF WELLS WOULD UN-NECESSARILY BE MADE MARGINAL.

¶ 5. ADMINISTRATIVE WORK LOAD OF ALL CONCERNED WOULD

WU 1201 (R 5-69)



Telegram

4

(325).

BE INCREASED.

¶ THEREFORE HUMBLE OIL AND REFINING COMPANY RESPECTFULLY RECOMMENDS NO CHANGE IN THE GENERAL GAS PRO-RATION RULES AND THE ADOPTION OF THE PROPOSED ADMINISTRATIVE CHANGES IN ALLOWABLE CALCULATIONS AS PROPOSED BY THE COMMISSION STAFF.

L H BYRD HUMBLE OIL AND REFINING CO MIDLAND TEX

WU 1201 (R 5-69)

DOCKET: EXAMINER HEARING - WEDNESDAY - DECEMBER 2, 1970

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Elvis A. Utz, Alternate Examiner:

CASE 4436: (Continued from the October 14, 1970, Examiner Hearing)
Application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing the prorated gas pools of New Mexico and the amendment of the Special Rules and Regulations governing the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the General Rules and Regulations governing the prorated gas pools of Northwest and Southeast New Mexico and the Special Rules and Regulations governing the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties, to permit substantial changes in the method of classifying marginal wells, and the assignment of allowable to marginal wells governed by the aforesaid rules and regulations, as well as a substantial change in the balancing of production procedure required by said rules. Copies of the proposed amendments will be circulated by way of the Commission's general mailing list and will be available upon request made to the Commission at its Santa Fe office.

Dis. Hatch
E.A. Utz
CASE 4465: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the revision of Rule 1216 of the Commission Rules and Regulations to permit matters involving the limiting of total production of gas from a gas pool to be heard before an examiner.

Dismiss
CASE 4466: Application of Reserve Oil and Gas Company for a non-standard gas proration unit and dual dedication of acreage, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the NW/4 of Section 17, Township 25 South, Range 37 East; Jalmat Gas Pool, Lea County, New Mexico, to be dually dedicated to its Woodworth "B" Well No. 1, a gas well, located 330 feet from the North line and 990 feet from the West line of said Section 17, and to Jalmat oil wells in said quarter section.

CASE 4467: Application of Gulf Oil Corporation for commingling of production, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rules 303 and 309 of the Commission Rules and Regulations to commingle, prior to measurement, production from the Hobbs (Grayburg-San Andres) and Hobbs-Blinbry Pools on its W. D. Grimes NCT-B Lease in Section 33, Township 18 South, Range 38 East, Lea County, New Mexico. Applicant further seeks authority to commingle, prior to measurement, the aforesaid production with the Hobbs (Grayburg-San Andres) production from its W. D. Grimes NCT-A Lease in Section 32, said Township and Range. Allocation of production to each lease and pool would be on the basis of well tests.

PAN AMERICAN PETROLEUM CORPORATION

OIL AND GAS BUILDING

P. O. BOX 1410

FORT WORTH, TEXAS—76101

D. L. RAY
DIVISION ENGINEER

November 25, 1970

File: PEH-558-986.510.1

Subject: Case No. 4436
El Paso Natural Gas Company's
Proposed Changes in Order R-1670,
General Rules and Regulations for
Prorating Gas Pools - New MexicoADDRESSEE LIST ATTACHED

Gentlemen:

Reference is to a hearing on the above subject Case No. 4436, held at the New Mexico Oil Conservation Commission in Santa Fe on October 14, 1970. In the event the New Mexico Oil Conservation Commission feels that it should adopt the rule changes as proposed by El Paso, we feel that certain changes will make the El Paso proposal more workable for the operators, the purchasers and the New Mexico Oil Conservation Commission. Attached you will find a copy of Pan American's suggested changes to the El Paso proposal. For ready reference our proposed changes are underlined.

Yours very truly,

REMc:mc
Attachments*D.L. Ray*
803

ADDRESSEE LIST

GAS RULE CHANGES NEW MEXICO
CASE NO. 4436

Amerada Division
Amerada Hess Corporation
Box 2040
Tulsa, Oklahoma 74102
Attn: Richard Hocker

Amerada Division
Amerada Hess Corporation
Box 591
Midland, Texas 79701
Attn: Sydney Smith

Atlantic Richfield Company
Box 2819
Dallas, Texas 75221

Aztec Oil & Gas Company
2000 First National Bank Bldg.
Dallas, Texas 75202

Chevron Oil Company
P. O. Box 599
Denver, Colorado
Attn: John Cameron

Clinton Oil Company
217 N. Water
Wichita, Kansas 67202
Attn: Virgil Krutsinger

Continental Oil Company
Box 460
Hobbs, New Mexico 88240

El Paso Natural Gas Company
Box 1492
El Paso, Texas 79948
Attn: F. N. Woodruff

Humble Oil & Refining Company
Box 2180
Houston, Texas 77001

Mobil Oil Corporation
Box 633
Midland, Texas 79701
Attn: W. B. Simmons, Jr.

New Mexico Oil Conservation Commission
Box 2088
Santa Fe, New Mexico
Attn: Mr. D. S. Nutter

Southern Union Gas Company
Fidelity Union Tower Building
Dallas, Texas 75201

Texas Pacific Oil Company
1700 One Main Place
Dallas, Texas 75250
Attn: R. B. Freels

CASE 4436

PAN AMERICAN PETROLEUM CORPORATION'S SUGGESTED CHANGES
TO EL PASO NATURAL GAS COMPANY'S
PROPOSED CHANGES TO ORDER R-1670 - GENERAL RULES
AND REGULATIONS FOR PRORATED GAS POOLS - NEW MEXICO

NORTHWEST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 9(B). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set out in Section E, Rules 16(A) and 16(B).

D. BALANCING OF PRODUCTION

RULE 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship.

E. CLASSIFICATION OF WELLS

RULE 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceding gas proration period with the average monthly producing ability for the third, fourth, and fifth months of the preceding gas proration period (See 16(B) below). A well will not be

(RULE 16(A) - continued from Page 1)

classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

RULE 16(B). Each gas purchaser shall furnish to the Commission and to the operator, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available for each prorated gas well (including marginal wells) to which it is connected. The actual average daily producing ability shall be the total gas production for the third, fourth, and fifth month of the preceding gas proration period, divided by the actual number of days produced during the same three months.

Upon receipt of this information from the gas purchaser, the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

RULE 16(C). [Old Rule 16(B)]. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

RULE 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC - Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A).
Basin Dakota - Order R-1670-C, delete Rule 16(A).

SOUTHEAST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

RULE 10(A). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set out in Section E, Rules 16(A) and 16(B).

D. BALANCING OF PRODUCTION

RULE 15(A). Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any well which has not made up the overproduction carried into a gas proration period by the end of said proration period shall be shut-in until such overproduction is made up. Provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut in until all overproduction is made up.

If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned

(RULE 15(A) - continued from page 3)

any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship.

E. CLASSIFICATION OF WELLS

RULE 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceding gas proration period with the average monthly producing ability for the third, fourth, and fifth months of the preceding gas proration period. (See 16(B) below).

A well will not be classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

RULE 16(B). Each gas purchaser shall furnish to the Commission and to the operator, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available for each prorated gas well (including marginal wells) to which it is connected. The actual average daily producing ability shall be the total gas production for the third, fourth, and fifth month of the preceding gas proration period, divided by the actual number of days produced during the same three months. Upon receipt of this information from the gas purchaser, the Commission will calculate the average

(RULE 16(B) - continued from page 4)

monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

RULE 16(C). ~~Old Rule 16(B)~~. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

RULE 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

*not necessary only if
o/p.*

ROBERT L. BAYLESS

PETROLEUM CLUB PLAZA BUILDING

P. O. BOX 1541

FARMINGTON, NEW MEXICO 87401

107
DEC 2 1970

December 1, 1970

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attn: Elvis A. Utz
Gas Engineer

Dear Sir:

As an independent oil and gas producer I have viewed with some alarm the recent trend in gas purchasing in the San Juan Basin and feel that your suggested revision as set forth in your Memorandum of November 17, is a reasonable compromise for Gas Poration and wish to indicate my support for this proposal.

Yours very truly,

Robert L. Bayless

RLB/eah

AZTEC OIL & GAS COMPANY

2000 FIRST NATIONAL BANK BUILDING
DALLAS, TEXAS 75202

LAND DEPARTMENT
KENNETH A. SWANSON, MANAGER

January 11, 1971

Mrs. Ida Rodriguez
c/o New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 4436,
December 2, 1970

Dear Ida:

Enclosed is the Transcript of the captioned hearing which
you recently loaned to us.

Thank you very much for your assistance.

Sincerely,

Kenneth

KAS:bb

Enclosure

971 JAN 13 PM 1 19



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

P. O. BOX 2088 - SANTA FE

87501

GOVERNOR
DAVID F. CARGO
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMijo
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

December 28, 1970

Mr. Richard S. Morris
Montgomery, Federici, Andrews, Hannahs
& Morris
Attorneys at Law
Post Office Box 2307
Santa Fe, New Mexico

Re: Case No. 4436

Order No. R-4085

Applicant:

EL PASO NATURAL GAS COMPANY

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC

Aztac OCC x

Other All appearances



western union

Telegram

KA029 SSC085

1970 OCT 13 AM 9 58

(944)

K RWA008 HO PDB=ROSWELL NMEX 13 940A MDT=

A L PORTER JR=

970 OCT 13 AM 10 27

OIL CONSERVATION COMMISSION STATE LAND OFFICE BLDG
SANTA FE NM

RE: CASE 44436 EXAMINER HEARING OCTOBER 14, 1970 THIS IS
OUR ENTRY OF APPEARANCE IN BEHALF OF PAN AMERICAN
PETROLEUM CORPORATION WITH GUY BELL, ESQUIRE IN THE
APPLICATION OF EL PASO NATURAL GAS COMPANY RE AMENDMENT
OF GENERAL AND SPECIAL RULES AND REGULATIONS CLASSIFYING
MARGINAL WELLS, ETC=

ATWOOD MALONE MANN AND COOTER BY CHARLES F MALONE=

DOCKET MAILED

WU 1201 (R 5-69)

Date 11-19-70

Gulf Oil Company - U.S.

EXPLORATION AND PRODUCTION DEPARTMENT
ROSWELL DISTRICT

Juan Chacin
DISTRICT MANAGER
M. I. Taylor
DISTRICT PRODUCTION
MANAGER
P. E. Wyche
DISTRICT EXPLORATION
MANAGER
H. A. Rankin
DISTRICT SERVICES MANAGER

P. O. Drawer 1938
Roswell, New Mexico 88201

October 8, 1970

Case 4436

Oil Conservation Commission
State of New Mexico
Post Office Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Case 4436, Application of El Paso Natural Gas
Company for Amendment of the General Rules and
Regulations Governing the Prorated Gas Pools
of Northwest and Southeast New Mexico

Gentlemen:

Gulf Oil Corporation objects to El Paso's application for amendment of the General Rules and Regulations for the prorated gas pools, and recommends that the existing rules remain in effect. We believe the existing rules protect the correlative rights of operators to a greater degree than would the proposed amendment.

We believe that the determination of a well's capability by using the most recent three months would penalize the producer. There have been many instances in the past when wells capable of producing their allowable are cut back during part of a proration period by the purchaser with the idea of producing the gas sometime during the next balancing period. In our opinion, under El Paso's proposal the producer would constantly be on the defensive in trying to retain his fair share of the allowable.

El Paso proposes that a well will not be reclassified marginal if prior to the end of a gas proration period the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified. We do not receive the production figures from the purchaser until after the middle of a month; therefore, it would be impossible to average the production for the last three months of a proration period and protest to the Commission prior to the end of a proration period. Therefore, if we do not use the last three months for averaging the production, what three months do we use? El Paso proposes that the latest three months be used. It appears that wells would constantly be reclassified because at the end of each month a new three-month period has elapsed. It appears to us that the producer would be at least one month behind in being able to protest reclassification because production figures are almost two weeks late and by the time the Commission notifies the producer of the reclassification to



A DIVISION OF GULF OIL CORPORATION

DOCKET MARKED

Done 11-19-70

October 8, 1970

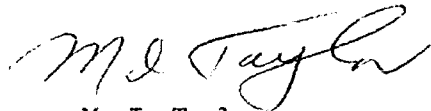
marginal status, a month could elapse.

It should also be pointed out that gas contracts provide that the purchaser will provide compression or lower line pressure to allow a well to produce its allowable. The existing rules allow sufficient time for the producer to notify the purchaser and for the purchaser to install compression without a well losing its fair share of the allowable. We do not believe the proposed amendment provides ample time to make changes without losing allowable.

Gulf recommends that the existing rules remain unchanged, as they have proved to be workable and best protect correlative rights.

Yours very truly,

GULF OIL CORPORATION


M. I. Taylor

JHH:sz

NEW MEXICO OIL CONSERVATION COMMISSION
P. O. BOX 2000
SANTA FE, NEW MEXICO

GAS NOMINATIONS FOR NOVEMBER, 1970

SOUTHEAST POOLS

Atoka-Pennsylvanian	809,000 Mcf
Bagley-Lower Pennsylvanian	35,000 Mcf
Bagley-Upper Pennsylvanian	40,000 Mcf
Blinebry	1,871,700 Mcf
Bluitt-San Andres	64,107 Mcf
Buffalo Valley-Pennsylvanian	419,400 Mcf
Crosby-Devonian	141,000 Mcf
Eumont	4,184,500 Mcf
Indian Basin-Morrow	273,900 Mcf
Indian Basin-Upper Pennsylvanian	5,867,000 Mcf
Jalmat	2,749,500 Mcf
Justis	137,900 Mcf
Monument McKee-Ellenburger	233,700 Mcf
Todd-Lower San Andres	52,000 Mcf
Tubb	1,704,500 Mcf

TOTAL 19,417,307 Mcf /

NORTHWEST POOLS

Basin-Dakota	19,093,700 Mcf
Blanco-Mesaverde	18,921,200 Mcf
Aztec-Pictured Cliffs	1,153,300 Mcf
Ballard-Pictured Cliffs	1,253,400 Mcf
Blanco-Pictured Cliffs, South	3,212,700 Mcf
Fulcher Kutz-Pictured Cliffs	533,900 Mcf
Kutz-Pictured Cliffs, West	325,900 Mcf
Tapacito-Pictuzed Cliffs	830,700 Mcf
Devils Fork-Gallup	74,100 Mcf
Devils Fork-Gallup - Estimate	81,000 Mcf /

TOTAL PURCHASER NOMINATIONS 45,500,900 Mcf

TOTAL ON DEVILS FORK-GALLUP - ESTIMATE 45,516,000 Mcf /

TOTAL ADJUSTED NOMINATIONS - BOTH AREAS 54,933,907 Mcf /

EXHIBIT A
GAS ALLOWABLE HEARING
OCTOBER 14, 1970

DOCKET: REGULAR HEARING - WEDNESDAY - OCTOBER 14, 1970

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO

ALLOWABLE: (1) Consideration of the oil allowable for November and December, 1970;

(2) Consideration of the allowable production of gas for November, 1970, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico. Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico, for November, 1970.

CASE 4436: (THIS CASE WILL BE HEARD BEFORE THE FULL COMMISSION OR BY EXAMINER DANIEL S. NUTTER)

Application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing the prorated gas pools of New Mexico and the amendment of the Special Rules and Regulations governing the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the General Rules and Regulations governing the prorated gas pools of Northwest and Southeast New Mexico and the Special Rules and Regulations governing the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located in Rio Arriba, San Juan, and Sandoval Counties, to permit substantial changes in the method of classifying marginal wells, and the assignment of allowable to marginal wells governed by the aforesaid rules and regulations, as well as a substantial change in the balancing of production procedure required by said rules. Copies of the proposed amendments will be circulated by way of the Commission's general mailing list and will be available upon request made to the Commission at its Santa Fe office.

* * * * *

THE FOLLOWING CASES WILL BE HEARD BEFORE DANIEL S. NUTTER, EXAMINER, OR ELVIS A. UTZ, ALTERNATE EXAMINER, IN THE OIL CONSERVATION COMMISSION CONFERENCE ROOM ON THE SECOND FLOOR OF SAID BUILDING AT 9:30 A.M.

CASE 4437: Southeastern New Mexico nomenclature case calling for the creation, abolishment and extension of certain pools in Lea and Roosevelt Counties, New Mexico.

(a) Create a new pool in Lea County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the East Corbin-Wolfcamp Pool. The discovery well is the Phillips Petroleum Company Lea No. 23 located in Unit P of Section 30, Township 17 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
SECTION 30: SE/4

(Case 4437 continued)

(g) Extend the Townsend-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
SECTION 8: SW/4

(h) Extend the Tres Papalotes-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 34 EAST, NMPM
SECTION 34: NW/4

(i) Extend the Tulk-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 South, Range 32 East, NMPM
SECTION 33: SE/4
SECTION 34: S/2

CASE 4438: Application of Eastland Oil Company for an exception to Order No. R-3221, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil on the surface of the ground in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico, after January 1, 1969. Said exception would be for applicant's leases comprising the NW/4 NW/4 of Section 5 and the NE/4 NE/4 of Section 6, Township 18 South, Range 31 East, Grayburg-Jackson Field area, Eddy County, New Mexico.

CASE 4439: Application of Shenandoah Oil Corporation for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox Pennsylvanian well location 1980 feet from the South line and 660 feet from the West line of Section 22, Township 6 South, Range 27 East, undesignated Pennsylvanian gas pool, Chaves County, New Mexico. The S/2 of said Section 22 to be dedicated to the well.

CASE 4440: Application of Moran Oil Producing & Drilling Corporation for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pilot waterflood project in the Hobbs Pool by the injection of water into the Grayburg formation through one well located in the NW/4 NE/4 of Section 13, Township 18 South, Range 37 East, Lea County, New Mexico. Applicant further seeks a procedure whereby additional injection wells may be approved administratively.

PROPOSED CHANGES TO ORDER R-1670 - GENERAL RULES AND
REGULATIONS FOR PRORATED GAS POOLS - NEW MEXICO

NORTHWEST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

Rule 9(B). The allowable to be assigned to each marginal well shall be equal to the maximum production ACTUAL AVERAGE MONTHLY PRODUCING ABILITY of said well during any month of the preceding gas proration period except as provided in the Special Pool Rules AS DETERMINED FROM SAID WELL'S AVERAGE DAILY PRODUCING ABILITY AS SET OUT IN SECTION E, RULES 16(A) AND 16(B).

D. BALANCING OF PRODUCTION

Rule 15(B). If, at any time, a well is overproduced IN an amount equaling six times its current AVERAGE monthly allowable FOR THE LAST SIX MONTHS, it shall be shut-in during that month and each succeeding month until the well IT is overproduced less than six times its current AVERAGE monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship. provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut-in until all overproduction is made-up.

E. CLASSIFICATION OF WELLS

Rule 16(A). After the production data is available for the last month of each proration period, THE COMMISSION MAY CLASSIFY AS A MARGINAL WELL any well which had an under-produced status at the beginning of the preceding gas proration period and which did not produce its allowable during at least one month of such preceding gas proration period may be classified as a marginal well; unless AT THE END OF SAID PERIOD IS NOT CAPABLE OF PRODUCING ITS AVERAGE MONTHLY ALLOWABLE. THIS CAPABILITY SHALL BE DETERMINED BY COMPARING THE AVERAGE MONTHLY ALLOWABLE FOR THE PRECEDING GAS PRORATION PERIOD WITH THE AVERAGE MONTHLY PRODUCING ABILITY

BEFORE EXAMINED MATTER
CH. 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000

FOR THE THIRD, FOURTH AND FIFTH MONTH OF THE CURRENT GAS PRORATION PERIOD, UNLESS A PRODUCTIVITY TEST IS TAKEN IN ACCORDANCE WITH RULE 16(B) BELOW. A WELL WILL NOT BE CLASSIFIED MARGINAL IF, prior-to-the end-of-said-preceding-gas-proration-period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified. However, a well which-in-any-month-of-said-proration-period-has-demonstrated-its ability-to-produce-its-allowable-for-said-proration-period-shall-not be-classified-as-a-marginal-well.

Rule 16(B). EACH GAS PURCHASER SHALL FURNISH TO THE COMMISSION AND TO THE OPERATOR, PRIOR TO THE 10TH 20TH DAY FOLLOWING OF THE LAST MONTH OF EACH PRORATION PERIOD, THE ACTUAL AVERAGE DAILY PRODUCING ABILITY FOR THE THIRD, FOURTH AND FIFTH MONTHS OF THE CURRENT GAS PRORATION PERIOD (THIS SHALL BE THE TOTAL PRODUCTION FOR THESE MONTHS DIVIDED BY THE ACTUAL NUMBER OF DAYS PRODUCED DURING THE SAME THREE MONTHS) OF EACH GAS WELL TO WHICH IT IS CONNECTED; PROVIDED, HOWEVER, IF THE WELL IS MECHANICALLY RESTRICTED, THE OPERATOR MAY CONDUCT A FLOW TEST ON THE WELL DURING THE LAST MONTH OF THE PRORATION PERIOD CONSISTING OF NOT LESS THAN THREE DAYS (72 HOURS) NOR MORE THAN EIGHT DAYS (192 HOURS) OF FLOW INTO PURCHASER'S PIPELINE AT A RATE SUFFICIENT TO SHOW THAT THE WELL SHOULD NOT BE CLASSIFIED MARGINAL, AND SUBMIT THE RESULTS OF SUCH TEST, CONVERTED TO AVERAGE DAILY PRODUCING ABILITY, TO THE COMMISSION PRIOR TO THE 15TH DAY OF THE MONTH FOLLOWING THE LAST MONTH OF EACH PRORATION PERIOD; THE PRODUCING ABILITY INDICATED BY SUCH TEST WILL BE USED IN LIEU OF THE AVERAGE PRODUCING ABILITY SUBMITTED BY THE PURCHASER. (THIS TEST SHALL BE TAKEN AND SUBMITTED IN A MANNER ACCEPTABLE TO THE COMMISSION.) UPON RECEIPT OF THIS INFORMATION FROM THE GAS PURCHASER OR PRODUCER, THE COMMISSION WILL

CALCULATE THE AVERAGE MONTHLY PRODUCING ABILITY BY MULTIPLYING THE DAILY AVERAGE PRODUCING ABILITY BY 30.4, WHICH IS THE AVERAGE NUMBER OF DAYS IN A MONTH FOR THE ENTIRE YEAR.

Rule 16(C). [Old Rule 16(B)]. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

Rule 18. If, at the end of a proration period, THE MOST RECENT AVERAGE MONTHLY PRODUCING ABILITY OF a marginal well has produced more than the total allowable for the period assigned a non-marginal unit of like deliverability and acreage IS GREATER THAN THE AVERAGE MONTHLY ALLOWABLE FOR SAID PRORATION PERIOD (SEE RULE 16(A) AND 16(B) ABOVE), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC-Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A).

Basin-Dakota - Order R-1670, delete Rule 16(A).

ALLOWABLE-PRODUCTION ANALYSIS

Aug. 1, 1969 -- Feb. 1, 1970

BLANCO MESAVERDE POOL

Number of wells studied-----	266	
3 month & 6 month daily average lower than high month-----	208	78%
3 month daily average x 30 smaller than 6 month daily average x 30-----	153	57%
3 month daily average x 30 larger than 6 month daily average x 30-----	113	43%
Number of additional marginal wells wells using 3 month or 6 month daily average x 30 instead of high month for classification-----	21	
Number of additional marginal wells using 3 month daily average x 30 instead of high month -----	24	
Number of additional non-marginal wells using 3 month or 6 month average instead of high month-----	1	

August, 1969 to February, 1970

Selected Wells - Blanco Mesaverde Pool - Allowable-Production Analysis

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. x 30</u>	<u>No Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
	12176	10116	12024	87.5	9081	174.7	368	M
	7014	5201	4503	87.3	4581	182.1	123	M
P	23238	33108	31440	52.0	31260	125.2	893	N
	7082	40452	37350	66.1	35100	107.2	805	N
P	16032	16634	18540	70.9	17301	148.1	551	N
P	14115	6408	17223	8.5	6408	92.9	460	N
P	20920	33833	29487	73.0	20330	151.7	783	N
P	26166	28646	23283	93.8	24597	181.8	1032	N
P	10238	17197	18216	40.0	16482	116.7	276	N
P	27599	32644	28950	63.5	29679	151.5	1100	N
P	52609	58918	54231	66.5	53589	154.5	2287	N
	12934	6731	5658	96.0	5919	181.4	404	M
	18645	9499	8754	88.2	7821	174.8	675	M
P	28189	44648	41271	58.9	42000	134.1	1128	N
P	23406	33857	29415	47.0	29871	110.9	901	N
P	15674	22578	23088	77.8	25260	105.4	534	N
	6509	6210	4548	95.8	4710	182.8	99	M
	6635	5485	4302	95.8	4677	176.1	105	M
	8152	7362	5787	95.7	6267	174.8	177	M
	8384	9174	7902	87.5	8220	183.0	188	N
	6951	6345	5120	85.9	5499	181.7	120	N - M
	32593	27552	22779	88.0	24156	183.5	1337	N - M
P	14304	20268	28572	31.0	27405	61.3	469	N
P	22543	29722	42183	31.8	39702	71.4	860	N
P	32445	46529	48459	58.8	45534	120.3	1330	N

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
P	13883	17210	16560	78.2	16455	163.7	449	N
P	9648	10587	15027	41.9	13656	103.5	248	N
P	19909	27790	30822	47.6	31404	87.3	735	N
	10596	9660	7512	95.7	8052	163.6	293	M
P	13497	14593	25197	35.7	23241	73.6	450	N
	10175	6868	5052	87.3	5628	174.7	273	M
	13546	10888	8655	94.1	8955	181.8	433	M
	12454	13822	12192	88.1	12396	184.1	433	N
P	22332	30454	29397	57.2	29742	109.4	850	M
P	18034	21989	28770	56.2	26916	100.0	646	N
P	10407	11383	13827	55.4	14478	106.2	284	N
	9016	5357	4935	95.6	4911	163.5	218	M
P	9648	10706	9789	80.5	9990	161.8	248	N
	10667	6471	5655	96.0	5373	183.9	277	M
P	14999	16945	34878	28.2	33087	60.5	502	N
P	26940	35062	33507	58.0	33705	114.0	985	N
P	12235	24168	25011	36.0	23865	67.6	383	N
	15695	16968	19338	64.8	16476	159.8	535	N
P	19593	37877	37956	45.8	34071	97.7	720	N
	16411	19658	18885	87.9	18042	174.4	569	N
P	19087	20999	16560	88.5	18273	173.2	696	N
P	16622	22761	28272	37.1	25038	100.9	579	N
P	14030	15095	17124	63.6	16137	140.4	456	N
	9058	7145	6081	87.6	6288	167.7	220	M
P	22416	37267	37083	41.9	33435	101.2	854	N
P	47110	63375	66933	49.7	58005	126.6	2026	N

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
P 15077	17344	22215	44.6	20571	109.8	528	N	
9732	7954	6576	82.7	7050	175.6	252	M	
P 12871	11886	12219	86.6	11700	171.0	401	N	
15680	40923	28212	95.6	33435	169.5	668	N	
12077	12036	9225	96.0	10434	175.7	406	N - M	
22744	7523	5304	96.0	6117	176.3	871	M	
15526	14236	11733	95.6	12369	183.4	527	M	
23996	24062	20436	95.9	21651	183.6	929	N	
21131	22478	18924	93.9	19665	181.9	793	N	
P 26986	54813	55383	28.8	55650	82.7	1229	N	
P 22054	44254	38250	48.7	40752	113.6	858	N	
P 36343	50736	47331	62.2	48924	120.3	1515	N	
P 15105	19212	24171	49.1	24354	90.0	507	N	
25239	27332	23340	88.0	25206	176.0	988	N	
P 18537	20127	20343	64.6	19812	139.3	597	N	
10575	11255	10011	95.3	10140	175.4	292	N	
P 22703	53607	51711	50.3	46311	104.8	960	N	
P 15969	25466	35994	24.7	29949	71.2	548	N	
P 16432	34534	34593	52.9	37293	64.4	570	N	
13967	14860	12681	91.2	12060	177.8	453	M	
P 8639	13072	12660	62.1	12252	117.9	241	N	
P 15168	15283	25974	43.1	19344	121.2	510	N	
P 16917	20852	19848	56.7	21789	122.8	593	N	
7731	8506	6150	82.5	7053	178.1	157	N	
8489	5183	4659	95.6	4491	183.2	193	XM - M	
P 33119	44719	49005	59.6	48576	114.4	1362	N	
P 19171	23842	38712	41.8	37410	74.0	700	N	
18613	15920	14010	95.9	14253	183.8	631	N - M	

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. x 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
P	20351	22706	31020	51.7	30834	101.0	756	N
	14494	13334	10968	96.0	10506	181.9	478	N - M
P	11671	12501	10992	80.9	11208	166.9	344	N
P	30760	54672	54345	57.8	53712	115.0	1250	N
	8257	11934	9132	95.9	9099	183.9	182	N
P	20141	27812	28623	63.2	29742	113.9	746	N
	8299	9058	7614	95.2	6786	182.8	184	M
P	21763	34097	34284	50.7	35613	96.1	823	N
	11997	13036	11403	87.1	12084	172.4	389	N
	9859	9843	8931	87.6	8793	182.1	258	M
	16516	15048	14628	85.5	13944	181.5	574	N - M
P	6677	8695	9444	62.2	9294	127.5	107	N
	16980	14954	13287	87.5	13737	175.4	596	N - M
	6972	5619	4638	86.2	4707	181.3	121	M
	7520	6733	4815	86.6	5328	182.5	147	M
	12345	6651	5832	88.4	5739	183.9	376	M
P	18518	19671	20667	77.3	18753	159.1	669	N
P	18729	31755	33372	41.4	32835	94.9	679	N
	27705	21252	18708	95.5	19785	163.5	1105	M
	7014	3779	1779	92.5	2787	172.5	123	M - XM
P	15463	25321	25320	60.0	23958	101.6	524	N
	85005	8341	5754	95.5	6213	183.6	3993	M
	18034	8725	6921	87.3	6957	183.1	646	M
	9964	10824	8565	85.6	9300	161.5	263	N
	8678	6650	5901	95.7	5985	168.0	202	M
	11881	13036	10554	79.9	11826	167.7	354	N
	14410	12292	9609	83.3	10365	178.6	474	M

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
	7288	7278	6246	85.9	6363	181.6	136	M
	9458	8440	5649	81.4	6177	138.4	239	N - M
	9058	7732	7701	80.7	7185	163.9	220	N - M
	10569	7983	6603	83.8	6972	179.1	259	M
P	15526	16866	16704	64.9	15458	160.6	527	N
	19045	18713	16212	86.8	16713	182.4	694	N - M
	11228	14510	12333	81.0	13095	168.0	323	N
	6993	5729	4056	87.0	4551	182.7	122	M
	8131	7998	6327	84.7	6036	180.3	176	M
	10743	9263	7821	76.0	7836	163.4	300	N - M
	8721	6942	6240	86.3	6156	181.7	204	XM - M
	9070	8196	8058	81.5	7668	164.1	208	N - M
	8721	7881	6033	79.8	6384	175.0	204	N - M
	10680	10524	14865	29.5	10953	110.0	297	N - M
	12914	11855	10488	85.8	10683	181.6	403	N - M
	8721	10327	8643	90.4	8877	178.0	204	N
	7162	7018	5589	87.5	6000	183.0	130	N - M
	7480	7423	6540	90.9	5904	177.6	229	N - M
	11528	12230	10014	95.8	9990	183.1	457	N
	5628	5766	3435	95.5	4338	191.2	52	XM - M
	15379	8874	7038	86.3	7596	174.1	520	M
	6007	5406	4683	95.7	4929	183.4	138	N - M
	8253	8555	7110	88.0	7632	181.9	235	N
P	13272	16437	14013	83.6	14607	175.7	420	N
	9816	6839	5685	90.7	5898	178.4	256	N - M
	9564	7855	6690	87.6	7053	174.7	244	M
	9648	8680	6729	87.6	7323	177.5	248	M

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
	10280	9696	9162	87.7	9255	175.5	278	N - M
	11249	6862	5697	8.8	5787	162.5	324	M
P	12071	26144	28410	34.9	27909	68.1	363	N
	7520	8193	7239	78.9	8139	147.9	147	N
	12281	12230	10128	87.9	10737	183.3	373	N - M
P	15231	15850	13710	83.8	13581	178.5	513	N
	11797	11191	9285	95.8	9072	183.5	350	N - M
	9290	7124	4587	87.9	5481	183.9	231	N - M
	8173	5963	4836	75.2	5079	171.1	178	M
	6803	5752	4752	87.8	5007	183.7	113	N - M
	11460	10671	10392	78.4	8940	170.0	334	N - M
	34594	25073	22743	88.0	22968	183.8	1432	N - M
	11902	9842	9219	80.2	9249	174.1	355	N - M
	9269	6648	5025	88.0	5562	174.4	230	M
	12071	11400	10077	88.1	9999	183.9	363	N - M
	10701	9074	8328	93.6	7686	182.0	298	N - M
	8552	8596	8466	89.8	7866	177.2	196	N
	10407	7317	6534	95.5	6858	180.3	284	M
	8678	8549	7554	95.4	7467	183.0	202	N - M
P	17570	22096	23649	54.0	24012	112.6	624	N
	11881	9771	8061	93.9	8517	181.7	354	N - M
	16516	20071	19068	90.7	18900	175.4	574	N
P	17928	19395	18573	86.7	17898	170.5	641	N
	7899	5732	5172	95.9	5277	183.2	165	M
	21894	36785	24978	95.6	35160	154.6	857	N
	6824	5868	4992	95.3	5259	182.4	114	M
P	13293	13981	16095	62.8	14814	151.2	421	N
P	10407	11041	9021	95.8	9276	166.4	284	N
P	32184	30047	93630	15.5	93630	15.5	2104	N

	<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
P	14115	18741	17196	73.0	17883	143.2	460	N
	13125	11360	9480	95.7	9522	184.2	413	N - M
	10006	6531	5913	80.9	5292	175.5	265	M
P	20456	30708	28986	84.4	29232	108.3	761	N
P	23554	32497	28998	70.3	29919	129.4	908	N
	19972	17155	11262	87.5	13542	175.1	738	N - M
	10898	13215	11271	87.9	11748	183.6	309	M - N
P	14030	18868	13482	96.0	15138	171.8	456	N
	9648	8383	6171	88.0	6840	184.0	248	N - M
	8658	8017	7074	86.5	6567	175.3	201	N - M
	12534	9959	8664	88.2	8781	174.9	385	N - M
	6424	8491	6546	87.6	6468	183.6	95	XM - N
	9201	5991	4842	96.0	4959	176.0	194	M
P	14903	23883	20343	86.9	21126	125.1	470	N
	8843	7722	6615	87.8	6894	181.5	179	N - M
	12176	12785	11706	87.9	11478	183.6	368	N
	21678	22124	19455	94.3	18996	182.1	819	N
	12345	7868	6459	95.2	6429	173.0	376	M
P	6349	12189	22608	8.8	19488	39.9	261	N
P	23343	32544	31338	57.7	33201	107.0	898	N
P	9301	12558	9714	85.3	11097	164.2	256	N
	6403	4927	4536	95.6	4590	183.6	94	XM - M
P	6709	8165	7851	72.1	7704	150.2	280	N
P	32277	38691	59778	44.0	62382	68.4	1322	N
	11017	10424	9252	96.0	9405	183.7	313	N - M
	11270	13092	11592	92.4	11664	171.0	325	N
	8405	6785	5607	88.5	5733	184.2	189	M

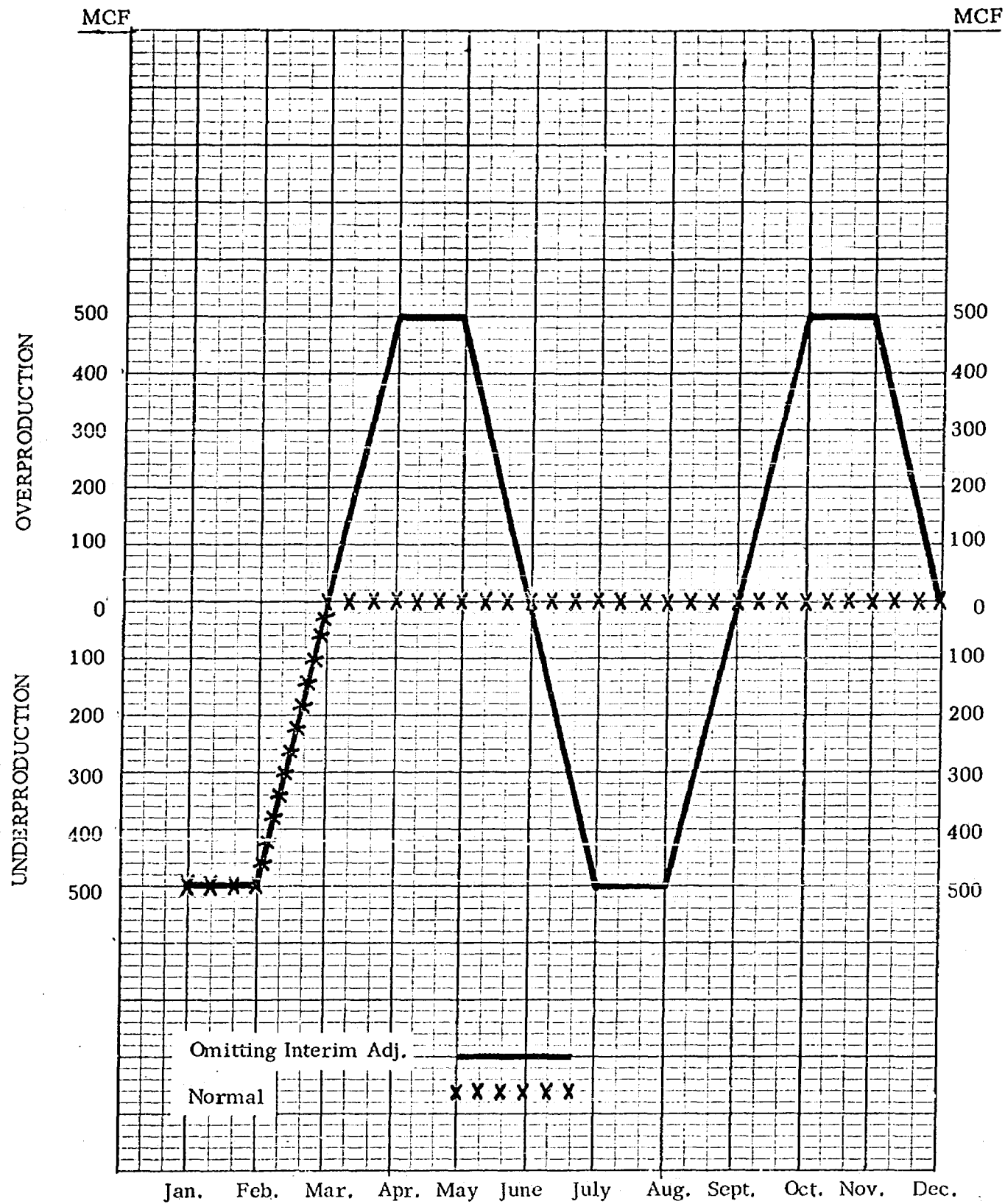
<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Pred.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
11850	12587	10659	87.6	11613	165.9	382	N
7773	6038	5118	87.7	5373	183.1	159	M
8205	8047	6753	93.7	7035	181.5	200	N - M
P 16727	19327	20370	66.4	21066	123.2	584	N
9311	6280	5700	88.1	5877	168.7	232	M
16369	24351	20562	96.0	18774	183.9	567	N
10638	7799	6603	87.7	6942	183.4	249	M
P 11064	8770	7563	75.9	9546	139.2	305	N
13819	29327	16779	66.1	21699	129.6	446	N
7562	6252	5565	87.8	5793	174.3	149	M
8215	6926	6702	87.1	6780	175.2	180	N - M
P 36491	38154	40743	64.0	39195	143.9	1522	N
P 39187	50188	54480	67.7	52890	135.8	1650	N
13546	12465	10638	88.5	10296	184.5	433	M
7478	7620	7215	90.9	7164	174.8	145	N
19403	28734	27618	87.6	26853	182.6	711	N
P 14936	21510	22587	61.6	21264	111.3	499	N
6487	8729	6513	77.4	7398	173.2	98	M - N
10322	10467	9723	87.0	9537	183.0	280	N
11232	9121	7758	90.7	8019	178.7	313	N - M
P 22458	29859	26922	66.1	28737	133.4	856	N
P 28990	40423	55347	49.9	54861	85.5	1166	N
16516	11598	10554	95.4	9687	182.5	574	M
P 19382	36163	25962	48.9	29832	109.3	710	N
6635	5221	4590	95.9	4716	183.1	105	M
7836	7395	6708	80.8	6801	160.6	162	N - M
P 18497	26640	22965	89.9	22818	150.4	668	N
8795	12798	11205	81.6	10209	159.3	207	N

<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class-</u>
9985	5959	5349	93.5	5562	169.3	264	M
P 17334	34830	24575	51.9	34074	99.6	630	N
7667	8159	5820	88.8	6126	167.2	154	M
P 12071	15730	14646	86.0	13734	174.0	363	N
19698	21156	17538	79.6	18462	175.3	725	N
18963	16357	14220	87.8	13716	176.0	681	M
P 17064	26786	27054	46.6	27162	97.6	600	N
P 13967	15980	18168	48.2	17397	115.1	453	N
8856	6682	5301	75.9	5589	169.8	194	M
P 16158	16998	43872	23.1	33990	33.3	557	N
P 18202	23433	38664	42.3	37278	75.6	654	N
9058	6113	4785	88.5	5232	184.3	220	M
8685	7308	6657	87.5	6420	182.7	190	M
17191	36136	27792	87.8	27648	169.5	606	M - N
10764	8290	7386	87.6	7110	181.8	301	M
15568	21528	19458	96.0	18036	147.3	529	N
P 36111	42423	41262	64.2	41136	134.1	1504	N
P 13440	19093	24873	31.2	25272	68.7	428	N
12012	6322	14466	89.9	3393	176.7	349	AN - XM
11102	6152	4692	86.8	5355	167.4	317	M
25724	21317	17310	91.0	17634	178.9	1011	N - M
11312	10156	9312	94.3	10026	175.7	327	N - M
15779	17816	12489	87.1	14634	174.7	539	N
8813	6808	5409	95.7	5814	183.3	192	M
20478	22600	19701	95.5	20403	182.9	762	N
12745	8407	7362	87.5	7680	169.5	395	M

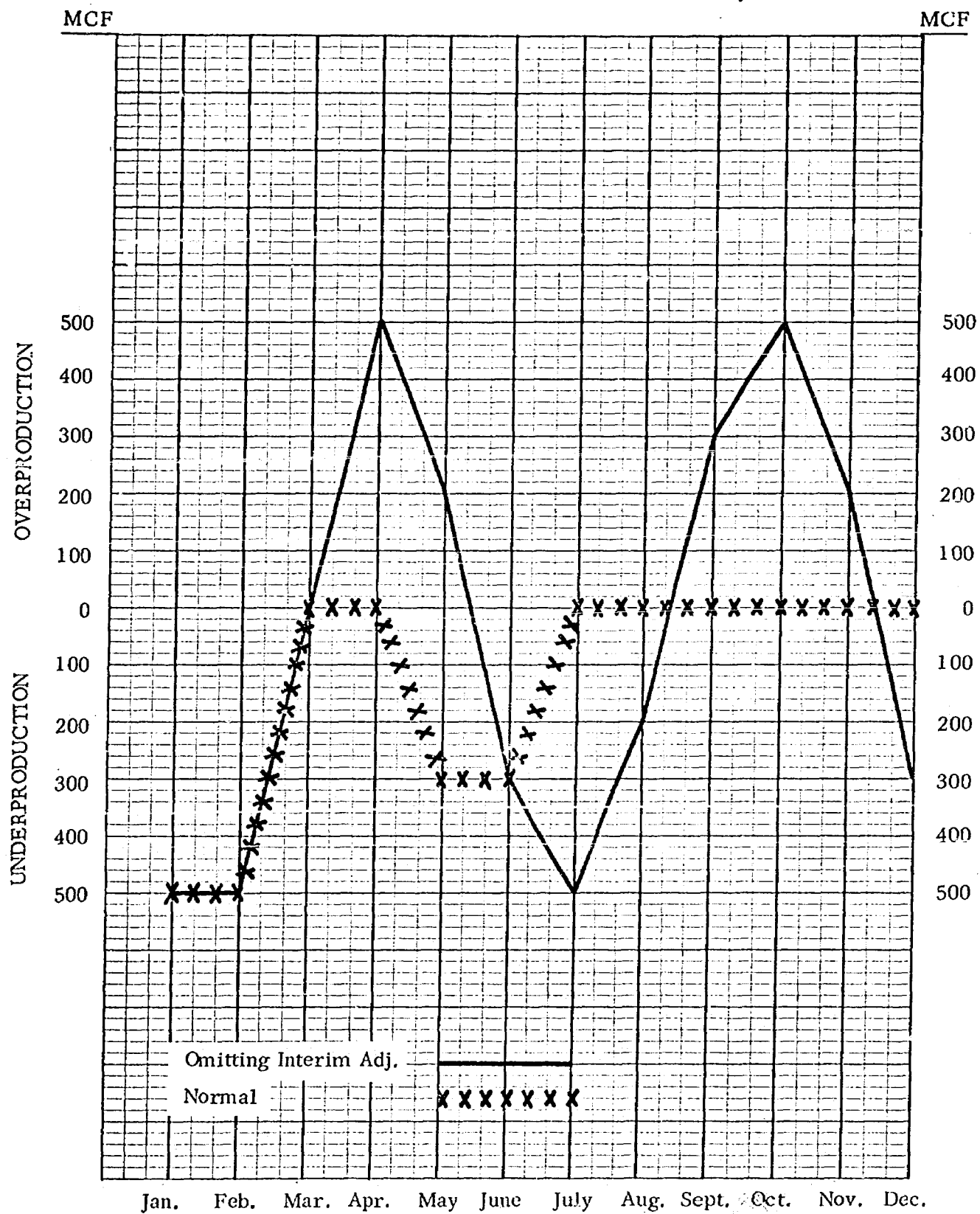
<u>Avg. Allow.</u>	<u>High Month</u>	<u>3 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>6 Mo. Daily Avg. X 30</u>	<u>No. Days Prod.</u>	<u>Deliver- ability</u>	<u>Class</u>
5988	6224	4338	87.9	5010	183.8	96	M
11397	10836	9216	86.8	9372	182.8	331	N - M
10486	10055	8631	86.6	8799	182.0	298	N - M
P 15926	27358	28074	46.2	26736	99.3	546	N
21561	20298	18126	93.6	18156	181.1	774	N - M
7562	7092	5895	82.0	6318	172.5	149	N - M
17197	8323	7692	86.7	6615	182.7	773	XM - M
P 18476	16188	19314	28.3	16821	109.8	667	N
P 18413	17710	29601	35.0	22659	67.0	664	N
10217	7588	7317	78.6	6921	163.5	275	N - M
7499	6134	6171	74.9	5784	170.6	146	M
9321	8572	5844	94.1	6546	174.2	256	M
7886	6940	6300	95.8	6285	183.5	188	N - M
16234	9767	8511	85.9	8349	179.6	561	AN
12724	14956	12480	95.5	11904	183.6	461	M
9564	7855	6690	87.6	7053	174.7	244	M
7309	6349	5553	88.1	5841	175.5	137	N - M
13197	10769	9348	92.8	9441	172.5	383	N - M
24744	19979	18348	82.8	18015	164.9	1026	N - M
34270	41539	33981	87.7	36330	176.5	1496	M - N
41842	38042	34857	96.0	34191	183.9	1776	N - M
22163	11180	9216	83.2	8769	176.8	842	M
10617	8878	8577	87.8	8211	171.5	294	N - M
18581	14369	12447	87.7	12762	183.5	672	M

COMPARISON OF CUMULATIVE STATUS BASED ON
NEW MEXICO NORMAL PRORATION CALCULATIONS AND BASED
ON PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS

#1

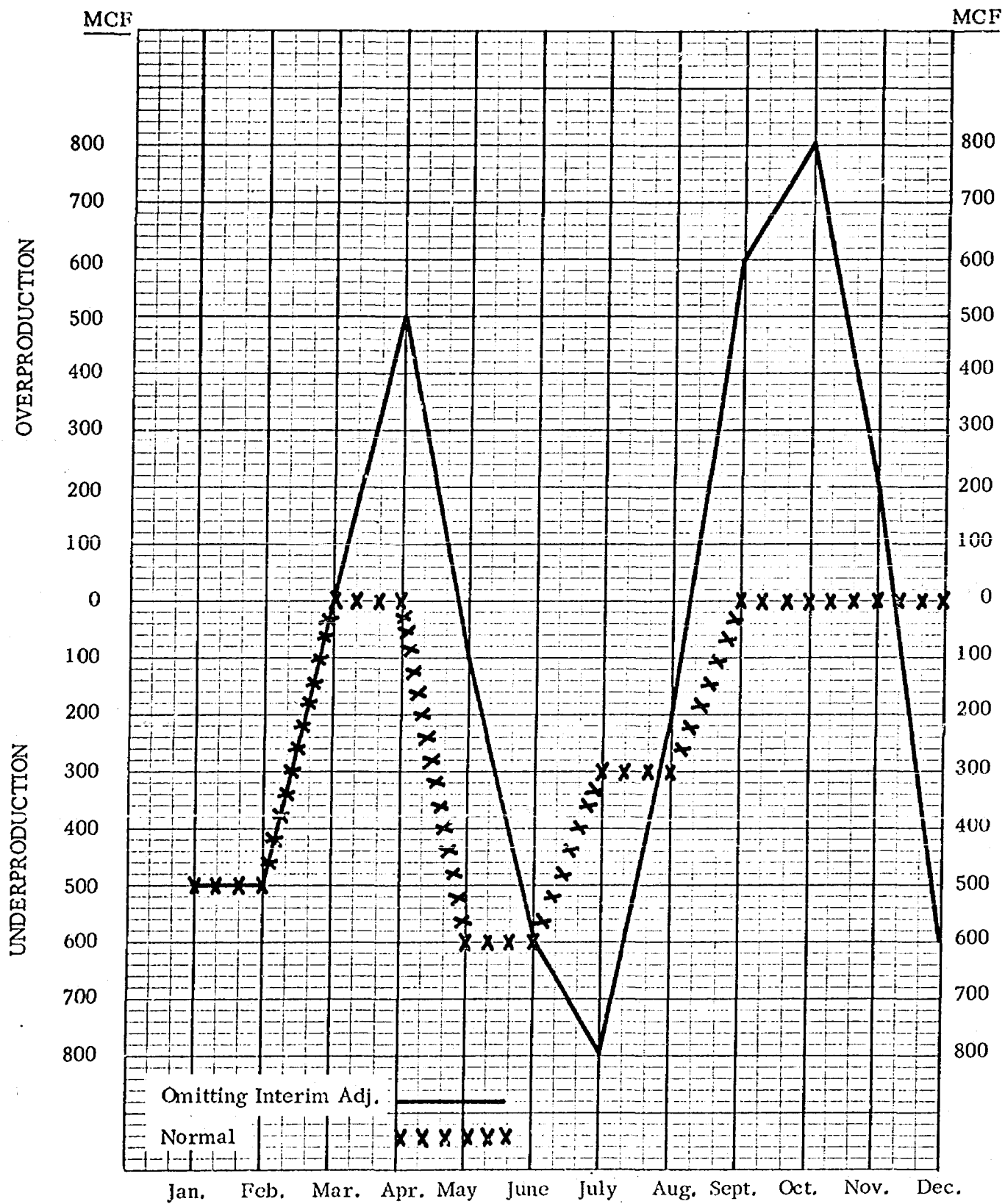


COMPARISON OF CUMULATIVE STATUS BASED ON
NEW MEXICO NORMAL PRORATION CALCULATIONS AND BASED
ON PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS



COMPARISON OF CUMULATIVE STATUS BASED ON
NEW MEXICO NORMAL PRORATION CALCULATIONS AND BASED
ON PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS

#3



EXAMPLES OF PRORATION CALCULATIONS

#1

NEW MEXICO PRORATION CALCULATIONS:

	January	February	March	April	May	June	July	August	September	October	November	December
Nominations	1,000	800	800	700	700	600	600	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	0	0	0	0	0	0
Allowable	--	--	1,000	800	300	700	700	600	600	600	700	800
Less: Allocated Production	--	--	500	800	800	700	700	600	600	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	0	0	0	0	0	0	0
Previous Month												
Interim Nominations	--	1,000	800	800	700	700	600	600	600	700	800	800
Interim Allocation	--	1,000	800	300	700	700	600	600	600	700	800	800
Nom. Minus Allow. Adjustment	--	0	0	+ 500	0	0	0	0	0	0	0	0
Prod Allowable Allocation	1,000	800	300	700	700	600	600	600	700	800	800	1,000
Prod Production	500	800	800	700	700	600	600	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	0	0	0	0	0	0	0	0	0
Cum. Status (A)	- 500	- 500	0	0	0	0	0	0	0	0	0	0
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,800	3,500	4,100	4,700	5,300	6,000	6,800	7,600	8,600
Cumulative Production	500	1,300	2,100	2,800	3,500	4,100	4,700	5,300	6,000	6,800	7,600	8,600

NEW MEXICO PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS:

	January	February	March	April	May	June	July	August	September	October	November	December
Nominations	1,000	800	800	700	700	600	600	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	+ 500	+ 500	0	- 500	- 500	0
Allowable	--	--	1,000	800	300	700	700	1,100	1,100	600	200	300
Less: Allocated Production	--	--	500	800	800	700	700	600	600	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	+ 500	+ 500	0	- 500	- 500	0	+ 500
Prod Allowable Allocation	1,000	800	300	200	700	1,100	1,100	600	200	300	800	1,500
Prod Production	500	800	800	700	700	600	600	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	+ 500	0	- 500	- 500	0	+ 500	+ 500	0	- 500
Cum. Status (A)	- 500	- 500	0	+ 500	+ 500	0	- 500	- 500	0	+ 500	+ 500	0
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,300	3,000	4,100	5,200	5,800	6,000	6,300	7,100	8,600
Cumulative Production	500	1,300	2,100	2,800	3,500	4,100	4,700	5,300	6,000	6,800	7,600	8,600

(A) (+) Indicates overproduced.
(-) Indicates underproduced.

April 2, 1971

EXAMPLES OF PRORATION CALCULATIONS

	January	February	March	April	May	June	July	August	September	October	November	December
NW MEXICO PRORATION CALCULATIONS:												
Nominations:	1,000	800	800	700	700	600	600	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	0	- 300	- 300	0	0	0
Allowable	--	--	1,000	800	300	700	700	600	300	600	700	800
Less: Allocated Production	--	--	500	800	800	700	400	600	600	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	0	- 300	- 300	0	0	0	0
Previous Month												
Interim Nominations	--	1,000	800	800	700	700	600	600	600	700	800	800
Interim Allocation	--	1,000	800	300	700	700	600	300	600	700	800	800
Nom. Minus Allow. Adjustment	--	0	0	+ 500	0	0	0	+ 300	0	0	0	0
Prod Allowable Allocation	1,000	800	300	700	700	600	300	600	700	800	800	1,000
Prod Production	500	800	800	700	400	600	600	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	0	- 300	0	+ 300	0	0	0	0	0
Cum. Status (A)	- 500	- 500	0	0	- 300	- 300	0	0	0	0	0	0
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,800	3,500	4,100	4,400	5,000	5,700	6,500	7,300	8,300
Cumulative Production	500	1,300	2,100	2,800	3,200	3,800	4,400	5,000	5,700	6,500	7,300	8,300

NW MEXICO PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS:

Nominations:	1,000	800	800	700	700	600	600	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	+ 500	+ 200	- 300	- 500	- 200	+ 300
Allowable	--	--	1,000	800	300	700	700	1,100	800	300	200	600
Less: Allocated Production	--	--	500	800	800	700	400	600	600	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	+ 500	+ 200	- 300	- 500	- 200	+ 300	+ 500
Prod Allowable Allocation	1,000	800	300	200	700	1,100	800	300	200	600	1,100	1,500
Prod Production	500	800	800	700	400	600	600	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	+ 500	- 300	- 500	- 200	+ 300	+ 500	+ 200	- 300	- 500
Cum. Status (A)	- 500	- 500	0	+ 500	+ 200	- 300	- 500	- 200	+ 300	+ 500	+ 200	- 300
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,300	3,000	4,100	4,900	5,200	5,400	6,000	7,100	8,600
Cumulative Production	500	1,300	2,100	2,800	3,200	3,800	4,400	5,000	5,700	6,500	7,300	8,300

(A) (+) Indicates overproduced.
(-) Indicates underproduced.

April 5, 1971

EXAMPLES OF PRORATION CALCULATIONS

#3

	January	February	March	April	May	June	July	August	September	October	November	December
NEW MEXICO PRORATION CALCULATIONS:												
Nominations	1,000	800	800	700	700	600	800	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	0	- 600	- 600	- 300	- 300	0
Allowable	--	--	1,000	800	300	700	700	600	0	600	400	800
Less: Allocated Production	--	--	500	800	800	700	100	600	300	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	0	- 600	- 600	- 300	- 300	0	0
Previous Month												
Interim Nominations	--	1,000	800	800	700	700	600	600	600	700	800	800
Interim Allocation	--	1,000	800	300	700	700	600	0	600	400	800	800
Nom. Minus Allow. Adjustment	--	0	0	+ 500	0	0	0	+ 600	0	+ 300	0	0
Prod. Allowable Allocation	1,000	800	300	700	700	600	0	600	400	800	800	1,000
Prod. Production	500	800	800	700	100	600	300	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	0	- 600	0	+ 300	0	+ 300	0	0	0
Cum. Status (A)	- 500	- 500	0	0	- 600	- 600	- 300	- 300	0	0	0	0
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,800	3,500	4,100	4,100	4,700	5,100	5,900	6,700	7,700
Cumulative Production	500	1,300	2,100	2,800	2,900	3,500	3,800	4,400	5,100	5,900	6,700	7,700

NEW MEXICO PRORATION CALCULATIONS OMITTING INTERIM ADJUSTMENTS:

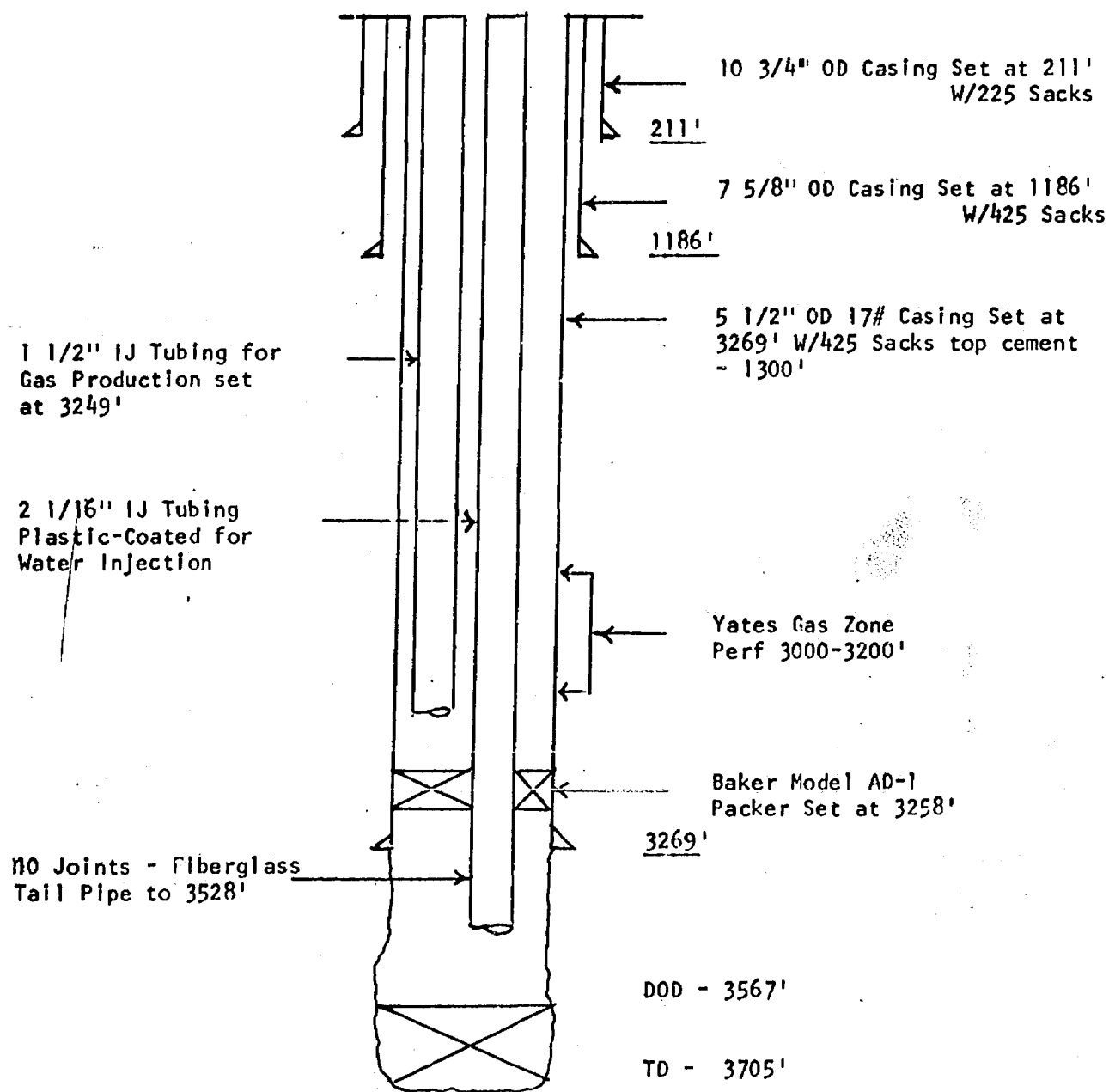
Nominations	1,000	800	800	700	700	600	600	600	700	800	800	1,000
Two Months Previous												
Beginning Over/Under (A)	--	--	0	- 500	- 500	0	+ 500	- 100	- 600	- 800	- 200	+ 600
Allowable	--	--	1,000	800	300	700	700	1,100	500	0	(100)	600
Less: Allocated Production	--	--	500	800	800	700	100	600	300	600	700	800
Allowable Minus Prod. Adjustment	--	--	- 500	- 500	0	+ 500	- 100	- 600	- 800	- 200	+ 600	+ 800
Prod. Allowable Allocation	1,000	800	300	200	700	1,100	500	0	(100)	600	1,400	1,800
Prod. Production	500	800	800	700	100	600	300	600	700	800	800	1,000
Monthly Status (A)	- 500	0	+ 500	+ 500	- 600	- 500	- 200	+ 600	+ 800	+ 200	- 600	- 800
Cum. Status (A)	- 500	- 500	0	+ 500	- 100	- 600	- 800	- 200	+ 600	+ 800	+ 200	- 600
Cumulative Volumes:												
Cumulative Nominations	1,000	1,800	2,600	3,300	4,000	4,600	5,200	5,800	6,500	7,300	8,100	9,100
Cumulative Allowable	1,000	1,800	2,100	2,300	3,000	4,100	4,600	4,600	4,500	5,100	6,500	8,300
Cumulative Production	500	1,300	2,100	2,800	2,900	3,500	3,800	4,400	5,100	5,900	6,700	7,700

(A) (+) Indicates overproduced.
(-) Indicates underproduced.

April 5, 1971

LANGLIE JACK UNIT NO. 16

Well-Bore Diagram for Conversion to Water Injection
Zero Elev - 3247 - 10' above Cement Floor
Unit M - Sec. 21 - T-24S - R-37E



NEW MEXICO OIL CONSERVATION COMMISSION
POST OFFICE BOX 2088
SANTA FE, NEW MEXICO

November 17, 1970

MEMORANDUM

TO: A. L. PORTER, Jr., SECRETARY-DIRECTOR

FROM: ELVIS A. UTZ, GAS ENGINEER

SUBJECT: SUGGESTED REVISION OF GAS PRORATION PROCEDURES

The following suggested gas proration procedure will not require any changes in the present proration rules inasmuch as it involves only a change in the pool allowable calculation procedure which has never been set out in any rule of the Commission anyway.

Present Pool Allowable Calculation Procedure

Each month after the gas purchasers' nominations have been reported at the allowable hearing and the gas purchasers' production reports have been received, each prorated gas pool's allowable is determined in accordance with the procedure illustrated below:

Current Nominations		10,000 MCF
First Previous Month's Nominations	9,000 MCF	
First Previous Month's Allowable	<u>- 9,500 MCF</u>	
Adjustment, First Previous Month		- 500 MCF
Second Previous Month's Production	8,000 MCF	
Second Previous Month's Beginning		
Net Allowable	<u>- 9,000 MCF</u>	
Adjustment, Second Previous Month		<u>-1,000 MCF</u>
Current Month Allowable		8,500 MCF
Less Estimated Marginal Allowable*		<u>2,000 MCF</u>
Non-marginal Pool Allowable		<u>6,500 MCF</u>

*This marginal allowable is the monthly average production during the last six month proration period from all wells which are currently classified as marginal. This estimate is used only to obtain a total estimated marginal allocation figure to deduct from the current allowable in order to derive the non-marginal pool allowable. When production from a marginal well for a given month is reported, the production becomes the well's allowable.

Memorandum - November 17, 1970

Suggested Pool Allowable Procedure

Each month the sum of the purchasers' nominations for gas from a given pool during the following month would be considered the pool's current allowable for that month, provided however, that the Commission would adjust these nominations if, in its opinion, the nominations did not truly reflect actual expected production during that month.

The adjustments, if made, would be on the basis of a pool's past production, allowable, over- and under-production, and any other current or historical data which may be a valid consideration for maintaining a balanced pool status.

Advantages of Suggested Revision

1. This procedure will assign pool allowables more consistent with actual production and therefore eliminate the severe fluctuations that have been prevalent in the past.
2. When pool allowables are more consistent, the so-called "six-times" overproduction rule will work more effectively. This is Rule 15(A) for Southeast New Mexico and Rule 15(B) for Northwest New Mexico of Order No. R-1670.
3. When the "beginning net allowable" is not used in setting pool allowables, the underage carried on individual wells does not affect the current pool's allowable. Therefore the cancellation of underage by classification to marginal becomes unimportant with respect to setting current pool allowables.
4. When the cancellation of well underproduction is accomplished by the usual cancellation rules of Order No. R-1670, Rules Nos. 14(A) and 14(B), the operator is afforded a reasonable opportunity to produce his well's assigned allowable.
5. The purpose of the present balancing, cancellation and redistribution procedure is to allow certain wells in a pool to produce allowable which cannot be produced by certain other wells in the pool. This is done to help the pool meet its market demand. The overproduced wells are then balanced by the redistribution of the underproduction in accordance with the pool formula. This process however should be an internal pool process and should not affect the assigned pool allowable. By permitting underproduction to be redistributed directly to the non-marginal wells and not to be considered in determining current pool allowable (current pool allowable would be based on nominations only, as adjusted) the recommended method of assigning pool allowables should give our balancing

Memorandum - November 17, 1970

procedures an opportunity to better accomplish their purpose.

6. When assigning allowables in this manner, the necessity for classifying wells to marginal so closely to the well's "probable ability to produce" is not necessary. Thus, wells will not fluctuate from marginal to non-marginal as often and less administrative and supplemental paperwork on everyone's part is involved.

7 By placing more emphasis on consistent pool allowables and six-month balancing and cancellation procedures, the administrative load for purchaser, producer, and the Commission is reduced.

8. The proposal is consistent with the Commission's obligation to protect the correlative rights of the gas producers and is the proper first step toward improving our gas proration procedures.

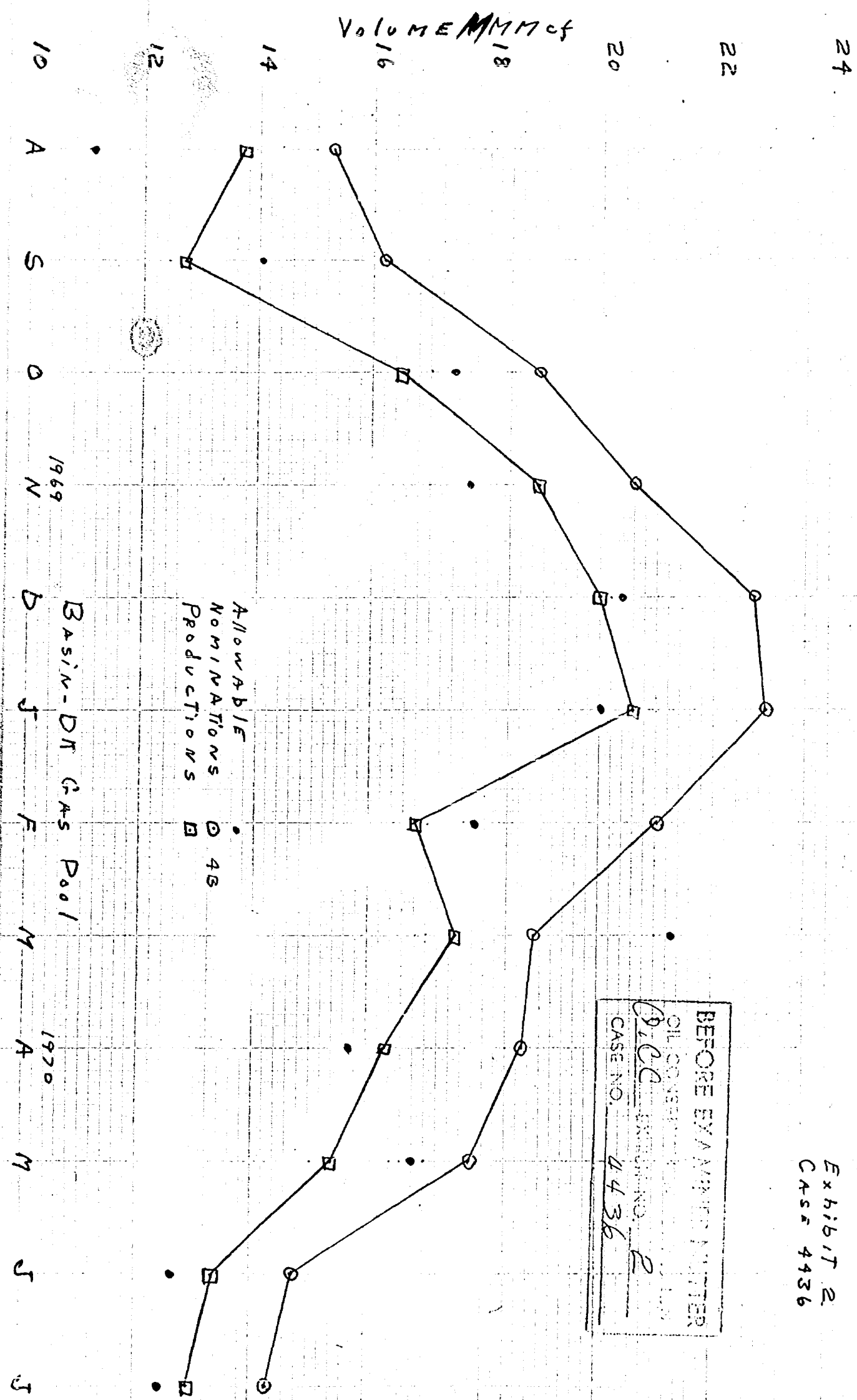
It is my intention to testify concerning this revised allowable procedure at the December 2 hearing of Case No. 4436, the application of El Paso Natural Gas Company for the amendment of the General Rules and Regulations governing prorated gas pools.

EAU/ir

HT-11-70

Exhibit 2
Case 4436

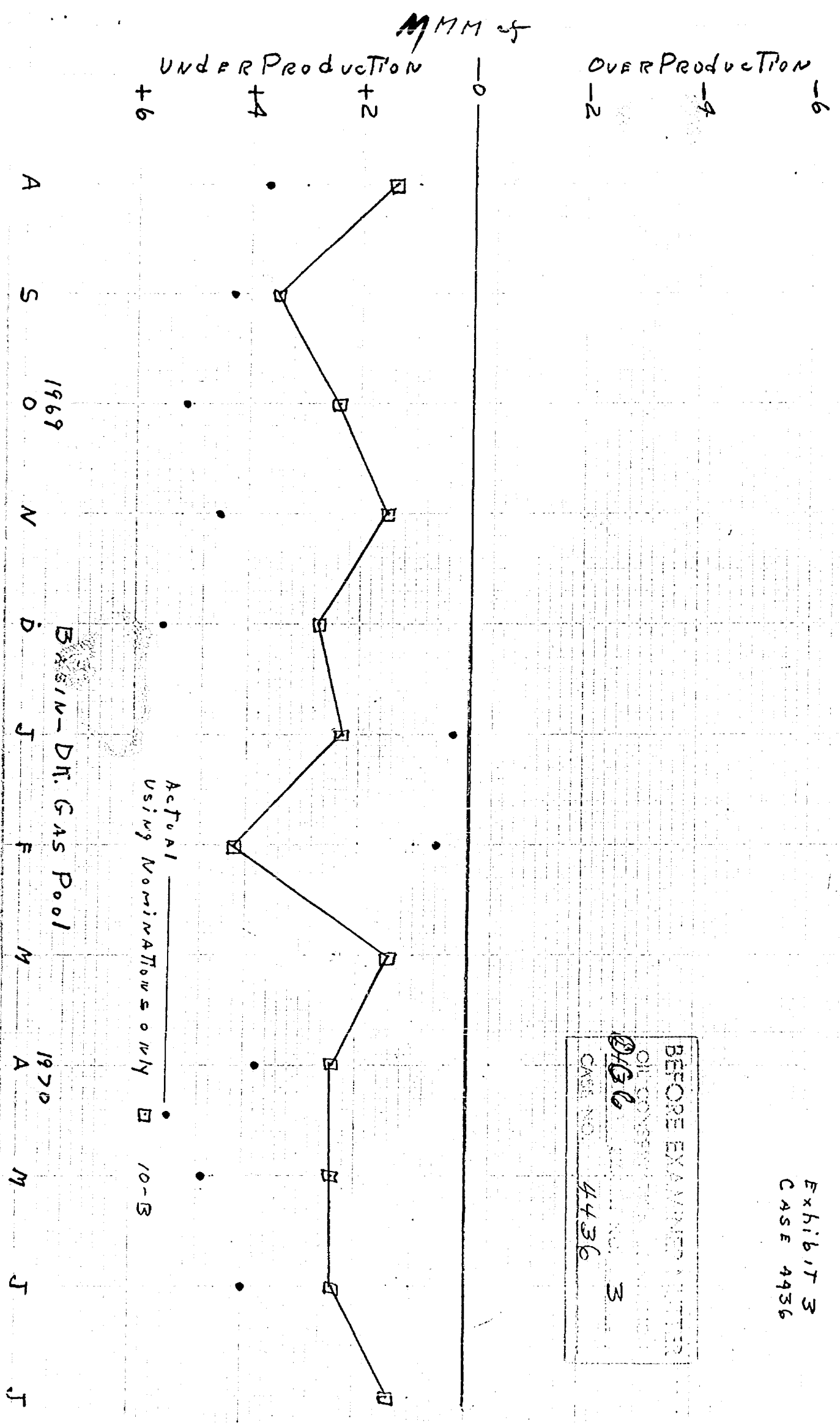
BEFORE EXAMINER	
OIL CONSERVATION	EXHIBIT NO. 2
CASE NO.	4436



LT 11-70

Exhibit 3
Case 4936

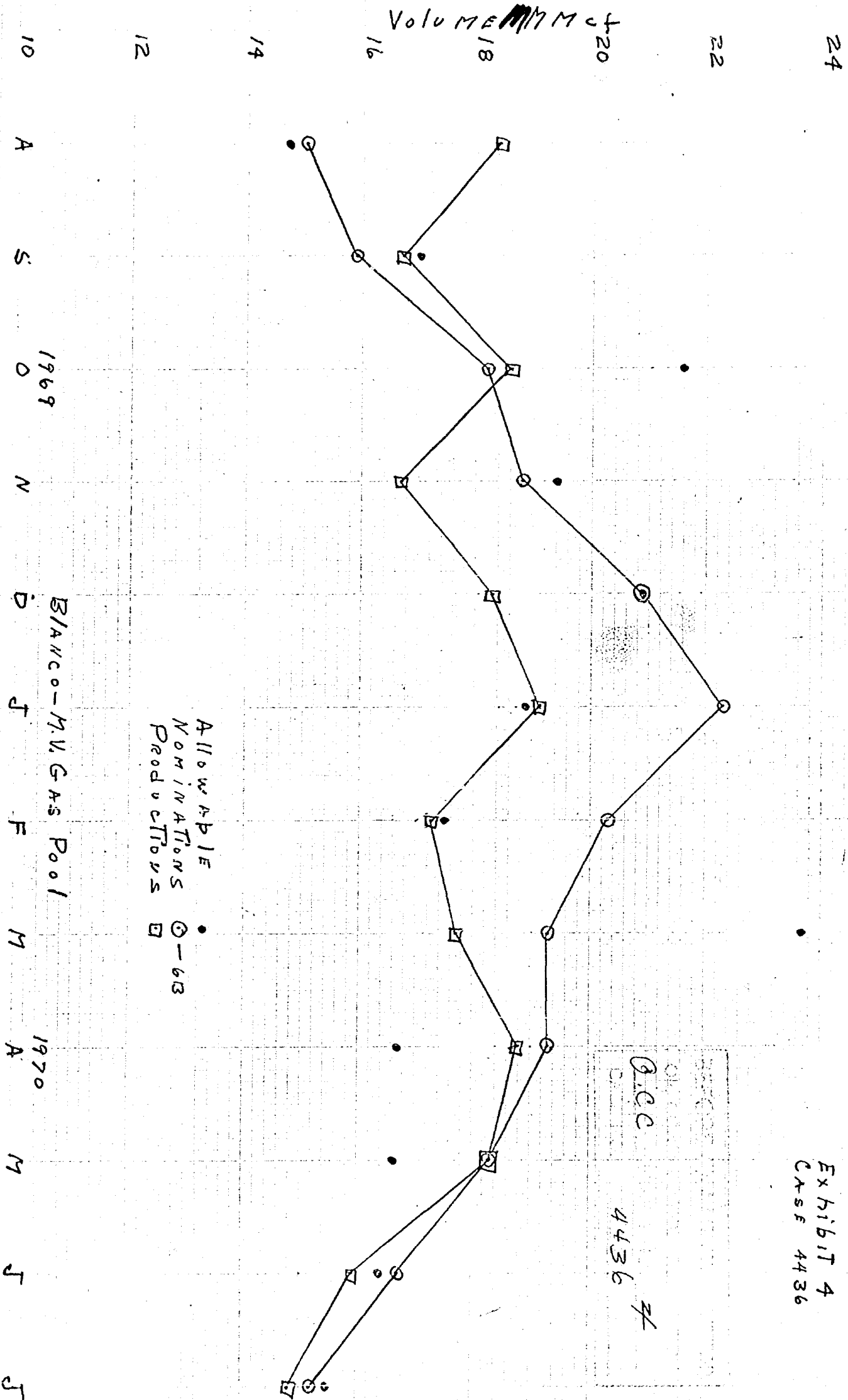
BEFORE EXAMINED MASTER
OIL COMPANY
FIG 6
CASE NO. 4436



LT2 11-70

Exhibit 4
Case 4436

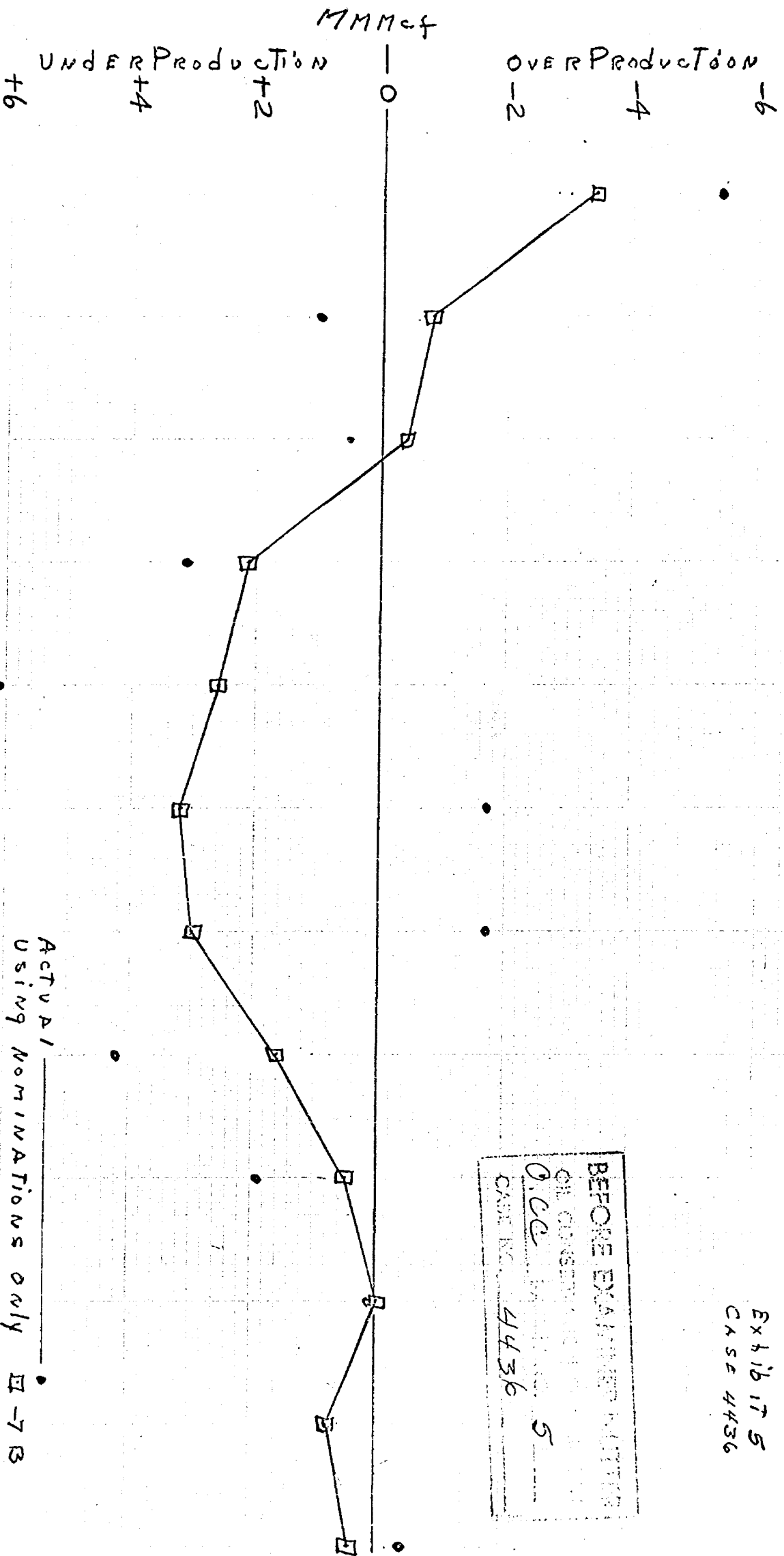
O.C.C.
4436



LT2 11-70

EXHIBIT 5
CASE 4436

BEFORE EXAMINED BY THE
OIL COMMISSION
O.C.C. 11-11-70 5
CASE NO. 4436



A

S

1969
O

N

D

J

F

M

A

1970
M

J

J

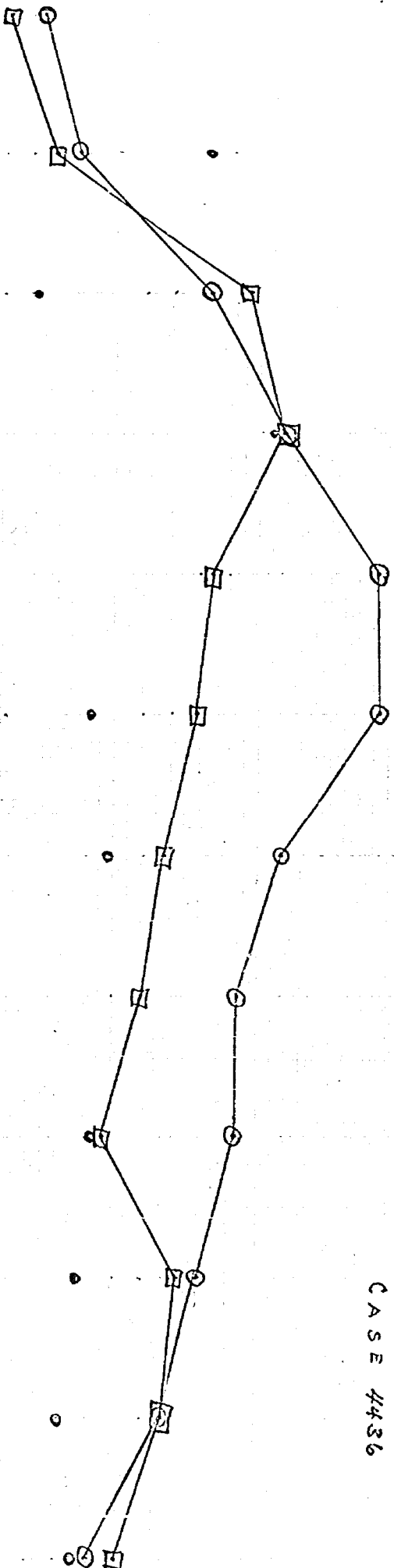
BLANCO-NV GAS POOL

4

4T2 11-70

Exhibit 6
CASE 4436

3



BEFORE PRODUCTION
OF CONCRETE
O.C.C.
CASE NO. 4436
6

ALLOWABLE
NON-INNOVATIONS
PRODUCTION

So. Blanco-P.C. Gas Pool

0

A

S

O

N

D

J

F

M

A

M

J

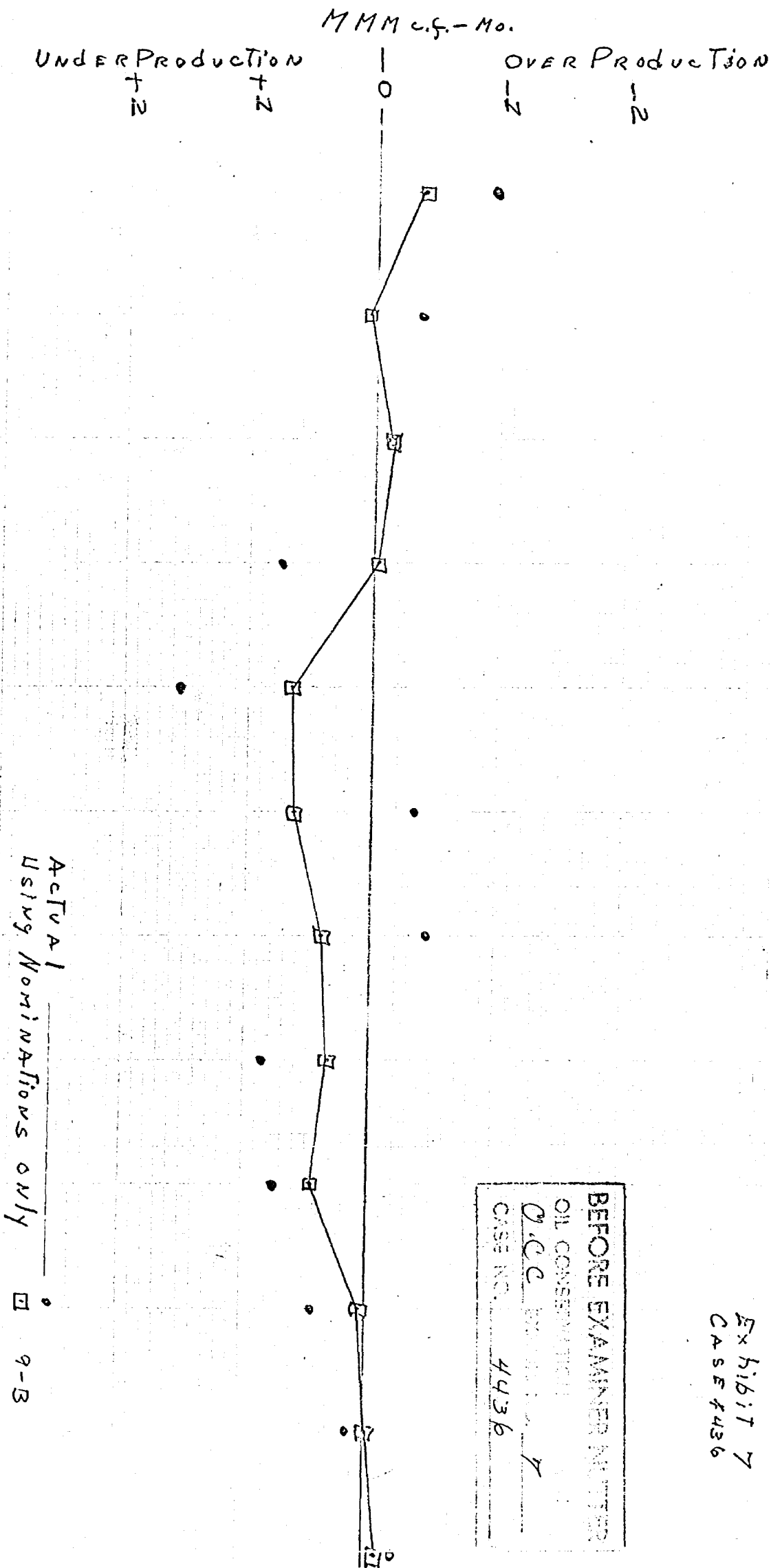
J

S

UT2 11-20

Exhibit 7
Case 4436

BEFORE EXAMINER NOTED
OIL CONSERVATION
O.C.C. EXAMINER 7
CASE NO. 4436



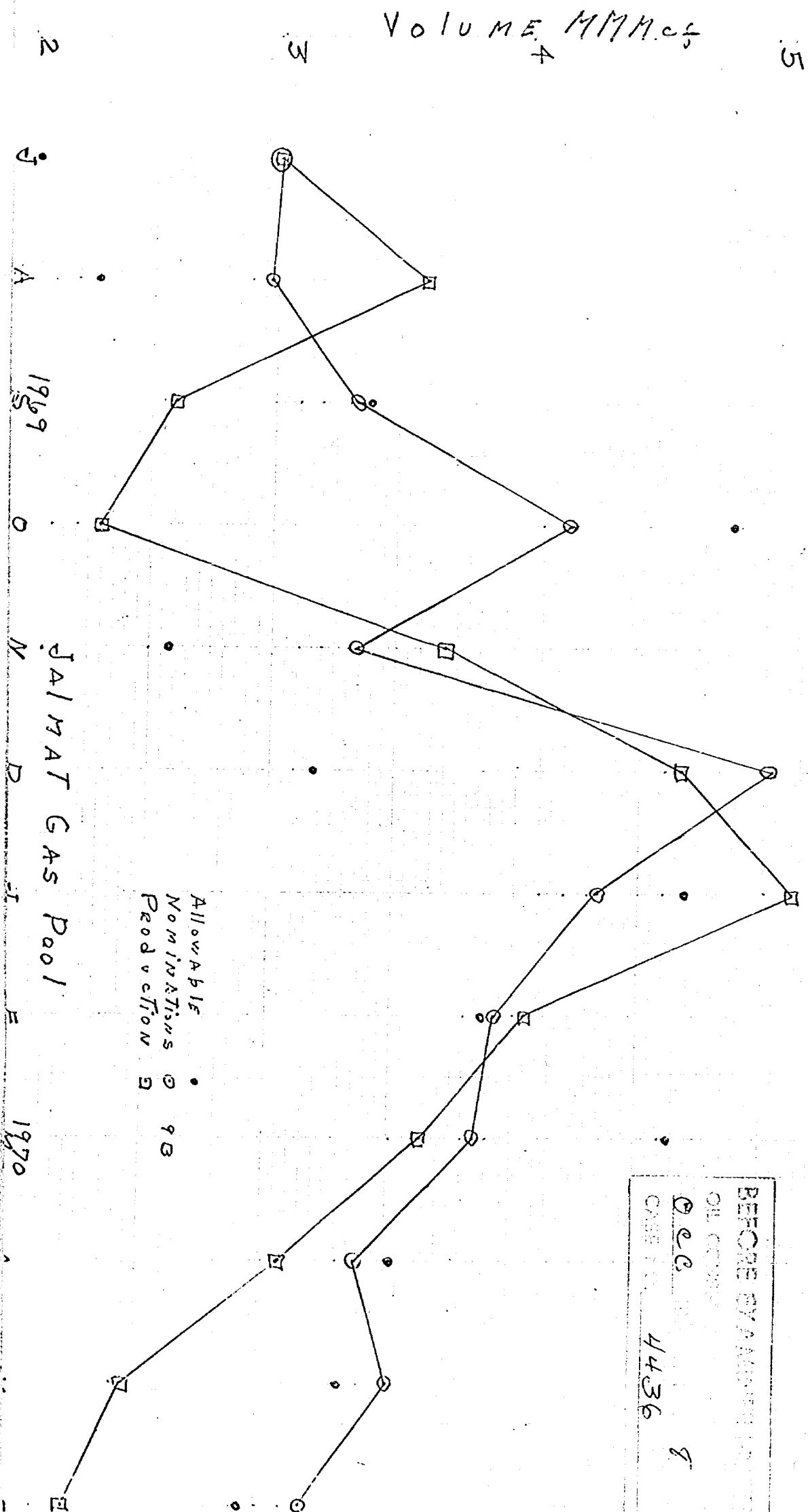
S. B. / A. W. C. - P. C. Gas Pool

A S O N D J F M A M J J

UT2 11-70

Exhibit 11
Case 4436

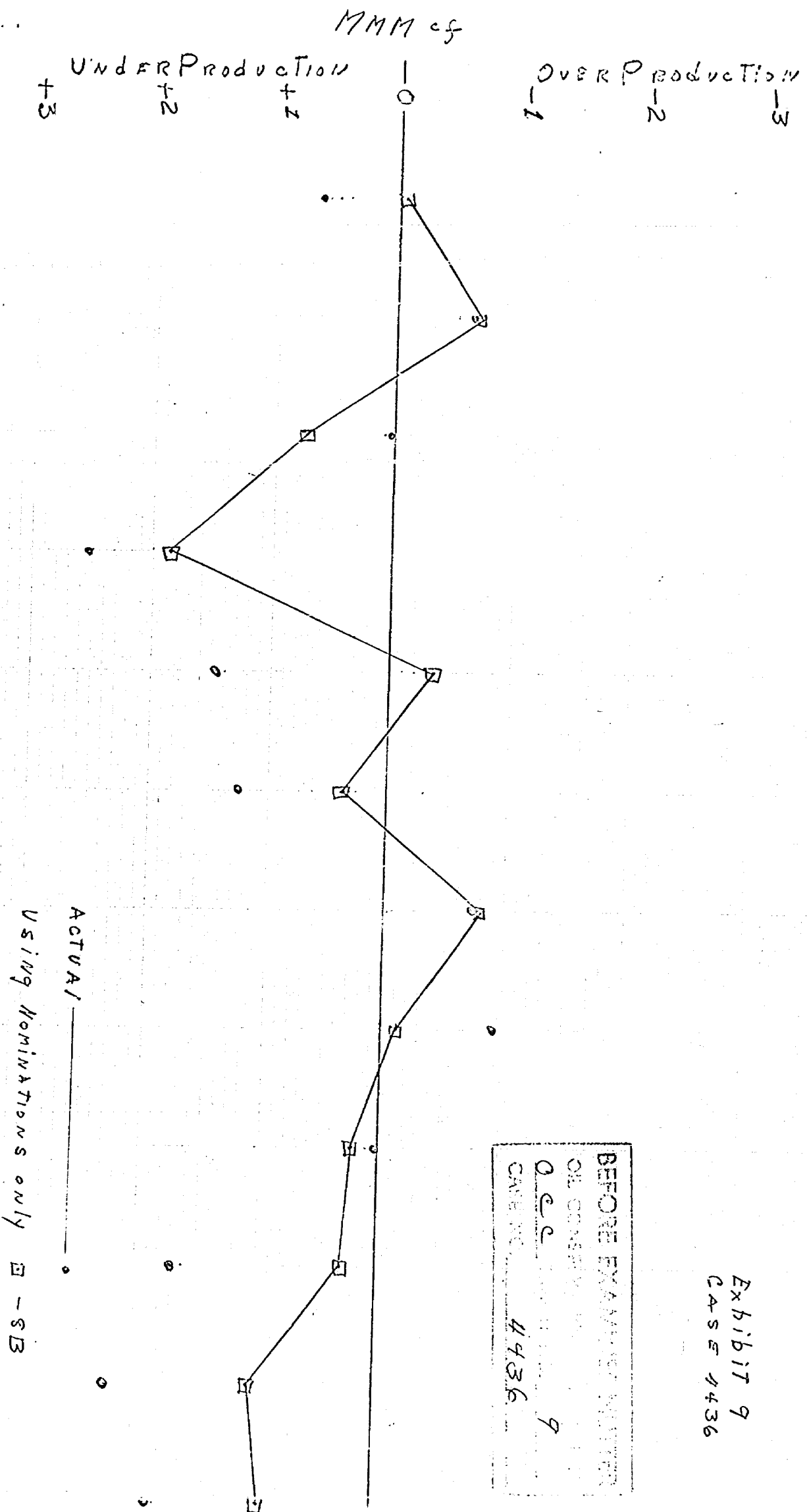
BEFORE BY AARON J. HARRIS
OIL COMPANY
DEC 1970
CASE NO. 4436



LT2 11-70

Exhibit 9
Case 4436

BEFORE EXAMINER
OIL COMPANY
OCC 9
CASE NO. 4436



J A S 1969 N D J F 1970 A M J

JALMAT GAS POOL

Volume 4

6

5

3

2

J A S O 1969

Euromont Gas Pool

1970

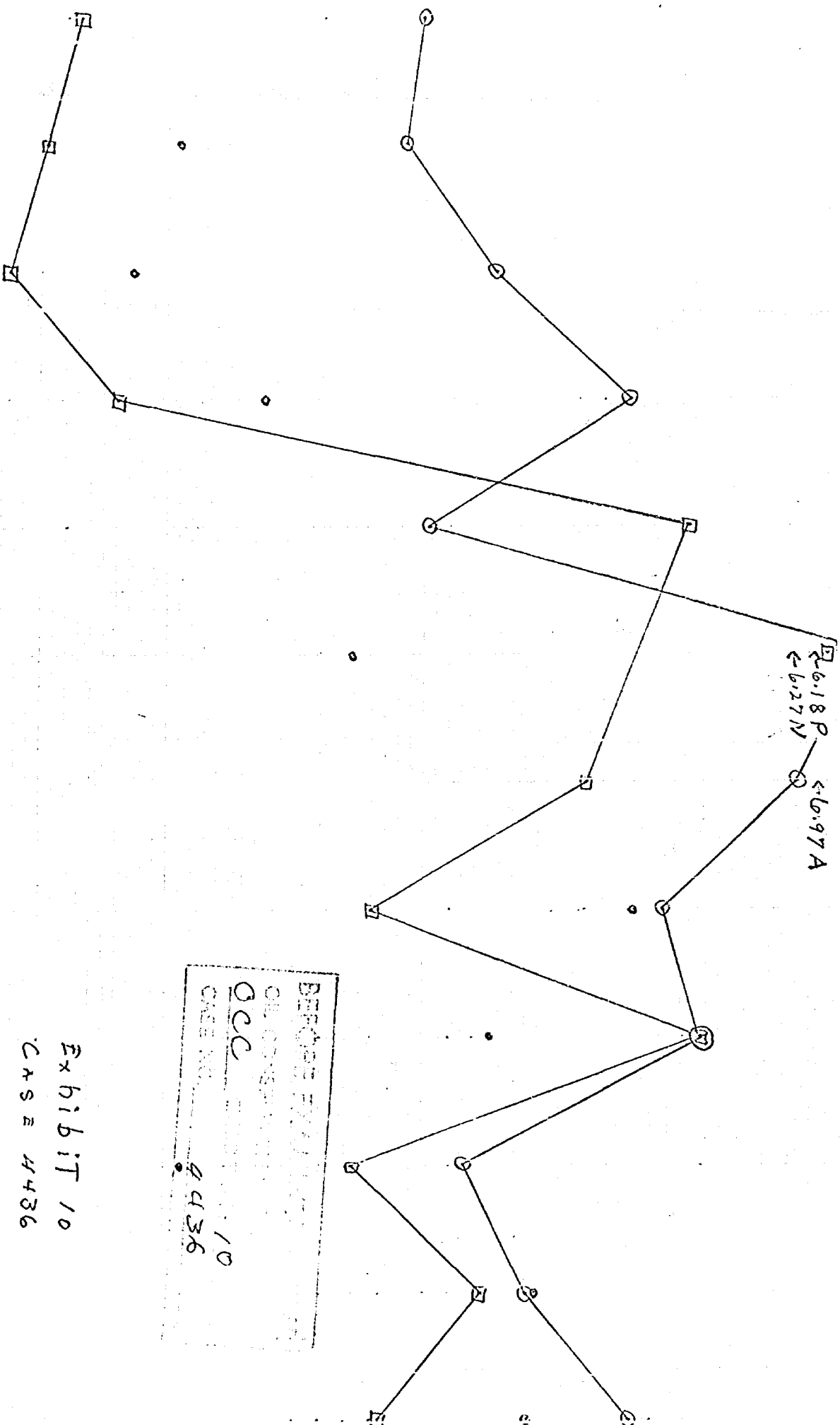
A

M

Allowable
Nominations
Productions

Exhibit 10
Case 4436

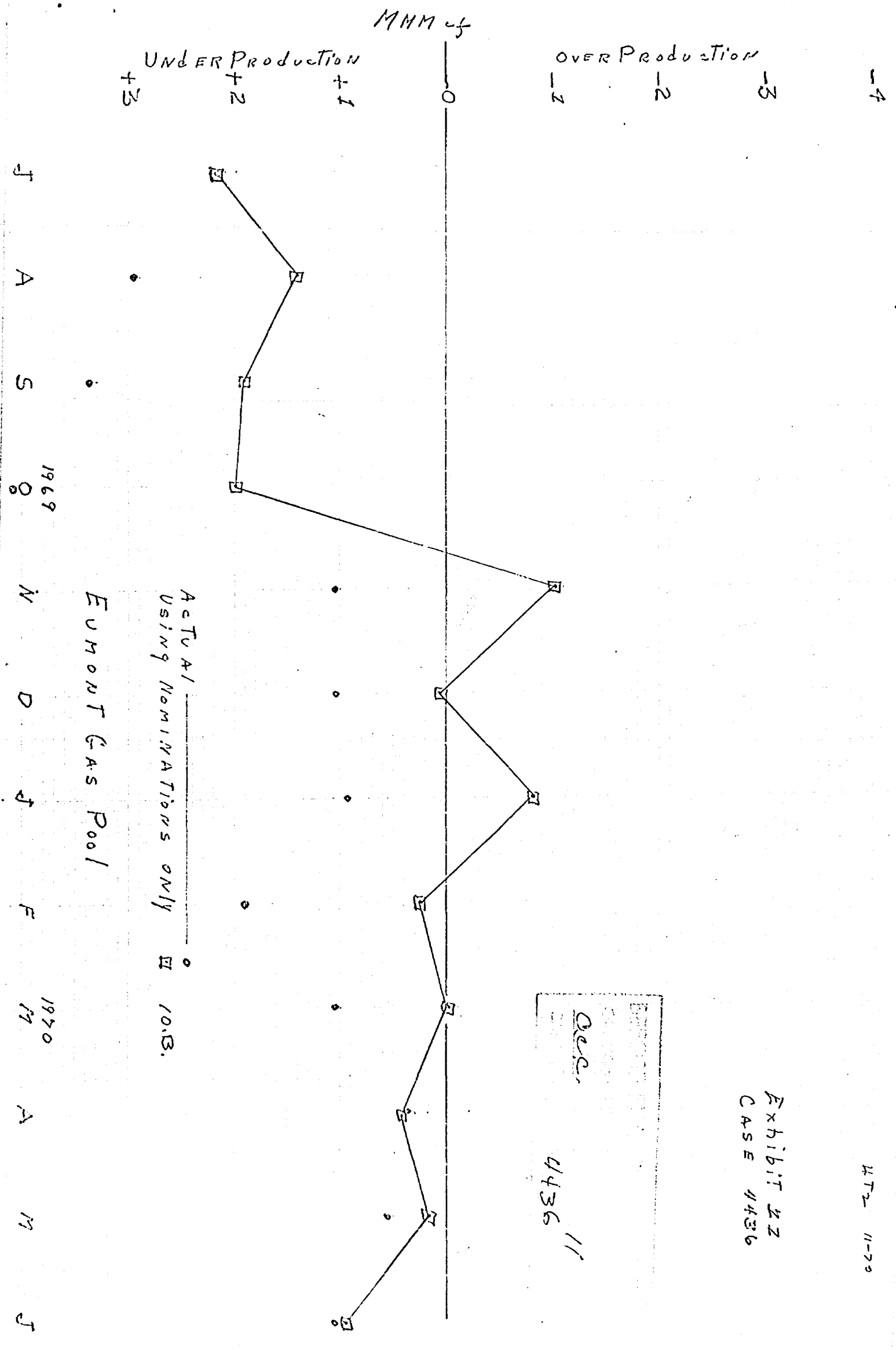
BEFORE THE
OIL CONSERVATION
GCC
CASE NO. 4436



HTZ 11-70

Exhibit 22
CASE 4436

Dec. 4436 11



ACTUAL
Using NOMINATIONS ONLY 10.B.

Eunott Gas Pool

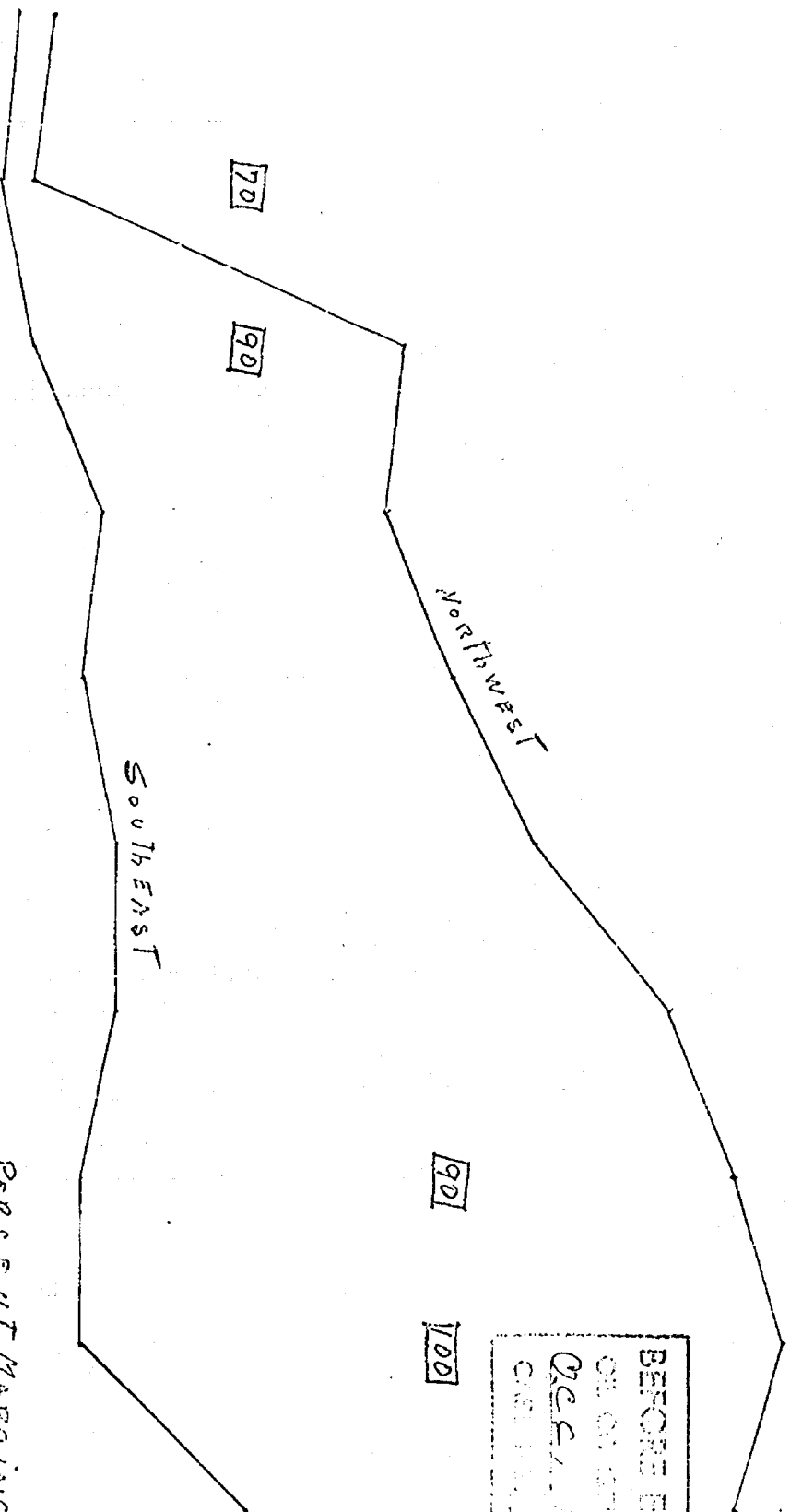
J A S 1969 N D J F 1970 A M J

4T2-11-70

Exhibit 12
Case 4436

70
60
50
40
30
20
10
0

90 MARGINAL WELLS



BEFORE EMAL
ON 01/01/70
QCE 12
CCE 4436

PERCENT MARGINAL WELLS
PRODUCED GAS POOLS
NEW MEXICO

% OF 6 No. Ave. Allowable USED TO
COMPARE TO Hi MONTHS PROD.
10

CASE 4436
CHEVRON OIL COMPANY EXHIBIT 1

ACTUAL ALLOWABLE AND PRODUCTION FROM CHEVRON-BOGLE
FLATS UNIT NO. 2, INDIAN BASIN-UPPER PENN GAS POOL,
FIRST SIX MONTHS OF 1969

	Allowable (MCF)	Production (MCF)	Monthly Underproduction (MCF)	Cumulative Underproduction (MCF)
Beginning Period				10,542
January	156,815	133,762	23,053	33,595
February	110,576	118,348	7,772-	25,823
March	127,023	142,964	15,941-	9,882
April	95,222	124,979	29,757-	19,875-
May	109,640	91,035	18,605	1,270-
June	108,107	101,205	6,902	5,632
	<u>707,383</u>	<u>712,293</u>	<u>4,913-</u>	

Average monthly allowable during period = $707,383 \text{ MCF} \div 6 \text{ months}$
= 117,897 MCF per month

Average monthly production during last
3 months = $317,219 \text{ MCF} \div 91 \text{ days}$
= 105,974 MCF per month

RESULT: Since average monthly production (or producing ability by El Paso's definition) during last three months was less than average monthly allowable during the period, and since the well was underproduced at the beginning of the period, the well would have been reclassified to marginal if El Paso's proposed rules had been in effect during 1969. The well's cumulative underproduction of 5,632 MCF as of July 1 would have been cancelled, and it would be assigned a marginal allowable of 105,974 MCF per month in future months, and it would not be allowed to accumulate future underproduction. This reclassification would have occurred in spite of the fact that the well is actually capable of producing far more than the allocated non-marginal allowable in any month of the period.

BEFORE EXAMINED NUTTER
OF CONSERVATION COMMISSION
<i>Chevron</i> EXHIBIT NO. <u>1</u>
CASE NO. <u>4436</u>

10/14

CASE 4436

CHEVRON OIL COMPANY EXHIBIT 2

SUGGESTED REVISION TO RULES FOR NORTHWEST NEW MEXICO

RULE 9(b). The allowable to be assigned to each marginal well shall be the lesser of (1) the maximum production of said well during any month of the preceeding gas proration period, or (2) the most recent deliverability test, taken in accordance with Rule 9(d), multiplied by 30.4 days,

RULE 16(a). After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of the preceeding gas proration period and which appears incapable of producing its non-marginal allowable will be classified as a marginal well, unless the operator or other interested party presents evidence satisfactory to the Commission showing that the well should not be so classified. Whether the well is capable of producing its non-marginal allowable will be determined by comparing its calculated average monthly non-marginal allowable for the preceeding period with its monthly producing ability. Each well's monthly producing ability will be assumed to be the lesser of (1) the maximum production during any month of the preceeding gas proration period, or (2) the most recent test deliverability multiplied by 30.4 days,

RULE 18. If, at the end of a proration period, a marginal well has demonstrated its ability to produce the calculated average monthly allowable assigned a non-marginal well of like deliverability and acreage during the proceeding period, the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly. The well's ability to produce will be assumed to be the lesser of (1) the maximum production of said well during the preceeding proration period, or (2) the most recent test deliverability multiplied by 30.4 days.

BEFORE EXAMINER NUTTER

CHEVRON OIL COMPANY

Chas. A. Nutter, Jr. No. 2

CASE NO. 4436

10/14

El Paso Natural Gas Company

El Paso, Texas 79902

September 22, 1970

Case No. 4436

Exhibit No. _____

Mr. A. L. Porter, Jr., Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

BEFORE EXAMINER MUTTER
OIL CONSERVATION COMMISSION
El Paso Sept 11, 1970
CASE NO. 4436

Dear Mr. Porter:

In behalf of El Paso Natural Gas Company, we wish to hereby request a Hearing at the time of your scheduled Statewide Hearing on Wednesday, October 14, 1970 for the purpose of changing Order R-1670 - General Rules and Regulations as they are applicable to Northwestern New Mexico. Attached, hereto, are specific changes in rules which we consider are required to accomplish the objectives set forth herein.

This Hearing is the culmination of the several meetings with operators and discussions with Commission staff that have been held during this year in order to determine the form of relief needed to deal with the particular problems encountered in complying with the proration rules applicable to the pools of Northwestern New Mexico.

Basically, we believe our proposal sets forth:

1. A preferable way for determining when wells should be classified as marginal, and,
2. A preferable means of determining that portion of the market demand which should be attributed to marginal wells.

These amendments will aid in accomplishing the over-all objectives of minimizing the assignment of allowables to marginal wells in volumes exceeding their producing capacity. This in turn will reduce the overproduction required of prorated wells in order to offset any excess apportionment of current market demand to marginal wells as allowable.

We believe the attached amendments to the rules to be self-explanatory and we further believe these amendments will accomplish the above objectives.

We would like to explain our reasons for excluding a portion of existing Rule 15 (B). This rule authorizes the Commission to permit a well to produce each month in order to avoid undue hardship. As we recall, this was specifically requested in order to

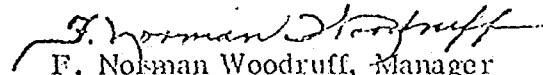
Mr. A. L. Porter, Secretary-Director
New Mexico Oil Conservation Commission
September 22, 1970
page two

avoid the question of loss of lease where production is judged to be necessary each month. We propose the deletion of the last clause which, as we interpret it, would require the Commission to shut-in a well ignoring the need for production to hold the lease in an instance where production during any month exceeded the specially authorized allowable. We believe the other portions of this rule clearly give the Commission the authority to control the production from the wells under the circumstances without the necessity of this clause.

In the event the Commission desires to give consideration to applying the rules we propose to the prorated pools of Southeastern New Mexico, the changes in the General Rules and Regulations applicable to Southeastern New Mexico would be as follows:

Section C, Rule 10 (A), same as Rule 9 (B) in our proposal,
Section D, Rule 15 (A), second paragraph, same as Rule 15 (B) in our proposal,
Section E, Rule 16 (A), same as Rule 16 (A) in our proposal,
Rule 16 (B), same as Rule 16 (B) in our proposal and renumber
Rule 16 (B) to 16 (C)

Yours very truly,


F. Norman Woodruff, Manager
Gas Proration Operations

FNW:mgs
attachments

CC: Mr. Emory Arnold
Mr. Richard S. Morris

PROPOSED CHANGES TO ORDER R-1670 - GENERAL RULES
AND REGULATIONS FOR PRORATED GAS POOLS - NEW MEXICO

NORTHWEST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

Rule 9(B). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set out in Section E, Rules 16(A) and 16(B).

D. BALANCING OF PRODUCTION

Rule 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship.

E. CLASSIFICATION OF WELLS

Rule 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceeding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the most recent three months available (see 16(B) below). A well will not be classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

Rule 16(B). Each gas purchaser shall furnish to the Commission, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available of each prorated gas well to which it is connected. Upon receipt of this information from the gas purchaser, the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

Rule 16(C). [Old Rule 16(B)]. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

Rule 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC - Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A).

Basin Dakota - Order R-1670-C, delete Rule 16(A). ||

EL PASO NATURAL GAS COMPANY

January 13, 1970

TO ALL OPERATORS - SAN JUAN BASIN AREA:

BEFORE EXAMINER
OIL CONSERVATION COM.
EXHIBIT NO. _____
CASE NO. _____

There is attached a copy of El Paso's application for the suspension of the balancing provisions of the field rules for the prorated gas pools of the San Juan Basin area for the year 1970, and for a change in the field rules pertaining to the manner of assignment of marginal well allowables. We understand that this application will be set for hearing on February 4, 1970.

There is also attached a draft of a memorandum which we would propose the Commission send to all Operators if our application is granted. This memorandum explains the details relating to the care of marginal wells as we visualize they would be handled under the provisions of Rule 9 (B) and Rule 9 (C) 3 proposed in our application.

We believe that the letter of application is self-explanatory as to the reasons suspension of the rules are again necessary. The proposal to change the manner of calculation of marginal allowables will minimize the assignment of allowable to wells that are incapable of producing it. This has been a major cause of the indicated severity of over and under-production.

For those interested in discussing this matter before the hearing, we are calling a pre-hearing meeting in Santa Fe, New Mexico beginning at 1:00 P.M. on February 3, 1970 in the Commission Conference Room on the second floor of the Land Office Building.

In the meantime, if you have any questions or suggestions, please contact the undersigned or David H. Rainey, Assistant Manager of Gas Proration Operations, El Paso Natural Gas Company.

Yours very truly,

F. Norman Woodruff
F. Norman Woodruff, Manager
Gas Proration Operations

FNW:mgs
attach.

Telephone Numbers: (Area Code 915)
F. Norman Woodruff - 543-4996
David H. Rainey - 543-5046

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
El Paso EXHIBIT NO. <u>2</u>
CASE NO. <u>4436</u>

El Paso Natural Gas Company

El Paso, Texas 79901

January 13, 1970

New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Suspension of Balancing Provisions of Rule 14 (A) -
(Underproduction), Rule 15 (A) - (Overproduction),
and Rule 15 (B) - (Overproduced Six Times Current
Month's Allowable) of Order R-1670

Gentlemen:

El Paso Natural Gas Company hereby requests a hearing to consider suspension for a period of one year from February 1, 1970 of the balancing provisions of Rule 14 (A) - (Underproduction), Rule 15 (A) - (Overproduction), and Rule 15 (B) - (Overproduced Six Times Current Month's Allowable) of Order No. R-1670, as amended. Because of the past high market demand from this area and the assignment of the allowables in some months to wells that were incapable of producing it, El Paso has had to overproduce capable wells to the extent that a number of wells representing substantial deliverability may be shut-in for unbalanced overproduction effective February 1, 1970. It appears that sufficient deliverability will be shut-in to create a hardship on El Paso in meeting its market demand for gas from the San Juan Basin area during certain periods of the year 1970.

El Paso further requests that Rule 9 (B) of the General Rules and Regulations for Northwestern New Mexico be amended to provide: "The allowable to be assigned to each marginal well shall be equal to the number of days in the month times the average daily production of the preceding three months as determined in Rule 9 (C) 3 below, except as provided in the Special Pool Rules." (The Tapacito Special Pool Rules should be amended to comply with this change.)

El Paso further requests that an additional paragraph numbered Rule 9 (C) 3 be added to the General Rules and Regulations of Northwestern New Mexico as follows: "No well shall be assigned an allowable in excess of its actual producing ability as determined from its average daily producing ability for the latest preceding three months available to the Commission.

Such information concerning the average daily producing ability for the preceding

New Mexico Oil Conservation Commission
Attention: Mr. A. L. Porter, Jr.
January 13, 1970
Page Two

three months shall be furnished to the Commission monthly by pipeline gatherer or first taker of gas for each individual well. In case of a new or reworked well not having the three months production history, state deliverability tests will be used until the three months production is available."

As these rules and this order pertain to wells in the prorated gas pools of Northwest New Mexico in San Juan, Rio Arriba and Sandoval Counties, we, therefore, request a February, 1970 hearing date so that this matter can be heard prior to the time normal cancellation and redistribution of prorated pools in the San Juan Basin takes place in order to avoid the burden of reinstating underages and releasing for production wells that have been ordered shut-in for overproduction.

Very truly yours,

Robert A. Meyer

Robert A. Meyer
Office of General Counsel

RAM:rps

MEMORANDUM PERTAINING TO CALCULATIONS OF ALLOWABLES
SAN JUAN BASIN
SAN JUAN, RIO ARriba & SANDOVAL COUNTIES, NEW MEXICO
(Subject to Administrative change by Secretary-Director)

1. A non-marginal well is a well which is capable of producing its calculated allowable as determined by the field allocation formula.
2. A marginal well is a well which is incapable of producing its calculated allowable as determined by the field allocation formula.

Evidence of capability in 1 and 2 above is to be determined in accordance with Rule 9 (C) 3 of Order R-1670, as amended.

- a. A well incapable of producing its calculated allowable shall be assigned allowable at the rate the well is capable of producing as determined from its average daily producing ability for the latest preceding three months available to the Commission as determined by Rule 9 (C) 3.
- b. A marginal well shall not be allowed to accumulate underproduction and shall be charged with overproduction only if it produces in excess of its non-marginal calculated allowable.
- c. If a marginal well's current monthly production plus its latest cumulative overproduction is less than its calculated formula allowable, it will be assigned its production plus its latest cumulative overproduction. A well will never receive an allowable greater than the formula allowable. Therefore; if a marginal well's current monthly production plus its latest cumulative overproduction is more than its calculated formula allowable, it will be assigned its calculated formula allowable.
- d. If any underage is accrued prior to its marginal classification, such underage will be carried forward during the balancing period and is subject to the balancing provisions of underproduction, provided, however, this underage will not be included when determining pool status for allowable calculations. If any overage that was accrued while the well was classified non-marginal still remains after adjustments are made under Provision C above, it will be carried forward during the balancing period and is subject to the balancing rules for overproduction.

[Handwritten signature]
OIL CONSERVATION COMMISSION
Post Office Box 2088
Santa Fe, New Mexico
87501

PRORATION DEPT.
REC'D MAR 09 1970
<i>[Handwritten initials and signatures]</i>

MEMORANDUM

TO: ALL GAS PRODUCERS AND PURCHASERS

FROM: A. L. PORTER, Jr., SECRETARY-DIRECTOR

SUBJECT: MEETING ON PRORATION PROCEDURES - MARCH 18, 1970

Attached is a suggested revision of gas proration procedures for New Mexico which has been submitted by the Commission staff for consideration by the Commission, gas producers and gas purchasers.

This suggested procedure is being submitted for your study in advance of a meeting which will be held in Morgan Hall at the State Land Office Building in Santa Fe immediately following the regular hearing on March 18, 1970. The meeting should get underway by 10:00 a.m. All producers and purchasers are urged to attend and participate in the discussions. The results of the discussions will have a bearing upon further consideration by the Commission of a hearing to revise the appropriate orders.

ir/

MARCH 2, 1970

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
<i>EIP</i> EXHIBIT NO. <u>3</u>
CASE NO. <u>4436</u>

[Handwritten signature]

A SUGGESTED REVISION OF GAS PRORATION PROCEDURES
FOR NEW MEXICO

1. At least 30 days prior to the beginning of each six-month proration period, the Commission would hold a hearing and receive gas nominations from all purchasers in each prorated gas pool.
2. Before the beginning of each six-month proration period, the Commission would issue a gas proration schedule allocating the nominations to each well in each pool for each month of the six-month proration period as follows:
 - (a) Marginal wells would be assigned a "tentative" allowable equal to their average monthly production for the preceding proration period.
 - (b) Non-marginal wells would be assigned a "tentative" allowable in accordance with the pool proration formula.
3. Before the establishment of the proposed six months proration program all wells would be classified on the basis of their production vs. calculated allowables during the proration period preceding the inauguration of the six months program in the following manner:
 - (a) A marginal well is a well which is incapable of producing its calculated non-marginal allowable.
 - (b) A non-marginal well is a well which is capable of producing its calculated non-marginal allowable.
 - (c) Capability of a well would be determined by the well's highest month's production for the previous proration period.
 - (d) Only non-marginal wells with underproduction at the beginning of the period and marginal wells would be considered for reclassification.
 - (e) A non-marginal well could be reclassified marginal when its highest month's production for the most recent proration period is less than its average monthly allowable.

Suggested revision of gas proration
procedures for New Mexico

Order R-1670 is hereby amended to read as follows:
Order R-1670 is hereby amended to read as follows:

- (f) A marginal well could be reclassified non-marginal when its highest month's production for the most recent proration period is in excess of its average calculated monthly non-marginal allowable.
- 4. When each month's production for the proration period is available, each pool's allowable shall be adjusted to equal the pool production. The allocation to the wells would be as follows:
 - (a) Marginal wells would be assigned a final allowable equal to their production for the month.
 - (b) Non-marginal wells would be assigned a final allowable in accordance with the pool proration formula.
 - (c) These allowables would be final and used for all matters pertaining to proration.
- 5. A monthly schedule would be issued showing the pool adjustments and final pool allocation factors and each well's final allowable, production, cumulative status, and balance status.
- 6. The balancing of non-marginal wells during a six-month proration period would be accomplished as follows:
 - (a) A well with underproduction at the beginning of a proration period would be credited with monthly overproduction. When the cumulative overproduction for the period is equal to or greater than the beginning underproduction, the well is in balance and will have no cancellation at the end of the proration period.
 - (b) A well with overproduction at the beginning of a proration period would be credited with monthly underproduction. When the cumulative underproduction is equal to or greater than the beginning overproduction, the well is in balance and will not be curtailed or shut in at the end of the proration period.
- 7. Non-marginal wells would continue to be subject to the present six-times overproduction provisions of Order R-1670.

Suggested revision of gas proration procedures for New Mexico

8. When production for the last month of each proration period is available, the following operations would be performed:

- (a) The wells would be analyzed for possible reclassification in accordance with the above paragraphs 3 (a) through (f). The allowables used at this time would be the final allowables assigned in accordance with paragraph 4 above.
- (b) The volume of underproduction which has not been balanced in accordance with paragraph 6 (a) would be cancelled and redistributed to the non-marginal wells.
- (c) After redistribution, the volume of overproduction which has not been balanced in accordance with paragraph 6 (b) would be determined for purposes of curtailment.
- (d) A six months cancellation and redistribution schedule would be issued showing the amount of cancellation, redistribution, and curtailment.

ir/

March 2, 1970

El Paso Natural Gas Company

El Paso, Texas 79902

March 13, 1970

TO: Gas Producers of New Mexico

We have recently received Memo No. 1-70 from the New Mexico Oil Conservation Commission advising of a meeting to be held on March 18, 1970 to consider a suggested revision of gas proration procedures for New Mexico.

The Commission agreed to come forth with this suggested revision after having verbally suggested it at the time of a February 3, 1970 meeting in Santa Fe called by El Paso to which all the producers and purchasers in the San Juan Basin area had been invited. This meeting was called by El Paso to discuss, among other things, changes in the rules applicable to San Juan Basin fields which we considered necessary "to make proration work" under the demand conditions that had been experienced and were anticipated to continue in the San Juan Basin.

The Commission has chosen to broaden the call of their meeting to cover the whole State of New Mexico.

The conditions which cause concern in the San Juan Basin have not yet occurred in the Southeast New Mexico gas pools. Briefly, the condition in the San Juan Basin which is causing concern is the inability to meet the market demand within the allowable limits prescribed by existing rules under circumstances when the demand for gas approaches the total delivery capacity of the wells. Undoubtedly, this condition will some day be experienced in the Southeast New Mexico, consequently consideration by the operators in areas other than the San Juan Basin of the remedy to this problem is desirable.

At the time of the meeting called by El Paso on February 3rd, El Paso proposed amendments to Rule 9 B and Rule 9 C-3 of Order No. R-1670 applicable to the San Juan Basin area. We also submitted a memorandum pertaining to calculations of allowable in the San Juan Basin which we proposed that the Commission issue upon adoption of the revised rules. This memorandum explained the details relating to the care of marginal wells as we visualized they would be handled under the provision of the revised rules. At the time of this meeting it was suggested that El Paso revise their submittals and include the provisions of the memorandum within the rules themselves. You will find attached the revision of the suggestions made by El Paso.

At the time El Paso studied the problems in the San Juan Basin leading up to the preparation of our recommendations, we analyzed various approaches to car-

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
El Paso EXHIBIT NO. <u>4</u>
CASE NO. <u>4436</u>

TO: Gas Producers of New Mexico

March 13, 1970

Page Two

ing for the needs in the San Juan Basin, including the method which has now been suggested by the Commission. We concluded that our recommended procedure was the best means that we could conceive of caring for the problems that were being faced in the San Juan Basin and at the same time "maintain proration as we know it".

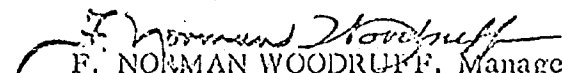
We have carefully analyzed the suggested revision of gas proration procedures for New Mexico and have again concluded that our suggested revision is superior.

As we understood at the time of our meeting, the Commission's suggestion was made because it was considered to relieve the Commission of some of the costly burden of machine operation and schedule preparation and dissemination. We believe that our suggestion will necessitate more changes in existing machine programs than the Commission's suggestion, however, once in operation we believe there will be less cost and fewer schedules required under our suggestion. The Commission has wisely programmed the proration calculations into their machine in a modular fashion. This will permit changes to be made with a minimum of effort.

We trust that each party who will be present at the called meeting will compare the merits of the two proposals in view of the needs that exist. We believe that the maximum benefit will be gained from this meeting through this procedure.

Because of the urgency of the San Juan Basin situation, we urge San Juan Basin operators to be prepared to proceed with deliberations if the Southeast New Mexico producers should indicate that consideration of this matter is not timely in their area.

Very truly yours,


F. NORMAN WOODRUFF, Manager
Gas Proration Operations

FNW:ps
attachment

PROPOSED CHANGES TO RULES OF ORDER R-1670 AND ORDER R-1670-C:

RULE 9 (A). Same as existing 9 (A).

The product obtained by multiplying each well's acreage factor by the calculated deliverability (expressed as MCF/D) for that well shall be known as the "AD Factor" for that well. The acreage factor shall be determined to the nearest hundredth of a unit by dividing the acreage within the proration unit by 160 in pools with 160 acre standard proration units and by 320 in pools with 320 acre standard gas proration units. However, the acreage tolerances provided in Rule 5 (A) shall apply. The AD Factor shall be computed to the nearest whole unit.

RULE 9 (B). New.

No well shall be assigned a monthly allowable in excess of its actual producing ability as determined from its average daily producing ability for the latest preceding three months available to the Commission.

1. A non-marginal well is a well which is capable of producing its calculated allowable as determined by the field allocation formula.
2. A marginal well is a well which is incapable of producing its calculated allowable as determined by the field allocation formula.

RULE 9 (C). Replaces existing 9 (B).

The allowable to be assigned to each marginal well shall be equal to the number of days in the month times the average daily producing ability of the well for the preceding three months except as provided in special pool rules. (The Tapacito Special Pool Rules should be amended to comply with this change.)

Such information concerning the average daily producing ability for the preceding three months shall be furnished to the Commission monthly by pipeline gatherer or first taker of gas for each individual well. In case of a new or reworked well not having the three

months production history, state deliverability tests will be used until the three months production is available.

RULE 9 (D). Same as existing 9 (C).

The pool allowable remaining each month after deducting the total allowable assigned to marginal wells shall be allocated among the non-marginal wells entitled to an allowable in the following manner:

- 1) Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's "AD Factor" bears to the total "AD Factor" for all non-marginal wells in the pool.
- 2) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal wells shall be allocated among such wells in the proportion that each well's acreage factor bears to the total acreage factor for all non-marginal wells in the pool.

RULE 9 (E). Added, replaces Rule 17, which is deleted.

1. A marginal well shall not be allowed to accumulate underproduction and shall be charged with overproduction only if it produces in excess of its non-marginal calculated allowable.
2. If a marginal well's current monthly production, plus its latest cumulative overproduction is less than its calculated formula allowable, it will be assigned its production plus its latest cumulative overproduction. The well will never receive a current allowable greater than its calculated formula allowable. Therefore, if a marginal well's current monthly production plus its latest cumulative overproduction is more than its calculated formula allowable, it will be assigned its calculated formula allowable.
3. If any underage is accrued prior to its marginal classification, such underage will be carried forward during the balancing period and is subject to the balancing provisions

of underproduction (Rule 14) provided, however, this underage will not be included when determining pool status for allowable calculations. If any overage that has accrued while the well was classified non-marginal still remains after adjustments are made under Rule 9 (E) 2 above, it will be carried forward during the balancing period and is subject to the balancing rules for overproduction (Rule 15).

RULE 9 (F). Same as existing 9 (D).

Annual deliverability tests taken each year shall be used in calculating allowables for wells in the gas pools regulated by this order for the 12-month period beginning February 1st of the following year.

Delete Rule 16 (A) from Order R-1670 and Order R-1670-C. Rule 16 (B) then becomes Rule 16.

Delete Rule 17 in its entirety.

RULE 17. Added (replaces existing Rule 18).

Should a well lose allowable as the result of being classified marginal during a current gas proration period or the preceding gas proration period and ends the current period in an overproduced status, the Commission, upon the request of the operator, will offset such overproduction to the extent of the allowable lost during the time of marginal classification.

Rule 19 becomes Rule 18.

Rule 20 becomes Rule 19.

PROPOSED CHANGES TO ORDER R-1670 - GENERAL RULES
AND REGULATIONS FOR PRORATED GAS FIELDS - NEW MEXICO

NORTHWEST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>51 P. 550</u>
CASE NO. <u>4436</u>

Rule 9(B). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set out in Section E, Rules 16(A) and 16(B).

D. BALANCING OF PRODUCTION

Rule 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship.

E. CLASSIFICATION OF WELLS

Rule 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceeding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the most recent three months available (see 16(B) below). A well will not be classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

Rule 16(B). Each gas purchaser shall furnish to the Commission, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available of each prorated gas well to which it is connected. Upon receipt of this information from the gas purchaser, the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

Rule 16(C). [Old Rule 16(B)]. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

Rule 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC - Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A).

Basin Dakota - Order R-1670-C, delete Rule 16(A).

EL PASO NATURAL GAS COMPANY
GAS REQUIREMENTS FROM PRORATED POOLS
IN THE SAN JUAN BASIN

(All Volumes in M²CF/D at 15.025# p.b.)

	1964	1965	1966	1967	1968	1969	1970
January	1,009	1,246	1,262	1,436	1,514	1,400	1,305
February	1,068	1,082	1,273	1,474	1,407	1,457	1,239
March	992	1,103	1,188	1,290	1,378	1,382	1,190
April	822	976	1,138	1,415	1,385	1,201	1,215
May	746	919	1,080	1,131	1,346	966	1,196
June	702	838	1,017	1,051	1,267	1,108	1,089
July	807	815	1,003	996	1,247	1,092	990
August	835	903	1,035	1,058	1,282	1,135	980
September	829	956	1,010	1,062	1,228	1,070	1,048*
October	897	1,043	1,083	1,133	1,333	1,245	1,086*
November	1,087	1,116	1,102	1,279	1,454	1,258	1,123*
December	1,198	1,239	1,363	1,457	1,471	1,267	1,234*
Daily Average for Year	916	1,023	1,129	1,230	1,359	1,214	1,141*

*Estimated.

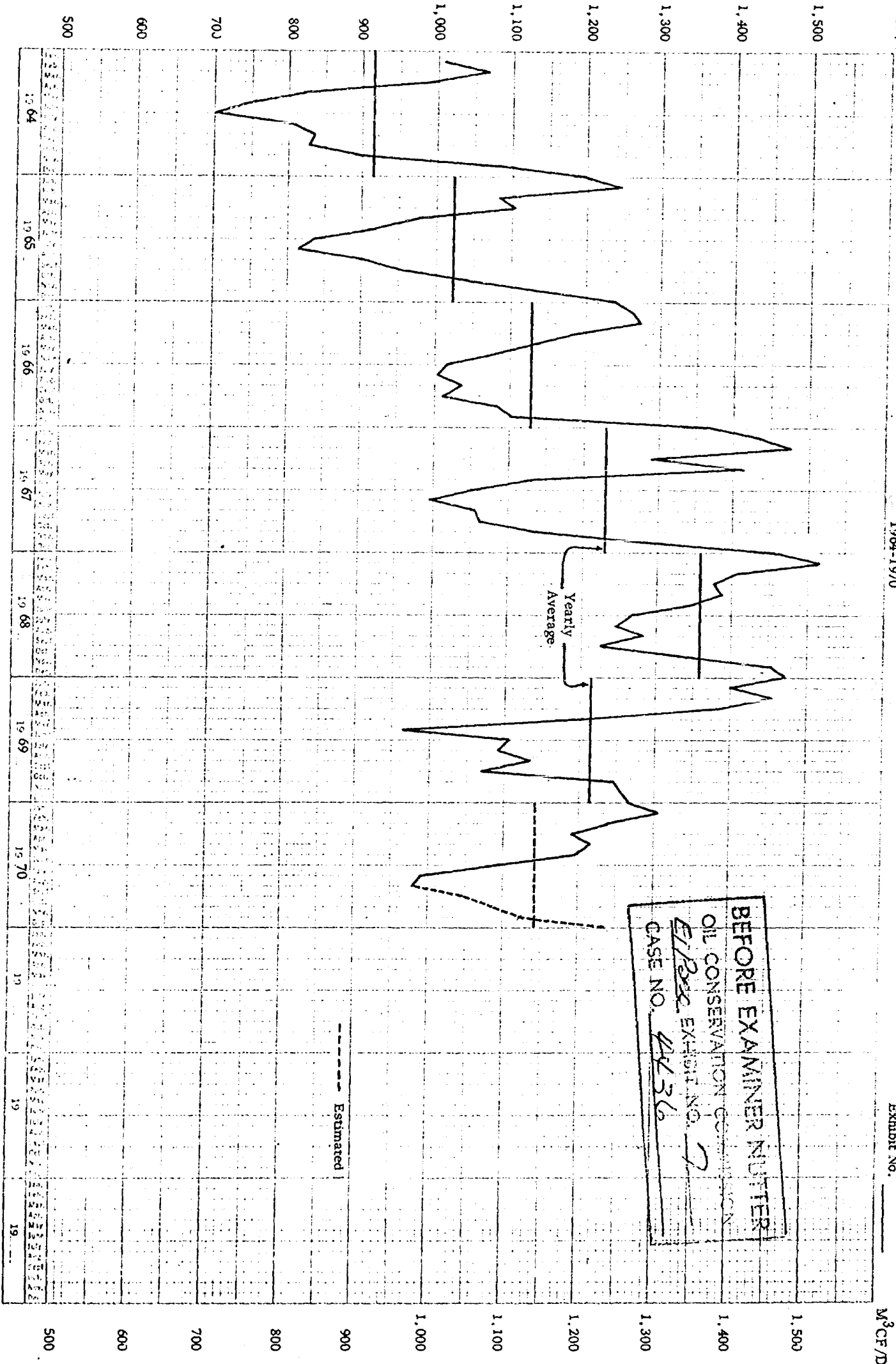
BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
E/25c EXHIBIT NO. 6
CASE NO. 4436

October, 1970

M³CF/D

EL PASO NATURAL GAS COMPANY
SAN JUAN AVERAGE DAILY PRODUCTION
1964-1970

Case No. 4436
Exhibit No. _____



EL PASO NATURAL GAS COMPANY
ANALYSIS OF OVERPRODUCED WELLS THAT ARE NOT BALANCED
IN SAN JUAN PRORATED POOLS

(All Volumes in MCF at 15.025# p.b.)

Pool	Starting Status August 1, 1969		Balancing Status August 31, 1970		Makeup	
	Wells	Volume	Wells	Volume	Wells	Volume
Aztec	62	463,606	0	0	62	463,606
Ballard	62	745,660	1	1,303	61	744,357
South Blanco	272	1,777,555	1	2,603	271	1,774,952
Fulcher Kutz	29	173,423	0	0	29	173,423
Tapacito	39	492,037	4	6,200	35	485,837
West Kutz	27	227,212	1	1,096	26	226,116
Blanco M. V.	376	8,536,771	1	348	375	8,536,423
Basin Dakota	178	8,891,521	27	252,260	151	8,639,261
Total	1,045	21,307,785	35	263,810	1,010	21,043,975

October, 1970

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
ELPSC EXHIBIT NO. 8
CASE NO. 4436

EL PASO NATURAL GAS COMPANY
ANALYSIS OF UNDERPRODUCED WELLS THAT ARE NOT BALANCED
IN SAN JUAN PRORATED POOLS

(All Volumes in MCF at 15.025# p. b.)

Pool	Starting Status		Balancing Status		Makeup	
	August 1, 1969		August 31, 1970			
	Wells	Volume	Wells	Volume	Wells	Volume
Aztec	61	312,899	21	78,470	40	234,429
Ballard	53	367,900	12	73,124	41	294,776
South Blanco	207	1,492,622	69	416,366	138	1,076,256
Fulcher Kutz	14	37,786	4	13,253	10	24,533
Tapacito	37	385,545	10	106,315	27	279,230
West Kutz	28	57,153	6	13,881	22	43,272
Blanco MV	139	3,298,148	47	761,723	92	2,536,425
Basin Dakota	130	4,277,464	30	707,185	100	3,570,279
Total	669	10,229,517	199	2,170,317	470	8,059,200

October, 1970

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
El Paso EXHIBIT NO. 9
CASE NO. 4436

Case No. 4436

Exhibit No. _____

EL PASO NATURAL GAS COMPANY
 STATUS OF OVERPRODUCTION
 IN SAN JUAN BASIN PRORATED POOLS
 AS OF 2-1-68, 8-1-69, AND 8-31-70

(All Volumes in MCF at 15.025# p.b.)

	Cumulative Status <u>2-1-68</u>	Cumulative Status <u>8-1-69</u>	Cumulative Status <u>8-31-70</u>
Pictured Cliffs			
Number of Wells	511	491	577
Overproduction	2,601,753	3,879,493	3,132,871
Per Well	5,091	7,901	5,430
Blanco M. V.			
Number of Wells	435	376	284
Overproduction	7,968,324	8,536,771	2,767,276
Per Well	18,318	22,704	9,744
Basin Dakota			
Number of Wells	312	178	256
Overproduction	11,574,481	8,891,521	9,857,156
Per Well	37,098	49,952	38,505
Total Prorated Pools			
Number of Wells	1,258	1,045	1,117
Overproduction	22,144,558	21,307,785	15,757,303
Per Well	17,603	20,390	14,107

BEFORE EXAMINER NUTTER
 OIL CONSERVATION COMMISSION
El Paso EXHIBIT NO. 10
 CASE NO. 4436

October, 1970

SAN JUAN BASIN
ALLOWABLES - MESA VERDE POOL



1970
BEFORE EXAMINATION
El Paso 11
Case No. 4436

COMPARISON OF PRESENT METHOD WITH PROPOSED
METHOD FOR CLASSIFYING WELLS MARGINAL
PRORATION PERIOD ENDING JULY 31, 1970

(All Volumes in MCF at 15.025# p.s.i.)

EL PASO
4436
12

Pool	Wells Classified Marginal by NMOCC		No. Wells Studied by EPNG	Wells Classified Marginal by Proposed Method	
	No. Wells	Volume		No. Wells	Volume
Aztec	5	84,556	51	13	131,006
Ballard	7	321,730	51	17	439,316
So. Blanco	7	174,002	152	23	381,731
Fulcher Kutz	2	20,014	17	13	364,948
Tapacito	2	25,942	30	18	252,499
West Kutz	6	59,164	28	22	105,321
Blanco M. V.	38	1,873,803	242	88	3,020,395
Basin Dakota	43	2,336,216	135	54	2,944,060
	110	4,895,427	706	248	7,639,276

Notes and Assumptions:

1. Only El Paso connected wells with cumulative underproduction as of 7-31-70 were considered in the study, whether they were balanced or not except that wells with less than 70 days production for this six-month period were eliminated.
2. The well productivity for the "Proposed Method" study was computed by dividing the total production for May - July by the number of days produced during this period, and this result was multiplied by 30.4 days.
3. The volumes in (2) were compared with the average monthly allowable for the six-month period to determine which wells would be reclassified.

TP
4436
Texas Pacific Oil Company, Inc.

Danglade #2
Blinebry Pool
Lea County, New Mexico

First Proration Period 1969

	Allowable MCF	Production MCF	Under Prod. MCF	Cum. Under Prod. MCF
Status at beginning of Period				2,085
January	13,500	17,433	<3,933>	<1,848>
February	13,887	8,885	5,002	3,154
March	12,426	11,905	521	3,675
April	11,719	12,370*	<651>	3,024
May	12,123	3,315	8,808	11,832
June	9,638	5,575	4,063	15,895
Total	73,293	59,483	13,810	
Avg. Mo. Allowable	73,293 MCF ÷ 6 mos. = 12,216 MCF Per Mo.			
Avg. Mo. Production (During last 3 mos.)	$\frac{18,914 \text{ MCF} \times 30.4}{62.6 \text{ Days}} = 10,324 \text{ MCF Per Month}$			

* Includes 2,346 MCF adjustment from prior months.

This well would be classified Marginal under the El Paso Proposal and the 15,894 MCF underage would have been cancelled. Current deliverability tests shows this well capable of producing in excess of 32,000 MCF per month. The NMOCC method presently in use did not classify this well Marginal.

BEFORE
 T.P.
 4436 2

Texas Pacific Oil Company, Inc.

Owens #1
 Blinebry Pool
 Lea County, New Mexico

First Proration Period 1969

	Allowable MCF	Production MCF	Under Prod. MCF	Cum. Under Prod. MCF
Status at beginning of Period				24,930
January	18,000	11,524	6,476	31,406
February	18,516	11,754	6,762	38,168
March	16,568	12,550	4,018	42,186
April	15,625	10,764	4,861	47,047
May	16,165	15,428	737	47,784
June	12,851	10,573	2,278	50,062
Total	97,725	72,593	25,132	
Avg. Mo. Allowable	97,725 MCF ÷ 6 mos. = 16,288 MCF Per Mo.			
Avg. Mo. Production (During last 3 mos.)	36,765 MCF x 30.4 = 15,289 MCF Per Month 73.1 Days			

This well would have been classified Marginal under the El Paso Proposal and the 50,062 MCF underage would have been cancelled. Subsequently, the well has demonstrated a capability of producing in excess of 44,000 MCF/Month and has made up most of the underage. The NMOCC method presently in use did not classify this well Marginal.

BEFORE THE
 OF
 T.P.
 CASE NO. 4436 3

Texas Pacific Oil Company, Inc.

State "A" A/C 1 #27
 Jalmat Pool
 Lea County, New Mexico

Second Proration Period 1969

	Allowable MCF	Production MCF	Under Prod. MCF	Cum. Under Prod. MCF
Status at beginning of Period				13,243
July	6,040	7,593	<1,553>	11,690
August	6,910	8,189	<1,279>	10,411
September	10,666	11,345	<679>	9,732
October	15,846	7,040	8,806	18,538
November	7,917	2,260	5,657	24,195
December	9,916	1,598	8,318	32,513
Total	57,295	38,025	19,270	
Avg. Mo. Allowable	57,295 MCF ÷ 6 mos. = 9,549 MCF Per Mo.			
Avg. Mo. Production (During last 3 mos.)	10,898 MCF x 30.4 = 8,022 MCF Per Month 41.3 Days			

This well would have been classified Marginal under the El Paso proposal and the 32,513 MCF underage would have been cancelled. Current deliverability tests show this well capable of producing in excess of 32,000 MCF per month. The NMOCC method presently in use did not classify this well Marginal.

BEFORE THE
CLERK OF THE
TP
CANE NO. 4436 4

Texas Pacific Oil Company, Inc.

State "A" A/C 1 #21
Jalmat Pool
Lea County, New Mexico

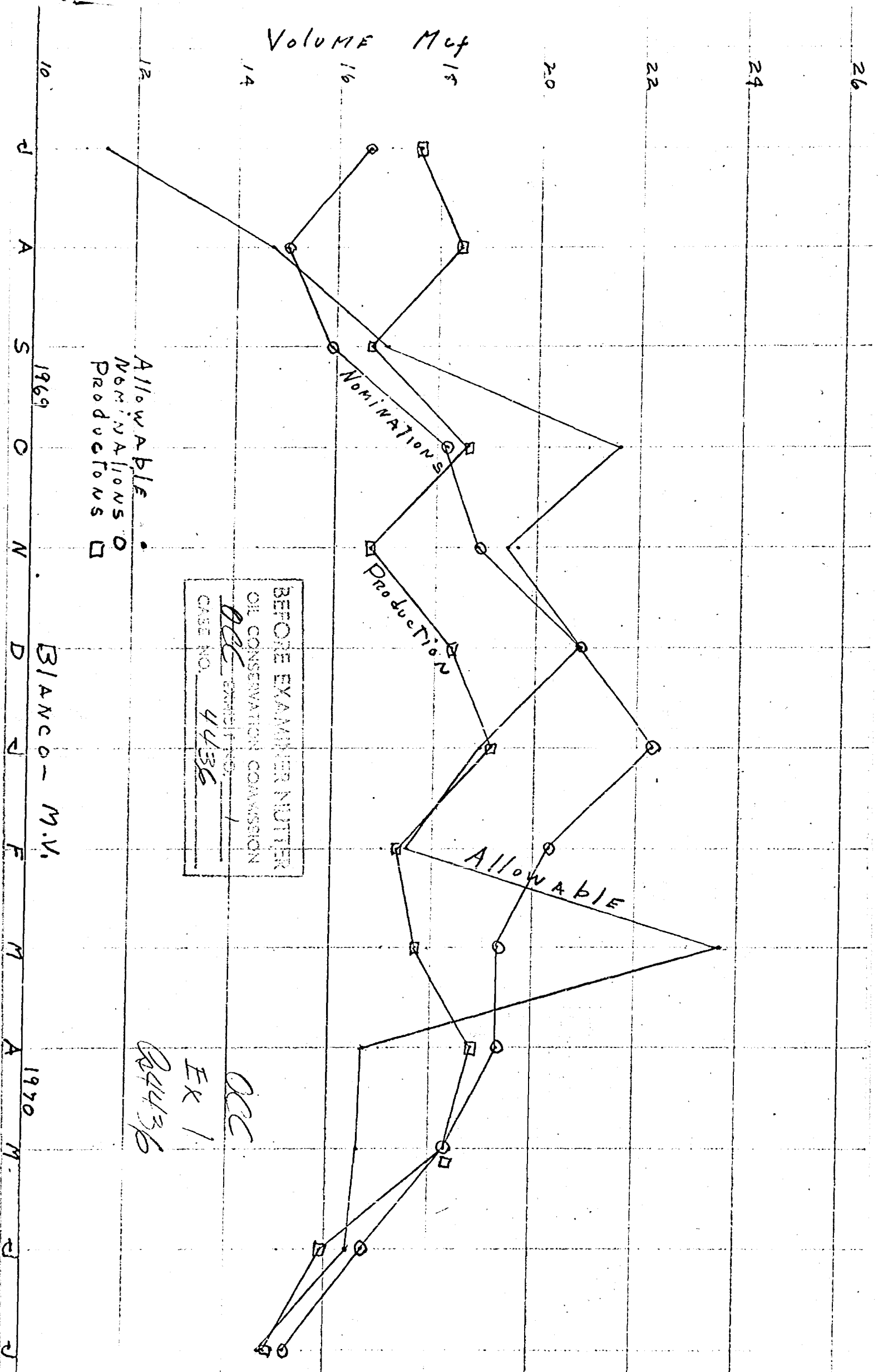
First Proration Period 1969

	Allowable MCF	Production MCF	Under Prod. MCF	Cum. Under Prod. MCF
Status at beginning of Period				3,663
January	18,049	31,179	<13,130>	<9,467>
February	16,870	24,600	<7,730>	<17,197>
March	14,982	2,963	12,019	<5,178>
April	11,412	-0-	11,412	6,234
May	9,942	-0-	9,942	16,176
June	5,892	-0-	5,892	22,068
Total	77,147	58,742	18,405	

Avg. Mo. Allowable 77,147 MCF ÷ 6 mos. = 12,858 MCF Per Mo.

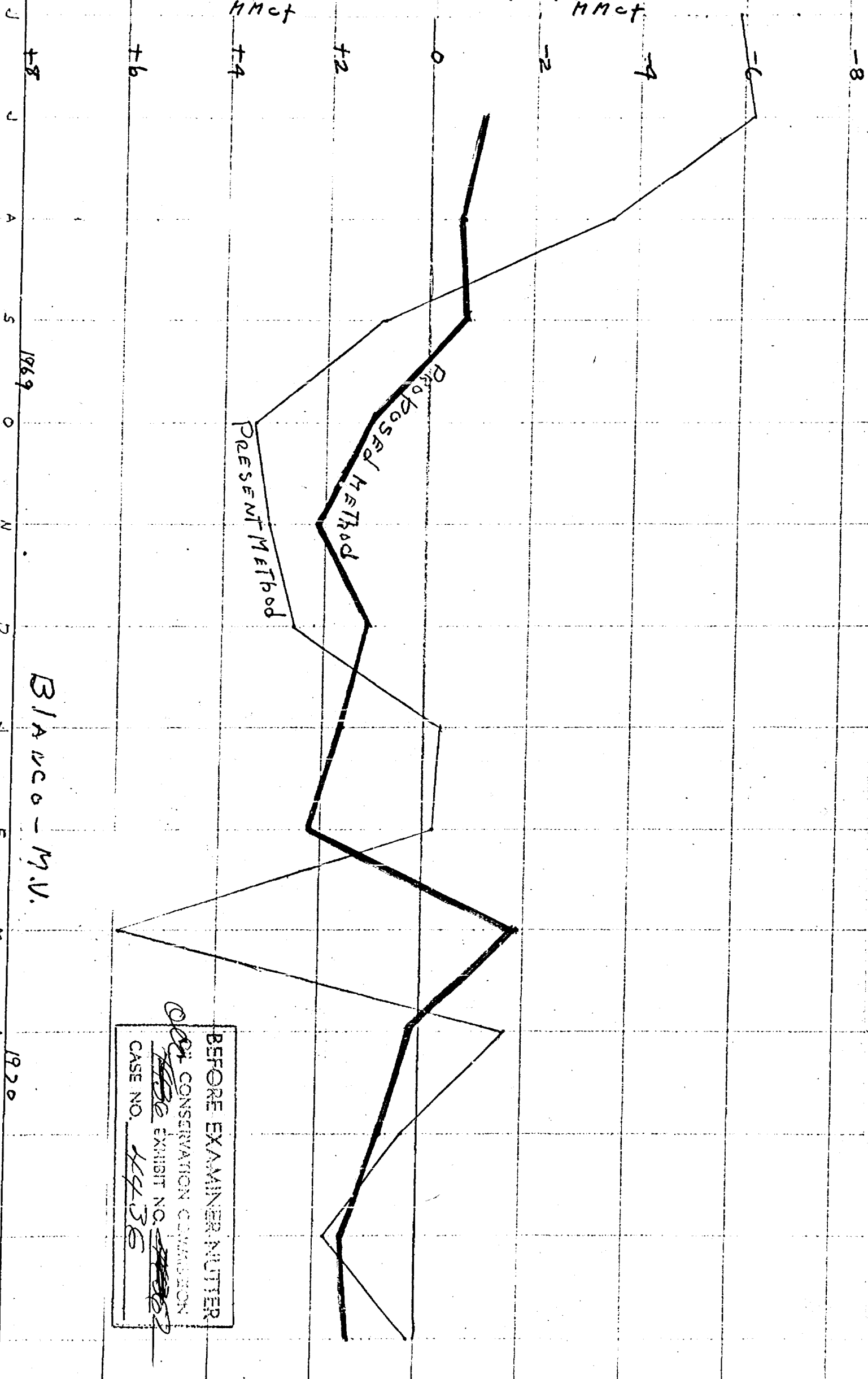
Avg. Mo. Production (During last 3 mos.) = 0 MCF Per Month

This well would have been classified Marginal under the El Paso Proposal and the 22,068 MCF underage would have been cancelled. Current deliverability tests show this well capable of producing 33,000 MCF per month. The NMOCC method presently in use did not classify the well Marginal.



UNDER PRODUCTION
MMct

OVER PRODUCTION
MMct



Blanco - M.V.

BEFORE EXAMINER NOTED
CONSERVATION COMMISSION
CASE NO. 4436

El Paso Natural Gas Company

El Paso, Texas 79901

September 22, 1970

Case 4436

Mr. A. L. Porter, Jr., Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Porter:

In behalf of El Paso Natural Gas Company, we wish to hereby request a Hearing at the time of your scheduled Statewide Hearing on Wednesday, October 14, 1970 for the purpose of changing Order R-1670 - General Rules and Regulations as they are applicable to Northwestern New Mexico. Attached, hereto, are specific changes in rules which we consider are required to accomplish the objectives set forth herein.

This Hearing is the culmination of the several meetings with operators and discussions with Commission staff that have been held during this year in order to determine the form of relief needed to deal with the particular problems encountered in complying with the proration rules applicable to the pools of Northwestern New Mexico.

Basically, we believe our proposal sets forth:

1. A preferable way for determining when wells should be classified as marginal, and,
2. A preferable means of determining that portion of the market demand which should be attributed to marginal wells.

These amendments will aid in accomplishing the over-all objectives of minimizing the assignment of allowables to marginal wells in volumes exceeding their producing capacity. This in turn will reduce the overproduction required of prorated wells in order to offset any excess apportionment of current market demand to marginal wells as allowable.

We believe the attached amendments to the rules to be self-explanatory and we further believe these amendments will accomplish the above objectives.

We would like to explain our reasons for excluding a portion of existing Rule 15 (B). This rule authorizes the Commission to permit a well to produce each month in order to avoid undue hardship. As we recall, this was specifically requested in order to

DOCKET MAILED

Date 10-2-70

Mr. A. L. Porter, Secretary-Director
New Mexico Oil Conservation Commission
September 22, 1970
page two

avoid the question of loss of lease where production is judged to be necessary each month. We propose the deletion of the last clause which, as we interpret it, would require the Commission to shut-in a well ignoring the need for production to hold the lease in an instance where production during any month exceeded the specially authorized allowable. We believe the other portions of this rule clearly give the Commission the authority to control the production from the wells under the circumstances without the necessity of this clause.

In the event the Commission desires to give consideration to applying the rules we propose to the prorated pools of Southeastern New Mexico, the changes in the General Rules and Regulations applicable to Southeastern New Mexico would be as follows:

Section C, Rule 10 (A), same as Rule 9 (B) in our proposal,
Section D, Rule 15 (A), second paragraph, same as Rule 15 (B) in our proposal,
Section E, Rule 16 (A), same as Rule 16 (A) in our proposal,
Rule 16 (B), same as Rule 16 (B) in our proposal and renumber
Rule 16 (B) to 16 (C)

Yours very truly,

FNW:mgs
attachments


F. Norman Woodruff, Manager
Gas Proration Operations

CC: Mr. Emory Arnold
Mr. Richard S. Morris

PROPOSED CHANGES TO ORDER R-1670 - GENERAL RULES
AND REGULATIONS FOR PRORATED GAS POOLS - NEW MEXICO

NORTHWEST NEW MEXICO

C. ALLOCATION AND GRANTING OF ALLOWABLES

Rule 9(B). The allowable to be assigned to each marginal well shall be the actual average monthly producing ability of said well as determined from said well's average daily producing ability as set out in Section E, Rules 16(A) and 16(B).

D. BALANCING OF PRODUCTION

Rule 15(B). If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable for the last six months, it shall be shut-in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable; provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship.

E. CLASSIFICATION OF WELLS

Rule 16(A). The Commission may classify as a marginal well any well which had an underproduced status at the beginning of the preceeding gas proration period and which at the end of said period, is not capable of producing its average monthly allowable. This capability shall be determined by comparing the average monthly allowable for the preceeding gas proration period with the average monthly producing ability for the most recent three months available (see 16(B) below). A well will not be classified marginal if, prior to the end of a gas proration period, the operator or other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

Page Two
Proposed Changes to Order R-1670 -
General Rules and Regulations for Prorated Gas Pools
New Mexico

Rule 16(B). Each gas purchaser shall furnish to the Commission, prior to the 10th day of the month following the last month of each proration period, the actual average daily producing ability for the most recent three months available of each prorated gas well to which it is connected. Upon receipt of this information from the gas purchaser, the Commission will calculate the average monthly producing ability by multiplying the daily average producing ability by 30.4, which is the average number of days in a month for the entire year.

Rule 16(C). [Old Rule 16(B)]. The Secretary-Director may reclassify a marginal or non-marginal well at any time the well's production data, deliverability data, or other evidence as to the well's producing ability justifies such reclassification.

Rule 18. If, at the end of a proration period, the most recent average monthly producing ability of a marginal well is greater than the average monthly allowable for said proration period (See Rule 16(A) and 16(B) above), the marginal well shall be reclassified as a non-marginal well and its allowable and net status adjusted accordingly.

Tapacito-PC - Special Pool Rules - Order R-1670, delete Rule 15(B) and Rule 16(A).

Basin Dakota - Order R-1670-C, delete Rule 16(A).

DRAFT

GMH/esr
December 14, 1970

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

RECORDS CENTER

CASE No. 4436

Order No. R-4085

APPLICATION OF EL PASO NATURAL GAS COMPANY
FOR THE AMENDMENT OF THE GENERAL RULES AND
REGULATIONS GOVERNING THE PRORATED GAS POOLS
OF NEW MEXICO AND THE AMENDMENT OF THE SPECIAL
RULES AND REGULATIONS GOVERNING THE TAPACITO-
PICTURED CLIFFS AND BASIN-DAKOTA GAS POOLS
LOCATED IN RIO ARRIBA, SAN JUAN, AND SANDOVAL
COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on December 2, 1970,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of December, 1970, the Commission, a
quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That El Paso Natural Gas Company is the owner and opera-
tor of certain wells in certain prorated gas pools in New Mexico
and is also the owner and operator of pipelines connected to wells
in certain prorated gas pools in New Mexico.

(3) That El Paso Natural Gas Company by its application in
this case sought a hearing seeking the amendment of the General
Rules and Regulations governing the prorated gas pools of North-
west New Mexico and the Special Rules and Regulations governing
the Tapacito-Pictured Cliffs and Basin-Dakota Gas Pools located
in Rio Arriba, San Juan, and Sandoval Counties to permit

substantial change in the method of classifying marginal wells, and the assignment of allowable to marginal wells governed by the aforesaid rules and regulations, as well as a substantial change in the balancing of production procedure required by said rules.

(4) That the Commission, upon its own motion, broadened the notice given concerning the above-described application to permit consideration of the above-described changes for the prorated gas pools of Southeast New Mexico as well.

(5) That Rule 9(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 10(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide that the monthly allowable to be assigned to each marginal well should be equal to ~~the~~ ^{its} average monthly production ~~for all marginal wells in the pool for~~ ^{during} the preceding gas proration period.

(6) That Rule 15(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 15(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide that when a well is overproduced in an amount equaling six times its average monthly allowable it should be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceding proration period.

(7) That Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to provide for the reclassification from non-marginal to marginal of ^{each} underproduced wells that do not produce during ^{at least one} any month of a proration period its average allowable for the period.

(8) That Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico and Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico should be amended to ^{set forth the procedure to for} ~~provide that a well~~ ^{in adjusting the allowable and net status of a well} that has been reclassified from marginal to non-marginal, ~~should~~ ^{adjusted} have its allowable and net status ~~for the period during which~~ ^{adjusted} it overproduced the allowable assigned a comparable non-marginal well, ~~adjusted.~~

(9) That each of the above-described amendments is necessary in order to prevent waste and to adequately protect the correlative rights of all operators in the subject pools.

IT IS THEREFORE ORDERED:

(1) That Rule 9(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico, ~~as promulgated~~ ^{by Order No. R-1670, as amended}, is hereby amended to read in its entirety as follows:

RULE 9(B). The monthly allowable to be assigned to each marginal well shall be equal to ^{its} ~~the~~ average monthly production ~~for all marginal wells in the pool~~ ^{during} for the preceding gas proration period.

(2) That Rules 15(B) of the General Rules and Regulations for the Prorated Gas Pools of Northwest New Mexico, ~~as promulgated~~ ^{by Order No. R-1670, as amended}, is hereby amended to read in its

of like deliverability and averaging

monthly allowable for the preceding proration period,
provided, however, that special authority to produce
up to 500 MCF per month may be assigned any such
shut-in well upon proper showing to the Secretary-
Director of the Commission that such authority is

necessary to avoid undue hardship; *provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director, shall be shut-in until all over-production is made up.*

(3) That Rule 16(A) of the General Rules and Regulations
for the Prorated Gas Pools of Northwest New Mexico, ~~as promulgated~~
~~by Order No. R-1670, as amended,~~ is hereby amended to read in its
entirety as follows:

RULE 16(A). After the production data is available for
the last month of each gas proration period, any well
which had an underproduced status at the beginning of
said period shall be classified marginal if its highest
single month's production is less than its average
monthly allowable for said period, unless, within 15
days after the close of said period, the operator or
other interested person presents satisfactory evidence
to the Commission showing that the well is not of
marginal character *and should not be so classified.*
(under)

(4) That Rule 18 of the General Rules and Regulations for
the Prorated Gas Pools of Northwest New Mexico, ~~as promulgated~~
~~by Order No. R-1670, as amended;~~ is hereby amended to read in

the period:

(5) That Rule 15(B) and Rule 16(A) of the Special Rules and Regulations for the Tapacito-Pictured Cliffs Gas Pool, ~~as promulgated by Order No. R-1670, as amended,~~ are hereby deleted.

(6) That Rule 16(A) of the Special Rules and Regulations governing the Basin-Dakota Gas Pool, ~~as promulgated by Order No. R-1670-C, as amended,~~ is hereby deleted.

(7) That Rule 10(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico, ~~as promulgated by Order No. R-1670, as amended,~~ is hereby amended to read in its entirety as follows:

RULE 10(A). The monthly allowable to be assigned to each marginal well shall be equal to ^{its} ~~the~~ average monthly production ~~for all marginal wells in the pool for~~ ^{during} the preceding gas proration period.

(8) That Rule 15(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico, ~~as promulgated by Order No. R-3233,~~ is hereby amended to read in its entirety as follows:

RULE 15(A). Overproduction: Any well which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any well which has not made up the overproduction carried into a gas proration period by the end of said proration period shall be shut in until such overproduction is made up, ^{said} ~~provided,~~ ^{as that} ~~however,~~ ^{shall be} that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is necessary to avoid undue hardship; provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director ^{received} ~~shall be~~ ^{from} ~~shut-in until all overproduction is made up.~~

If, at any time, a well is overproduced in an amount equaling six times its average monthly allowable

(or, in the case of a new well, six times the average monthly allowable for the preceding proration period, it shall be shut in during that month and each succeeding month until it is overproduced less than six times its average monthly allowable for the preceding proration period, provided, however, that special authority to produce up to 500 MCF per month may be assigned any such shut-in well upon proper showing to the Secretary-Director of the Commission that such authority is

necessary to avoid undue hardship; *provided further, that any well produced in excess of the monthly rate of production authorized by the Secretary-Director shall be shut in until its production is within*

(9) That Rule 16(A) of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico, ~~as promulgated by Order No. R-1670, as amended~~, is hereby amended to read in its entirety as follows:

RULE 16(A). After the production data is available for the last month of each gas proration period, any well which had an underproduced status at the beginning of said period shall be classified marginal if its highest single month's production is less than its average monthly allowable for said period, unless, within 15 days after the close of said period, the operator or other interested person presents satisfactory evidence to the Commission showing that the well is not of marginal character *and should not be so classified.*

(10) That Rule 18 of the General Rules and Regulations for the Prorated Gas Pools of Southeast New Mexico, ~~as promulgated~~

is hereby amended to read in its

the period
said period adjusted as if it had been non-marginal for *the period*

(11) that the provisions of this order shall become effective January 1, 1977

(12) That jurisdiction of this cause is retained for the

entry of such further orders as the Commission may deem necessary.

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