

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO

CASE NO. 1164

TRANSCRIPT OF HEARING

OCTOBER 17, 1956  
DEARNLEY-MEIER AND ASSOCIATES  
COURT REPORTERS  
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ALBUQUERQUE, NEW MEXICO

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
OCTOBER 17, 1956

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IN THE MATTER OF:

CASE 1164: Application of the Oil Conservation Commission of New Mexico on its own motion for an order revising the proration rules contained in the Special Rules and Regulations for all prorated gas pools in the State of New Mexico. Applicant, in the above-styled cause, seeks an order revising the proration rules in the Special Rules and Regulations for the following gas pools in San Juan, Rio Arriba and Lea Counties, New Mexico:

- |                              |             |
|------------------------------|-------------|
| Aztec-Pictured Cliffs        | Eumont      |
| South Blanco-Pictured Cliffs | Jalmat      |
| Fulcher Kutz-Pictured Cliffs | Blinebry    |
| West Kutz-Pictured Cliffs    | Tubb        |
| Ballard-Pictured Cliffs      | Justis      |
| Blanco-Mesaverde             | Byers-Queen |

Applicant proposes to revise the present procedure in the following particulars:

1. Format of the Monthly Gas Proration Schedule.
2. Method of determining whether a gas well is marginal.
3. Method of determining cancellable underage.
4. Method of determining when overproduced well should be shut-in.
5. Method of determining whether a well is in balance.
6. Procedure for assigning gas well allowables.

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BEFORE:

Mr. A. L. Porter  
Mr. E. S. (Johnny) Walker

TRANSCRIPT OF PROCEEDINGS

MR. PORTER: We will take up at this time Case 1164.

MR. GURLEY: Case 1164. Application of the Oil Conservation Commission of New Mexico on its own motion for an order revising the proration rules contained in the Special Rules and Regulations for all prorated gas pools in the State of New Mexico.

MR. PORTER: I think most of you are acquainted with the fact that about six weeks ago, the Commission appointed an Industry Committee consisting of four gas purchasers and six producers, for the purpose of reviewing certain proposals of the Commission staff, and this Committee was directed to come forward at the October hearing, with their recommendations. Mr. Bill Macey of Western Development Company was appointed chairman of that Committee, and I will ask him to come forward at this time.

(Witness sworn.)

W. B. MACEY

a witness, of lawful age, having been first duly sworn on oath, testified as follows:

DIRECT EXAMINATION

BY MR. GURLEY:

Q State your name and position, please, sir.

A My name is W. B. Macey, Vice President of Western Development Company.

Q You have appeared before this Commission before, Mr. Macey?

A Yes, sir.

Q You are the chairman of the special Industry Committee appointed by the chairman of the Commission?

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A If that is the name of the Committee, yes, I am the chairman.

Q Do you have a statement to make at this time, sir?

A I have a couple of exhibits I would like to introduce. Exhibit No. 1 is a memorandum No. 28-56, which Mr. Porter, secretary-director sent to all of the operators, and this memo contains the instructions to the Committee; in fact it appoints the Committee. Exhibit No. 2 is the recommendations of the Industry Committee appointed to review the gas proration procedure. I believe that everyone has a copy of the recommendations.

Q Would you like to read into the record at this time what those recommendations are?

A I ask, if the Commission wants me to. Is it necessary?

MR. PORTER: I believe we would like to.

A Okay. No. 1. The Commission shall classify wells in the prorated gas pools of the San Juan Basin as marginal or non-marginal as of 8-1-56 and on each balancing date thereafter.

The classification of wells in the prorated gas pools of Southeast New Mexico shall continue under the system outlined in the existing pool rules, provided however, that the classification system outlined herein shall be put into effect in the prorated gas pools of Southeastern New Mexico on January 1, 1958.

Mr. Porter, would it be advisable to take these up from a discussion standpoint step by step, or go through the whole thing?

MR. PORTER: I believe, Mr. Macey, it might be well to,

after you have read each point, to see if there are any questions on that particular point before we move on to another. Does anyone have a question from Mr. Macey concerning the first point in these recommendations? You may proceed to the second one.

A No. 2. All wells which the Commission classifies as marginal shall remain marginal except in instances where the production of the well evidences that the well is no longer marginal.

All underage accrued to a well prior to its classification as a marginal well shall be cancelled at the time such well is classified as marginal.

MR. PORTER: Are there any questions on that point?

MR. UTZ: I have one clarifying question. That No. 2 doesn't say how long that they shall remain marginal, does it mean for six months or from that date on?

A Well, the No. 1 requirement is that you classify wells as marginal or non-marginal and that you do it on each balancing date, each six month date from there on. I would say that the existing pool rules which outline the fact that you can classify a well at any time you want to, or reclassify it, would allow you to do anything you want to in that respect at any time you think it is advisable.

MR. UTZ: In other words, you could consider other things besides just the production of the well, consider an operator's application if he wanted a well reclassified?

A I think it's up to the discretion of the Commission under

the pool rules.

MR. PORTER: Does anyone else --

MR. DON WALKER: What evidence would you consider to be satisfactory evidence for the Commission to reclassify a well from marginal to non-marginal, I may be jumping ahead of you a little bit, but if it ties in?

A Well, that is a very difficult thing to pin right down and say, one thing that might, that immediately pops into my mind would be if the market demand should drop quite a large amount, to throw a bunch of marginal wells into a non-marginal classification. If the well is obviously erroneously classified to start with, erroneous information is used to classify it, why, it could be reclassified. There are a great many factors involved in it, and I don't think you can pin it right down.

MR. DON WALKER: In other words, you might think if a pipeline purchaser fails to take an allowable during the period, then with that evidence presented to the Commission, they might not continue to carry it as a non-marginal well?

A I think that Paragraph 3 in here, Mr. Walker, would cover that situation where a well was underproduced and the situation was obviously the lack of pipelines taking the gas, then that matter would be subject to review and appeal by the operator.

MR. DON WALKER: Thank you.

MR. PORTER: Does anyone else have a question of Mr. Macey on that particular point? You may proceed with your recommendations,

Mr. Macey.

A No. 3. A well which had an underproduced status at the start of a 6-month gas proration period and which does not make its allowable during at least one of such months shall be classified as marginal unless prior to the end of said proration period the operator or any other interested party presents satisfactory evidence to the Commission showing that the well should not be so classified.

A marginal well shall be given an allowable equal to the maximum volume of gas produced during any month of said preceding 6-month proration period.

MR. PORTER: Does anyone have a question on point No. 3?

MR. UTZ: I have one.

MR. PORTER: Mr. Utz.

MR. UTZ: Also a clarifying question, the last sentence in No. 3, where you say a marginal well shall be given an allowable equal to the maximum volume of gas produced during any one month. Actually, I know we struck out the word preliminary allowable, but the allowable for that marginal well will be in this system on whatever it produces, is that correct?

A Yes, sir.

MR. UTZ: So while we call it an allowable we actually adjust it?

A You do not let any underage or overage accrue to the -- to a marginal well, the only way you can do that is to make the allowable equal the production.

MR. UTZ: So an original allowable will not necessarily be an actual -- it will be the actual allowable of that well?

A That's right.

MR. PORTER: Any further questions on this point? Will you proceed to point No. 4?

A Before we leave that point, I would like to point out one important thing, if the Commission goes back and starts reclassifying wells as of 8-1-56, in the San Juan Basin as marginal or non-marginal, the provision in here for an operator or another interested party to appeal that possible classification, he doesn't have that option under the present rule, and some provision should be given to either notify him or go over the matter before the actual classification takes place. It is important, as I see it, that you do not erroneously classify a non-marginal well as marginal. Now, the other way around isn't as bad, but the classification of a non-marginal well as marginal is not particularly desirable. And possibly in going back over these wells as of the first of August, you may run into some, upon examination, look like they ought to be marginal, but upon closer inspection wouldn't be.

MR. UTZ: One other thing I would like to bring out is that under this system a marginal well will not carry a net status, isn't that correct?

A It would be zero.

MR. UTZ: That's right. So that if an operator would care to determine what the allowable would have been, what the calculated

allowable would have been, it will be necessary for him to do that on his own, the proration schedule will not show that any longer?

A That, as I understand it, is right, any more.

MR. PORTER: Proceed with point No. 4.

A No. 4. A volume of gas equal to the total pool overage or underage accrued to all non-marginal wells on the 8-1-56 balancing date for the San Juan Basin prorated gas pools shall be allocated to the wells in the pool classified as non-marginal wells on that date in such a manner that the net pool status is zero. The adjustment to the net status of each well shall be made in the proportion that each well's proration factor or factors bears to the total proration factor or factors for the pool in accordance with the appropriate proration formula.

MR. PORTER: Are there any questions on this point? Will you read point No. 5, Mr. Macey?

A No. 5. Any over/under production accrued during any one month during a balancing period shall be applied against the under/over production carried into said balancing period.

MR. PORTER: Does anyone feel that that needs further explanation? Any questions? Proceed to point No. 6, Mr. Macey.

A No. 6. The Commission should amend existing rules in the San Juan Basin prorated gas pools so as to provide in such rules an administrative procedure for exception of marginal wells from the requirement of taking an annual deliverability test.

I might explain a little bit that the purpose for that is the

small marginal well in which the deliverability test is not a factor in the proration of that well or in the proration of the pool, in some instances; as one of the Commission's staff pointed out, it takes them three months production to pay for the cost of deliverability test.

MR. PORTER: Does anyone have any questions?

MR. UTZ: Actually, the recommendation of the Committee had reference to wells of low producing ability, did it not, rather than the large capacity marginal wells?

A Well, I believe I said yesterday that if you think that there is a question involved as to the -- that the deliverability of a well would be a factor in determining whether or not that well should be marginal or non-marginal, it probably ought to be tested, where the deliverability test is obviously of no value, to the Commission in proration, then probably they ought to be relieved of the obligation to test the well.

MR. PORTER: Does anyone have further questions of Mr. Macey? Thank you, Mr. Macey.

MR. COOLEY: Mr. Macey, would you like to make a motion for the admission of your exhibits?

A I would like to offer Exhibits 1 and 2.

MR. PORTER: Is there any objections to Exhibits 1 and 2? If not, they will be admitted. You may be excused.

(Witness excused.)

MR. PORTER: Does anyone have anything else, or any state-

ments in this case?

MR. WOODWARD: John Woodward, representing El Paso Natural Gas Company. El Paso believes that the proposals of the Committee and its recommendations are an improvement over the existing system, and should be adopted, that there are some matters covered by the Commissions' own recommendations, or thoughts on this matter previously directed and introduced here as an exhibit which are not completely covered in these rules, or these proposals, matters which should be considered at some future date, perhaps, when a greater need arises. I trust that the door will be open for discussion of those matters when such need is apparent.

MR. PORTER: Mr. Woodward, it is the feeling of the Commission that the doors are always open to any suggestions and in the opinion of the Commission that might improve the gas proration schedule. Before taking the case under advisement, I wish to express the appreciation of the Commission to this Industry Committee and to the members of the Commission staff who have worked on these proposals. I know that they have had a number of meetings, that it has consumed several days of their time, and as usual, when an Industry Committee has been appointed by this Commission, they have responded and we certainly appreciate it. The case will be taken under advisement. And we will take a five-minute break.

