

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
August 15, 1957

Case No. 1295 and Case No 1296

TRANSCRIPT OF PROCEEDINGS

Kutz-Pictured Cliffs, and Blanco Mesaverde Gas)
Pools in San Juan and Rio Arriba Counties, New)
Mexico.)
)

BEFORE:

Mr. Murray Morgan
Mr. A. L. Porter
Governor Edwin L. Mechem

TRANSCRIPT OF HEARING

MR. PORTER: The meeting will come to order. The Commission will take up the next case, 1295.

MR. COOLEY: Case 1295. Application of Southern Union Gas Company and Southern Union Gathering Company for the suspension for a period of not less than six months of the cancellation of underproduction in the six prorated gas pools in San Juan and Rio Arriba Counties, New Mexico.

Case 1296. Application of the Oil Conservation Commission of New Mexico upon its own motion for the suspension for a period of not less than six months of the overage shut-in provisions of the Special Rules and Regulations for the six prorated gas pools in San Juan and Rio Arriba Counties, New Mexico.

These are the same six prorated gas pools concerned in Case 1295. In view of the circumstances covering these two cases and the similar subject matter thereof, I move the Commission at this time to consolidate Cases 1295 and 1296 for purposes of hearing and order.

MR. PORTER: Is there any objection to Mr. Cooley's motion?

MR. GRENIER: A. S. Grenier, representing Southern Union Gas Company and Southern Union Gathering Company. We support the motion just made by Mr. Cooley and feel it appropriate that the two cases be disposed of in this fashion.

MR. PORTER: If no one has an objection, the cases will be consolidated for the purposes of hearing only.

MR. GRENIER: May it please the Commission, we have one witness in this case, Mr. J. R. Bynum. We would like to have him sworn.

MR. COOLEY: Will all other witnesses in this case stand and be sworn at this time?

(Witnesses sworn.)

MR. GRENIER: I gather that notwithstanding the consolidation, you would like for us to proceed first?

MR. COOLEY: That is correct, Mr. Grenier, please do.

J. R. BYNUM

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

DIRECT EXAMINATION

By MR. GRENIER:

Q Please state your name for the record.

A J. R. Bynum.

Q By whom are you employed?

A Southern Union Gas Company.

Q In what capacity?

A Administrator of Gas Contracts and Prorations.

Q How long have you been serving in that capacity?

A Approximately four years. However, I have actually been in charge of the company's Gas Contract and Prorating work for about eleven years. It is only when the Commission issued its first prorating orders in the San Juan that we set up a separate section of our Engineering Department to take care of it.

Q Describe for us your general duties as head of this gas proration and contracts section.

A Our section's primary function is to keep informed and to keep records on the status of our active contracts from the standpoint of minimum purchases, price structures, and ratable takes as established by the Oil Conservation Commission under prorating procedures.

Q Do you keep track in your office then of the production of the various wells to which Southern Union Gas Company and its subsidiary, Southern Union Gathering Company, are connected in these Northwest New Mexico pools?

A That is correct. We keep production records on all pools, whether prorated or not.

Q As to wells in these six Northwestern New Mexico prorated pools, do you keep any running record in your office which would match the well's production from time to time with their status under prorating?

A Yes, each month we reconcile our production records to

conform with the monthly proration schedules furnished by the New Mexico Oil Conservation Commission.

Q Before the coming of prorationing in New Mexico, what sort of records had you kept on New Mexico wells?

A For quite some time, practically all of our wellhead gas purchase contracts have contained minimum purchase obligations and also undertakings that we will take ratably from all wells connected to our lines in any given pool. Before prorationing the records we kept were those needed to make sure that these obligations in our contracts were being properly met.

Q Now suppose you discovered that a group of wells in a particular field was either overproduced at a given moment or underproduced as far as prorationing is concerned, what, if anything, does your office do about it?

A As best we can, we try to bring the situation back into balance as soon as possible, either by shutting in the wells when they are overproduced or trying to pull them a little bit harder when they are underproduced. Our section notifies our people in the field as to what needs to be done along these lines and we work along with them on a constant, day-to-day basis.

Q Are you generally familiar with Southern Union's operations in the San Juan Basin area?

A Yes, I am. This is the area where gas prorationing has had the greatest impact on our Company and it is the area to which I am sure I devote by far the greater part of my time.

Q How many pools are there in the San Juan Basin area in which the New Mexico Oil Conservation Commission has issued prorationing orders?

A Prorationing orders have been issued in six pools in this area to date, as follows: the Aztec, Ballard, Fulcher Kutz, South Blanco, and West Kutz-Pictured Cliffs pools, and the Blanco Mesa-verde pool.

Q In how many of these prorated pools does Southern Union operate?

A We have gathering lines in all of them, as well as in several nearby non-prorated pools.

Q What is done with the gas that Southern Union takes from this area?

A Except for the volumes that we deliver to El Paso Natural or which are consumed in field operations, all of the gas goes to Southern Union's customers in Santa Fe, Albuquerque, Farmington, Los Alamos, and the surrounding territory in northwestern New Mexico. This is an integrated pipeline system which we operate, so that gas from practically any of these pools can be transported to any or all of our markets.

Q Does any of this gas go out of the state?

A No, not at the present time, except for gas delivered to El Paso Natural.

Q How long has Southern Union been taking gas from the San Juan Basin for service to this portion of New Mexico?

A Since about 1929.

Q Were there any other pipelines taking gas from the San Juan Basin area at that time?

A Only Durango Natural Gas Company which used gas from a few wells in the Ute Dome Field for service to the City of Durango, Colorado, and vicinity. The properties of that company were acquired by Southern Union in 1949. Durango, however, is now being supplied entirely from Colorado sources.

Q Now at this time are there any other pipelines taking gas from the area that we have been talking about?

A Yes, El Paso Natural, which came in about 1951, and Pacific Northwest Pipeline Corporation, which started taking gas from the area last year.

Q So that for a considerable number of years, Southern Union and Durango Natural represented the only market for gas from this area?

A That is right.

Q How do the takes from the area by El Paso and Pacific Northwest compare with those of Southern Union at the present time?

A As shown by the table appearing on page 2 of Southern Union's application in this case, it and its wholly-owned subsidiary, Southern Union Gathering Company, are now taking only about 17% of the gas produced from the prorated pools.

Q How many wells was Southern Union connected to in order to take that 17%?

A The last count I have is 604 wells, of which 532 are in prorated fields and 72 in non-prorated pools. Where I said "fields" I should have said "pools".

Q That would be as of June 30?

A As of June 30, 1957.

Q In recent years has Southern Union been able to take gas from the wells connected to its lines in this area ratably with the takings of El Paso Natural?

A No, not by means of sales to its own local New Mexico customers.

Q Why is that?

A Well, principally it comes down to a matter of load factor. The territory that we serve in New Mexico is not heavily industrialized so that every winter we have a big increase in the demand for gas in order to take care of our residential and small commercial customers' space heating requirements. For several years we have had only about a 50% load factor in this area, by which I mean that we have been able to sell on a daily average basis through the year only about half as much gas as we have had to deliver during the peak days of the winter heating season.

El Paso, on the other hand, sells most of its gas in the California area where there are, I understand, a considerable number of large interruptible consumers, as well as some local California production that El Paso customers utilize as low load factor. In any event, El Paso has been able for several years past to pull on

the wells connected to its lines in this area on considerably better than a 50% annual load factor basis, as is generally true of most long line gas transmission companies.

Q Are you complaining about El Paso's load factor being so much higher than Southern Union's?

A No, absolutely not. They have a market which they are under a duty to serve and I feel sure that it is merely because of their good faith efforts to serve that market in the most economic fashion that they have been taking from the San Juan Basin on the load factor basis that they have.

Q What does this mean in terms of number of wells that Southern Union must be connected to per MCF of annual deliveries as compared with El Paso Natural, say?

A Well, this means that per MCF of annual take Southern Union must have more peak day delivery capacity and so must have more wells connected to its lines.

Q What is the effect of this difference in load factor between the two companies when prorationing comes into the picture?

A Very briefly, it means that El Paso is being awarded allowables by the allocation formula which are less than they actually need to supply their markets, while Southern Union is being given allowables which are greater than they can market in its own New Mexico service territory. This is so because we are connected to proportionately more wells than El Paso is; that is, on an annual load basis. Thus, since all similar wells will be given the same

allowables without regard to which company's lines they are connected to, Southern Union finds its annual takes falling below the pool average and El Paso finds its takes exceeding it on a well by well basis.

Q How about Pacific Northwest? Has its load factor been higher than Southern Union's?

A From the statistics available at this time, it appears to be considerably higher than Southern Union's.

Q When did prorationing first come to the San Juan area?

A Prorationing was instituted in 1954 in all of the presently prorated pools except the Ballard-Pictured Cliffs pool, where it did not come in until 1956, and the Blanco-Mesaverde pool where it came in in early 1955.

Q Had Southern Union and El Paso made any effort before 1954 when prorationing came in to equalize their takes in this area so as to make them ratable on a well by well basis?

A Yes, a contract was entered into under date of August 31, 1953, between El Paso Natural, as buyer, and Southern Union Gathering Company, as seller, which provides for the delivery by Gathering Company to El Paso of up to 40 million cubic feet per day. The purpose of this contract was to let Southern Union, through the medium of its subsidiary, deliver enough gas throughout the year to El Paso Natural so as to put them both on substantially the same annual load factor basis and thereby enable them to take ratably with each other from the wells connected to their respective lines.

Like Southern Union, El Paso is taking gas from a large number of pools in the San Juan area, and commingling gas from all of these pools for marketing purposes. This means that even though deliveries are being made by Southern Union to El Paso from only one of the pools, the beneficial effects of the deliveries are felt as to all of them.

Q How well have these arrangements between El Paso and Southern Union worked out?

A Well, they worked pretty well for several years, thanks to close cooperation between the people of our company and El Paso's company, and the cooperation between them both in the fields and in our respective home offices. Now, however, we are beginning to have trouble again.

Q Why is that?

A Two things have happened within the past year. First of all, Pacific Northwest has now begun to take gas from the area in large scale volumes for the first time, and their high load factor takes have again produced the same situation that we were trying to cure with our 1953 contract with El Paso Natural.

In addition to that, at about the same time, El Paso, as I understand it, put into operation substantial additions to their California transmission capacity, which meant that they were stepping up considerably the volumes of their takes from the area over what they had been before.

Q What was Southern Union's status, or perhaps I should say,

what was the status of the wells connected to Southern Union's lines at the start of the present balancing period which began on January -- well, February 1, 1957?

A 262 wells connected to our lines were underproduced on that date by an aggregate of 4,570,679 MCF. 169 wells on our lines were overproduced by a total of 1,854,124 MCF. We thus had a net of 2,716,555 MCF of underproduction for our wells as a whole.

Q Is that for both Gas Company and Gathering Company together?

A Yes, it is.

Q Now, as of the end of June, 1957, which is the latest date for which I understand you have figures available, is that correct?

A That is correct.

Q How much of that total of 2,716,555 MCF of underproduction was subject to cancellation as of July 31 of this year because it hadn't yet been made up?

A 2,686,383 MCF.

Q What, if anything, does Southern Union now propose to do to remedy this situation?

A After several months of study and negotiation, Southern Union and El Paso reached an agreement in June of this year which looks toward sufficient added sales of gas by Southern Union to El Paso to let us work off our underproduction in all of the wells in this area which are now physically capable of making it up. Once we get caught up, we will continue to sell them enough gas so as to keep the situation in continuing balance thereafter.

Q Have their contracts already been signed, Mr. Bynum?

A I believe so.

Q Do you know when it is contemplated that the facilities that are going to be necessary to do this are going to go over to Southern Union Gathering Company from Southern Union Gas Company?

A As of August 1st, 1957, this year.

Q Will the volumes of gas that Southern Union can deliver to El Paso at the delivery point under the 1953 contract be sufficient to take care of this situation?

A No, the gathering system can only put out about 70 million cubic feet a day, I mean -- that is right, 70 million cubic feet, and it looks as though we are going to need considerably more than that for some time to come.

(Southern Union Gas Company's
Exhibits 1 and 2 marked for
identification.)

Q What is proposed? Do you have a map that can indicate to us what the companies have in mind in this regard?

A I think I can show you on this map right here.

Q This is Southern Union's Exhibit A which you are referring to now, is that correct?

A I believe it is identified as Exhibit 1.

Q Exhibit 1, thank you.

A At the present time, the Mesaverde gas in this particular area colored in red, I believe, since December of 1956 all of the production from these wells has been delivered to El Paso Natural

in an attempt to equalize and take ratably from the wells.

Q But there have been some deliveries since 1953 which have been made to El Paso as needed, is that correct?

A Oh, yes, this is the source of the deliveries under that 1953 contract at this point right here.

Q That is the system from which the 70 million a day is now being delivered, is that correct?

A That is correct.

Q Now then, there are two other colored areas to the west. What do those represent, Mr. Bynum?

A This section here, which we call our Crandell gathering line, is 34 wells in this area.

Q Is that the one colored in orange that you are pointing to?

A Yes, the orange color identifies our Crandell system. There are 34 wells in this system. Under the new arrangements effective August 1st, all of this area, or rather these 34 wells in these lines down to here have been assigned over to Southern Union Gathering Company.

Q You say down to here, could you identify them by section what that delivery point is?

A That is Section 9, Range 11 West, and its in Township 30, I believe, 30 North.

Q It's at that point that deliveries are intended to be made into one of the gathering trunks of the El Paso Natural?

A I understand that it will be delivered into El Paso's trunk

line going to Blanco.

Q Running from east to west at the southern terminus of the orange facilities?

A That is right.

Q If it turns out that all that gas is not going to be needed to go to El Paso, is there any provision for letting it come back to Southern Union's own system?

A That is correct, it will be a delivery point just south of the two Southern Union's, of the delivery point to El Paso going west.

Q What are those green facilities there, Mr. Bynum?

A The green facilities include about 41 wells presently owned by Southern Union Gas Company which under the agreement with El Paso, if and when additional gas deliveries are needed to equalize or effect ratable take between wells, we propose to include and put these wells into the Gathering Company for delivery to El Paso at this same point down here.

Q In order for these deliveries to be made to El Paso Natural Gas Company by Southern Union Gathering Company, is FPC approval necessary?

A Yes, it is.

Q What do you know about the status of the applications with regard to these two new areas?

A It is my understanding that the paper work has already been done, the papers have been prepared on the initial 34 wells here

in red.

Q Now that is the old area in red, is it not?

A I take it back, I mean the orange color over here.

Q So on the Crandell line the paper work has been done and it is expected that the application can be filed about when?

A Next month.

Q Is a request being made for temporary authorization in that application?

A That is correct. A temporary certificate has been requested in this application on the 34 wells colored in orange.

Q Has the paper work been done on the green area yet, the La Plata area, so-called?

A I understand that it has not been prepared yet. We expect to have it prepared later this year, but in any event, not later than shortly after the first of the year.

Q That, too, will ask, as you understand the program, for a temporary certificate so there won't be a long delay in getting FPC approval?

A That is correct.

Q What do you visualize that the results of this project are going to be, that is to say, the putting in of these Crandell and La Plata facilities?

A Assuming prompt beginning of deliveries to El Paso Natural, we now expect to be able to work off all of the cancellable under-production of wells connected to our lines which are physically

capable of making it up, by January 31, 1958.

Q Is it reasonable to assume an immediate start to these deliveries?

A I beg your pardon?

Q Is it reasonable to assume a fairly early start to these deliveries, or is that entirely up to the Federal Power Commission?

A It will be entirely contingent on receipt of the certification from the FPC.

Q Or at least a notice that we can proceed temporarily?

A Correct.

Q Will these new arrangements let all of the currently underproduced wells on Southern Union's lines make up their back allowables?

A No, as of the end of June there were 203 wells on Southern Union's lines which had underproduced allowables subject to cancellation as of July 31, 1957. Of these we feel quite sure that 110 will be able to make up the back allowable. As to the other 93 wells, we have our doubts.

Q We have passed out already to the members of the Commission and its staff, as well as to several of the interested parties in the room here, copies of a document which is referred to as Southern Union's Exhibit No. 2. Whereabouts in this Exhibit No. 2 are these 110 wells listed that you say that you think can make up their back underproduction?

A Well, the individual wells we're talking about here are

listed on pages 2, 3, 4, and 5, Southern Union Gas Company.

Q And on page 6?

A On page 6 the individual wells we are talking about for Southern Union Gathering Company.

Q Then is there a summary for the two companies together, by pools?

A That is page 1.

Q That is on page 1?

A Yes.

Q Turning to page 2, which is fairly typical of the way the information is assembled there, what would that show as to each well; just give us an example, say that Aztec Hampton No. 1 there, which is the first one listed?

A Page 2 lists as of June the 30th the wells connected to the lines of Southern Union Gas Company, and in the left-hand column are shown the pool well names; in the second column is shown their underproduced status as of January 31, 1957.

Q So that everything in the first column is underproduction, is that correct?

A Correct. The next three columns show for the month of February, 1957, the allowables for the wells, their production and the balance of underproduction remaining subject to cancellation as of the end of the month.

Q Then that carries forward for succeeding months in the next columns?

A That is right, the same information is shown for the months of March, April, May and June in successive columns.

Q What is the last column on the sheet?

A The last column shows for each well the amount of accumulated underproduction which on June 30, 1957, still remained subject to cancellation July 31, 1957, if not produced in the meanwhile.

Q Excuse me?

A If not produced in the meantime.

Q The arrangement of data is the same on the rest of the pages, 2, 3, 4 and 5, for Southern Union Gas Company, and on page 6 for Southern Union Gathering Company, is that correct?

A That is correct.

Q Now what is the basis for the conclusion which you have expressed that these 110 wells which are listed on pages 2 to 6 of this exhibit and summarized on sheet 1 are physically capable of making up their back unproduced allowables?

A Well, we have, I believe that is shown on our summary data at page No. 13 in comparative statement of peak month and the average monthly allowables, and also reflects the indicated excess producing capacity.

Q Well, leaving the summary sheet and, say, going over to sheet 14 of this exhibit, is the arrangement of wells on pages or sheets 14 through 19 the same as it was in this first listing of wells that you were talking about a moment ago?

A That is correct.

Q Now, turning please to page 14 there, indicate to us by columns what the various items of data are that are shown at that point.

A In column 1 we have listed the peak monthly production for the period from February 1, 1956, through June 30, 1957. In the second column there we have shown the average monthly allowables that have been assigned to the respective wells. Now the third column shows the indicated excess producing capacity of those particular wells.

Q So that each of the wells which are listed here on pages 14 through 19 have at some time during the period subsequent to February 1, 1956, produced an amount in excess of its average monthly allowable, which would be indicated over in the right-hand column, is that right?

A That is correct.

Q Now taking this group of wells as a whole, what is shown on sheet 13 as being their aggregate indicated excess producing capacity when figured on the basis that we were just talking about?

A On a per month basis, 584,943 MCF.

Q Now how much was the accumulated underproduction subject to cancellation for this same group of wells as shown on sheet 1 of the exhibit?

A Did you say accumulative?

Q Yes, how much was the balance subject to cancellation as of July 31, 1957 for these wells in the aggregate?

A 1,068,080 MCF.

Q So that the amount that was subject to cancellation then as of July 31, 1957, would be not quite twice the monthly excess producing capacity for these wells, is that correct?

A That is correct.

Q Now those are total figures, is that right?

A That is correct.

Q And there might be some individual wells that would take longer than two months to make up their back underproduction, and there might be others that could make it up in less time?

A That is correct, some of these wells might make their underage up in a week, others it might take six months.

Q Mr. Bynum, you said there were 93 other wells that you didn't think would be able to make up their accumulated underproduction which would be subject to cancellation on July 31. Are those wells also listed in this Exhibit No. 2?

A Yes. Those are listed on the summary sheet of Southern Union Gas Company and Southern Union Gathering Company on page 7. The detail of the wells connected to Southern Union Gas Company is shown on pages 8, 9, 10, and 11. Detail of the wells connected to the Gathering Company are shown on page 12.

Q Do you feel that any of these 93 wells, based on the information that you have, will be able, when these new arrangements are put into effect between El Paso and Southern Union, to work off their back allowables within a reasonable period of time?

A No, not entirely. I base that statement on the fact that each of these wells had an accumulated underproduction on January 31, 1957, and that in none of the succeeding months has it been able to produce any significant amount of its underage, so that its accumulated underproduction has continued to increase since the start of the present balancing period.

Q Was this Exhibit 2 and all the various sheets making it up prepared by you or under your immediate supervision, Mr. Bynum?

A Yes, they were.

Q Do you feel that the various schedules accurately represent the information which they attempt to portray?

A I do.

MR. GRENIER: We would like to have Exhibits 1 and 2 admitted in evidence at this time, if we might.

MR. PORTER: Without objection they will be admitted.

(Southern Union's Exhibits 1 & 2
received in evidence.)

Q When Southern Union filed its original application in this case, there were attached to that application some exhibits which are fairly similar to this Exhibit 2 that we have just been discussing, is that correct, Mr. Bynum?

A That is right.

Q Now there have been some wells which have moved back and forth from one side of the ledger to the other, is that correct?

A Yes, sir.

Q Now, taking them up one at a time, there is the Linda Nye No. 1 well; what has happened to that as far as its status on these exhibits is concerned?

A We understand that well has been reworked. In our original application we showed it incapable of making it; since that time the allowable, by reason of the reworking, has been increased three times of what it originally was, and so it can make up its under-production.

Q So now it has been moved from the group of wells that no relief was asked for to the group of wells we are asking the relief for, is that correct?

A That is correct.

Q Who is the operator of that well?

A Delhi Oil Corporation.

Q In addition to that, does the Delhi have the Florence Federal 214 well?

A Yes.

Q Tell us about that one.

A I understand that one is scheduled for rework also, possibly may be in the process of rework now.

Q And it is on the basis of that scheduled rework that you have moved it up to the group of wells in which confirmative cancellation of allowables has been requested?

A That is correct.

Q When the exhibits were prepared to accompany the application

those were all as of May 31, 1957, isn't that correct?

A The original application statistics were shown as of May 31.

Q What about the Sexton No. 1 well, how was it handled at that time? This is the Southern Union Sexton No. 1.

A In our May 31st, I mean in our original application as of May 31st, it showed an underproduced status; since that time it has passed over and has no cancelled allowables at this time.

Q So it is no longer on either of these schedules?

A That is correct. Incidentally, that is Southern Union Gas Company's well.

Q Then there is the Vasely No. 1 well. Did the same thing happen to it as happened to the Sexton No. 1 well?

A That is right, the same thing.

Q Now the Humble Jicarilla 7-J well, what is the story on it?

A That is one of the wells that is included in this interference test.

Q Can you speak a little louder? I think the staff is having a little difficulty. The Jicarilla 7-J well is shut in during an interference test program that we have over there?

A I don't know, I think it will be several months before it will be put on the line. I understand, too, that it is exempt from proration orders.

Q Now, you said, I believe, that Southern Union Gas Company and Southern Union Gathering Company were connected to some 532 wells in these prorated pools, and you have so far spoken of only

110 of them in which some relief was asked, and 93 others which you said couldn't have much hope of making up back underproduction, or some 203 of them altogether. What is the status of the rest of those wells, Mr. Bynum?

A The rest of the 532 wells were either overproduced or in a marginal status.

Q Either overproduced or marginal?

A Yes.

Q Now, were any of the wells which were listed in your Exhibit 2 classified by the Commission as marginal wells?

A None of them have so far been classified by the Commission. It is possible that some of them will be so classified by the Commission in due course. The key fact about these wells is simply that they are being assigned allowables which they are not making.

Q To what do you attribute the failure of these wells to make their allowables?

A Well, I'm not an expert on well testing procedures, and I am not an expert either on production matters of an engineering nature. All I can say is that they are just simply not making their allowables.

Q Now as to the 110 wells that we first mentioned here, what relief is asked in Southern Union's application in this case?

A Well, originally Southern Union and its subsidiary, Southern Union Gathering Company, asked that at the end of the current balancing period, which would ordinarily come on July 31, 1957, be

postponed for a period of at least six additional months as to the 108 wells which were listed in our original application.

Q That figure is now 110?

A It is now 110.

Q What would that do, then, as far as these 110 wells are concerned, as regards giving them time to work off accumulated underproduction? How long a run would they have if it were postponed for six months?

A Based on the June production which I got just a little while ago, that would amount to just two days' production.

Q Well, I'm afraid you misunderstood my question. A well that was underproduced on January 31, 1957, would in any event have six months to work off that underproduction during the balancing period ending July 31, 1957, wouldn't it?

A That is correct.

Q So that adding six months more on would make a total period of how long?

A It would make a total of twelve months.

Q You said that this 108 had now been brought up to 110 by the changes you have described?

A That is correct.

Q There have been some additions there. How many of these wells, these 110, is Southern Union now the owner and operator of?

A Well, I've not attempted to compile detailed information as to Southern Union's ownership. I do know, however, that we or

the subsidiary are the operators of 14 of the 110 wells. I would assume that we would operate about the same number.

Q Taking 14 away from 110 leaves 96, what is Southern Union's interest in that 96 wells that makes it appropriate for Southern Union to be filing an application about them?

A In the first place, all of these wells are presently connected either to Southern Union Gas Company's or Southern Union Gathering Company's lines. That makes us feel that we owe the owners of these wells a moral duty to protect their interests in a situation of this kind over which they have little or no control themselves. This is a situation which has come about largely through the suddenly increased takings of El Paso Natural and Pacific Northwest, and that is something that these well owners could do nothing about.

Q Would the relief that is being asked for on the 110 wells discriminate against the other wells in the five prorated pools?

A No. It will give the owners their chance to produce their fair share of the pools' recoverable reserves. If these wells' back allowables are cancelled for underproduction as of July 31, they will be denied that opportunity. I might point out in this connection that the total underproduction we are talking about here as of June 30, 1957, amounted to only 1,068,080 MCF, which, based on the figures that I spoke of a while ago for June, would be equal to only about two days' production for the six fields involved. Obviously, this is not much when viewed from the standpoint of

total production. From the standpoint of the individual well owners, however, it is evident that the back allowables here involved are in many instances of material financial importance.

Q What about other wells that are in the same situation which are connected to Pacific Northwest's lines or those of El Paso Natural? Is Southern Union specifically asking any relief for them?

A No, not specifically. Frankly, we have not made any study of those situations. I could not say whether there are any such wells or whether there are not. Certainly, however, if there are any such wells, the particular facts involved might indicate that some or all of them are entitled to the same sort of relief that we are asking for the 110 wells listed in Exhibit 2, I believe it is.

Q Am I correct in recalling that Southern Union amended its application in this case so as to request generally that relief be granted to all other wells that might be shown to be in the same situation as those that we are specifically talking about?

A Well, as I mentioned, we have already amended our application to take this possibility into account. We would in any event support the idea of such relief being granted to any producer.

Q Do you feel that Southern Union is asking for anything here which is the result of a situation that could have been avoided if that company had looked down the road as far as it should have and handled its affairs accordingly?

A No, Southern Union has always tried very hard to make pro-rationing work, and has tried as best it could to look ahead and

take care of these situations before they arise. I think that the 1953 contract with El Paso is a pretty good illustration of what Southern Union and El Paso Natural are working together to try to do. It shows that Southern Union and El Paso started adjusting to the situation even before prorating officially began. Looking back, of course, I am sure all of us can see things now that we think we should have seen some time ago, but did not. All I know is that all along we have been trying to make prorating work and to set up the necessary arrangements which were called for from time to time in order to make it work.

Q Referring to that 1953 contract, what volumes of gas have been delivered under it to date by Southern Union to El Paso?

A During the last four months of 1953, we sold to El Paso 1,683,000 MCF, or an average of 14,271 MCF per day. In 1954, we sold 8,152,000 MCF, a daily average of 22,335. In 1955, we sold 11,194,000 for a daily average of 30,670 MCF. In 1956, 10,174,000, for a daily average of 28,000 MCF. During the first six months of this year, we delivered 10,355,107 MCF, for an average daily delivery of 57,211. For the period as a whole, that is to say, from September 1953 through June 1957, we had sold El Paso 111,560,762 MCF, for a daily average delivery of 29,712 MCF during the period.

Q Was that 111,000,000 or 41,000,000, Mr. Bynum?

A Thank you. It is 41,000,000. 41,560,762.

Q Now these volumes of gas that you have just mentioned, did they all come from wells which Southern Union had drilled itself or

had covered with gas purchase contracts?

A That is correct.

Q What was the purpose of drilling those wells or making those gas purchase contracts from the standpoint of Southern Union Gas Company?

A Primarily to serve its own utility markets. Every MCF of gas that Southern Union delivers to El Paso means just that much gas being diverted from reserves that we built up in the first instance for the benefit of our own customers. Whatever we sell to El Paso Natural goes off to interstate commerce and is lost to our own customers here in New Mexico.

Q Is that to say that you think prorationing is tending to strip New Mexico of volumes of gas that ought to be saved for its own consumers?

A No, I certainly would not want to go that far, particularly since El Paso has been most cooperative in this situation. Even though the balance of gas at this time is flowing from our company to theirs, we do have contractual arrangements with them which, when and if we need it in the years ahead, will assure us of considerable volumes of gas over and above those available from the wells currently connected to our lines.

Q Now, these 93 wells that were listed on pages 7 through 12 of Exhibit 2, is any relief now being asked for those wells?

A No, none is being asked for them. Generally speaking, it is our thought that it would be better to let the accumulated under-

production be cancelled as of July 31, 1957, in the normal manner. If this isn't done now, it merely means that the same thing will have to be done sometime later on, and the volumes of gas then involved will naturally be greater. And the greater the amount of underproduction that is cancelled at any particular time, the more severe the disruptive effect is sure to be on the owners of the rest of the wells in the field or pool.

Q If special circumstances were shown by any other party to this proceeding with regard to any of these wells, that would tend to indicate that because of rework operations or otherwise, some particular well or wells would be physically capable of making up its back underproduction, would Southern Union have any objection to treating that well like the other 110 wells that we are asking relief for?

A Certainly not. We do not want to be arbitrary or unfair to anyone in this. Any well that can make up its back underproduction ought to be given a fair chance to make it up.

Q Are you speaking now about possible future reworks or reworks that have taken place up to now or are definitely scheduled at this time?

A I would say only reworks up to this time, either completed or currently in progress, or at least definitely scheduled.

Q Now inconclusion, are the new arrangements that Southern Union has made with El Paso certain of letting Southern Union produce all the wells on its lines adequately in the future?

A No, I do not think so. I don't think that we can say that for certain. We have already seen the situation in the San Juan Basin change from year to year in the past and it more than likely will continue to do so from time to time hereafter. All I can say is that the arrangements we have made with El Paso for inter-connecting our gathering facilities in the field are intended to take care of our problems as best we can now see them, and that our company, at least, is going to continue to exert every effort to make prorationing work and work properly in this state.

Q Is the relief asked for in this case calculated to help make prorationing work properly, in your opinion?

A Yes, it is. Certainly, that relief is in keeping with the basic spirit of prorationing, that each well owner is to be given a fair chance to produce his fair share of the total market demand.

Q Suppose the suggestion were to be made that, instead of cancelling now all the back underproduction for these 93 wells, that we just generally suspend the cancellation of either underproduction or the shutin of wells for overproduction, and then go at this thing on a well by well basis, reclassifying such wells as need to be classified as marginal as we go along, would you have, would Southern Union have any serious objection to that kind of an approach as an alternative to what you have already mentioned?

A No, we will be entirely agreeable to such procedure.

MR. GRENIER: That concludes our direct presentation.

MR. PORTER: Anyone have any questions of Mr. Bynum? Mr. Utz.

CROSS EXAMINATION

By MR. UTZ:

Q Can you give me the producing capacity of your Southern Union gathering system as it exists now, which is shown in red on your map?

A We believe between 15 and 20 million feet of gas a day.

Q Between 15 and 20 million a day total capacity?

A You talking -- oh, in the red?

Q Yes.

A 70,000,000 a day.

Q 70,000,000 a day?

A I would like to qualify that a little bit, Mr. Utz. You talking about wellhead production, or are you talking about delivery capacity?

Q I'm talking about delivery capacity at the metering point of the total system.

A We have a delivery capacity through our pipeline at the present time of about 70,000,000 feet of gas a day.

Q The wells are capable then of producing that much, you think?

A Yes, they are.

Q And you have sold a maximum amount -- well, your average for the first six months of this year has been 60 or 70 million?

A Yes, that is correct.

Q Do you have such a contract that will enable you to sell your 70,000,000 from this system?

A Yes.

Q This 57,000,000 is the total daily average that you have sold from this gathering system, is that right, total sales?

A Yes.

MR. GRENIER: That was to El Paso Natural only. That was not to El Paso Natural and Southern Union combined?

A No, that was just to El Paso Natural.

Q Can you tell me how much you have sold from this system?

A At the present time, I can't. I don't have those figures available.

Q What I'm trying to get at is how much excess producing capacity does your Southern Union gathering system now have, if any?

A I believe 75,000,000 would be the maximum we could deliver out of that line.

Q How would that figure compare with your allowables for the system?

A It would exceed the allowables.

Q Do you have any idea how much?

A I had the figure, I don't recall it at the present time definitely. It seems to me it's about a billion MCF on an annual basis, a billion, about a billion on an annual basis.

Q At any rate, you have some excess producing capacity in your Southern Union gathering system as it now stands?

A Yes.

Q That is the gas, the producing capacity which you intend

to make up this underage with partially, is that right?

A Partially.

Q In addition to that, your Crandell system, you are going to have to depend on excess producing capacity to further produce your underage?

A That is correct.

Q Now do you think that the excess producing capacity of these two systems will enable you to clear up your underage between now and January the 31st?

A No, I don't believe it will, for the simple reason that we can't get the gas out fast enough to overcome it.

Q Do you have an idea how long it will take?

A Our knowledge is based on eight months; that was from some tabulations that was made two months ago, which was nine months from April.

Q You feel it would take you eight months to take care of the underage which you now have?

A Entirely. I base that on this fact, that the longer we wait, the longer it takes. The longer we wait to start, the longer it will take to catch up.

Q If you start today --

A (Interrupting) If we started today, it would take us somewhere in the neighborhood of eight months.

Q You will not be able to start overproducing your Crandell system until you get FPC approval?

A That is correct.

Q You anticipate possibly being able to start in September?

A That is just a possibility.

MR. GRENIER: It is certainly a sincere hope, Mr. Utz, on our part.

Q Then you would only have about four months left in which to produce that underage?

A Yes.

Q As far as you know, how long do you think that it would take to get your Clausen' system into operation?

A It is in operation now.

Q I mean with FPC approval, so that you can overproduce it and sell your gas from it to another source.

A Well, that is what this thing is predicated on. We are hoping to have Federal Power Commission approval within the next couple of months, maybe, or less.

Q FPC on the Delhi' system?

A Yes.

Q So that you would have more than three months on that system in which to overproduce it?

A That is correct.

Q It looks very doubtful that you will be able to take care of your underage between now and January 31st, doesn't it?

A All of it, yes.

MR. GRENIER: If I may make a clarifying statement there,

Mr. Utz, it has been our general view on these things that they ought to be looked at periodically to see what the situation is and give the Commission and its staff a chance to re-review the matter. We do feel that by January 31st we will have begun to have made very significant progress, although we will not have gotten the situation completely cleaned up. Any way to solve this thing, if the Commission so desires, would be to put it off for two balancing periods. I thought it would be to the best interest of all concerned to come back in and look at it at the end of the current balancing period and see where we are at that time. We would be entirely agreeable to a deferment of a year, but we would hesitate to ask that in the face of any opposition or doubt on the part of the Commission or its staff. Does it help you to understand what we are trying to accomplish?

MR. UTZ: Yes, I understand what you are trying to accomplish. I'm trying to understand how long it's going to take you.

A I would like to clarify something, Mr. Utz, that the gas presently coming from our Crandell system, we have had to squeeze that into our markets in the Albuquerque, Santa Fe, and Farmington areas, see. Now as soon as we can get clearance to deliver that gas to El Paso, then the underage that has accumulated in other fields will pick up that amount and equalize those at the same time we are equalizing up there. All of the gas can be produced to make up the underages, see, that Crandell area is also in the Blanco Mesaverde pool, but we don't have any outlet for the gas

at the present time, so it is considerably underproduced. Now as soon as we get clearance, then we will produce that up there at capacity, which it has never done before. It may produce more than 20,000,000 a day. We hope it will. If it does, we can catch up sooner.

Q Mr. Bynum, I believe you said that you were agreeable, if the Commission so desired, to postpone the cancellation until January the 31st. You would be agreeable to non-cancellation on all underage wells?

A Would you run that by again, please?

Q You set out here certain wells with underage in which you are asking for non-cancellation. In addition to that, there are a number of other wells which also have underage. Those wells aside from the wells that are listed here, are you agreeable to non-cancellation on those wells also?

A Entirely agreeable.

Q How about overage wells? Would you be agreeable to allowing that balance to go on?

A We are agreeable to that. We have not asked for it in our application, but we would support the idea for those who desire it.

Q Would you be agreeable to allowing overage wells to produce more than six times the current monthly allowable?

A That has not been our practice to produce, to overproduce them over six months' allowable ourselves. We have one situation in that category right now, but that is being remedied as of this

week.

Q You would rather see that they were produced, overproduced less than six times, I take it?

A Generally speaking, yes.

MR. UTZ: That is all I have.

MR. PORTER: Mr. Campbell.

MR. CAMPBELL: Jack Campbell, Roswell, New Mexico. I would like to ask a question or two on behalf of Texas Pacific Coal and Oil Company, which is not involved in this particular area but which is involved in gas prorationing in southeastern New Mexico.

By MR. CAMPBELL:

Q You may have stated this, but I didn't get it if you did. Under your contract with El Paso Natural Gas Company, to which you referred, what is the volume of gas that you are to deliver to them?

A 40,000,000 feet of gas a day.

Q That's in all the areas that you referred to in the San Juan?

A No, that is in the system in red, in here where we are presently connected to their system.

Q Do you have the figures that will be involved in the other areas in the San Juan Basin?

A That is the only point we deliver to El Paso at the present time.

Q That would be all of the maximum amount of gas a day that you would deliver to them?

A No, not the maximum, that is what our contract calls for, but not limited there.

Q You can deliver to them any amount you want to sell and they want to buy?

A As long as it is up to the amount of the allowables, yes.

Q What is the length of the term of that contract?

A I'm sorry, I don't recall it.

MR. GRENIER: That is a contract which provides specific demand charges, which is what Mr. Bynum was referring to, of 40,000,000 a day for this year and 30,000,000 next and 20,000,000 the year after that; then contemplate an indefinite term, although specified demand charges have been provided after that time. Generally speaking, the volume of gas contemplated by that contract is such as may be delivered but not to exceed 200 wells connected to the gathering facilities of Southern Union Gathering Company and El Paso agrees to take sufficient volume of gas from those 200 wells that they will be taken from ratably in all the Blanco Mesaverde wells or wells in comparable pools connected to El Paso lines.

MR. CAMPBELL: That contract has been submitted for approval to the FPC?

MR. GRENIER: This was the 1953, the amended contract has been submitted to FPC and accepted for filing as a change of rate schedule.

MR. CAMPBELL: Then I take it that the original contracts

have been submitted to the FPC?

MR. GRENIER: Yes, they are. That was done under the grandfather clause.

MR. PORTER: Mr. Davis.

By MR. DAVIS:

Q Looking at your Exhibit No. 2, Mr. Bynum, particularly the doubtful well list, pages 7 and 8 --

A Pages 6, 7, and 8, yes.

Q -- on that schedule that you have listed these wells which you stated a few minutes ago that it was doubtful they would be able to make up the underage that is now accumulated to them; in arriving at that, did you determine them on the basis of the additional market that may be forthcoming as a result of your arrangements with El Paso?

A Indirectly, but this was determined primarily on the basis of production in allowables for the past six months.

Q So that with this additional market that we hope that is here, it is possible that several of these wells could make up at least a part of their production during the next six months?

A It is entirely possible that some of the wells might be able to make up some of their allowables.

MR. GRENIER: May I ask one or two questions on redirect?

MR. PORTER: Surely.

REDIRECT EXAMINATION

By MR. GRENIER:

Q Mr. Bynum, have the operators of these various wells that are affected by this proceeding, that is to say, both the 110 that relief is specifically asked for and the other 93 as to which no relief is asked, have they been notified by Southern Union of this proceeding and the manner in which their wells are to be affected possibly?

A They were originally notified early in June, at which time we had anticipated a hearing in July. Then I understand that the hearing that we are now in was set up till August and they were notified of the change in dates of the hearing from July.

Q So that all of the operators have been notified of what is going on and might happen to them?

A That is correct.

MR. PORTER: Are there any more questions of the witness?
You may be excused.

(Witness excused.)

MR. PORTER: We will take a short recess.

(Recess.)

MR. PORTER: The meeting will come to order, please. Mr. Woodward, would you proceed with your witness?

MR. WOODWARD: John Woodward, representing El Paso Natural Gas Company. I would like to make a brief preliminary statement before we commence the presentation of Mr. Woodruff as our witness.

El Paso does not support or oppose the relief sought by Southern Union in Case 1295. However, we are purchasing gas under gas purchase contracts with producers in all of the gas pools involved in this case or in these consolidated cases and will be affected by any order suspending cancellation of underage in this area. It is our position that if cancellation of underage is suspended as to any wells in a pool, it should be suspended as to all underproduction in the pool. Furthermore, if pool underages are not cancelled and redistributed, thereby reducing overproduction, the makeup of such overproduction should also be suspended in order to permit pool withdrawals equal to current market demand.

Our witness will be Mr. Norman Woodruff.

(Witness sworn.)

NORMAN WOODRUFF

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

DIRECT EXAMINATION

By MR. WOODWARD:

Q Will you state your name, please?

A F. Norman Woodruff.

Q Where do you live?

A El Paso.

Q By whom are you employed, and in what capacity?

A I'm employed by El Paso Natural Gas Company as the manager of gas proration operations.

Q Have you previously testified before this Commission as an expert in such matters?

A Yes, I have.

MR. WOODWARD: Are the witness's qualifications accepted?

MR. PORTER: Yes, sir.

Q For the purposes of the record, Mr. Woodruff, is it true that El Paso Natural Gas Company and Southern Union Gas Company are separate unaffiliated companies whose only relationship is that of seller and purchaser under written contracts?

A Yes, sir, that's true.

Q Is it also true that El Paso Natural Gas Company as a purchaser purchases from producers at the wellhead at the tailgate of processing plants, and from their sellers of gasoline or natural gas?

A That is correct.

Q This contract with Southern Union represents one of many supply contracts to El Paso, is that correct?

A That is correct.

Q Mr. Woodruff, what is El Paso's interest in the gas pools involved in these cases?

A In each of the pools involved in this hearing, El Paso is a purchaser of gas from wells owned by others, and also is a producer of gas in these pools.

Q Are you familiar with the allowable status of wells from which El Paso purchases or takes gas?

A Yes, I am.

Q What is that status in general?

A El Paso has both underproduced wells and overproduced wells connected to their system in all of the pools which are involved in this hearing.

Q Are some of these underproduced wells capable of making up their underproduction which is now subject to cancellation?

A Yes, they are.

Q Have you an opinion concerning the effect of these wells of suspending cancellation of underproduction as to other wells in the same pool?

A Yes, I do. I consider that the cancellation of underage on one group of wells would be discriminatory against other wells in similar circumstances in the same pool, and could tend to cause drainage between the properties that have the exemptions and the ones that do not.

Q Do you have any recommendation as to how such prejudice might be avoided?

A I think the prejudice could be avoided by giving the same exemption to all of the underproduced wells in each of the pools.

Q Are there some underproduced wells in these pools that cannot make up their underproduction?

A Yes, there are.

Q Is there any reason to suspend cancellation of their underproduction?

A No, sir.

Q Do you have any recommendation as to the procedure by which the underproduction of such wells should be cancelled?

A Yes, I do have recommendations. I might say first that if exemption is granted to all underproduced wells and likewise exemption given to overproduced wells so that they don't have to close in until the time that underproduction is cancelled, well, there will be a -- sorry, I lost my train of thought.

Q Have you any recommendation with respect to wells that cannot make up underproduction during this six months' grace period?

A What I started to say was that those underproduced wells, there will not be discrimination if you do not cancel the underproduction for those wells that can't make it now, if you also give exemption to overproduced wells by doing it current with the occurrence of being aware that the wells can not make their allowables will enable the operators in the pools to keep the wells in balance and much more closely, particularly the overproduced wells, because the accumulated underproduction to those wells that can't make it will be redistributed to the other pools or to the other wells in the pool, and those overproduced wells will be less overproduced. The operator of such well will know better what he can and can't do in producing the allowables for those wells. Now, it would be my recommendation that the Commission, as information becomes available to them, classify those wells that can produce their allowables as marginal wells in accordance with

the rules that we have in existence at this time.

Q So classified that their underproduction be cancelled and redistributed?

A That is correct.

Q By doing it on a current basis, you prevent their accumulating further underproduction, and tend to relieve the impact of the cancellation of the underproduction at the end of the grace period?

A That is correct.

Q Do you have an opinion as to the effect of cancelling all underproduction?

A If the cancellation of underage is not concurrent with the shutting in of overproduced wells, discrimination could occur for over produced wells and the market demand permitted to be currently supplied out of each of the pools could be curtailed below that of the permitted production in the form of allowables would be curtailed below the market demand which was apparent for those pools. I will explain that in this manner: The rules as they now exist require that underproduction be cancelled simultaneously with the reallocation of gas to all other wells in the pool, including the overproduced wells. This reallocated gas then will cancel the portion of the overproduction existing for the overproduced wells, and in so doing, the balance of the field remains in balance. The overproduction will be equal to the underproduction. If you just give exemption to the underproduced wells and permit

them to continue to accumulate underproduction and require the overproduced wells to shut in, the overproduced wells are required to decrease their takes of current allowable, because of previous allowables that they would have been entitled to, but were denied by the exception granted to the underproduced wells.

Q What is your recommendation, Mr. Woodruff, concerning the makeup of overproduction during the period during which the cancellation of underage is suspended?

A I would recommend that if exception be given to underproduced wells that exception to the balancing period should also be given to the overproduced wells.

Q Now that is as to the time of makeup, does your recommendation go to the amount of overproduction?

A Would you restate that again for me?

Q You say you would suspend the rules as to the time in which overproduction is to be made up; that is the extent of your recommendation, is it not?

A That is correct.

MR. WOODWARD: Those are all the questions we have on direct examination.

MR. PORTER: Mr. Woodruff, do you have any idea, would you attempt to estimate the length of the period that might be necessary for this suspension to remain in effect to actually accomplish what we're seeking here?

A Mr. Porter, it would vary on different wells. Some of the

wells could produce a portion of their accumulated overproduction, say in six months. Some may take a year, two years. I couldn't say a definite length of time. I don't think an exception to March 1st, 1958, will permit all the underproduction to be made up, but it will permit a sizeable portion to be made up.

MR. PORTER: In any event, the relief would not start until the FPC acts?

A That is correct.

MR. PORTER: Does anyone else have a question of the witness?

A That is the relief for Southern Union Gas Company's wells, subject to their application.

MR. PORTER: Yes. Mr. Campbell.

CROSS EXAMINATION

By MR. CAMPBELL:

Q You are acquainted with the system of allocating gas production in both southeast and northwest New Mexico, are you not?

A Yes, sir.

Q Is the system applied in the northwest identical to that in the southeast, as far as calculation of allowable is concerned?

A No, they differ.

Q In what respect?

A In the northeast portion of the state, in each of the pools the total demand is divided into two parts. 75% of the total demand is divided among the wells with relationship to their acreage and deliverable product varies to the total delivery; the other 25%

is divided on an acreage basis. In Lea County all the gas is distributed among the wells on a straight acreage basis.

Q With the exception of that in the actual computation of allowables and computation of net allowables and so on, is it handled the same way?

A Yes.

Q One set factor is determined?

A Yes, sir.

Q Has there ever been any balancing period at the end of six months in the prorated gas pools in the San Juan area?

A Yes.

Q Is this the first occasion for request for cancellation in this area?

A You say request for cancellation, or request for exception?

Q Exception to cancellation.

A To my knowledge, yes.

Q Is the degree of in-balance in the northwest area as great or not as it is in the southeastern area in your judgment; which area are we in the worst shape in?

A It's hard to say, Mr. Campbell. I believe that we're in worse condition in the San Juan now because of the conditions which Mr. Bynum expressed there.

Q Mr. Woodruff, you may not want to answer this question, but I want to give you an opportunity if you want to. Mr. Porter asked you how long it would take to accomplish what everybody had been

trying to accomplish ever since 1954 in gas prorationing; that is, to accomplish a balance of underproducers so long as there is more than one purchaser in the area. Do you think that will ever be accomplished?

A Not in perfection.

Q Well, about the only way it could be accomplished would be for El Paso Natural to get all the gas, wouldn't it?

A Yes, sir.

MR. CAMPBELL: That's all.

MR. PORTER: Does anyone else have a question?

By MR. GRENIER:

Q Do you recall, Mr. Bynum's testimony that the total amount of gas that was involved in these 110 wells specifically listed in Southern Union's application now being capable of making up their back underproduction represented about two days' total production for the area as a whole?

A Yes, sir.

Q In the six pools?

A Yes, sir, I recall that.

Q Would you regard that as a very serious imbalance at this time, looking at the totality of the situation and bearing in mind that does not represent anything at all for the wells that might be on the line of your company or Pacific Northwest?

A Mr. Grenier, I think you have -- you're looking at it in a general manner which you can't look at it in if you are to determine

discrimination. You must look at it on an individual well basis. If you have wells that have a large volume of underproduction offsetting wells of ours with the same condition, and our wells are not given exceptions and yours are, then that is where the discrimination arises. The quantity on an overall basis may not be important; the effect on individual wells may.

Q What you are saying, then, is that to individual operators this is a problem of serious magnitude, or may be, whereas looking at the fields as a whole, the total picture may be pretty close to this perfect balance which you said we could never achieve, is that correct?

A That's correct.

MR. PORTER: Any further questions of the witness? Mr. Utz.

By MR. UTZ:

Q Mr. Woodruff, in regard to the overproduced wells, how much overproduction do you think those wells should carry for the extension of the inception of cancellation?

A I have no recommendation, Mr. Utz, that the present rules of the Commission permitting six months be changed.

Q You don't think they should overproduce more than six times the current allowable?

A I can't see any need or justification for it.

MR. UTZ: That's all I have.

MR. PORTER: Do you have a question, Mr. Cooley?

MR. COOLEY: Just one question, please.

By MR. COOLEY:

Q Mr. Woodruff, do you feel that the amount of underproduction that will be added to the already underproduced wells in these six prorated gas pools as a result of reclassification of certain wells as marginal wells will aggravate the situation to any great degree?

A No, sir, I don't think so.

Q But you do feel that it will prevent a problem as far as the overproduced wells are concerned?

A Yes, it will be an aid to the overproduced wells because it will decrease their overage; the overproduced will still be more overproduced.

Q It would increase their overproduction?

A That is correct.

MR. PORTER: Your recommendation is that the Commission continue to follow the procedure of reclassifying marginal wells at any time we see fit?

A That is correct.

MR. PORTER: Whenever the evidence indicates that they should be reclassified?

A Yes, sir, that is correct.

MR. PORTER: Anyone else have a question? Mr. Utz.

By MR. UTZ:

Q Just a little further with Mr. Porter's question, and in accordance with the present rules?

A Yes, sir, I would make one suggestion that the rule doesn't

cover, I don't think they can cover everything, that at such time that the Commission makes a determination from their records that a well is incapable of producing its allowable based on its past history, I would recommend that prior to making a classification as marginal, that the Commission advise the operators involved of their findings and give them a reasonable length of time either to concur or show proof that the classification would be erroneous. In that manner, I think you will prevent some confusion that might result from classifying a well that was marginal and then having proof shown that it was erroneous.

Q How much time would you suggest that we give the operators to respond?

A Ten to twenty days.

Q You realize, of course, that would entail a considerable amount of paper work?

A Yes, sir, it would.

MR. UTZ: That's all.

MR. PORTER: I believe the rule already covers that point, although it doesn't set out any specific time, isn't that right?

MR. UTZ: I didn't hear you.

MR. PORTER: I believe the rule already covers that point of giving notice and giving the operator an opportunity to object to the reclassification of his well, although no specific time is set out.

MR. UTZ: I didn't understand the rule that we had to

notify them. The way I understand the rule is that if at the end of the period there had been no objection, we were at liberty to classify it any way we saw fit.

MR. PORTER: Well, anyway, the rule will stand as it is. Does anyone else have a question of this witness? The witness may be excused.

(Witness excused.)

MR. PORTER: Does anyone have a statement to make in this case?

MR. DUGAN: Tom Dugan with Pacific Northwest Pipeline Corporation. Pacific has both underproduced and overproduced wells connected to its system; therefore, we would like to support El Paso's proposal in this case.

MR. PORTER: Mr. Grenier.

MR. GRENIER: May I inquire of Mr. Dugan if he would care to support Southern Union's request and recommendation in this case, or just the El Paso part? It seems to me they are all part and parcel of the same thing. El Paso's recommendations have no basis unless they are put on top of our own.

MR. DUGAN: Well, as I understand the question, I believe that would be correct.

MR. GRENIER: May I make a very brief statement in conclusion here. I think when Mr. Woodruff was asked about the situation as between Lea County and Northwestern New Mexico, he was undoubtedly giving an answer at the present time, but certainly a little

over a year ago when we had a similar suspension of the Lea County rules, the situation was much more serious than it is in this situation. It does strike me that these underproduced wells and their operators and owners of working interest in them have a very legitimate and proper concern in this matter, even though not all of them have come here to speak. This is a situation over which they individually have had no control whatever, and although the companies involved are doing everything that they properly may, trying to work along with this situation and provide everybody in these areas a proper market, I think it is apparent that we just can't keep up in our contractual arrangements and delivery arrangements with the march of events. It seems to me that it is certainly in keeping with the basic spirit of proration that everyone whose well can make its allowable should be allowed to do so, and in that way produce its fair share of the reserves and the recoverable reserves in the pool.

MR. PORTER: Any further comment?

MR. DAVIS: Quilman Davis, representing Aztec Oil and Gas Company. Aztec would like to go on record in support of El Paso's applications, Southern Union's application, and Mr. Grenier's statement that he made a minute ago. We would like to add this: In the event the Commission finds it advisable to only give an extension to these wells that Southern Union has listed in Exhibit 2, we ask the Commission to consider adding to the list the Aztec McClanahan 2, the Reed No. 3 in the Aztec-Pictured Cliffs Pool; the Griener 3;

the Hilstrom 1; the Hubbard 1; the Randlemon 1; and the Florence Federal 1-13, appearing over under the Delhi classification to that list. We can't assure the Commission that these wells will make up all the underproduction now attributable to them; we feel like they would make up some. As to the doubtful list, we would like to have those wells removed, in the event certain wells are removed from the proration.

MR. PORTER: Anyone else?

MR. KELLEY: C. L. Kelley, Pan-American Petroleum Corporation. We operate wells in practically all the pools under consideration, and we want to support both Southern Union and El Paso, and we feel that there should be a provision for non-cancellation of all the wells in the pools, and not just those listed.

MR. PORTER: Mr. Woodward.

MR. WOODWARD: We would like to make our position clear. We are not as nice as you folks like to make us out. We are not making an application for relief. We are simply saying that if relief is granted, there are certain consequences that follow. In our opinion, this is Southern Union's application and we are not opposing it, we are not asking for the relief, but we are pointing out certain features that we think should be adopted to make such relief workable. So far as the recommendation concerning the reclassification of these wells as marginal, I think we are not talking so much about a formal rule change as a policy of administration in perhaps exercising extra diligence in getting

the proper classification for those wells with all deliberate speed. We realize it can run into some additional paper work, but I think if it avoids some unnecessary hearings it will be well worth the Commission's time.

MR. PORTER: Any further comments in the case? We will take the case under advisement.

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C E R T I F I C A T E

STATE OF NEW MEXICO)
 : ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this *22nd* day of August, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Ada Dearnley

Notary Public

My commission expires:
June 19, 1959.